

# ‘JAPAN INC.’ IN THE AGRICULTURAL SECTOR: REFORM OR REGRESSION?

‘Japan Inc.’ is manifested in the agricultural sector as a classic subgovernment consisting of the Ministry of Agriculture, Forestry and Fisheries, the Liberal Democratic Party, and the agricultural cooperative organisation (Nokyo). This three-way coalition of bureaucratic, party and producer organisations forms an ‘iron triangle’ of vested interest in agricultural support and protection. The agricultural public works component of the agricultural iron triangle is also linked to the larger iron triangle of public works, one of Japan’s most notorious interest coalitions. In the past decade, processes of electoral reform, administrative reform and financial liberalisation have presented each of the elements in the agricultural iron triangle with problems of political and organisational adjustment. At the same time, tripartite policymaking within the agricultural policy subgovernment has been institutionalised, and the LDP’s agricultural leadership is now directly penetrating the agricultural bureaucracy. Similarly, macro-policy trends such as deregulation, trade liberalisation and fiscal stimulus have influenced the concessions and benefits flowing to the agricultural and rural sectors both positively and negatively. While a degree of induced marketisation and liberalisation has taken place, a defensive *consolidation* of the agricultural support and protection regime can be discerned with the passage of the 1999 Food, Agriculture and Rural Areas Basic Law. Moreover, the iron triangle of vested interests in agricultural and rural public works has been strengthened by policies to combat Japan’s sustained economic recession. On balance, therefore, innovation and reform are being offset by factors perpetuating the status quo and even further entrenching the agricultural support and protection regime.

## Introduction

‘Japan Inc.’ is a term that was widely used in the late 1960s and 1970s by business analysts and US government officials to denote the close, collaborative and even collusive relationship between Japanese administrative and industrial elites in the pursuit of economic growth, export markets and the protection of domestic industry against international competition (e.g., Yanaga 1968; Abegglen 1970: 31–5; and Kahn 1970). In later years, its usage diminished as the Japanese government retreated from the business of industrial promotion, but it never quite lost its relevance as a shorthand description for the tight nexus between government and industry. Moreover, Japan Inc. retained some of its currency in political science as a

synonym for the tripartite power-elite model, which presupposed that the interests of bureaucrats in the central ministries, ruling party (LDP) politicians and the leaders of big business were congruent and prevailed in all matters of policy.<sup>1</sup>

Transposed to the agricultural sector, the tripartite model manifests itself as a classic subgovernment consisting of the Ministry of Agriculture, Forestry and Fisheries (MAFF), the Liberal Democratic Party and Nokyo, the organisation of agricultural cooperatives.<sup>2</sup> The concept of a policy subgovernment is an institutionally based notion that is appropriately used where a more or less permanent coalition of bureaucratic, party and interest group actors routinely bargains over policy for a particular sector that is distinguished by clear boundaries of ministerial jurisdiction.<sup>3</sup> It assumes that other state and organisational actors who have an interest in policies for a particular sector play a secondary role in policymaking for that sector and exercise influence that is subordinate to those of the primary or 'proximate' actors.<sup>4</sup>

Depicting the agricultural policy subgovernment as a three-way coalition of Nokyo, the LDP and the MAFF masks a rather more complex reality. Agricultural interest groups encompass a much greater range of organisations than the agricultural cooperatives alone. Although Nokyo, led by its peak body – the National Central Union of Agricultural Cooperatives (Zenchu),<sup>5</sup> is the dominant farmers' group, with an almost universal farm membership and an all-encompassing role in the economic, social and political lives of farmers, it does not enjoy a monopoly of the right to speak for farmers. It is joined by a number of other agricultural statutory interest groups,<sup>6</sup> commodity associations and farmers' organisations, such as the farmers' unions, in representing farmers' interests to government.<sup>7</sup>

Similarly, the LDP is a plural entity, with some but not all of its elements drawn into the agricultural policy subgovernment. The LDP's Policy Affairs Research Council (PARC) contains several formal agricultural policymaking committees: the Agricultural and Forestry Division (Norin Bukai), the Comprehensive Agricultural Policy Investigation Committee (Sogo Nosei Chosakai) and their sub-committees,<sup>8</sup> as well as two special committees on agriculture: the Special Committee on Trade in Agricultural, Forestry and Fisheries Commodities (Norinsuisanbutsu Boeki Taisaku Tokubetsu Iinkai, or Botaii) and the Special Committee on the Promotion of Mountain Villages (Sanson Shinko Taisaku Tokubetsu Iinkai).

Operating both within and independently of these formal committees are informal groupings of LDP farm politicians (*noson giin*), agriculture and forestry Diet members (*norin*

*giin*) and agricultural policy Diet members (*nosei giin*), labels that are used interchangeably to describe politicians with a keen interest in agricultural affairs. These number about 150 members across both houses of the Diet, with about 100 of them very active and enthusiastic (interview with Eisuke Hinode, LDP Upper House member, Tokyo, January 2000). A core group within the *norin giin* make up the agriculture and forestry tribe (*norin zoku*), led by a small group of agricultural policy bosses who have traditionally been known as the ‘agricultural policy group of eight’ (*nosei hachininshu*). They consist of past and present chairmen of LDP agricultural, forestry and fisheries committees.<sup>9</sup> Various Diet members’ leagues (*giin renmei*) also mobilise from time to time around specific agricultural policy issues.

Likewise the MAFF, which is the chief instrument of state intervention in the farm sector, should not be considered the sole bureaucratic agency concerned with administering agriculture and agricultural policy. It is complemented by other ministries and agencies that direct subsidies to agricultural and rural development projects,<sup>10</sup> and a host of MAFF-sponsored groups known as government-affiliated agencies (*gaikaku dantai*). They consist of 10 public corporations (*tokushu hojin*) and one privatised public corporation (*minka sareta hojin*),<sup>11</sup> nine authorised corporations (*ninka hojin*) and more than 600 public-interest corporations (*koeki hojin*). These MAFF-related groups are quasi-bureaucratic organs set up to perform a range of semi-administrative functions as auxiliary agencies of the government. They also act as administrative or institutional interest groups in their own spheres, promoting and defending their specific areas of policy implementation. They are either wholly or partially dependent on the government for subsidies and other public funding to finance their activities. In some cases, they generate funding that can be used by the main ministry for various agricultural policies.

Notwithstanding the diversity and complexity of organisations in the agricultural sector, the most important elements of the agricultural policy subgovernment are the core elites within each of these segments, namely Zenchu executives, the leaders of the LDP’s agricultural policy committees (the so-called *norin kanbu*) and senior MAFF officials. In short, agricultural policy is effectively decided by a tripartite power elite operating within the agricultural policy subgovernment.<sup>12</sup>

Furthermore, although policy subgovernments in Japan have not been confined to agriculture,<sup>13</sup> the agricultural policy subgovernment is regarded as representing ‘the closest adhesion (*yuchaku*) among the LDP, interest groups, and ministries ... [in terms of] levels of politicization and the closeness of ties among the LDP, interest groups, and bureaucratic

agencies' (Okimoto 1989: 201). Two main factors underpin this close adhesion. The first is the extent to which agricultural interest groups are corporatised, particularly the statutory organisations, although Nokyo alone among farmers' groups has sufficient geographic and membership coverage to claim legitimately to speak for the entire farming community. Nokyo's corporatised relationship with the government includes a legal right to make representations to 'administrative authorities' on matters affecting the agricultural cooperatives. In addition, it is formally charged with implementing various agricultural policy programs as an adjunct to the administration, and receives various forms of direct and indirect financial compensation in return. As Donnelly (1984: 343) points out, the MAFF and LDP have relied 'heavily on the cooperatives as an administrative mechanism and political means to organize the rural sector behind national policy'.

Supplementing Nokyo's formal incorporation into state functioning are its *de facto* 'political rights to "functional representation" in national policymaking' (Donnelly 1984: 343). Nokyo's political rights derive from the LDP's dependence on the farm vote and on the agricultural cooperatives for gathering votes in the countryside. The agricultural cooperatives, their political organisations and their executive, staff and members engage both officially and unofficially in diverse electoral support functions for individual candidates in many constituencies, particularly in regional Japan.<sup>14</sup> Electoral connections with farmers and the cooperatives at the 'rice roots' ensure that politicians representing farm and rural areas are receptive to Nokyo's policy demands. Farm politicians act as lobbyists for agricultural interests from within-party and party/government policymaking circles. The electoral context also draws in other farm and agricultural organisations, who seek connections with LDP politicians for policy representation purposes.

The Japan Inc. aspects of the agricultural policy subgovernment derive not only from the close, collaborative and cooperative nature of the relations among its constituent elements, but also the way in which this three-way coalition of agricultural producer, bureaucratic and party actors is linked in an 'iron triangle' of vested interest in agricultural support and protection. The metaphor of the iron triangle (which has largely replaced the Japan Inc. terminology in cross-sectoral analysis) captures the way in which the broader agricultural constituency of LDP farm politicians, Nokyo and other farmers' organisations, and the MAFF and its associated bodies, are interlocked in a mutual exchange of favours dependent on the continuing flow of benefits. These bodies constitute an iron triangle because of the strength of their shared vested interest, because their level of interdependence is such

that changing one part of the system means changing it all (*Economist* 1999), and because the triangle collectively unites to resist any change or reform that might threaten its mutual policy interest.

The agricultural policy regime delivers a whole panoply of economic and social benefits to farmers, including agricultural incomes boosted by artificially high ‘administered’ prices for farm products, border measures such as tariffs, tax and pension concessions, crop-related incentive payments and direct payments for stabilising incomes. Additional benefits include subsidies and subsidised loans for agricultural disaster relief, farm improvements, agricultural public works (such as land infrastructure development)<sup>15</sup> and small business ventures in which part-time farmers engage. Side-employment in construction firms is a further positive spin-off from the agricultural public works industry for part-time farm households.

For Nokyo, the policy regime has sanctioned highly regulated marketing and distribution systems for agricultural commodities and farm inputs which have enabled it to extract monopoly rents from agriculture-related businesses. Similarly, the regime generates organisational subsidies and employment for executives and officials of farm organisations. For LDP politicians who work to deliver concessions and benefits in the form of agricultural support and protection, the policy regime delivers varying amounts of votes, organised campaign support, election workers, official organisational endorsement and political funding from farmers, farmers’ organisations, MAFF auxiliary agencies and construction companies that undertake agricultural public works.

For MAFF bureaucrats, agricultural support and protection underpins two of the ministry’s fundamental administrative powers: its powers to regulate and to subsidise. These, in turn, are primary determinants of the MAFF’s standing in the intra-bureaucratic hierarchy of ministries and agencies as well as its wider standing in the community, factors that also influence the status, career opportunities and career benefits of the officials who work in the agricultural bureaucracy.<sup>16</sup>

Agricultural support and protection can also be a source of private goods for officials in the form of lucrative post-retirement opportunities in MAFF auxiliary agencies and in companies operating in agriculture-related industries, in food processing and distribution, and in agricultural and rural construction,<sup>17</sup> as well as other personal benefits supplied by clientele groups such as monetary gifts, wining and dining, free travel and so on. In addition, the regime of agricultural support and protection provides the organisational rationale and

financial underpinning of the semi-public agricultural organisations attached to the MAFF, and employment for their staff.

The agricultural public works component of the agricultural iron triangle combines with rural public works to form key elements of the larger iron triangle of public works, one of Japan's most notorious interest coalitions. It includes more than half a million construction companies that are dependent on lucrative public works contracts;<sup>18</sup> their political allies in the Diet who seek to influence the distribution of public works projects in favour of their own electoral districts and the allocation of construction contracts to local companies; and bureaucrats in the various ministries and agencies dispensing public works subsidies and contracts, headed by the Ministries of Construction (MOC), Transport (MOT) and Agriculture, Forestry and Fisheries.<sup>19</sup> MAFF expenditure on public works supports the jobs and activities of the approximately 18,000 technical and engineering officials (*gijutsu kanryo*, or *gikan*) within the ministry itself. These are officers with engineering and other technical credentials who vastly outnumber the mainstream law and economics graduates (*jimu kanryo*, or *jimukan*), the so-called elite or career bureaucrats, who work on the policy side of the MAFF. The speciality of the *gikan* is public works (Ishi 1995: 411). The *gikan* are concentrated in the Structural Improvement Bureau (Kozo Kaizen Kyoku), which is in charge of agricultural and rural public works programs including the allocation of subsidies for specific projects. It has been described an 'independent kingdom' within the ministry, with an estimated budget for public works of ¥1.2 trillion (Yokota 2001).

Rural dwellers and farmers jointly benefit from the government-subsidised economic and social infrastructure afforded by extensive public works in rural areas as well as from side-employment in the companies engaged in public works construction. The array of projects undertaken within the broad category of rural infrastructure development includes the construction of farm roads and bridges, dams, waterways, sewage facilities and sports, cultural and other facilities.

Government expenditure on agriculture, forestry and fisheries has been increasingly skewed toward public works over the past three decades. In the 1970s approximately 30 per cent of the agricultural, forestry and fisheries budget was spent on public works. In the 1980s the proportion rose to around 40 per cent, while in the 1990s it climbed further to 50 per cent or more. In 1999 it was 51.6 per cent.<sup>20</sup> Indeed, public works expenditure became the standard methodology for reducing the political costs of unpopular policies, in the sense that it was used

by politicians to compensate farmers for cuts in agricultural support and protection, including reductions in farm support prices and the negative effects of market liberalisation.<sup>21</sup>

Within the category of public works expenditure, there has been a politically significant shift toward using public works subsidies to benefit rural areas as a whole, alongside those for projects relating specifically to agriculture. This shift can be traced back to 1970 and the launching of the 'comprehensive agricultural policy' (*sogo nosei*), which was designed not only to facilitate the structural reformation of Japanese agriculture but also improve the 'livelihood environment' of rural areas. One of the major tenets of this policy was to 'provide physical improvement of rural areas including non-agricultural infrastructure and community development' (Goto and Imamura 1993: 24). With its promulgation, the emphasis in agricultural policies:

shifted from agriculture per se to rural affairs in general ... the Ministry of Agriculture assumed the leading role in upgrading standards of living in rural areas. Through various subsidy schemes for structural improvement of agricultural, forestry, and fisheries communities, a significant sum of taxpayers' money ... was directed to non-agricultural aspects of rural infrastructure such as roads, sewage, drinking water, community halls, children's parks, and sports grounds. In this regard, Ministry of Rural Affairs would be a better title than Ministry of Agriculture, Forestry, and Fisheries. (Goto and Imamura 1993: 24–5)

The decision to direct subsidies to entire villages, including both non-farming and farming residents, registered a logical shift by the LDP away from emphasising farmers' votes to wooing the wider interests of farm households and the votes of regional cities, towns and villages (Hirose 1981: 122).<sup>22</sup> Construction companies joined the agricultural cooperatives as vote-collecting machines for the LDP in rural areas. In addition to the organised votes of their workers, construction companies also became a major source of funding for LDP politicians. Moreover, unlike agricultural infrastructure subsidies, which imposed a debt burden on farmers because projects such as those for land improvement were partly financed out of their own pockets, expenditure on rural public works imposed no such burden on farm dwellers. The obligation on farmers to pay for land improvement meant such schemes had proved increasingly less effective as 'bait' to collect votes.

Rural public works expenditure also served the budget-maximising impulse of the MAFF, with the agricultural bureaucracy keen to supplement public works relating to

agricultural land development with general public works relating to economic and social infrastructure. In recent years, the MAFF has even taken on developments such as regional airports (so that produce can be flown to the big cities). One of the by-products of this trend has been increasing jurisdictional rivalry between the MAFF and the other public works ministries for control over rural public works subsidies.

The nature of these benefits makes it hard to differentiate agricultural from rural interests, the votes of farmers from rural dwellers more generally, and the farming and construction (agricultural and general) industries as the regional base of the LDP. Public works are the common interest binding both farmers and ordinary rural dwellers. In rural Japan construction is the major alternative to farming. Its significance ranks alongside, if not more highly than that of agriculture.

The aim of this study is to examine the extent to which the agricultural policy subgovernment and its associated iron triangles of vested interest have yielded to reforms in the economy and in Japanese politics in recent years. In particular, it evaluates how electoral reform, administrative reform and Japan's changing economic and policy environment have affected the different actors in the agricultural policy subgovernment and the nexus binding them together. It also examines how specific macro-policy trends, such as deregulation, trade liberalisation and fiscal stimulus have influenced concessions and benefits flowing to the agricultural and rural sectors, and whether they have served either to entrench or to undermine vested interests.

The study concludes that although Japan Inc. in the agricultural sector appears to be undergoing a degree of induced marketisation and liberalisation, only incremental adjustments have occurred at the margins, not radical reform. Although all three elements in the agricultural policy subgovernment are facing problems of political and organisational adjustment, and vested interests in the agricultural sector are coming under increasing challenge, there has been an institutionalisation of tripartite policymaking in the agricultural policy subgovernment, a deeper penetration of the agricultural bureaucracy by the LDP's agricultural leadership, and a defensive *consolidation* of the agricultural support and protection regime through the 1999 Food, Agriculture and Rural Areas Basic Law (commonly known as the New Basic Law, or *Shin Kihonho*). Furthermore, the iron triangle of vested interests in rural public works has been strengthened by policies to combat Japan's sustained economic recession. On balance, innovation and reform are being more than offset by factors perpetuating the status quo and even further entrenching the agricultural support and protection regime.



### ***Agriculture's declining vital statistics***

The agricultural policy subgovernment and its associated iron triangles of vested interest are operating against a background of continuing contraction of agriculture in the national economy.<sup>23</sup> The dominant trend is a steady weakening of agriculture's demographic, socioeconomic and production bases.

The number of farm households fell from 4.7 million in 1980 to 3.8 million in 1990 and 3.1 million in 2000 (Norinsuisansho 1999: 16; *Japan Agrinfo Newsletter* 2000: 3). The population in farm households fell from 21.3 million in 1980 to 17.3 million in 1990 and 13.5 million in 2000 (Norinsuisansho 1999: 143; *Japan Agrinfo Newsletter* 2000: 3). The same pattern is evident in the agricultural workforce, with the number employed in agriculture as an exclusive or principal occupation contracting from 7.0 million in 1980 to 5.7 million in 1990 and 3.8 million in 1999 (Norinsuisansho 1996: 142; Norinsuisansho 2000: 162). Today, less than 5 per cent of Japan's working population are employed in agriculture and other jobs in primary industries (*Asahi Evening News*, 15 December 1999).

Because farming is mainly part time, the decline in the agricultural workforce is exaggerated by only looking at those fully or principally engaged in farming. If part-time farmers, including those who are mainly employed in non-agricultural occupations, are included in the figures, the agricultural workforce roughly doubles, and while the dominant trend is still one of decline, the rate of change is slower. The number of people engaged in farming either full time or part time dropped from 12.5 million in 1980, to 10.4 million in 1990 and 6.8 million in 1999 (Norinsuisansho 1999: 145; Norinsuisansho 2000: 161).<sup>24</sup>

The aging of the rural population has been the most significant demographic change. The rural population has been aging much faster than in urban areas, and this trend has been particularly evident in hilly and mountainous regions. Farmers aged 70 years and over make up the largest group of farm household dwellers by age bracket. In 2000, 26 per cent of men and 31 per cent of women in farm households were over 65 years of age (*Japan Agrinfo Newsletter* 2000: 3).

The rapid aging of the core farm workforce is combining with a shortage of young 'successors' prepared to take over family farms to create a demographic crisis in agriculture. Less than 60 per cent of those aged 65 or older have anyone in the family willing to take over the farm. In 1997 only 9,700 young farmers entered agriculture (Nosei Undo Jyaanaru 2000a: 15). If current trends continue, Japan's farming population will be halved in 15 years (*Nikkei*

*Weekly*, 17 November 1997). The MAFF estimates that the number of people engaged in 'basic agriculture' (that is, in core farming) will decrease to 1.8 million in 2005, about 60 per cent of the level in the 1990s, because of the retirement of the generation born between 1926 and 1934.<sup>25</sup> Those over the age of 65 will make up 49 per cent of the total employed in agriculture (Miwa 2000: 66). Given these demographic trends, the significance of agricultural voters in the voting population will inevitably shrink. The future of farmers' electoral power is not auspicious if it relies on sheer weight of numbers.

Japan is also witnessing the degradation of agricultural production and, accompanying this trend, declining rates of agricultural output and income. The value of Japan's total agricultural output fell from ¥11.4 trillion in 1990 to ¥9.8 trillion in 1998; total income from agricultural production from ¥4.8 trillion to ¥3.9 trillion; agricultural land area from 5.2 million hectares to 4.9 million hectares; and gross planted area of crops from 5.3 million hectares to 4.7 million hectares (Toda 2000: 2). While in the past, the decline in agricultural land area was caused by its diversion to residential and factory use, it is now mainly because of the abandonment of agriculture by farm households and thus an expansion in the amount of farm acreage that remains unplanted. In 1995, 4.7 per cent of farmland was abandoned. In mountainous areas, the rate was 13.8 per cent (Toda 2000: 22). The MAFF is predicting as a worst-case scenario (on the basis of predicted numbers of farm households at 2.461 million) that the area of agricultural land will diminish further to 3.96 million hectares by 2010, with an increase in the area of abandoned cultivation to 790,000 hectares and a conversion of 290,000 hectares to other uses.<sup>26</sup>

Rural society is being undermined by these socioeconomic and demographic shifts. Only about 140,000 officially designated 'agricultural communities' (*nogyo shuraku*) remain, and their function is deteriorating (Nosei Undo Jyaanaru 2000a: 15). Japan is dotted with uninhabited or nearly deserted farm villages, particularly in hilly and mountainous areas where depopulation, deterioration in the functions of agricultural communities, devastation of farmlands and degradation of agriculture is most marked (Toda 2000: 21).

### ***The effect of electoral reform***

For most of the postwar period, electoral malapportionment has grossly privileged farmers and rural voters in the electoral system by over-representing the least populated districts in terms of voters per seat and under-representing the most densely populated constituencies.

Malapportionment has continued to magnify the value of farmers' votes even while farm numbers have continued to decline. The population in farm households now represents a little over 10 per cent of the national electorate.

Electoral reform has gone a long way toward rectifying the rural bias inherent in the old system of Lower House seat distributions. The redistribution of Lower House seats, introduced as part of the electoral reforms in 1994, has decreased the numbers of Diet members whose voting base is in agricultural or rural areas. Those from Tohoku, for example, declined from 48 to 42; those from Shikoku from 25 to 20; and those from Kyushu from 68 to 61 (amounting to 18 in total). As a result of the changes, the maximum disparity in voting values in Lower House districts in 1994 was 2.14 rural votes to one urban vote (*The Japan Times*, 12 August 1994).

According to Nokyo's national political body, the National Council of Farmers' Agricultural Policy Campaign Organisations (Zenkoku Nogyosha Nosei Undo Soshiki Kyogikai, or Zenkoku Noseikyo), the new electoral system in the Lower House is now grossly weighted in favour of city districts in terms of representatives from single-member districts (SMDs), because it more accurately reflects the distribution of the population. Accordingly, the weight of *norin gūin* in politics is diminishing. The Zenkoku Noseikyo maintains that Diet members from cities are not interested in agricultural issues and only want to represent small businesses. In fact urban representatives criticise any gestures of government generosity to farmers, like the ¥6.01 trillion compensation package to the agricultural sector associated with the Uruguay Round Agreement on Agriculture (URAA) (Nosei Undo Jyaanaru 2000b: 1).

More recent figures for voter distribution, however, suggest that malapportionment has not been completely eradicated from the Lower House election system. Although provision now exists for monitoring voting values in the Lower House and for redrawing electoral boundaries by a permanent commission charged with creating SMDs roughly equal in voter numbers, by 2000 the disparity in the weight of votes between the most and the least populous districts had expanded to 2.44:1. The 14th electoral district in Kanagawa prefecture had the largest number of voters at 468,619 while the third district in Shimane prefecture had the lowest with 191,891. A total of 81 single-seat constituencies, up five from a year earlier, had twice the number of voters of the smallest constituency (*Nikkei Weekly*, 12 January 2000).

Moreover, electoral malapportionment in the Upper House remains largely unrectified. In 2000 the disparity in voting values climbed to 5.02:1, up 0.02 points from the previous year.

Tokyo, the most densely populated constituency had 1,216,607 voters per seat while Tottori prefecture, the most sparsely populated, had 242,448 (*Nikkei Weekly*, 12 January 2000).

On the other hand, the combination of declining farm voters and electoral reform is inevitably working to reduce the effectiveness of the farm vote in elections to the Lower House. The introduction of SMDs requiring successful candidates to win a plurality of votes is the single most important element of the new system undermining farmers' voting power. A plurality translates into a much higher proportion of the total vote required for victory (usually 30 per cent or above) compared with the previous multi-member system in which candidates could scrape in with as little as 10–15 per cent of the vote. Under the old system, politicians needed the strong backing of only a small portion of a district's voters – perhaps Nokyo, or a labour union or a chamber of commerce and industry (*Nikkei Weekly*, 20 November 1995). In short, small groups of well-organised supporters could ensure the election of their chosen candidate.

Under the new system, the number of SMDs in which farmers represent 30 per cent or more of the total eligible vote has been reduced to less than a handful. When categorised according to the percentage of workers employed in primary industry, only one constituency has 30 per cent and above in primary industry, while only 25 have 20–29 per cent (Nishihira 1995: 4099). When classified according to population concentration and industrialisation rates, 27 (9 per cent) of Lower House SMDs can be designated as semi-rural.<sup>27</sup>

Nokyo's electoral campaign organisations are finding it difficult if not impossible to mobilise the required 30 per cent or more of voters in a constituency. In short, they can no longer ensure victory for their chosen candidates. In Kumamoto prefecture, for example, agriculture remains one of the mainstays of the regional economy and Nokyo's prefectural farmers' political league reputedly still exercises 'big power' (*oki na ryoku*) in elections (Nosei Undo Jyaanaru 2000c: 7–8). It was sufficient to elect two Nokyo executives in the 1995 Upper House elections (although none stood in the 1998 elections). Significantly, however, Nokyo's political leaders in that prefecture acknowledged that in a situation where a successful candidate needs the support of around 40 per cent of voters, farm household districts are simply too few to guarantee such a large slice of the electorate (Nosei Undo Jyaanaru 2000c: 7–8).

Another problem for farmers and their organisations is that politicians representing SMDs are no longer permitted the luxury of representing a narrow range of special interests. They need to cultivate a much broader base of support to win a plurality, inevitably reducing

the relative importance of agricultural interests. The new electoral system has thus changed the representational character of Diet members. They have to be attentive to all kinds of issues; they can no longer afford to be single-issue or single-interest politicians because of the need to gain a much larger proportion of the total vote for victory. The interests of the new generation of SMD politicians have been described as broad and shallow (*hiroku asaku*) (Nosei Undo Jyaanaru 2000b: 1). As one agricultural Diet member put it:

The introduction of the SMD system has forced each Diet member to be involved in everything. They are no longer able to focus on particular sectors. Under the current election system, a Diet member is expected to do everything and have a broad knowledge of everything. As a result the number of Diet members who have expert knowledge of certain issues has diminished. (interview with Hinode Eisuke, Tokyo, January 2000)

A former LDP Cabinet minister made essentially the same point: 'We are now required to be all-around players capable of taking care of all sorts of things' (*Asahi Shinbun*, 8 June 2000), while a senior Ministry of Finance (MOF) official was quoted as saying:

Under the single-seat constituency system, lawmakers must be friendly to everyone in the electorate, even to those belonging to particular interest groups ... I'm afraid lawmakers may not tackle reforms because they now try to please everybody. (*Asahi Shinbun*, 8 June 2000)

SMD representatives are now busy cultivating connections with as many different interest groups as they can in order to gain across-the-board support in their constituencies. Agricultural interest groups are caught up in this phenomenon, and not surprisingly find themselves lining up alongside small business groups, doctors, dentists and other organisations for the attention of local representatives. According to the Zenkoku Noseikyo, agriculture is now on a par with welfare or business policy. It is just one of a number of policy areas that must be attended to by politicians. Not surprisingly, the interest of rural Diet members in farming issues tends to be more superficial. They may devote one or two speeches to it on the hustings and attend the odd meeting of the Norin Bukai. But only in cases where there are pressing local problems do they make speeches on behalf of their farm supporters in the Norin Bukai.

These changes suggest a loosening of the electoral ties between organised agricultural interests and national politicians. Electoral reform has altered the incentives for Diet members to specialise in specific areas of policy and is thus gradually reducing their policy specialisation. If politicians aspire to become agricultural policy leaders, they will need to go beyond local loyalties and muster interest in national agricultural policy out of 'love of their country' (Nosei Undo Jyaanaru 2000b: 1). Given the intensified focus on local issues by Diet members representing the SMDs, such a quest will become more and more difficult.

These developments are inevitably undermining the *zoku* system in the LDP. Like farmers themselves, the *norin zoku* are having problems finding successors. For example, the selection of a new chairman to head the Livestock and Dairy Policy Sub-Committee (Chikusan-Rakuno Taisaku Shoiinkai) of the Norin Bukai became problematic in March 2000 during decision-making on the livestock support price. In the end, a *norin zoku* who had already served in the position, Akagi Norihiko, had to be reappointed. Having already been chairman of the Norin Bukai, it was an unusual move for Akagi to take up a position in one of the division's sub-committees.<sup>28</sup> Observers interpreted the episode as indicative of the current difficulties faced by the LDP in finding experienced people to fill crucial executive positions in its agricultural policymaking apparatus (Nosei Undo Jyaanaru 2000b: 1). The shortage of talented young politicians (that is, those who have been elected two or three times) that exists among the *norin zoku* is of great concern to the party and to Nokyo. The next generation of 'reserves' for the positions of MAFF parliamentary councillor and Norin Bukai subcommittee chairmen are scarce.

Another element in the equation is the legacy of the split in the LDP itself, and the fact that some of the LDP's *norin giin* left the party, resulting in the loss of promising young Diet members who were potential successors to the current generation of *norin zoku* bosses. The LDP has had to recruit from the younger generation of LDP politicians to fill the gaps left by retiring divisional chairmen. As a result the three-election chairmanships of various LDP agricultural policy committees have become two-election positions. In short, the LDP is having to reach further down into the junior ranks of the party to recruit politicians for the required number of agricultural posts. The agriculture and forestry 'commander-in-chief', Eto Takami, who is the most senior adviser to the Comprehensive Agricultural Policy Investigation Committee, claims that he will quickly develop the necessary competent successors, but this may be wishful thinking (Nosei Undo Jyaanaru 2000b: 1). The available pool of agricultural policy specialists is shrinking. At the same time, the contraction in the overall

number of agricultural representatives means that the burden of defending and promoting agricultural interests within the ruling LDP is increasingly falling to a core number of agricultural policy leaders.

Despite the more negative outlook for the LDP's defence of agricultural interests, the *norin zoku* remain active policymakers within the party. In fact they, more than any other *zoku* group, typify the LDP's *zoku* system in terms of their solidarity and effectiveness as representatives of special interests (Nosei Undo Jyaanaru 2000b: 1). Meetings of the Norin Bukai are held almost every day when the Diet is in session (from Tuesday to Friday for half an hour from 8 a.m. or 8.30 a.m.) and they are extremely lively compared with those in with other divisions, such as construction, finance and welfare, which meet only once a week. The Norin Bukai's study of policy issues is thorough and, if problems arise, the division has the reputation for mobilising its political power in a unified fashion (Nosei Undo Jyaanaru 2000b: 1).

Furthermore, the past few elections in Japan have unequivocally demonstrated that the LDP is still the party of the farmers, with agriculture and the construction industry remaining two of the most important special interests backing the party. The October 1996 Lower House election results underlined the LDP's strength in provincial Japan and its weak support from city dwellers. Similarly, in the July 1998 Upper House election, the vast majority of the LDP's seats (28 out of a total of 31, or 90 per cent) were gained from districts toward the rural end of the spectrum (five rural, 15 semi-rural and eight semi-urban prefectural constituencies). In contrast, the LDP's performance in urban and metropolitan electorates was dismal. The LDP lost support from voters in more densely populated areas and fell back on its core supporters in the towns and counties across regional Japan.

The 2000 Lower House elections confirmed this basic pattern, with the LDP having to rely on New Komeito to gain enough support from urban areas to form a coalition government. The LDP's most solid backing came from rural electorates and from provincial cities with populations under 100,000. MAFF Minister Tamazawa Tokuchiro lost his bid to represent the district that included municipal areas of Iwate prefecture, and other LDP candidates lost in districts that included prefectural capitals (*Asahi Shinbun*, 26 June 2000).<sup>29</sup>

The LDP is also still the party of Nokyo: it contains by far the most of Nokyo's diminishing number of direct representatives (that is, politicians who have been or remain Nokyo executives),<sup>30</sup> and its candidates are almost exclusively the recipients of recommendations and other forms of electoral backup from Nokyo organisations. The Zenkoku Noseikyō and its prefectural agricultural policy campaign organisations (*todofuken nosei undo soshiki*,

or *noseiren*) were, as usual, active in campaigning for their recommended and ‘approved’ candidates in both the SMDs and proportional representation (PR) regional districts in the 2000 elections. Formal endorsement and electoral support activities for candidates were restricted to those candidates who expressed understanding of Nokyo’s policy position, with the aim of reflecting ‘precisely, accurately and to the utmost limit farmers’ intentions in national policy’ (Nosei Undo Jyaanaru 2000d: 3–4). Because the 2000 election was important from the viewpoint of choosing Diet members who would support national agricultural policy during the next round of World Trade Organisation (WTO) agricultural negotiations, the Zenkoku Noseikyo, together with prefectural agricultural policy campaign organisations, was prepared only to support and recommend SMD candidates who had made agreements with it on agricultural policy.

In addition, Nokyo’s political organisations set out to examine and clarify the campaign promises, plans and postures on agriculture of the various political parties standing in the PR districts (Nosei Undo Jyaanaru 2000a: 17). Based on these pre-election activities, the Zenkoku Noseikyo formally endorsed 271 candidates, 242 in the SMDs and 29 in the PR regional districts, indicating that this number had made electoral commitments to support agriculture. Of this number, 258 (95 per cent) were from the LDP, two were from New Komeito (because of electoral agreements with the LDP), four were from the Conservative Party,<sup>31</sup> one was from the Democratic Party,<sup>32</sup> one was from the Liberal Party (Ozawa Ichiro, an ex-LDP Diet member), and five were Independents. Only LDP candidates were supported in the PR regional blocs (Zenkoku Noseikyo 2000: 5). On average at least two-thirds of those recommended were successful: 67.8 per cent of the SMD candidates and 75.9 per cent of the PR candidates, for an overall average of 68.6 per cent. The 186 successful Diet members from the recommended list made up just under 40 per cent of the Lower House (38.8 per cent), suggesting that less than half of the Lower House members feel they owe some allegiance to agricultural interests. The Zenkoku Noseikyo is planning to sponsor an Agricultural Policy Diet Members’ Group (Nosei Giindan) consisting of *norin giin* who have received backing from the National Council and who are willing to support Nokyo’s policy aims in their Diet activities.

With respect to electoral pork barrelling, electoral reform has not eradicated the incentives for candidates to promise public works programs as an inducement to voters. The previous multi-member system was renowned for encouraging patronage politics because of intra-party (i.e., intra-LDP) competition between candidates vying for support. Contrary to



expectations, the new electoral system has in fact reinforced tendencies for pork-barrel competition among candidates in the SMDs because electoral rivalry has intensified for the single available seat. Under the new system, the value of a politician to many voters is still determined by how much central government largesse he can obtain for his local constituency. In fact, as already noted, politicians are being compelled to lobby harder for local issues and run campaigns emphasising local interests.

Certainly in the short term, it would appear that the new Lower House electoral system has not produced a distinctly less materialistic politics where voting choice is determined not just by a wish to meet the demands of local interests but also by broader economic, social and quality-of-life considerations affecting entire electorates or the nation. Domestic distributional pressures generated by special interests are still effectively being catered to by politicians under the new system, although it is possible that a stronger contrast may emerge in the future between the patronage-based appeals of candidates in rural areas and the programmatic appeals of candidates in city areas. In the 1996 elections, far more attention was paid to national issues such as administrative reform and the rise in the consumption tax, which affect city areas rather than rural areas that operate on the traditional spoils system. The same was true of the 2000 election, where national issues proved effective in appealing to non-aligned and non-organised voters in the cities.

The message for the LDP from the 1998 and 2000 elections is that it cannot win a majority in either house of the Diet without performing well in urban areas. These two elections have decimated its ranks of urban representatives, particularly those from Tokyo. The trends of the 1980s, when the LDP began to gain much more support from city voters, have been reversing.

The LDP can react in several different ways to this state of affairs, none of which holds out very positive prospects. It can begin to cater to urban voters much more assiduously and proactively, which will mean inevitable pain for its support base because the party will have to direct more pork-barrel benefits away from rural areas to city areas. Alternatively, it can surrender the cities to its coalition ally, New Komeito (whose performance in urban areas suffered because of the party's alliance with the LDP), but this will also mean raising welfare payments for New Komeito's urban supporters, which will place larger claims on government expenditure. Alternatively again, the LDP can abandon city voters to the large and growing urban-based opposition Democratic Party (Minshuto) and become a much more clearly identified provincial party, thus facilitating the development of a two-party system along regional-urban lines.

Based on the parties' performances in the 2000 elections, the last scenario appears to be the most likely, with the emergence of a rural–urban divide between the LDP and the Democratic Party, particularly over issues such as public works expenditure and structural reforms to eliminate vested interests. Although some Democratic Party leaders and politicians represent regional electorates,<sup>33</sup> the majority of those who vote for the party live in the cities and metropolitan areas.<sup>34</sup> Many of the Lower House seats the Democratic Party gained in the 2000 election (32) were from city and metropolitan areas, often at the expense of LDP incumbents.

In other respects, however, the rural–urban divide does not coincide neatly with the division between the current ruling coalition and the opposition. The Liberal and Democratic parties are in the Opposition, but they contain substantial numbers of ex-LDP members, some of whom rely on farmers' votes and/or provincial votes tied to the usual pork-barrel benefits.<sup>35</sup> On the other hand, both these opposition parties have adopted positions in favour of small government, meaning a generally pro-market, anti-regulation, anti-protectionist position. At the same time, this does not mean they will be willing to campaign for urban consumers *at the expense of farmers*. Although zero-sum competition may emerge in the budget allocation process in the future and may generate downward pressure on agricultural and rural public works expenditure, this is a different phenomenon from anti-agriculture or anti-farmer sentiment. Countering such a development is the concerted campaign led by the MAFF and Nokyo identifying the importance of retaining a healthy agricultural sector and flourishing farming communities as vital to the national interest.<sup>36</sup>

Furthermore, making the picture even more complicated is New Komeito's participation in the governing coalition as a purely urban-based party with a record of having been outspoken against agricultural protection.<sup>37</sup> As part of the government, however, it is content to pursue its policy priorities in the welfare area, leaving agricultural policy to its dominant coalition partner, the LDP. For obvious reasons, it is not willing to encroach on policies affecting the LDP's traditional bailiwick.

## **General policy trends**

Agricultural policy, the agricultural policy subgovernment and the iron triangles of vested interest in the agricultural and rural sectors have all felt the effects of fiscal and other macroeconomic policy trends such as deregulation and liberalisation. The following discus-

sion evaluates the influence of each of these broad policy trends with a view to estimating their effect on agricultural governance.

### ***Fiscal stimulus***

With the collapse of the 'bubble economy' in 1991, Japan's average annual economic growth rate plummeted. Fiscal stimulus measures were implemented after 1992 to revive the economy, resulting in a drastic increase in government debt. Former Prime Minister Hashimoto, at the MOF's behest, urged a fiscal overhaul and won approval for a Fiscal Structural Reform Law in November 1997. The law required that the fiscal deficit be reduced to 3 per cent or less of GDP and that the government end deficit financing by 2003. However, with Japan in one of its worst recessions since World War II, the government amended the law by weakening the limit on bond issues and by postponing for two years the targeted date for halting the issue of deficit-financing bonds.

In December 1998, under the new administration of Prime Minister Obuchi, the Diet suspended the law and the government reverted to an expansionary fiscal policy (*Nikkei Weekly*, 24 May 1999). Responding to domestic and foreign pressures to reflate the economy by means of fiscal stimulation, Obuchi went on a public works spending spree. Much of the additional spending took the form of pork-barrel outlays to the LDP's traditional supporters. The rural sector was one of the major beneficiaries of Japan's ¥125 trillion worth of stimulus packages (a total of nine) in the 1990s. Economic revival policies thus played into the hands of vested interests in the agricultural and rural public works industries.<sup>38</sup>

The same policies continued under the Mori administration, which came up with new rhetoric to disguise old-fashioned pork-barrel spending. In its 2001 draft budget, the MAFF proposed a 7.6 per cent increase in public works expenditure (to ¥1,898 trillion), with 5.4 per cent of the total (or ¥103.3 billion) put aside for the 'Special Fund for Japan's Renewal' (*Nihon Shinsei Tokubetsu Waku*), also called the 'Japan Rebirth Plan', an Orwellian concept encompassing ¥400 billion in discretionary prime ministerial spending (*Shusho Waku*) to target environmental and other problems. A further ¥161.3 billion (8.5 per cent of the total) was bid from the ruling party's own discretionary spending (*Yoto Waku*) of ¥300 billion. This was labelled the 'Special Fund for Prioritising Public Works Relating to People's Lives Etc' (*Seikatsu Kanrento Kokyo Jigyo Jutenka Waku*) (Nosei Undo Jyaanaru 2000e: 28).

Even in the category of non-public works, the MAFF's 2001 draft budget opportunistically linked expenditure plans to new, high-priority public spending targets. It included a bid for ¥75.9 billion worth of expenditure from prime minister's discretionary fund for spending on information technology (IT) in agricultural, forestry and fisheries under the section of the Japan Rebirth Plan targeting the IT revolution (*IT kakumei taio waku*). This proposed expenditure was specifically for reducing the information gap between city and rural areas (Nosei Undo Jyaanaru 2000e: 28). The MAFF successfully obtained ¥50.5 billion from the 2001 budget (12.6 per cent of the total) and ¥52.5 billion (17.5 per cent of the total) from the prime minister's and ruling party's discretionary funds (Nosei Undo Jyaanaru 2001: 16).

Signs have emerged, however, that the kind of policies that have sustained the iron triangle of vested interests in agricultural and rural public works have a finite future. Agricultural and rural public works spending has been increasingly criticised for being unproductive and advantaging a few at the cost of so many. The village of Yamato (in Yamanashi prefecture, about 100 kilometres west of Tokyo) is a good example as it: 'shows how a lot of the public money is spent. There are paved roads that lead to nowhere, concrete terraces for abandoned fields and massive concrete supports around dry creeks. In town, there is a new, and seemingly deserted youth center' (*Nikkei Weekly*, 22 April 1996).

Persisting with traditional pork-barrel habits that favour rural voters at the expense of city voters risks an electoral backlash from urban areas. It helps to explain the LDP's poor performance in the July 1998 Upper House election, when urban voters were not only outraged by the deepening recession but also:

by the unfairness of the LDP's reflationary policy measures, which had historically relied on pork-barrel politics to please its rural supporters. Most urban voters saw that the favors farmers and construction workers gained in exchange for their patronage would primarily benefit rural constituencies – leaving urban taxpayers to carry the fiscal burden through later tax hikes. (*Asahi Evening News*, 15 December 1999)

It was again apparent in the 2000 Lower House election, in which 'the LDP's strategy of holding on to its base of support through pork-barrel politics ... greatly alienated voters in metropolitan areas. These voters are demanding government reform and fairer policies' (*Asahi Evening News*, 26 June 2000). In its election policies, the LDP continued to stress the distribution of the budget to support rural areas, promising ¥500 billion would be set aside

for public works projects after the general election (*Asahi Shinbun*, 26 June 2000). Similarly, PARC Chairman Shizuka Kamei harked back to a traditional pro-rural mindset in his statement that politics was all about making it possible for people to enjoy the same standard of living in the countryside as in the cities (*Asahi Shinbun*, 26 June 2000). As the *Asahi Shinbun* commented, ‘the chorus of influence peddling is still effective in rural districts, which are the LDP’s traditional power base; but it elicited a different reaction in urban areas where the voters are more sensitive to changes in the times’ (*Asahi Shinbun*, 26 June 2000).

In Japan’s embattled economy, it makes much more sense to redirect the massive rural investment into large cities, which have much worse housing and transportation systems, and where expenditure is more likely to boost economic growth by improving efficiency. Investment in infrastructure projects in large cities, unlike in rural areas, has a large multiplier effect on the economy (*Nikkei Weekly*, 16 November 1998). In short, efficiency considerations may increasingly undermine the political calculus that sustains the iron triangle of agricultural and rural public works.

It is also possible that in the face of the government’s towering fiscal deficit,<sup>39</sup> increasingly severe pressures will arise for structural reform of the nation’s finances and reductions in government spending across the board in order to service the deficit. This will not only constrain expenditure by the big-spending public works ministries such as the MAFF, but may see their shares of the budget, which have been fixed for more than 30 years, under attack.

In addition, the central government is facing something of a revolt from local governments whose ‘finances are in a parlous state and who are finding their obligatory contributions to public works programs imposed on them by the central government too onerous for some projects to proceed’ (*Asahi Evening News*, 15 December 1999). The prefectures that include big cities, such as Tokyo, Kanagawa (Yokohama), Osaka and Nagoya (Aichi), have the most serious budgetary problems. Metropolitan governments have seen their financial coffers drained by public works and now face virtual bankruptcy. They ‘blame their fiscal distress on the central government’s control over local governments – especially since much of the nation’s economic pump-priming has been paid for with funds squeezed from local coffers – and the tradition of redistributing cities’ tax revenue to less wealthy local governments’ (*Nikkei Weekly*, 25 January 1998).

This is a recipe for a confrontation between metropolitan and rural governments over budget distribution. Cash-strapped urban prefectures can no longer afford to continue being

the locomotive that provides weaker local governments with financial support. In terms of benefits such as public works projects, Tokyo residents receive about 30 per cent of what they pay in tax. Residents of rural Shimane prefecture receive more than twice what they pay. Fiscal equalisation over decades of LDP rule is now raising serious issues of social equity. It is possible that opportunistic urban politicians like the governor of Tokyo may seize on this issue and prompt stronger objections from urban Diet politicians about the bias in fiscal allocations in favour of rural interests.

Residents' movements against large public works projects with noxious effects on the environment now feature on Japan's political landscape, taking on the 'concrete' triangle of construction contractors, bureaucrats and politicians with various forms of direct action. The surge in local resentment toward and popular mobilisation against public works are important new elements in Japan's participatory democracy, considerably enhancing its quality and challenging one of the fundamental paradigms of the postwar period, the tight triangle of vested interest nested in Japan's construction state.

Public works are also being subjected to increasing administrative scrutiny and re-evaluation in the face of rising criticism of public works expenditure. Since fiscal 1998 the government has been reviewing public works projects that are not expected to be completed or even started five to ten years after their initial approval. As part of this program, the MAFF has been scrapping and temporarily suspending a number of public works projects (*Nikkei Weekly*, 3 April 2000).

Furthermore, in the face of sustained criticism that public works projects should be subjected to better advanced planning and analysis, the three ministries of public works – MOC, MOT and MAFF, together with the three agencies of public works – the National Land Agency, the Okinawa Development Agency and the Hokkaido Development Agency<sup>40</sup> – whose projects account for 20 per cent of total government spending, are committed to undertaking cost-benefit analyses on all new projects from 2000 and to publicising the results in an effort to improve objectiveness and transparency of decision-making on public works. As one academic observer commented:

The move is epoch-making for Japanese central government organizations ... Officials have detested disclosing the cost-benefit analysis data even if they conduct it behind closed doors because that will curtail their discretion with regard to deciding which public-works project to budget. (*Nikkei Weekly*, 12 April 1999)

These ministries and agencies were also driven to demonstrate their transparency ahead of the reorganisation of the central government that began in January 2001. It is anticipated that the measures will have two major effects: eliminating projects that have a lower benefit than the initial investment, and changing the ministries' shares and types of projects. As already noted, there has been persistent criticism that ministries' shares of the public works budget and the type of projects have become vested rights. The unified cost-benefit analysis across ministries and agencies could lead to changes in project shares (*Nikkei Weekly*, 12 April 1999). The *Nikkei* also reported that from April 2001 the MAFF will:

introduce rules allowing for the halting or scaling down of dam or other public works projects in cases where such schemes are found to have little benefit or are too costly. Even projects where construction has begun may be stopped. The ministry will set up a scheme under which losses arising from the cancellation of projects will be borne by central and prefectural authorities rather than local municipalities and farmers. The ministry also envisions setting up a panel reflecting the opinions of farmers and municipalities, as well as a third-party body to examine proposed revisions to projects. The rules will cover land improvement projects, including farmland consolidation and irrigation schemes, which account for a large portion of public works handled by the ministry. Some 1.11 trillion yen was earmarked for such spending in fiscal 2000. The value of such projects completed to date is estimated at 22 trillion yen. The necessity for and value of long-term projects such as land reclamation are often reduced by the time they are completed. (*Nikkei Net Interactive*, 15 April 2000)

Other signs suggest that agricultural public works spending may be at a saturation point. The government has had trouble spending some of the ¥6.01 trillion it set aside in 1995 to help farmers deal with the URAA and the liberalisation of the rice market (*Nikkei Weekly*, 22 April 1996). Farmers have been increasingly reluctant to participate in land-improvement projects because they have no successors to repay the loans over 10 years. Reports are also surfacing of a polarisation of interests between part-time and full-time farmers on land-improvement issues, with the former increasingly reluctant to participate in schemes because their economic and income interests are diversified, their stake in agriculture not high enough to warrant the necessary expenditure, and their interest in exploiting economies of scale marginal, which has made it increasingly difficult to obtain the necessary two-thirds of support from farmers in a particular region to undertake a land-improvement project.

Moreover, even among full-time farmers, the debt burden left by land-improvement projects is proving too onerous for many, and the likely gains from increased crop yields and labour savings insufficient to justify the required outlay, particularly when prices for agricultural products are falling (Kobayashi 1999: 11).

## **Deregulation**

Agriculture is on a long list of sectors subject to deregulation pressure.<sup>41</sup> As a highly controlled and administered industry, it is a natural target for reform, as are the food distribution and marketing sectors. The pace and extent of deregulation has been slow and incomplete, however, in common with a number of other politically sensitive and well-defended sectors, and certainly not as extensive as the ‘Big Bang’ in financial services. In many cases, proposals for deregulation have merely intimated future directions for reform or listed items for review and further investigation.

Faced with sustained pressure for reform, the MAFF has been inclined to present almost any kind of policy adjustment as a contribution to the deregulation process. The abolition of the 1942 Food Control Law (*Shokkanho*) in 1995 and its replacement with the new Staple Food Law (*Shokuryoho*) was offered up as a major deregulatory reform freeing up rice marketing and distribution. The new law encapsulated the most fundamental restructuring of the food control system governing domestic trade in staple grains – principally rice – that has been achieved in the postwar period, and it has since provided a model for reform of other price support and stabilisation systems.<sup>42</sup> Among other things, the reform allows for greater competition in rice collection and distribution, thus potentially undermining the previously privileged position of the agricultural cooperatives in these markets. Under the new law, private companies can register as rice collectors, wholesalers and retailers. Furthermore, farmers can sell their rice directly to retailers and consumers under a distribution route categorised as ‘non-orderly marketed rice’ or *keikakugai ryutsumai* (as opposed to ‘orderly marketed rice’, or *keikaku ryutsumai*). The system of orderly marketing involves the collection of rice by the agricultural cooperatives for sale to the government (government rice, or *seifumai*) and to wholesalers (so-called voluntarily marketed rice, or *jishu ryutsumai*). Non-orderly marketed rice thus bypasses established distribution routes dominated by the agricultural cooperatives.



The government's role in the domestic rice distribution market has also contracted considerably, with the Food Agency of the MAFF now officially responsible only for purchases of domestic rice for stockpiling and controlling rice imports. One of the driving forces behind the reform of the Food Control Law, however, was not the domestic deregulation program but anticipation of rice market opening, first under minimum-access arrangements (resulting from the URAA) and later under tariffication.<sup>43</sup>

In other cases the MAFF has resisted reform proposals emanating from the government's deregulation and administrative reform committees as being 'difficult to meet'. In 1995, for example, the deregulation package presented by the Prime Minister's Administrative Reform Committee deferred action on the deregulation of agriculture in favour of more study (*The Nikkei Weekly*, 11 December 1995), despite recommendations to abolish and review various subsidies to farmers, particularly those relating to price support. This was an issue on which the MAFF had fought hard, arguing that the subsidy system for farmers was necessary to sustain agriculture in the regions. Increasing imports under liberalised markets, however, as well as Japan's international obligations under trade agreements forced the MAFF to reappraise its position on price support, resulting in adjustments to several systems since 1995.<sup>44</sup>

The emphasis in the MAFF's own deregulatory proposals tends to be on technical items (such as modifying the Japan Agricultural Standard, or JAS, to meet international standards), rather than those central to the government's broader agricultural support program. The government's three-year deregulation plan for 1998 to 2000 included some 67 items under MAFF's administration. Nevertheless, very few of the items for examination and reform were critical elements of the agricultural support regime.

The first category of deregulatory changes concerned the abolition of the 'application exclusion' system (that is, exemptions from the Anti-monopoly Law) for certain activities conducted by statutory agricultural organisations such as the agricultural cooperatives. Another related to the deregulation of the food inspection system. A third involved agricultural products, and included deregulating the registration of rice marketing businesses, agricultural product inspections and the handling of agricultural chemicals and machinery. Other categories involved changes to the authorisation requirements for agricultural warehousing businesses, deregulation of some aspects of the operations of the central wholesale markets, approval of certain measures for domestic sugar and dairy factories, approval of general sales of veterinary medicines, and further deregulatory measures relating to the JAS

(MAFF 2000a). Many of the changes were merely commitments to re-examine or review existing regulations and policies.

The two most significant areas in the 1998–00 deregulation plan effectively belonged to other programs of agricultural policy reform: deregulation of wheat prices implemented as part of the New Wheat Policy Outline,<sup>45</sup> and corporatisation of farming operations set down in the Agricultural Policy Reform Outline of 1998 and the 1999 New Basic Law.<sup>46</sup> The idea that joint-stock companies (*kabushiki kaisha*) should be permitted to own farmland was first proposed in the December 1995 deregulation package of the Administrative Reform Committee. The 1998 Agricultural Policy Reform Outline, however, emphasised that the general entry of *kabushiki kaisha* into land-intensive farming would not be permitted and that entry would be restricted to agricultural production corporations that had converted themselves into joint-stock companies.<sup>47</sup> These ‘companies’, however, were effectively ‘cooperative bodies’ or ‘communities’ (*kyodotai*) of farmers (Miwa 2000: 70), not ordinary commercial enterprises wishing to branch out into farming operations.

What these policy changes indicated is that the extent and pace of reform to key elements of the agricultural support and protection regime will continue to be dictated by considerations to do with the agricultural policy system itself rather than with the ‘exogenous’ deregulation principles promoted by government advisory committees. Moreover, the MAFF was able to evade much of the pressure to deregulate emanating from the Prime Minister’s Administrative Reform Committee by arguing that the issues in question were being discussed by the Prime Minister’s Food, Agriculture and Rural Areas Basic Problems Investigation Committee set up in April 1997 for the purpose of examining a new agricultural basic law (communication from Masayoshi Honma, February 2001).

### ***Trade liberalisation***

Foreign pressure (*gaiatsu*) on Japan’s agricultural policies has been an important momentum for change. Major agricultural exporters such as the United States and Australia have been active in lobbying for reform, both bilaterally and in multilateral trade settings under the auspices of the GATT and now the WTO (George Mulgan 1997: 165–209). Bilateral trade negotiations in the 1970s and 1980s realised a number of victories for foreign exporters in relation to specific products such as beef and citrus, but the URAA of 1993 represented the first comprehensive multilateral agreement to liberalise agricultural trade. It required Japan

to tariffy import quotas on all agricultural products except rice, which was subject to minimum-access requirements. In April 1999 the Japanese government converted its quantitative import restrictions on rice to tariffs.<sup>48</sup>

Foreign pressure has altered not only Japanese policies on agricultural trade but also the domestic policies that trade policies were designed to support. The Japanese government had to adjust its agricultural price support policy and partially deregulate domestic agricultural markets to cope with the potential price and supply changes wrought by trade liberalisation.<sup>49</sup> Anticipating that concessions to external pressures were inevitable, the MAFF endeavoured to point its domestic agricultural policies in the direction of market liberalisation. Agricultural support prices were gradually lowered to encourage domestic farmers to become more efficient and competitive, and international agricultural trade negotiations forced agreements to reduce price support further (such as that relating to the Aggregate Measurement of Support, or AMS, under the URAA). The MAFF started to freeze and reduce prices from the mid-1980s onwards, certainly in terms of its recommended prices, which were becoming less subject to political intervention from LDP agricultural politicians.<sup>50</sup> By 1995 Japan had already met its AMS reduction commitments under the URAA.<sup>51</sup>

The increase in imports resulting from trade liberalisation also 'had a great impact on the agricultural price support system' and 'pressured the government to change the price support system more extensively' (Toda 2000: 26). Liberalisation of the beef market produced a huge increase in imports and undermined domestic price support policies (Kobayashi 2000: 90). Beef imports rose by 80 per cent in the eight years after liberalisation (Kobayashi 2000: 107). Large volumes of imports also undermined the effectiveness of the price stabilisation system for pork, resulting in a steady decrease in stabilisation prices throughout the 1990s (Toda 2000: 24–6).

It was a similar story with mandarin oranges (*mikan*). The demand for *mikan* for processing declined because of increased imports of processed products. The price stabilisation system was rendered ineffective, resulting in an increase in set-aside programs in order to reduce output. Apples fared better because of the superior quality and freshness of the domestic product and the development of domestic hybrids for juicing (Toda 2000: 36).

In other commodity sectors, however, trade liberalisation did not bring the desired effect of substantial import expansion. Imports of wheat, barley, skim milk powder, butter, raw silk and cocoons, and *konnyaku* roots barely changed.<sup>52</sup> Although the URAA eliminated import quotas, overall barriers have not fallen sufficiently because of their replacement with

tariff-rate quota systems and high secondary duties (that is, tariff equivalents, or TEs). The Japanese government has also retained several state trades and applied a differential charge to its own imports compared with imports brought in by private traders who are charged the TE. For example, the government's mark-up on wheat in 1995 was ¥53 per kg (charged by the Food Agency to private buyers) compared with a ¥65 per kilogram TE paid by private importers to import wheat themselves. End users therefore asked the Food Agency to increase its imports because it was cheaper for them to buy wheat from the agency than to import it themselves (Honma 2000a).<sup>53</sup> Similarly, the Food Agency charges a mark-up of ¥34 per kg on barley, compared with a TE of ¥46 per kg (1995 figures) (Honma 2000a: 15).<sup>54</sup>

For dairy products imported by the Agriculture and Livestock Industries Corporation (ALIC), another state trading agency, the differential is even larger. The ALIC mark-up on skim milk powder was ¥358 per kg in 1995, compared with a TE of ¥466 + 25 per cent.<sup>55</sup> For butter the mark-up was ¥950 per kg, compared with a TE of ¥1,159 + 35 per cent.<sup>56</sup> In short, private traders have little incentive to import quota-liberalised products under the tariff-rate quota scheme and imports of these products are barely increasing, if at all (Honma 2000a).

Moreover, the preservation of state trading systems for wheat, barley, skim milk powder, butter, silk and sugar has meant that the state trading agency (the Food Agency or the ALIC), have been able to use the profits from the mark-ups and the mark-up portions of the tariff equivalents to support domestic prices. With respect to wheat and barley, for example:

it appears that their price support systems are firmly maintained on the assumption that large quantities of them are imported. This is also the case with sugar. This scheme implies that the system is a measure for financially protecting domestic products by means of putting a certain level of burden on cheap imported products, which constitute a major part of the entire supply to the domestic demand. Namely, domestic wheat products accounting for 10% of the total supply are financially protected by imported wheat constituting 90%; and domestic sugar products accounting for 30% are protected by imported sugar constituting 70%. (Toda 2000: 27)

In the case of rice, as already noted, incremental steps were taken to deregulate domestic distribution, culminating in the new Staple Food Law of 1995. The changes were designed to introduce competition into the domestic market for Japanese rice and thus lower

rice prices. They were also designed to prepare the way for rice liberalisation by encouraging domestic rice producers to be more efficient, which would help the domestic sector survive in a more competitive environment. The partial liberalisation of the rice market specifically mandated some element of prior domestic liberalisation.<sup>57</sup> The seminal aspect of the rice market changes was that they introduced an element of deregulation and competition into distribution and price formation, with a shift from government-controlled pricing to a mixture of public and private management of pricing under the new law.<sup>58</sup> Furthermore, the changes acknowledged the breakdown in the Food Control system with widespread lack of observance of government-imposed controls by farmers, distributors and retailers (Godo 2001: 8).

Rice trade under the minimum-access agreement and, later, tariffication incorporates all the same characteristics as for wheat and barley. The Food Agency makes a profit on rice imports by imposing a punitive tariff on private trade, which discourages private imports and effectively allows the agency to monopolise trade. The 1993 URAA stipulated that if Japan announced a switch to tariffs before the end of 2000, the rate at which the minimum-access volume rose annually would be reduced by half, or by 0.4 percentage points (instead of 0.8 percentage points). This was an important goal for the Japanese government, which was anxious to reduce rice stocks (Honma 2000a). The URAA also permitted Japan to set its own tariff rates on rice imports based on differences in domestic and overseas prices in the base period (1986–88) in such a way that the differential (and therefore the tariff) could be maximised. Moreover, the government applied the usual double standard to rice imported by the Food Agency compared with that brought in by private traders (that is, a mark-up versus a much higher TE). The Food Agency's mark-up on rice was ¥292 per kg versus a TE of ¥351.17 in 1999, falling to ¥341 in 2000. This level of tariff drove the price of rice imports to over four times the international price (*Nikkei Weekly*, 10 January 2000). The effect was to limit private imports to miniscule levels (only 225 tonnes of foreign rice subject to the tariff were imported into Japan in fiscal 1999) (*Daily Yomiuri Online*, 14 April 2000).

Producers and other agricultural interests have been compensated for the effects of beef import liberalisation and the URAA with subsidy packages explicitly tied to the trade agreements concerned. Public works subsidies feature heavily in these compensatory packages, in line with the shifting emphasis from price support to spending on agricultural and rural infrastructure. In the case of beef liberalisation, such expenditure was facilitated by the channelling of the beef tariff directly to the MAFF rather than to the customs revenue of the MOF. A new subsidy category entitled 'agricultural infrastructure construction and

improvement programs by tariff of beef was created from the beef tariff revenue, allocating expenditure of ¥10.0 billion and ¥10.1 billion in 1991 and 1992 respectively. Beef liberalisation also resulted in the creation of the 'beef tariff revenue source agricultural production base development works' category consisting of 'beef tariff revenue farmland belt comprehensive agricultural land development works' and 'beef tariff revenue agricultural land consolidation public groups works'. The amount allocated to this category in the 1995 budget amounted to more than ¥8.6 billion.

The huge ¥6.01 trillion (US\$50 billion) Uruguay Round countermeasures package to support farming threatened by greater market opening was geared to 'reinforcing the process of structural adjustment in the industry, and facilitating rural development' (OECD 1996: 53). It was mainly directed toward rice farming. More than 58 per cent of the package (or ¥3.55 trillion) was put aside for subsidising public works in agricultural regions. The public works projects involved expanding land-improvement works in order to promote large-scale rice production in paddies, highly productive field cropping and compound management of rice, field crops and livestock, and rice production in mountainous regions. A considerable proportion of the remaining outlay was devoted to supporting the debt burdens of farmers arising from land improvement and other structural adjustment activities. The emphasis on public works expenditure in the package harmonised with the general thrust of fiscal policy in the 1990s toward pump priming the economy to expand domestic demand.

## **Challenges to the Nokyo system**

### ***Financial liberalisation***<sup>59</sup>

Japan's ongoing financial liberalisation beginning in the mid-1980s and continuing into the 1990s impacted on agricultural cooperative management as a result of intensifying competition in financial markets and a loss of profits from credit business. Nokyo's three-layered management structure of local co-ops, prefectural credit federations (*shinren*) and national bank (Norinchukin) was expensive and inflexible, and disadvantaged Nokyo in the interest rate war (Aguri Fuoramu 1987: 88). Because Nokyo relied on profits from its financial businesses to offset losses in other areas such as marketing and farm guidance, financial liberalisation profoundly affected the overall financial health of the cooperatives (Saeki 1993: 44).

Financial liberalisation not only reduced agricultural cooperative profits, but also increased the risks management took in lending (Saeki 1993: 44–55). Nokyo offered more credit to various debtors in order to compete with other financial agencies. It also increased its investment in the stock market, with its associated risks. As a result, the collapse of the bubble economy beginning in 1989 hurt Nokyo's financial operations more than those of other private financial institutions such as the city banks (Domon 1992: 125). The crisis exposed a myriad of problems in the management of agricultural cooperatives: top echelons unskilled in financial matters, substantial losses on the stock market and increasing amounts of bad loans, including those to non-banking financial agencies. In 1994 a survey by the Teikoku Databank put the total value of loans by agricultural cooperative financial institutions to non-banking institutions at ¥12.5 trillion (*Asahi Shinbun*, 17 November 1994). Of this, ¥6.2 trillion went to housing finance companies (*jutaku senmon kinyu gaisha*, or *jusen*).<sup>60</sup> Collectively, agricultural cooperative financial institutions were the largest creditor (42.2 per cent) to the *jusen*. When the bubble economy collapsed, the major housing loan companies were left with bad debts as a result, credits to these companies became uncollectable. The increase in uncollected bills put severe pressure on financial management within the Nokyo system (Saeki 1993: 71–82).

The way in which the *jusen* issue was resolved eroded Nokyo's public standing and exposed its gross financial mismanagement and lack of accountability to its members. In the final settlement, which was pushed through the Diet by the LDP-led coalition government, agricultural cooperative financial institutions successfully achieved a reduction in their total bad debt burden from ¥1.21 trillion to only ¥530 billion.<sup>61</sup> The balance of ¥685 billion was covered by public funds from the FY 1996 budget (Domon 1992: 20).<sup>62</sup> Nokyo's public image was tarnished because of the strong impression that the organisation had used its political power to ensure a special deal for its financial institutions (*Nikkei Weekly*, 5 August 1996). An official from the MOF 'admitted to getting political pressure from Diet members representing the interests of farmers when the *jusen* settlement was made' (*Nikkei Weekly*, 29 January 1996). Reports also surfaced of politicians bowing to the agricultural cooperatives' clout as vote-gatherers (*Nikkei Weekly*, 24 June 1996). On the other hand, if no appropriate measures had been taken, about half of the Nokyo organisations involved would have gone bankrupt (interview, MAFF official, Tokyo, November 1994). The concern was that if a number of *shinren* folded, Nokyo branches would be unable to repay funds to depositors,

including farm households. Fears were also held for the Japanese economy as a whole if Nokyo's financial institutions were to become insolvent.<sup>63</sup>

The special accommodation given to Nokyo over the *jusen* issue was not unusual. National and prefectural governments had been covering for the financial failures of the agricultural cooperatives for many years. Public funds had been openly used to aid mergers of agricultural cooperatives and to dispose of failed cooperatives. What was different about the *jusen* problem was the size of the funds involved and the corresponding magnitude of the crisis facing Nokyo.

Furthermore, agricultural cooperative financial institutions held a large number of bad loans to other non-banks.<sup>64</sup> Exposure was reportedly as much as ¥7.7 trillion (Mamiya 1996: 6). Because the other non-banks were small in comparison to the *jusen*, agricultural cooperatives and other major lenders to these institutions could not escape responsibility. As the president of Norinchukin commented: 'I do not think politicians will intervene in that problem because we made the loans at our own risk' (*Nikkei Weekly*, 5 August 1996). Although the total amount of bad credit was less than the *jusen* case, the disposal of bad loans to non-banks was still a severe problem for Nokyo's financial organisations (Mamiya 1996: 8).<sup>65</sup>

Because agricultural cooperative financial operations lack organisational transparency, are not subject to disclosure requirements, and are not audited by outside publicly certified accountants (auditing is done by the central unions, which would lose some organisational rationale and staff if this function were transferred), figures for the total amount of Nokyo's bad debts cannot be reliably substantiated. From the members' perspective, precise information on financial matters was not made available by Nokyo management nor were the various financial scandals and credit problems taken up by the Nokyo-related media. Farmers were described as being in a 'complete information desert' (Domon 1992: 35). Prefectural governments have since mounted massive rescue programs for municipal agricultural cooperatives within their regions,<sup>66</sup> and yet despite large allocations of public money, they have not been willing to press for full disclosure of the financial circumstances of troubled cooperatives, and nor have they made an effort to clarify responsibility among the Nokyo officials concerned (*Yomiuri Shinbun*, 29 April 1998).

Public funds were used to rescue cooperatives partly because newly introduced regulations on financial supervision, based on capital-to-asset ratios, could order business improvements or even partial shutdowns of financial institutions. The assistance provided, along with other measures such as management changes or cooperative mergers,<sup>67</sup> meant



that most Japanese agricultural cooperatives would be unlikely to face business suspension orders because they could meet the required capital-to-asset ratios (*Financial Times*, 28 April 1998).

Changes to the institutional framework of financial regulation subsequently caught Nokyo's financial operations within its net. The Financial Supervisory Agency, established in June 1998, was given broad licensing and supervisory powers over private financial institutions under MOF's jurisdiction. Supervision was also extended to include the financial activities of the local agricultural cooperatives as well as those of other credit cooperatives and workers' cooperatives. The MAFF has also tightened supervision of the agricultural cooperatives by reducing the threshold for auditing from ¥100 billion to ¥50 billion in deposit holdings (*Nikkei Net Interactive*, 22 February 2001). Furthermore, the establishment of an agricultural cooperative equivalent of the Resolution and Collection Corporation is slated for 2002 (*Nikkei Net Interactive*, 6 April 2000).

### *Deregulation of domestic rice distribution*

Alongside lending, rice trading has been one of the Nokyo's two main pillars of agricultural cooperative management. As with its financial operations, Nokyo's dominance of the rice distribution system has been exposed to liberalising trends in the economy. The distribution of domestic rice was deregulated in the context of the anticipated liberalisation of rice imports. The 1942 Food Control Law delegated principal responsibility for rice collection and marketing to Nokyo, which received various subsidies and other concessions from the government in exchange for acting as its rice collector. It was also paid commissions from farmers for marketing rice.<sup>68</sup> Local agricultural cooperatives acted as primary collectors of rice from farmers, while the *keizairen*, as secondary handlers, collected rice from local cooperatives. Zenno, the national collection group, sold the rice to the Food Agency (*seifumai*) or directly to wholesalers (*jishu ryutsumai*) (Domon 1992: 83). Most farmers were registered producers with the agricultural cooperatives (consistently around 95 per cent), while Zenno's share of *seifumai* was close to 100 per cent, and its share of *jishu ryutsumai* hovered at around 95 per cent. As a result, maintaining 'profits' from the Food Control system became a core policy interest for Nokyo (Kawasaki 1992: 16). The preservation of these vested rights was consistently behind Nokyo's approach to the whole question of distribution reform. In essence, the Food Control system and the agricultural cooperatives supported each other over many decades and hence Nokyo strongly resisted any deregulatory reform of the system.<sup>69</sup>

The new Staple Food Law effected some changes to this entrenched system of guaranteed market share and government-subsidised operations. As already noted, it created the all-important channel of 'non-orderly marketed' rice, enabling farmers legitimately to sell rice directly to retailers and consumers. As a result greater quantities of rice are now bypassing the agricultural cooperative system, although *jishu ryutsumai* and *seifumai* remain the dominant channels.<sup>70</sup>

More significantly, reform changed methods of price determination. Under the previous Food Control system, the government determined the price at which it would purchase rice from farmers (the *seifumai* price), which acted as a benchmark for the price of better quality *jishu ryutsumai*, negotiated between the agricultural cooperatives and rice wholesalers. Farmers could sell as much rice as they wanted to the government at the *seifumai* price, which functioned as a guaranteed price (communication from Masayoshi Honma, November 2000). Following the reforms, the rice price has been determined in the form of monthly public tenders for *jishu ryutsumai* by wholesalers in the Voluntarily Marketed Rice Price Formation Centre, which acts like a central wholesale market. The tender price acts as an indicator for the local market price and thus determines Nokyo's selling price and influences the government's purchase price.<sup>71</sup> Therefore, the *seifumai* price is now oppositely influenced by the tender price of *jishu ryutsumai* determined in the market. For farmers, there is no guaranteed minimum price and the government is not obliged to buy rice above its minimum stock requirements.<sup>72</sup> In times of good harvest, it is now possible for the price to suddenly drop. In fact since 1993, trends in the bidding price for *jishu ryutsumai* have declined quite precipitously except for a brief rise in 1998. They fell from ¥22,760 per 60 kg to ¥16,756 in 1999 (Miwa 2000: 53).

The new system also helps to depoliticise the process for setting the *seifumai* price. According to a Zenchu official: 'it can no longer issue requests in the form of a "demand" rice price to government (*yokyu beika*); it can only intervene with requests for policies to avoid large fluctuations in the rice price. Therefore, the primary objective of Nokyo's new rice policy is the adjustment of rice supply in order to avoid price reductions in the market' (interview with Zenchu official, Tokyo, January 2000).

Since the changeover to the new system, falling rice prices as a result of good harvests have decreased Nokyo's income from the rice trade to some extent. Not only has the quantity of rice sold through Nokyo declined because of farmers' direct sales to retailers and consumers, but profits from rice marketing have also fallen because Nokyo's commissions are

linked to the sale price<sup>73</sup> (interview with Zenchu official, Tokyo, January 2000). Some farmers have left Nokyo because they no longer need the agricultural cooperatives to market their rice. Supermarkets and other retailers have become big buyers of rice directly from farmers. Those selling rice outside the agricultural cooperative system have found that their real income is higher because of a reduction in trading costs such as commissions that were formerly paid to Nokyo. This situation has encouraged Zenno, with its large share of *jishu ryutsumai* (around 95 per cent), to try and increase the price of rice traded through this system in order to encourage farmers to stay in it (*Asahi Shinbun*, 5 November 1996).<sup>74</sup>

Although Nokyo is still the main collector of rice, the reforms of the mid-1990s have challenged its monopoly of Japan's rice market. The MAFF has acknowledged that the agricultural cooperatives have been exposed to a more competitive environment, but anticipates that this will force them to provide a better service to their members (interview with Food Agency official, Tokyo, July 1995). Rice producers are also expected to become 'more entrepreneurial in rice production and marketing' (DFAT 1996: 25) because the rice tendering system will increase the influence of demand and supply on prices.

The more market-centred outcomes from the deregulation of domestic rice distribution and pricing systems have been offset to some extent by a number of other developments. First, although the new Staple Food Law allows the government to make rice purchases for stockpiling, because there has been a consistent surplus of rice, purchases have also been used to stabilise prices. The Food Agency is buying rice even when it has a large stockpile. In short, government purchases are still to some extent market interventionist.

Second, the orderly marketed rice system (which consists of *seifumai* and *jishu ryutsumai*) is effectively a 'managed' market. Rice passes along specific routes decided by the government, the government can obtain information about how much rice is being distributed through that system, and price formation is monitored.

Third, wholesale prices of *jishu ryutsumai*, although determined by tenders or bidders, are now linked to programs to stabilise farmers' incomes. Assistance policies have been introduced to protect rice farmers from price falls in *jishu ryutsumai* and to encourage farmers to stay in the managed market. The government launched a new rice policy in November 1997, under which it continues to support farmers selling *jishu ryutsumai* and to underpin the agricultural cooperatives' role in that market. This was a result of direct pressure from both Nokyo and LDP agricultural politicians. The new rice policy was mainly to compensate rice farmers who agreed to limit paddy cultivation to help ease the rice surplus,

which had reached 3.7 million tonnes by October 1997. Under a rice cultivation stabilisation fund system, farmers are indemnified for a possible drop in income whenever the market price falls below the 'standard price', officially calculated using the average market price of rice over the previous three years. Compensation is limited to *jishu ryutsumai* produced by farmers who meet their production adjustment targets. Farmers are compensated for 80 per cent of the difference between the two prices (MAFF 1998).<sup>75</sup> This group had been hardest hit by falling prices of *jishu ryutsumai* since 1995.

Although farmers must contribute to the rice cultivation stabilisation fund, substantial subsidies are paid to Zenno through the Food Control Special Account of the national budget for a number of tasks it performs under the new rice policy. They include 'the harmonious and steady implementation of production adjustment', 'mitigating the influence which falls in the price of *jishu ryutsumai* have on rice crop management', 'paying compensation (to farmers) for falls in the price of *jishu ryutsumai* in order to achieve a smooth transition to a new rice policy', and 'achieving smooth deliveries and distribution of independently distributed rice following stable delivery and sales routes' (Zaisei Chosakei 2000). These subsidies in 1998 amounted to well over ¥130 billion. In short, the government has given Nokyo substantial responsibility for implementing the new rice policy.

In order to build up stability against fluctuations in the rice price and reduce the damage to farmers and Nokyo from price fluctuations, Nokyo has now switched its policy demands to calling for the maintenance of 'sustainable agribusiness management' (code for maintaining farm incomes by measures other than price support). As a Zenchu official explains, 'Nokyo has abandoned its focus from support price policy, that is, from "how much should we make the price" to "how should we establish a framework for sustainable agribusiness management"' (interview, Tokyo, January 2000). One of Nokyo's main policy demands in relation to rice these days is, therefore, the issue of production adjustment. This is because if adjustment fails, the rice price in the market will fluctuate. Another important focus of demands in relation to rice is securing funds for such adjustment. This represents a change in the content of Zenchu's agricultural budget policy, which used to focus on direct subsidies for farm improvement.<sup>76</sup> However, as acknowledged by one Zenchu official:

the issue of sustainable agribusiness is a much more complex one than the previous singular focus on the producer rice price. At the same time, it has become much more difficult to motivate the broad mass of farmers to participate in mass movements because the interests

of each farmer are diversified. In the past a rise in the producer rice price could satisfy everyone. However, in an environment in which there is a much greater focus on the sustainable management of agribusiness, it is difficult to find common interests between part-time and full-time specialist farmers. This makes it more difficult to organise mass movements. Only the WTO issue is a common issue amongst farmers, which makes it more probable to organise collective action around this issue. (interview with a Zenchu official, Tokyo, January 2000)

### ***Heightened business competition***

Rice is not the only area of farm-related business where Nokyo's market share is under challenge. In the 1990s the agricultural cooperatives have been facing intensifying competition in most other sectors of marketing and purchasing, as farmers (particularly larger-scale farmers) have found alternative routes for distributing their products or as private traders have moved into Nokyo's input supply markets. The main competition is in production materials<sup>77</sup> and in the retailing of lifestyle (i.e., consumer) goods to farmers and non-farmers. Greater competition is coming from local industries and supermarkets and convenience stores. Moreover, farmers are purchasing less machinery and investing less in their farms, which is also damaging Nokyo's sales (interview with Zenchu official, Tokyo, January 2000).

In this more cut-throat business environment, Nokyo is hampered by several factors. The first is its lack of management capability. Nokyo urgently needs to streamline its management structure and establish more businesslike operations to enable it to compete with large corporations in the private sector (Fujitani 1992: 379). As Fujitani explains:

the real Achilles' heel of Japan's nokyo is the lack of effective top management. The farmers who serve as directors in local cooperatives are complete amateurs when it comes to business. Without any expertise in business, they can elect one another to top cooperative posts and savor prestige and sense of power, but they cannot act as responsible top management executives capable of leading the permanent staff in the endeavor to further the businesses of the cooperatives. This amateurish approach to business may have worked in the decades when nokyo were firmly guided by government, but it is less effective today, when cooperatives must return to the original objectives of the cooperative movement. It is perhaps not an overstatement to say that the survival of nokyo in the 21st century depends

on whether they can successfully create a viable system of top management. (DFAT 1996: 380)

The second factor is Nokyo's over-reliance on its socio-cultural basis of membership. Too heavily dependent on the 'natural' organisation of individual agricultural communities and thus on its 'captive' membership base, Nokyo has made little effort to develop a modern organisation founded on rational economic incentives (Fujitani 1994: 11). As traditional village loyalties have weakened, leaders of agricultural cooperatives have found it increasingly difficult to organise and unite their members. The result is that the foundations of their organisations are under threat (Saeki 1993: 32). Nokyo has overestimated its 'traditional organisational ability' (*dentoteki soshiki noryoku*) and made little effort to develop its 'modern organisational ability' (*kindaiteki soshiki noryoku*) (Fujitani 1992: 12). Nokyo's heavy dependence on self-organising agricultural communities has made it vulnerable to the erosion of the social bonds in rural areas. The organisational ability of Nokyo and the self-organising function of local communities have degenerated together (Fujitani 1992: 12).

The third factor is Nokyo's complex three-stage distribution system, and the fourth is its high labour costs (Aguri Fuoramu 1987: 89). These factors push up the prices farmers pay for inputs and other commodities, and reduce their profits from commodity sales. As a result, the organisation is increasingly being seen as a structural obstacle to a more entrepreneurial style of farming. Farmers have become more aware of the need to cut production costs as a result of the government's growing emphasis on lifting productivity, efficiency and international competitiveness. Moreover, in a more competitive, liberalised environment, full-time entrepreneurial farmers make stronger demands on Nokyo that directly relate to the profitability of their agricultural operations (Masuda 1989: 64). In a wish to reduce overheads, many farmers are going outside the cooperatives to do better deals with private companies.

Nokyo's three-stage management structure hobbles its ability to compete with private traders in markets for agricultural products and input supply markets by making its prices uncompetitive. Supermarkets that handle agricultural chemicals and agricultural materials sell them at a cheaper price. Competitive pricing is spreading to fertilisers and corrugated cardboard boxes as well. Although Zenno has been a price leader for these products in the past (which has prevented their prices from falling by much), supermarkets can sell them for less because they buy large volumes directly from trading companies and wholesalers and have lower marketing costs. The co-ops' procurement prices are high not only because Zenno's

prices are high but because they include the handling fees of Zenno and the *keizairen*. Once the local co-ops add their own handling fees, they cannot compete with the supermarkets. While Zenno and the *keizairen* continue to extract their usual amount, the local co-ops are forced to sell at a discount by reducing their handling fees (Koiki 1995: 70–1).

In the face of such price competition, it is the local co-ops that are suffering losses, not Zenno and the *keizairen*. By the early 1990s, 90 per cent of all co-ops were registering deficits in their marketing and purchasing businesses, while Zenno and the *keizairen* remained in the black (Orio 1992: 21, 24). In other words, the burden of the three-stage management system falls primarily on individual co-ops, which stand between the national federations, who want high prices, and members, who demand cheaper prices.

### ***Organisational restructuring***

The Nokyo has embarked on vertical and horizontal restructuring to effect greater management efficiencies and rationalise operations in response to the liberalisation of financial markets,<sup>78</sup> the bursting of the economic bubble, the problem of bad loans, the introduction of greater competition in its traditional business areas and the increasing criticism of the management costs imposed by its antiquated three-stage structure. In particular, the inability of agricultural cooperative banking operations to cross-subsidise other economic activities such as marketing and purchasing has been an important factor behind the reduction in staff to achieve ‘scale merit’ in its organisational structure (communication from Yoshihisa Godo, February 2001).

Vertical restructuring involves the absorption of prefectural federations and central unions by the national Nokyo federations and Zenchu respectively, thus reorganising the three-tier Nokyo structure into a two-tier structure. Retaining the national layer is a priority for the government given the importance of Zenchu and the other national federations as instruments of government agricultural policy. Horizontal restructuring involves amalgamations (*gappei*) of local co-ops in order to bring about sharp reductions in their numbers as a means of lowering staff costs and increasing managerial efficiency.

Neither of these organisational reforms is proceeding according to plan. The merger of the prefectural mutual aid and economic (marketing and purchasing) federations with their national federations is progressing,<sup>79</sup> but obstacles are delaying the proposed merger of the *shinren* with Norinchukin, Nokyo’s top-tier financial institution, and the prefectural central

unions with Zenchu. The delay in vertically integrating the middle tier of financial organisations is due to Norinchukin's requirement that the prefectural credit federations first dispose of their bad loans. As these federations were heavily exposed to the *jusen*, this demand is proving almost impossible to meet. So far only one prefectural credit federation is proposing to merge with Norinchukin (*Nikkei Net Interactive*, 6 April 2000). On the other hand, *shinren* that are in a stronger financial position are also resistant to amalgamation because they want to continue to manage their own financial affairs. Another obstacle to vertical integration is the fact that local co-op mergers on which the vertical integration of the *shinren* with Norinchukin is predicated are not proceeding with sufficient speed (*Nikkei Net Interactive*, 6 April 2000).

New regulations easing some of the conditions for vertical realignment of Nokyo's financial institutions were announced in April 2000. Norinchukin was permitted to take over *shinren* burdened with bad loans without the mergers affecting its credit rating. The move has been facilitated by the proposed creation in 2002 of an agricultural cooperative equivalent of the Resolution and Collection Corporation that operates in the private banking sector (*Nikkei Net Interactive*, 6 April 2000). Furthermore, the national financial and mutual insurance arms of Nokyo (Norinchukin and Zenkyoren respectively) plan to integrate their operations over several years beginning in 2001.<sup>80</sup> Nevertheless, concerns remain that Nokyo's financial institutions will be unable to compete with commercial banks – themselves proceeding with consolidation at a much faster pace (*Nikkei Net Interactive*, 13 April 2000).

Zenchu is facing similar resistance to its plan for the vertical restructuring of the prefectural central unions (*kenchu*), which involves Zenchu's assuming the auditing and public relations functions of the prefectural bodies, and shifting those activities more directly related to farming to the local cooperatives. The aim of vertical restructuring is to put in place a more direct chain of command between Zenchu and the local co-ops, particularly with respect to Zenchu's advice in promoting changes in commodity production to meet shifting consumer demand. The principal rationale, however, is to cut costs, particularly management (that is, staff) costs incurred by the operations of the *kenchu*, thereby lessening the imposition of fees levied on local co-ops to fund the central unions. The fees amounted to ¥40.5 billion in 1999 and are a large financial impost on local organisations. It is predicted that the integration of the prefectural unions could take years because of strong resistance from agricultural cooperatives in some areas of Japan (*Nikkei Net Interactive*, 20 April 2000).



Meanwhile, at the local level, the planned amalgamations of municipal (city, town and village) agricultural cooperatives is not occurring at the pace anticipated in Nokyo's merger program of 1996. In fact, the cooperatives are proving so slow to merge that the goal of 530 co-ops nationwide by March 2001 does not look like being met, given that 1,411 local co-ops were still fully functional in March 2000 (*Nikkei Net Interactive*, 13 April 2000). Obstacles to the planned amalgamations include resistance to expanding agricultural cooperatives across Lower House constituency boundaries, the complexities of merging the varied businesses of the general-purpose co-ops (*sogo nokyo*), and the difficulties of marrying financially strong and financially weak cooperatives.<sup>81</sup> In short, both members and management remain resistant in many ways to amalgamation plans.

## **Administrative reform and the MAFF**

Administrative reform is an umbrella term which in the context of Japanese policy means many things, including reducing the size of the government; restructuring the administrative bureaucracy; cutting government spending; privatising, rationalising and abolishing public corporations and other government-affiliated agencies; and eliminating and rationalising the advisory councils attached to government ministries and agencies. In the late 1990s, administrative reform has included efforts to increase the transparency of government administration and to reform the ethics of public servants in the light of an avalanche of bribery and other scandals involving elite bureaucrats.

In January 2001 the MAFF came through the most drastic restructuring of government ministries and agencies in the postwar period almost unscathed. Described as a ministry that 'grasps' subsidies and votes, it was considered too inviolate (*seiikika*) (Aera 2000a: 18) to amalgamate or rationalise. Moreover, unlike the MOF, the MAFF has not generally been under pressure to devolve its powers to other agencies – there has been much less public criticism of its performance.

Nevertheless, the MAFF was quite extensively reorganised internally, with its bureaus, departments and sections restructured and renamed.<sup>82</sup> The MAFF's five bureaus – Economic Affairs; Structural Improvement; Agriculture, Sericulture and Horticulture; Livestock; and Food Distribution – were cut to four: the General Food Policy, Agricultural Production, Management Improvement and Rural Development Bureaus. The Economic Affairs Bureau became the Management Improvement Bureau, but it lost its International Department to

the General Food Policy Bureau (Nosui OB Dayori 2000: 10–11, 40, 54). It retained, however, its responsibility for WTO agricultural negotiations. Overall, the total number of sections in the MAFF was reduced from 112 to 98 as part of the slimming down of the bureaucracy.

Like the main ministry, the Food, Forestry and Fisheries Agencies of the MAFF all preserved their titles and basic policy jurisdictions. The Food Agency remained in charge of the stabilisation of rice and wheat demand, supply and price, as well as rice and wheat imports and exports. However, it appropriated direct responsibility for adjusting rice production from the planning section of the former Agriculture, Sericulture and Horticulture Bureau. This function was transferred to a new Production Adjustment Promotion Office of the Food Agency's Planning Section. The agency also acquired a newly created International Section equipped for WTO agricultural negotiations (Nosei Undo Jyaanaru 2001b: 14).

The expansion in Food Agency responsibilities contradicts the general movement toward deregulation and liberalisation of the domestic rice market and can only be interpreted as an assertion of the agency's administrative relevance in the face of antipathetic policy trends. The changes also point to the fact that those institutionally vested interests in the MAFF concerned with protecting domestic rice production are now directly involved in agricultural trade negotiations that are taking place under the WTO. In other words, market-access negotiations concerning rice are no longer the sole prerogative of the more internationally minded International Department of the General Food Policy Bureau.

No major job losses will occur in the MAFF, despite the fact that the bureaucracy-wide administrative reform program aimed for a 25 per cent reduction in the number of government officials by 2010. On the other hand, it is expected that the number of MAFF officials will inevitably decline because some MAFF organs will be converted into 'independent administrative bodies' (*dokuritsu gyosei hojin*). The MAFF's 49 experimental and research institutions, inspection stations and other outlier organisations, including the National Agricultural Research Centre (Nogyo Kenkyu Sentaa) have been restructured into 17 of these independent administrative bodies (communication from MAFF official, June 2000).

Of the six ministries and agencies concerned with public works, all except the MAFF and the Okinawa Development Agency<sup>83</sup> were combined into a Ministry of National Land, Infrastructure and Transport, with a staff complement of 300,000. The stated objective of the merger was 'to promote better coordinated outlays for public works based on a blueprint for national transportation development and land use' (editorial, *Nikkei Weekly*, 6 September

1999). Effectively, this meant concentrating the bulk of Japan's public works expenditure into one administrative entity. Significantly the MAFF was not included in the new ministry. It successfully resisted integration because it wanted to retain its right to allocate subsidies for agricultural and rural construction projects.

On the other hand, the formation of an integrated public works ministry potentially creates a powerful administrative bulwark against further encroachment by the MAFF into general public works. The sheer weight of the new public works ministry may prove too great for the MAFF to resist. The new ministry is now in charge of 80 per cent of the nation's public works projects – for railways, highways, ports and airports – and very quickly demonstrated its power against the MAFF in the formation of the 2001 budget. It obtained a large increase in the budget for developing *shinkansen* (bullet train) lines (at ¥75 billion, this was double the spending in the 2000 budget), which meant that the MAFF's public works budget had to be cut by ¥20 billion (Nosei Undo Jyaanaru 2001b: 12).

The agricultural bureaucracy has not been immune to allegations of bureaucratic corruption. MAFF officials have been involved in several recent bribery scandals, suggesting that the collusion between bureaucrats and those they supervise is as endemic in the MAFF as it is elsewhere. In the MAFF's case, its supervised entities include companies in agricultural construction, farm consultancies, food distribution (domestic and importing) and agricultural groups such as Nokyo. A MAFF bureaucrat was arrested on bribery charges in March 2000. It was alleged that he was wined and dined in return for diverting taxpayers' funds into favoured agricultural cooperatives. The episode was described in the press as exemplifying the 'ministry's tendency to generously channel huge sums into the coffers of agricultural and fisheries cooperatives'. According to the same report: 'The bribery case should be the signal for the Government to take a serious critical look at farm ministry policies. It could be termed 'structural rot' that penetrates deep into the psyche of farming, forestry and fisheries policies administration' (quoted in the *Australian Financial Review*, 31 March 2000).

In January 2000 the Second Criminal Investigation Department of the Police Agency commenced investigations into the suspected corruption of bureaucrats in the Structural Improvement Bureau of the MAFF, examining whether project subsidies were allocated to companies in exchange for services (*settai*) including foreign travel. In perhaps the most celebrated case of corruption involving the bureau, the mayor of Niiharu village in Gumma prefecture had reportedly paid ¥1 million into the bank account of the assistant director of

the bureau<sup>84</sup> in December 1994, two years prior to the construction of an agricultural road bridge in the village, on which the names of both men were engraved. In addition to the ¥1 million gift (reportedly a downpayment on a total of ¥2.6 million), the assistant director received numerous other services and gifts courtesy of the village mayor, who successfully engineered various public works projects in his village including bridges, roads and tourist facilities, and who was successively re-elected as mayor (Aera 2000b: 24). One project designated as a land-improvement project in fact resulted in the erection of a new community centre (Yokota 2001: 3). Questions were also raised about the fact that the mayor received a total of ¥32 million in subsidies for the demolition of his house to make way for a village road and the fact that he used this money to build a new house. The assistant director of the Structural Improvement Bureau retired from the MAFF, cutting short political ambitions to enter the House of Councillors in the footsteps of several his predecessors over the years. In the same month as the assistant director's retirement, MAFF Minister Tamazawa Tokuichiro stated in the Lower House Agriculture, Forestry and Fisheries Committee that 'Gifts and transport given to Morita are not against the rules set by the Moral Regulations for MAFF staff members, but this issue has inevitably contained some aspect that could cause the misunderstanding of the public' (Aera 2000b: 24). The exact same comment was made by the administrative vice-minister of the MAFF (Yokota 2001: 1).

MAFF and other government officials caught up in sordid corruption scandals have contributed to the push for a new law on ethics in government (the National Public Service Ethics Law), which took effect on 1 April 2000. The law prohibits bureaucrats, in principle, from receiving gifts of money or goods, or entertaining people they deal with in connection with their official duties. Golf outings and other goodwill trips with businesspeople are also prohibited, even if expenses are 'split'. Wining and dining with them is also forbidden unless permission is granted (*Asahi News*, 2 April 2000).

These changes may help to loosen the tight and potentially corrupt nexus between MAFF officials and those they supervise. The reforms will also reduce the quantity of private goods flowing to bureaucrats and possibly lower the attractiveness of a public service career for potential entrants into the MAFF as well as into other ministries.

On 1 April 2001, the new Information Disclosure Law (*Joho Kokaiho*) required all ministries and agencies to release information to the public on request, in an effort to increase levels of transparency and accountability in administration. The law is the culmination of pressures for greater transparency in the bureaucracy in the 1990s. In the MAFF's case, these

pressures have produced a distinct shift in approach toward explicitly written law in place of administrative guidance. For example, the new Staple Food Law established a legal basis for the rice acreage control program (*gentan*), which had been previously operated on the basis of administrative guidance. Similarly, administrative guidance of some matters under the Nokyo Law and the Agricultural Land Law were put on a statutory footing.<sup>85</sup>

In response to the general criticism that advisory councils were mere ‘fairy cloaks’ (*kakuremino*) for the exercise of administrative power rather than genuinely independent deliberative bodies, administrative reform has encompassed quite considerable streamlining of the complement of advisory councils attached to each ministry and agency. In the MAFF’s case, the process has reduced the total number of councils from 20 to 7 through rationalisation and adjustment. This has eliminated, at least in name, some of the best-known councils: the Agricultural Policy Advisory Council, the Rice Price Advisory Council and the Livestock Price Advisory Council, which have been prime focal points of political pressure from farmers and their organisations. The seven new MAFF councils are the Food, Agriculture and Rural Areas Advisory Council (established under the New Basic Law to replace the Agricultural Policy Advisory Council that had been established under the 1961 Agricultural Basic Law), the Agricultural, Forestry and Fishery Industries Insurance Examination Council, the Agricultural Materials Advisory Council, the Veterinary Affairs Advisory Council, the Agriculture and Forestry Commodities Planning Investigation Committee, the Forestry Policy Advisory Council, and the Coastal and Fishing Industries Promotion Advisory Council (Nosei Undo Jyaanaru 2001b: 15).

### **Reform regression: the New Basic Law**

July 1999 ostensibly marked a major turning point in Japanese agricultural policy with the passage of the New Basic Law to replace the 1961 Agricultural Basic Law, dubbed the ‘Constitution for Agriculture’ (*nogyo no tame no kenpo*). The New Basic Law is designed to ‘serve as the guideline for the nation’s agricultural policies into the 21st century’ (*Japan Agrinfo Newsletter* 1999: 7). It carries wide implications for the entire range of agricultural policies, agricultural trade policies and even for the internal structure of the MAFF. It lays down the fundamental principles on which all new policies will be based.

Given the various challenges to the tripartite coalition of vested interests noted in previous sections of this paper, one might expect that the new law will embody a distinct

departure from the status quo. In fact, however, the new law provides evidence that these same interests remain firmly entrenched.

### ***Evaluating the New Basic Law***

The main articles of the New Basic Law contained in Chapter I, entitled General Provisions, fix in law the principal facets of the agricultural support and protection regime. Article 1 (objective) is a general statement of the purpose of the law, namely 'to stabilize and improve people's lifestyle and to develop the national economy by ... implementing policies on food, agriculture and rural areas'.<sup>86</sup> Unlike the 1961 law, it does not mention farmers specifically, but instead identifies food, agriculture and rural areas, with the notion of improving people's lifestyles and developing the national economy.<sup>87</sup> This is to deflect emphasis away from the special interests of farmers to the interests of the entire population in food, agriculture and rural areas. The aim is to elicit a nationwide consensus in support of the law, and thereby provide solid public underpinning for the agricultural sector. As the main architect of the 1961 Agricultural Basic Law put it, 'the new basic law is for the Japanese people, not only for farmers, and so a national consensus supports it' (interview, Tokyo, January 2000).

Unlike the 1961 Agricultural Basic Law, which did not explicitly focus on consumer needs, the new law embraces consumers with a reference to their needs in relation to food, thus drawing them into the desired national consensus. The reference to consumers is a political gesture as much as anything else. The underlying intention is to forge a strong identity of interests between agricultural producers and food consumers in order to make agricultural support and protection more palatable to the public in general and to confuse the issue of the basic objectives of agricultural support and protection, which are primarily about protecting producers, with the issue of protecting consumers.

The law thus lays the groundwork for a national consensus on agricultural trade policies in terms of the wish to ensure the survival of the nation's farm sector (to which agricultural protection is implicitly vital). In this way, it constructs a defence against demands for increased market access which threaten Japan's inefficient agricultural producers.<sup>88</sup> Achieving such a national consensus is vital to counter the weakening of the agricultural sector in Japan's political economy and its gradual relegation to the status of a minority political interest in Japan's governing structure.

Article 2 (securing a stable food supply) emphasises the importance of food as an indispensable element for life and asserts that the provision of a stable supply of good-quality food at reasonable prices is a goal of the law.<sup>89</sup> One of the questions this clause raises is how the meaning of the word ‘reasonable’ is to be interpreted. The definition of ‘reasonable’ will inevitably be that imposed by the agricultural policy subgovernment, not the standard set by Japanese consumers interested in cheaper food or by foreign exporters who are able to sell their products to Japan at prices many times lower than Japanese prices. Is it reasonable, for example, that the price of rice is five to six times higher than world prices? (Roberts 2000). In short, the law restricts consumer interests to issues relating to the supply of food, not the price of food.

Article 2 implicitly endorses the concept of food security.<sup>90</sup> This principle is linked squarely to the preservation of Japanese agriculture. Stable supplies of food are to be secured from domestic agricultural production ‘as a basis’, and only from imports and food stockpiles as secondary sources. According to Japanese media commentary, the new law unequivocally indicates ‘that the nation’s goal for self-sufficiency in food is settled’ (editorial, *Yomiuri Shinbun*, 10 March 1999).

The article further states that food supply will be ‘managed’ (that is, subject to active intervention by the government) ‘in such a way as to improve agricultural productivity and to comprehensively promote the sound development of agriculture and food industries in response to more sophisticated and diversified public demand’. The objective of securing stable supplies of food can thus be used to justify induced changes in agricultural production and the application of production incentives and other policies and subsidies to improve agricultural productivity and expand the production of certain commodities. In short, the law rationalises the government’s interventionist and farming assistance strategies.

As Article 2 clearly suggests, the principle of food security is no longer just a political goal of the nation endorsed by unanimous Diet resolutions (as it was during the Uruguay Round negotiations), but a *mandated legislative objective of the state*, which makes it a non-negotiable aspect of Japan’s position at the WTO.<sup>91</sup> It also legislates a core element of Japan’s ideology of agricultural support and protection, which underscores the value of farming to the nation by identifying the public goods farming provides, the national values it promotes and the strategic needs it fulfils. The law is in harmony with this ideology, which aims to justify agricultural support and protection in terms of the national interest.<sup>92</sup> Hitherto, the most

coherent exposition of the ideology of agricultural support and protection could be found in the Preamble to the 1961 Agricultural Basic Law.

Article 3 (fulfilment of the multifunctional roles of agriculture) is yet another comprehensive exemplification and restatement of this ideology. It draws attention not only to agriculture's traditional contributions in areas such as food supply, cultural preservation and economic stabilisation of rural areas, but also gives it a more contemporary twist, with full recognition accorded to the environmental functions of agriculture.<sup>93</sup>

The Japanese government's environmental defence of agriculture first saw the light of day during the Uruguay Round negotiations. In its November 1989 proposal to the GATT, it submitted that agricultural policy functioned as surrogate policy in other areas, maintaining that agricultural policy should be considered additionally as land, environmental and regional policy, and that within this wider frame of reference, domestic agricultural support policies could have positive effects (Ouchi and Saeki 1991: 225). It further argued in favour of 'domestic support policies and policies for the maintenance of national land and the environment as well as regional society, which do not distort international trade or which do not cause problems' (Ouchi and Saeki 1991: 225) should be excluded as the subject of negotiations (Saeki 1991: 14). The environmental defence of agriculture in the context of its multifunctional roles, like the principle of securing a stable food supply, has now been legitimised and given wider national and international prominence as a fundamental Japanese legal precept.

At a national level, the reference to the environmental functions of agriculture is also an entirely new development, given the lack of any mention of this in the 1961 Agricultural Basic Law. The provision is an opportunistic response to the URAA and WTO negotiating contexts in which agricultural support measures that enable agriculture to help protect the environment and conserve natural resources are categorised as belonging to a 'Green Box', and therefore exempt from reduction commitments. Furthermore, they can be increased without any financial limitation (communication from National Farmers Federation official, Canberra, January 2000).

Article 4 (sustainable agricultural development) provides a sound legal justification for continuing government expenditures on agricultural public works, namely the reference to sustainable development being 'promoted by securing agricultural facilities including the necessary farmlands and irrigation/drainage, and a workforce, establishing a desirable structure with an effective combination of the above elements'. Article 5 (development of rural



areas) provides the same legal underpinning for rural public works in its reference to rural areas being ‘developed through improvements in agricultural production conditions and rural welfare including living infrastructure’.

The majority of the remaining articles in the General Provisions (Articles 6–14) merely widen the support framework to the fisheries and forestry industries and make the implementation of the law the combined responsibility of the state, local governments, farmers, the food industry and consumers. The object of the latter provisions is to attribute responsibility to these other groups and to involve them in the general enterprise of advancing the interests of the agricultural sector.

Taken in their entirety, the General Provisions of the New Basic Law are broadly worded and therefore allow for maximum flexibility of interpretation in order to justify the maintenance and diversification of agricultural support measures. Each of the provisions is elaborated further in Chapter II of the Law entitled ‘Basic Policies’. Section 1 of Chapter II provides for the formulation of a basic plan (*kihon keikaku*) that ‘stipulates the basic direction in formulating policies on food, agriculture and rural areas, food self-sufficiency targets (global and for individual products), as well as policies implemented comprehensively and systematically by the government with regard to food, agriculture and rural areas’. This is the provision that allows for the General Provisions of the law to be translated into concrete policies.

Section 2 of Chapter II corresponds to Article 2, namely securing a stable food supply. The critical article in this section refers to policies on imports and exports of farm products; that is, government policy on market opening, namely the principle that the ‘State shall take necessary measures such as tariff rate adjustments and import restrictions, where urgently required when certain imports have or are likely to have a significant adverse effect on the production of domestic farm products competing against such imports’. In short, the first principle of ‘securing a stable food supply’ is border protection for domestic producers. This is supplemented by the concept of a crisis-management system in times of food shortage.

Section 3 on policies for sustainable agricultural development corresponds to Article 4 and emphasises promotion of a better agricultural production infrastructure (that is, agricultural public works). It acknowledges the need for expansion in scale of farm management (the enduring justification for agricultural public works which elevates the bulldozer to the main instrument of scale expansion policy), and any other measures for improving farmers’ management (code for farm incomes). The section identifies the state’s core interest

in family farming,<sup>94</sup> meaning maintaining the status quo where a majority of inefficient part-time farm households block the emergence of true economies of scale and the entry of companies into commercial operations of land-intensive farming,<sup>95</sup> particularly rice. Instead of allowing new companies to introduce commercial operations, it encourages the incorporation of farms as businesses (*nogyo keiei no hojinka*), with the hope this will strengthen farm management. These new businesses are either based on the farm household or on other types of group farming operations.

Permissible agricultural production corporations will consist of three types: family farms converted into corporations (one household, one corporation), and farm households in a particular region incorporated into entities, similar to cooperative bodies called community agricultural management corporations (*shuraku einoteki hojin*) or enterprise-type corporations (*kigyoteki hojin*), which are a form of enterprise management where land, labour and capital are separate (Miwa 2000: 17).<sup>96</sup>

These forms of agricultural management are an entirely different proposition to allowing private joint-stock companies into farming, which would enable large-scale, commercial producers to own and cultivate land, which is prohibited under the Land Law.<sup>97</sup> The entry of joint-stock companies into farming excites fears of land speculation and concerns that such management will not be in harmony with the management of family farms in the same district and will throw regional water control and land utilisation into confusion.<sup>98</sup>

The only article in Section 2 under sustainable agricultural development that moves in a truly liberalising direction is Article 30 (price formation of farm products and stabilisation of farm management) but, arguably, the second half of this proposition qualifies the first. The market will be permitted to determine agricultural products in a limited manner, but in no way will such marketisation endanger the viability of farm management, meaning farm incomes. In this way, agricultural prices can fall, but farm incomes will be maintained. Only the methods of indemnifying farmers will change. For example, Clause 1 of Article 30 in this section states that the ‘State shall take necessary measures for allowing the prices of farm products to form appropriately reflecting the real-supply/demand situation and quality evaluation, in order to promote agricultural production responsive to consumer demands’, while Clause 2 states that the ‘State shall take necessary measures for mitigating the adverse effects of significant price changes of farm products on farm management supposed to be encouraged’.

This section represents perhaps the strongest contrast to the 1961 law. It embodies the idea that price formation should conform to market principles, while at the same time guarantees to stabilise the incomes of the ‘bearers’ of agriculture (farmers) who have the ‘motivation’ (*iyoku*) to farm. It also encapsulates the principle of decoupling agricultural prices from farm incomes, in contrast to the 1961 legislation, which stipulated that price stabilisation should be achieved through price policies (Miwa 2000: 14).

Section 4 of the law corresponds to Article 5 of the General Provisions, namely policies for the development of rural areas. It is a much more diverse and elaborate formulation than that contained in the 1961 Agricultural Basic Law, which referred only to the development of transport, public health and the cultural environment in rural areas (Miwa 2000: 14). In Article 34 of this section, the law elaborates the kind of rural public works projects envisaged, namely ‘those for comprehensively promoting improvements in agricultural production bases and rural welfare including living infrastructure such as transportation, telecommunications, public health, education and culture ... in order to promote the sound development of regional agriculture and create pleasant and resident-friendly rural areas surrounded with beautiful landscape’. It also refers to the promotion of urban agriculture.

Hilly and mountainous areas come in for special treatment given their designated role in the sustainable development of agriculture. Section 4 requires that the state ‘take specific measures for the fulfilment of the multifunctional roles of agriculture in hilly and mountainous areas, by providing support to compensate for disadvantages in agricultural production conditions’. This involves the introduction of direct payments to farmers in hilly and mountainous areas that are suffering from the aging of the population and the abandonment of cultivation in order that agriculture and farm villages in these regions may continue to play their multifunctional roles (Miwa 2000: 14, 22). This policy measure is carefully designed to be in the Green Box of the URAA. What Japan is effectively doing with this policy is expanding the Green Box, thus increasing allowable financial support to its agricultural sector under WTO trade rules.

In summary, the balance of the new law is heavily weighted in favour of agricultural support and protection as opposed to agricultural deregulation and liberalisation. In this respect, the legislation is a monument to the maintenance of the status quo and a formidable legal barrier to reforming the agricultural sector by dismantling the agricultural protection system, which is the core vested interest of the iron triangle of farmers and farm organisations, agricultural politicians and MAFF bureaucrats. Indeed, its passage has energised the

agricultural protection industry and provided a whole new legal underpinning for the agricultural support and protection regime. It is described by the Zenkoku Noseikyo in the following terms: 'The New Basic Law takes as its fundamental ideology the promotion of rural areas and the full demonstration of the multifaceted functions that agricultural and rural areas possess along with securing the stable supply of food with a view to the supportive development of agriculture' (Nosei Undo Jyaanaru 2000a: 15). In short, the New Basic Law is very much geared to the preservation of Japanese agriculture, and it lays the philosophical foundation for further assistance both to agriculture and to the development of rural areas.

### ***Applying the New Basic Law***

The passage of the New Basic Law was officially described as launching a new era of agricultural policy reform (*nosei kaikaku*) with a program of policy changes planned until 2003. These are all predicated on the new law. The period of 1999–00 will be used for 'constructing the framework of New Basic Law agricultural policy promotion'.<sup>99</sup> The second phase of the agricultural policy reform program, which lasts until 2003, is called 'fixing and review of the new system'.<sup>100</sup>

The New Basic Law's general provisions have been converted into a practical set of policy goals outlined in the Basic Plan, which was announced in March 2000 (the formulation of which was mandated under the law), and which incorporates the essentials of the agricultural policy reform program.<sup>101</sup> The new law should, therefore, be read in conjunction with the Basic Plan, which is due for revision after five years in 2005.

#### ***i) The Agricultural budget***

The New Basic Law justifies a whole new raft of expenditures dedicated to meeting its goals that are now feeding through into agriculture, forestry and fisheries budgets. Predictably, the farmers, Nokyo and other agricultural organisations have focused their efforts on what financial measures will flow from the new law. As a start, the 2000 agricultural, forestry and fisheries budget increased the gross outlay to the sector by 0.7 per cent over 1999, continuing an upward trend since 1998. The key objectives in the budget were to promote the maintenance of a stable food supply (in keeping with one of the basic tenets of the New Basic Law), which translated into measures for 'establishing a new support system for the production of wheat, soybeans and coarse grains in paddy fields [that is, those products in

which Japan's self-sufficiency ratio is very low and which have received new emphasis under the food supply provisions of the New Basic Law], the "systematic" production of rice, and the "effective use of paddy fields", in line with the New Agricultural Basic Law' (MAFF 2000b). Other expenditures in the 2000 budget were also derivative of the developmental, protective and rhetorical goals expounded by the new law, including the sustainable development of agriculture (agricultural public works) and support for rural areas (rural public works), including measures for direct payments to farmers in hilly and mountainous areas (MAFF 2000b).

The 2001 budget was the first to implement the provisions of the Basic Plan and particularly its target of 45 per cent self-sufficiency in food by 2010.<sup>102</sup> Accordingly, it put stress on expenditure relating to the stable supply of food, a goal which was bound up with overall production and management policy for agricultural and livestock products and which merited a 1.5 per cent increase in funding over the 2000 budget. New expenditures linked to the food self-sufficiency goal also included special financial measures for the 'bearers' of agriculture (¥115 billion) and other measures for 'bearers' relating to the utilisation of agricultural land (¥2.3 billion) (Nosei Undo Jyaanaru 2001a: 16).<sup>103</sup>

As predicted, the New Basic Law and its associated Basic Plan are turning into a justification for new agricultural expenditure programs. Moreover, the legal basis of this expenditure is unassailable. The new law provides a reinvigorated legal and administrative bulwark against attacks on agricultural spending.

### *ii) Market determination of agricultural prices*

The law implicitly acknowledges past changes in pricing methodology (e.g., in rice) and anticipates future changes in Japan's agricultural pricing systems in ways that will respect the market mechanism and more accurately reflect supply and demand. This is an area where the new law ostensibly embraces the most radical change, where agricultural policy has become the most market-oriented, and where, therefore, it is most consistent with the WTO regime (Honma 1999: 1). As an editorial in the *Yomiuri Shinbun* put it:

Up to now, the key policies of the current Agricultural Basic Law have focused on increasing the income of producers and enhancing farm productivity. In comparison, the new law represents a drastic change. It will abolish the price support system for specific farm products ... which was aimed at stabilizing producer income, and leave the product pricing

to the outcome of the free market mechanism. This represents a fundamental shift in postwar Japanese agricultural policy. (*Yomiuri Shinbun*, 10 March 1999)

The effect of the changes will be partially to depoliticise agricultural pricing by transferring more of the function of price formation out of the realm of politics (i.e., a decision of the MAFF minister) and into the market itself. Even the LDP agricultural leadership has acceded to the idea:

that fluctuations in market prices for agricultural products should be taken into account, otherwise producers do not care for the supply-demand situation. The government and the LDP used to have clashes in negotiations to set prices for rice and dairy products, but the number of clashes has decreased nowadays. (interview with Hinode Eisuke, Tokyo, January 2000).

Fundamentally, the New Basic Law provides support for a switch from price support policies to direct income compensation for farmers.<sup>104</sup> Compensation takes the form of financial support for stabilising farm incomes (Toda 2000: 27–8). The program of income guarantees and review of price policies in 1999–00 involved: fixing and reviewing stabilisation policy for rice production; introducing a stabilisation fund for wheat production; reviewing the subsidy system for soybeans; reviewing the pricing system for sugar and other sweeteners; reviewing the system of deficiency payments and price formation for raw milk and dairy products; examining income-stabilisation measures; and reviewing the agricultural disaster compensation system.

In the period through to 2003, the government will maintain a continuing re-examination of rice policy, will advance smoothly the transition to private distribution of wheat, will advance and fix a new plan for soybeans, will deploy new policies for sugar and sweeteners, will shift to a pricing system that reflects market conditions for milk and dairy products, and will undertake a continuing examination of conditions for reviewing price policies for each product (Nosei Undo Jyaanaru: 2000f: 18).

Taking several concrete examples:

- In the case of wheat, barley and naked barley, the government has traditionally purchased these grains from farmers at a guaranteed price. The 'Government is now going to adopt ... a gradual shift from its ... control to private distribution, and a

transfer from the price support system to a farm management stabilization scheme (possibly payment of a grant for stabilizing farm management)' (Toda 2000: 27).

- A reform program for the dairy and milk sector was decided in December 1998 after approval by the LDP. In March 1999 the MAFF announced its 'New Dairy and Milk Industry Policy Outline' (*Arata na Rakuno-Nyugyo Taisaku Taiko*) aimed at promoting the marketisation of trading in milk and dairy products. Under the present price support scheme for raw milk for processing, ALIC pays a subsidy (deficiency payment) to producers to compensate them for the difference between the government-decided guaranteed price and the standard transaction price (the dairy processors' buying price). Dairies are obliged to buy raw milk for processing at this standard transaction price, which is set every year by the government, or at a level higher than that. Government subsidies are based on the difference between the average cost of producing one kilogram of milk for processing (the guaranteed price) and the price dairy farmers receive for the same quantity (the standard transaction price), which is the unit price for the deficiency payment. In other words, the guaranteed price that the dairy farmers receive is the total of the standard transaction price paid by the milk processors and subsidies paid by the government. The reform will abolish this deficiency payment system and substitute it with a dairy farm management stabilisation scheme in fiscal 2001. This will involve direct payments to farmers who produce raw milk for processing. Details of the new scheme are under consideration (MAFF 2000a). In basic outline, however, prices for processing milk will be determined in the market (through tenders), with direct payments made to farmers by the government to compensate for price declines. When the new system is introduced, the price of processing milk will, therefore, more accurately reflect supply and demand and will therefore fluctuate. Dairy farmers will receive a flat payment based on the actual price, and so their incomes will fluctuate. If incomes decline some dairy farmers will not be able to cope although, in some cases, incomes may increase (communication from Masayoshi Honma, June 2000). The more market-oriented system is designed to encourage farmers' entrepreneurial ability.

In the case of dairy products, a price stabilisation system currently operates. The scheme consists of a stabilisation indicative price (the manufacturer's selling price) and the standard transaction price (the manufacturer's buying price), both of which are set by the government. The stabilisation indicative price is the price for contributing

to the stable consumption of dairy products, and it consists of the standard transaction price that manufacturers have paid to farmers plus allowable manufacturers' expenses for production and marketing (MAFF 2000a: 14–15). The ALIC purchases designated dairy products if prices drop, or are likely to drop, below 90 per cent of stabilisation indicative prices and sells stock if prices rise, or are likely to rise, above 104 per cent of the stabilisation indicative prices. As with milk manufacturing, the pricing system for dairy products will be altered. The aim of the new scheme is to improve transparency in the pricing of dairy products and ensure that pricing properly reflects the demand for and supply of each product. In 1999 a new trading centre for dairy products was established along similar lines to the Voluntarily Marketed Rice Price Formation Centre. Its purpose was 'to serve as a mechanism for the formation of prices of dairy products, such as butter and skim-milk powder, in accordance with actual supply/demand conditions in the markets' (*Japan Agrinfo Newsletter* 1999: 2). Thus far it has taken the form of a pilot exchange for dairy products held every two months, with a bidding system for butter and skim milk powder. The exchange is open to all parties concerned with the production, utilisation and trading of dairy products who are registered under the Food Sanitary Act. An operational committee of the market publicises bidding results as guidance for pricing in direct transactions (communication from MAFF official, Tokyo, January 2000).

The new policy also prescribes that the pricing of drinking milk should be more transparent and fair. Currently, producer associations negotiate prices and milk volume with dairy processing companies once a year. However, the bargaining process has been criticised for its lack of transparency and for being time-consuming. It is also pointed out that due regard needs to be paid during the price negotiations to supply and demand, and to stabilising farm incomes. The MAFF has just begun to consider how to promote smooth and more appropriate pricing of drinking milk.

- In the case of soybeans, a subsidy (deficiency payment) system currently provides a guaranteed price to farmers. Subsidies are paid to compensate for the deficit between the so-called standard price and the producers' selling price. The New Soybean Policy includes efforts to enhance the competitiveness of the domestic product by stimulating demand and introducing measures for improving domestic production and distribution systems, encouraging food producers to use domestic soybeans and rewarding farmers who contribute to these efforts. There are proposals to strengthen the



production structure of soybeans, revise the subsidy system for soybean farmers and stabilise farm operations. The government plans to abolish the guaranteed price and thus the deficiency payment for soybeans, and instead set up an income-stabilisation fund based on direct payments.

- In the case of sugar cane and sugar beet, a price guarantee applies: when the market price drops below a certain predetermined level, the government guarantees the minimum price through buying operations by the ALIC. In the future, the sugar beet and sugar cane pricing systems will face some change.

With respect to all these commodities: 'the basic idea is to push forward formulation of a real market price in transactions of agricultural products, including imported ones. In case a loss of income takes place due to this arrangement, the Government intends to compensate it through a provision of a financial support toward the stabilization of farm management' (Toda 2000: 27-8). Rice has provided the model of price reform for all commodities. Fundamentally every commodity program will change to the same system introduced for rice: tenders (that is, market prices) plus direct income payments to farmers (communication from Masayoshi Honma, June 2000). The new model of price reform received its blessing from the MOF (whose approval must be obtained for all major agricultural policy expenditure), the LDP (because the MAFF could explain the new system easily to politicians given that a similar system for rice was already in operation) (communication from MAFF official, September 2000) and Nokyo. One Nokyo official commented that:

there would be every reason to expect that the agricultural production in parallel with farm income could be maintained, or even increased, by means of a stabilization scheme for farm management and a farm income-security policy, both of which are employed for producers who have fallen [sic] their farm income ... caused by the adoption of the market economy principle. (Toda 2000: 28)

Problems with direct subsidies may, however, arise in the future over whether or not separate payments for different farm products can help stabilise farm management and whether or not the national consensus in favour of supporting agriculture extends to stabilising the incomes of farmers as opposed to supporting the prices of agricultural products (Toda 2000: 28).

The new farm income stabilisation approach was further institutionalised, however, with the introduction of a 'Management Policy Outline' (*Keiei Seisaku Taiko*) formulated in late 2000, which takes as its core new farm management stabilisation measures. Basically the policy will provide handouts to farmers, although it does contain some reformist elements.

On the one hand, it compensates farmers through subsidies and other measures for lost income from falling prices of farm products caused by the rapid growth in farm imports (*Nikkei Weekly*, 29 January 2001). The idea is to provide direct payments to farmers when their incomes fall below a certain level. The policy is thus predicated on the principle of direct income subsidies rather than price supports, in keeping with trends in the European Union (EU), on which the MAFF is endeavouring more and more to model Japanese agricultural policy (*Nikkei Weekly*, 29 January 2001). Matsuoka Toshikatsu, chairman of the Norin Bukai in late 2000, went a lot further than this, however, suggesting to the MAFF that farmers be guaranteed lifetime subsidies at about the same level as other industries (*Nikkei Weekly*, 29 January 2001).

On the other hand, the targets for the subsidy will be restricted to about 400,000 full-time, larger-scale farm households and agricultural production corporations. These would be classified as 'bearer farmers' (*nogyosha ninaite*) selected by the MAFF and local governments. In excluding small-scale, part-time farm households from the direct payments, the government is, for the first time, reconsidering its long-standing policy of equal protection for both full-time farmers and those who farm as a side business (*Nikkei Weekly*, 29 January 2001). In this sense, the policy is an implicit structural policy insofar as it discriminates against inefficient agricultural producers in favour of more efficient ones.<sup>105</sup> The MAFF's view is that it wants to encourage large-scale entrepreneurial farmers, so it must protect them against income fluctuations, thus providing a buffer against liberalisation and the deregulation of markets (communication from MAFF official, September 2000). The policy also involves beefing up the system of insurance against crop damage as a form of income protection.

The problematic aspects of the policy, however, are in determining the basis of the distinction between recipients and non-recipients and whether the direct payments will generate motivation to work harder and farm more efficiently. The critics suggest that the policy could end up as just one more type of pork barrelling to the agricultural sector (*Nikkei Weekly*, 29 January 2001). The whole rationale for the new emphasis on cultivating 'agricultural bearers', however, rests on the fundamental principle of raising Japan's food self-sufficiency rate because they bear the primary responsibility for agricultural production.

### *iii) Food self-sufficiency targets*

A specific target rate for food self-sufficiency was not included in the New Basic Law because it was considered too controversial and too difficult to set for all time. However, the law was amended by adding a proviso to bear in mind the aim to raise the food self-sufficiency rate, and requires the government to determine the rate every five years by means of the Basic Plan.

In reality, the Basic Plan is a concrete plan for realising the New Basic Law. It aims for an expansion in domestic agricultural production, including the target level of food self-sufficiency and the necessary individual commodity 'production endeavour targets' (*seisan doryoku mokuhyo*)<sup>106</sup> for realising this. The overall food self-sufficiency ratio target for 2010 (*sogo jikyuritsu*) was set at 45 per cent on a calorie basis as a 'realisation possible standard' (*jitsugen kano na suijun*). The LDP demanded that food security and the self-sufficiency rate in food be clear (interview with Hinode Eisuke, Tokyo, January 2000). As pointed out by the Japanese press: 'The target of raising food self-sufficiency, on a calorie basis, to 45% by 2010 is in fact the first time that a self-sufficiency target has been set' (*Daily Yomiuri*, 18 March 2000).

Determining an actual target was a direct concession to the farm lobby and particularly to Zenchu, which had been demanding a much higher target at around 50 per cent. According to the Zenkoku Noseikyō's direct representative in the Diet, Kumagai Ichio, the 45 per cent target:

incorporates thinking that the appropriate target after 20-years (including political judgement) should be more than 50 per cent. The MAFF's initial calculation was 41 per cent, but politicians said 45 per cent against the background of the earnest thinking of all classes of the nation beginning with producers, leading to a 'more than 50 per cent' level as the second stage. (Kumagai 2000: 21)

The negotiations over the self-sufficiency rate thus followed the same pattern as past discussions about the government's purchasing price for rice. The MAFF came in at the lowest level (in this case at 41 per cent); Zenchu demanded the highest at 50 per cent (which the Ministry of Finance said was ridiculous); and the LDP's agricultural politicians imposed a 'political addition' on the MAFF figure (in this case lifting the self-sufficiency ratio to 45 per cent), which was the finally agreed figure. As Kumagai acknowledges, however:

even the achievement of 45 per cent over 10 years is a severe thing. The future self-sufficiency rate is predicted to be 37–38 per cent, 45 per cent is a further 7–8 per cent. Because even inducing a rise of 1 per cent on a calorie basis is extremely difficult, it is necessary for the government and the Cabinet as a whole to grapple with raising it up by 7–8 per cent and putting the brakes on the fall in the self-sufficiency rate. Because of this, budgetary measures under a separate framework to raise the self-sufficiency rate are essential. It is important to strive for reform in the consciousness of consumers such as promoting a ‘Japanese-style food livelihood’ (*Nihonkei shoku seikatsu*), which is the government’s responsibility. (Kumagai 2000: 21)

The Zenkoku Noseikyo further elaborated:

Predicated on the existing amount of agricultural land, the target of 45 per cent after 10 years was judged to be the absolute limit even if it meant elevating the utilisation rate (of land) by double cropping. Compared with the 1998 level, the area of agricultural land in 2010 will be 210,000 hectares less at 4,700,000 hectares, and the cultivation utilisation rate was set at 106 per cent or 12 points higher. Also lining up together the ‘more than 50 per cent’ as a food self-sufficiency target that should be aimed for, is designed to take into consideration the fact that the people are anxious about the Japanese food situation and the importance of raising the domestic food supply capacity. The Basic plan can also be said to be a compromise plan of the government, the ruling party which emphasised the will to produce and the producers. Within the government, there were many negative opinions about the 50 per cent, saying that to announce such high target levels that ignored the possibility for realising them ‘will have a bad influence on policy promotion’. But voices supporting 50 per cent maintained that from a food security standpoint it was easy for the people to understand. The MAFF whilst aiming for the 45 per cent in 2010, will deploy an agricultural policy that over the long term will aim for the ‘more than 50 per cent’. (Nosei Undo Jyaanaru 2000: 24)

Given that the food self-sufficiency rate is not a policy variable because it is determined by demand and supply (Honma 2000a) as well as by consumer preferences, it is correctly seen as a political variable, in the sense that it can be used as justification for allocating government funds to the agricultural sector to meet the target rate. Farming groups and Diet

politicians pushed the government to introduce the target for this reason (Honma 2000a). The implicit argument is that increasing Japan's food self-sufficiency rate can only be done by spending more and by assisting and protecting agriculture more. The risk is that in stressing the need for Japan to raise its food self-sufficiency rate, this goal 'will be used as a pretext for increased agricultural protection or a larger budget for farming' (editorial, *Asahi Shinbun*, 16 July 1999).

The MAFF now has the statutory basis on which to justify a whole range of new subsidies to achieve goals that can only be accomplished with government financial assistance, such as increasing the production of domestic foodstuffs that Japan is an inefficient producer of, namely wheat, barley and soybeans. But as one commentator has observed:

Some increases in domestic production of wheat, barley and soybean might be expected as a result of conversion in cropping from rice through a provision of a bounty by the Government. However, a provision of incentives through an income compensation with the intention of significantly increasing domestic production is questionable from the viewpoint of economic efficiency. (Toda 2000: 32)

He also expresses grave doubts about whether domestic production of feed grains to meet the demand would ever be possible (Toda 2000: 32).

In the 'production endeavour targets' for individual products, the Basic Plan set forth over the period 1998 to 2010 an increase in rice production of 2.4 per cent, in wheat production by 40.4 per cent (from 570,000 to 800,000 tonnes, or from a self-sufficiency ratio of 9 per cent to a self-sufficiency ratio of 12 per cent) and in soybeans by 56.3 per cent (from 160,000 to 250,000 tonnes, or from a self-sufficiency ratio of 3 per cent to a self-sufficiency ratio of 5 per cent) (Nosei Undo Jyaanaru 2000g: 24, 25).

In laying down production targets for the main agricultural products and developing production policies aiming for the achievement of those targets (Miwa 2000: 14), the Basic Plan and New Basic Law implicitly advocate production for its own sake, regardless of cost. The approach has been greeted with some scepticism by the Japanese media: 'Measures such as increasing subsidies should not be taken to help farmers achieve the product-by-product targets that producers are being asked to try to attain, or to secure sufficient farmland' (*Daily Yomiuri*, 18 March 2000). In contrast, production policy in the 1961 Agricultural Basic Law

embraced 'selective expansion' of agricultural production in response to demand conditions (Miwa 2000: 14).

*iv) Agricultural trade policy*

The New Basic Law is designed to provide a solid ideological, legal and policy defence in WTO trade negotiations against further liberalisation of Japan's agricultural market. The timing of its passage in July 1999 (four months before the scheduled November meeting in Seattle) is indicative of its function in this regard. It aimed to lay the legal groundwork for such a defence and was geared specifically to the WTO. It is widely understood in Japan that:

The Japanese government's policy for agricultural trade negotiations dealing with exporting countries' demands for further liberalization by Japan of farm products, starting in the year 2000 under the auspices of the World Trade Organization (WTO), will ... be in accordance with the new law. (*Nikkei Weekly*, 10 January 2000)

The Zenkoku Noseikyo has also called for trade rules to be established that will ensure policy is based on the New Basic Law. It argues that the survival of Japanese agriculture and rural areas hangs on the WTO agricultural negotiations (Nosei Undo Jyaanaru 2000d: 3).<sup>107</sup>

The New Basic Law pushes non-trade considerations such as the multifunctionality of agriculture right to the fore and plays on national insecurities about food supply in the light of steady falls in Japan's self-sufficiency rate. Even the news media, usually strong critics of high food prices and concessions to farmers, commented in the wake of the law's passage that: 'It is quite proper for Japan to seek to raise its food self-sufficiency rate, since the rate is by far the lowest among the developed countries' (editorial, *Asahi Shinbun*, 16 July 1999). As already noted, the new law was designed to elicit the formation of a national consensus in favour of agricultural support and protection, by evoking principles patently linked to the public good such as food security and the environmental benefits of agriculture.

Before the first WTO meeting in Seattle, the agricultural policy subgovernment became pro-active in endeavouring to build a broader public and cross-sectoral consensus in favour of the Japanese government's position by stressing these consensus-building ideas. These ideas are now formally incorporated into Japan's agricultural trade negotiating position at the WTO. The gist of its proposal holds that the new trade rules should guarantee:

the importance of the multifunctionality of agriculture, and consideration for the natural conditions of agriculture in each country; that food security should give full consideration to the fact that domestic production is the basis of such security; and that the balance should be restored between the rights and duties of exporting and importing countries. (Miwa 2000: 86)

The MAFF also established a consultative council (the WTO tripartite council, or *WTO sansha kaigi*) to facilitate the formation of a consensus within the agricultural policy subgovernment on trade-related issues. Originally set up in late 1998 to deal with rice tariffication, the council consists of representatives from the MAFF, the LDP and agricultural, forestry and fisheries groups. MAFF representatives are the minister, administrative vice-minister, parliamentary vice-ministers<sup>108</sup> and other relevant high-ranking officials. From the LDP, the chairman of the Norin Bukai and the executives of other agricultural policy committees attend (these make up the so-called agricultural leadership or *kanbukai*). The producer side is represented by the chairman of Zenchu, the chairmen of the National Forestry Federation (Zenshinren), the Japan Forestry Association (Nihon Ringyo Kyokai), the National Timber Industry Cooperative Union (Zenkoku Mokuzai Sangyo Kyodo Kumiai), the National Fisheries Cooperative Federation (Zengyoren) and the Greater-Japan Fisheries Association (Dainihon Suisankai), to make a total of six producer representatives.

The *sansha kaigi* was the MAFF's idea because it felt it sorely lacked such a three-way process during the Uruguay Round negotiations, particularly with the absence of the LDP (the URAA was signed at the time of the Hosokawa coalition government). Furthermore the MAFF was not satisfied with the outcome of that process – the capitulation to external and domestic pressures to accede to the URAA, including the minimum-access arrangement for rice (interview with MAFF official, Tokyo, January 2000). When the issue of rice tariffication came up for discussion in late 1998, the MAFF had a very difficult meeting with the LDP and Zenchu, and the idea of setting up the *sansha kaigi* arose as a means of achieving a harmonious consensus on the issue. The MAFF organised the council and decided that it was a good system to decide all WTO-related matters.

The objective underlying the creation of the *sansha kaigi* was to facilitate the formation of a consensus among concerned organisations on Japan's basic position toward WTO-related agriculture negotiations (communication from MAFF official, May 2000). The desire for solid agreement among the parties to the agricultural policy subgovernment was regarded as

indispensable in order to present a united front to other groups in Japanese society, including industry and consumers, as well as to the outside world.

According to the Zenkoku Noseikyo, the formal tripartite policymaking mechanism makes possible the establishment of international trade rules based on the New Basic Law, with agricultural, forestry and fisheries groups, the ruling party and the government (i.e., the MAFF) operating in a bloc (Nosei Undo Jyaanaru 2000a: 15). During these three-way negotiations, Zenchu's policy demands find their way into the official government position on WTO agricultural trade negotiations (Nosei Undo Jyaanaru 2001c: 20).

The MAFF has also instituted even more broadly based consultation processes in order to reduce the possibility of objections to Japan's position at the WTO agricultural trade negotiations being raised by non-agricultural groups. From the Japanese government's perspective:

the problem with the UR [Uruguay Round] was that there was no national consensus in Japanese society, so it did not have a strong position. After reflecting on the shortcomings of the UR process, the MAFF, LDP and Nokyo decided to start the process of consensus-making amongst the Japanese people, including consumers and other industries and through that, establish a strong position towards the WTO negotiations. During the UR, there were always objections to Japan's negotiating stance from industry, especially Keidanren. During the course of consensus-making this time round, however, the MAFF explained its views to Keidanren and consumer groups as part of a broad consensus-building process so the Japanese government could keep its international position solid, especially between MAFF and MITI. (interview with MAFF official, Tokyo, January 2000)

In retrospect, MAFF strategists recognised that foreign players had skilfully exploited divisions in the Japanese policy community during the Uruguay Round negotiations. They had allowed the United States and others to divide them by playing to the interests of industry and consumers. The Japanese government has learned from this experience and now takes a great deal of care to build a very tight cross-sectoral consensus behind its formal trading position at the WTO.<sup>109</sup>

It is indicative that the New Basic Law passed the Diet with the almost unanimous support of all members and parties (except for the Japan Communist Party which objected not on the grounds that it opposed the law, but on the grounds that it was submitted by the



coalition parties). Because of this almost unanimous support, the Zenkoku Noseikyo argued that it was enacted on the basis of the people's agreement (*kokumin goi*) (Nosei Undo Jyaanaru 2000a: 15).

This position is symptomatic of the new strategy being used by agricultural protectionists to advance their cause. They no longer engage in special pleading for farmers. Instead, they argue that issues of food, agriculture and rural areas are not just matters for agricultural producers and those who live in rural areas but issues affecting the nation as a whole.<sup>110</sup> In its current policy campaigns, the Zenkoku Noseikyo is putting great emphasis on obtaining the agreement of 'all classes of people' with respect to agricultural policy topics such as the WTO negotiations and the New Basic Law.

In sum, the New Basic Law is a fundamental expression of a revamped public policy of agricultural support and protection that embodies a national consensus on the value of farming and rural areas to the Japanese people. Concepts such as food security and the multifunctionality of agriculture represent a synthesis of special interest with the national or public interest.<sup>111</sup> This is ideological politics par excellence.

#### *v) Administrative restructuring of the MAFF*

The internal reorganisation of the MAFF also registers the new policy emphases and directions embodied in the New Basic Law.<sup>112</sup> The General Food Policy Bureau, for example, has responsibility for the 'stable supply of food', having amalgamated a part of the Economic Affairs Bureau with the Food Distribution Bureau, and has taken charge of consumer, market and food-service industry policies. The establishment of the General Food Policy Bureau signifies that the MAFF is now placing a great deal of emphasis on 'consumer policy' (Nosei Undo Jyaanaru 2001b: 13). This is MAFF code for ensuring a stable food supply and all that it entails.

The Agricultural Production Bureau has taken charge of promoting the production of the major agricultural commodities other than rice and wheat. It is divided into sections concerned with each product, such as vegetables, fruit and flowers, speciality products and so on. This part of the bureau represents what used to be the main body of the former Agriculture, Sericulture and Horticulture Bureau. The former Livestock Bureau has become the Livestock Department in the Agricultural Production Bureau, and it is concerned with promoting the production of livestock products in order to raise the self-sufficiency ratios for these commodities (Nosei Undo Jyaanaru 2001b: 14).

The Management Improvement Bureau is the equivalent of what was originally meant to be the core function of the Structural Improvement Bureau (the new bureau has a structural improvement section) in its concern with the structure of agricultural production; that is, issues relating to farm management (family farms, group farms, size of farms etc.). It has acquired a special focus on the 'bearers' of agriculture, namely, those who are primarily responsible for agricultural production. It is also a totally new bureau in its focus on stabilising farm management (hence the change of title), embodying the changing emphasis in agricultural policy from price support to income-stabilisation measures. Ostensibly concerned with making the agricultural sector more efficient, the bureau is there in reality to support farm incomes. Its approach, however, is more global than commodity-specific. It is less concerned with income stabilisation for producers of individual products than stabilising income from a cross-section of product items and the overall incomes of farm households. For example, it will be in charge of the income-stabilisation measures for the 400,000 management bodies (*keieitai*) in the new farm management policy. In addition, the Management Improvement Bureau now incorporates the agricultural land section of the former Structural Improvement Bureau, and the insurance and finance sections of the Economic Affairs Bureau (Nosei Undo Jyaanaru 2001b: 14).

Those parts of the former Structural Improvement Bureau concerned with public works were transferred to the Rural Development Bureau, which also appropriated the National Land Agency's Regional Promotion Bureau. The new bureau will take charge of agricultural and rural development, which constitutes the bulk of public works in agriculture (Nosei Undo Jyaanaru 2001b: 14). Given that the New Basic Law now justifies public works under the rubric of agricultural and rural promotion, the subterfuge that somehow public works effected the 'structural improvement' of farming has finally been exposed. The Rural Development Bureau will also take responsibility for the promotion of hilly and mountainous regions, including direct payments to farm households in these regions.

The nature of the MAFF's internal reorganisation reflects a fundamental alignment with the basic provisions of the New Basic Law. It also signifies that the agricultural bureaucracy has dug in for a last-ditch defence of its vested interests, particularly in areas such as food self-sufficiency, agricultural and rural public works, and the rejection of agricultural trade liberalisation, although these long-standing vested interests are now overlaid with a veneer of economic rationalism in the creation of the Management Improvement Bureau.

### ***Agricultural policymaking and institutional change***

The *WTO sansha kaigi* adds a new, formal step in the process of agricultural policymaking without fundamentally altering the long-established steps and stages in this process. Policy formulation within the agricultural policy subgovernment has traditionally begun in the MAFF,<sup>113</sup> with several rounds of discussion among relevant officials culminating in a policy draft. MAFF officials then conduct informal negotiations (*nemawashi*) with Zenchu executives and the LDP's agricultural policy leadership, consisting of the executives of the PARC's agricultural policy committees (the so-called *kanbukai*).<sup>114</sup> An informal meeting is then held between the *kanbukai* and the relevant MAFF officials (at director-general level) to discuss the policy draft. The head of the LDP's Fisheries Division also attends. The MAFF representatives explain the draft measures to the *kanbukai*, and if the policy proposal gets the go-ahead, it is then discussed by the formal, appropriate agricultural policy committee or subcommittee of the PARC. On WTO-related issues, this is the WTO Round Subcommittee of Botaii, known as the Study Group. The Botaii is open to all Diet members of the LDP. It has no fixed membership. The Study Group, however, has a fixed membership of 34.<sup>115</sup> It holds four or five meetings before the Norin Bukai or Botaii sit formally to discuss the issue. MAFF officials have to attend all these meetings to explain draft proposals and other relevant matters and to answer questions from politicians.

If the policy decision involves draft legislation, it must be formally passed through PARC processes and then proceed to the LDP's Executive Council (Somukai) for approval before it goes to Cabinet. If it is just a policy decision, the process can be more informal, without bringing in the full PARC or Executive Council. On WTO-related matters, the formal WTO Round Subcommittee of the Botaii acts as the supreme formal decision-making committee of the LDP on WTO-related issues. After the policy is decided, it is submitted to the *WTO sansha kaigi*, which meets inside LDP headquarters. The chairman of the *sansha kaigi* is the chairman of Norin Bukai.<sup>116</sup> After the *sansha kaigi* makes its decision, the draft is submitted to Cabinet.

The formation of the coalition government has not altered the basic process of policymaking in the agricultural sector. Agricultural policy remains almost the sole preserve of the LDP within the coalition because this is where the agricultural policy leadership is concentrated and because the MAFF continues to relate almost exclusively to the LDP on agricultural policy matters. New Komeito does not have much interest in agricultural policy,

and when part of the coalition, those ex-LDP members of the Liberal Party who are interested in agriculture call the MAFF to explain its position. Basically the LDP and Zenchu keep the other coalition parties abreast of agricultural policy developments, but they do not actively engage them in the agricultural policymaking process. Nokyo informs coalition members of its policy petitions but it does not rely on them for policy representation.

Much more significant change in the agricultural policymaking process will flow from the process of administrative reform. More recently, the meaning of administrative reform has also been extended to include reducing the power of the bureaucracy relative to the politicians by reinserting politicians into areas of bureaucratic preserve and by expanding the size and policymaking capacities of the government executive (namely the prime minister and Cabinet).

The first step in this process took place under the Diet Revitalisation Law, passed in August 1999, which sought to transfer policy ownership on the floor of the Diet to a revamped government executive. The law established debates between party leaders and introduced 'question time' to allow ministers and parliamentary vice-ministers (with newly expanded responsibilities) to act as spokespeople for government policy in place of bureaucratic representatives (*seifuin*). In the Diet sessions following the legislation, those in the new parliamentary vice-minister posts teamed up with their Cabinet ministers to answer questions in the Diet. The reform required greater expertise on the part of newly appointed parliamentary vice-ministers. Those appointed to the MAFF in the second Mori Cabinet, for example, were both well versed in agricultural affairs. The senior parliamentary vice-minister (*sokatsu seimu jikan*) was Ishiba Shigeru, LDP member in the Lower House from Tottori, former parliamentary vice-minister for agriculture, forestry and fisheries in the Miyazawa Cabinet in 1992 and elected for five terms. The parliamentary vice-minister was Miura Kazumi, LDP member in the Upper House for Kumamoto, first elected in 1995 (i.e., a first-term Diet member), one of the directors of the Upper House Agriculture, Forestry and Fisheries Committee, vice-chairman of the Agriculture and Fisheries-Related Group, and also with experience as vice-chairman of the LDP's Agriculture and Forestry and Fisheries Divisions.

The second step in the process of empowering the government executive took place through the reorganisation and rationalisation of ministries and agencies effected on 6 January 2001. The MAFF acquired two deputy ministers (the new post of *fuku daijin*) and two parliamentary secretaries (the new post of *seimukan*) chosen from the ruling coalition's Diet

members (as did all the other ministries, those restructured and not restructured) and stationed permanently in the ministries, where they were ‘expected to exert political weight on the bureaucracy’ (*Nikkei Weekly*, 14 August 2000).

Leading the way for the other central ministries and agencies, a meeting of deputy ministers (Matsuoka Toshikatsu and Tanaka Naoki) and parliamentary secretaries (Kaneda Hideyuki and Kunii Masayuki) – all from the LDP – was held in the MAFF on 9 January 2001, three days after bureaucratic reorganisation came into effect. At the meeting, ‘each MAFF bureau director and director-general of the MAFF’s agencies (the Food, Forestry and Fisheries Agencies) reported on important policy issues relating to their areas of administration. On the basis of these reports, the deputy ministers and parliamentary secretaries gave the necessary directions (*shiji*) and executed the required coordination (*chosei*), thus putting into practice policy planning (*ritsuan*) under political leadership’ (Nosei Undo Jyaanaru 2001b: 13). Matsuoka was jubilant after the meeting, claiming that: ‘We politicians now directly engage in the task of formulating policies ... We are here to do the job of working out important policies. No policy can be decided on without being discussed at our meetings’ (*Yomiuri Shinbun*, 17 January 2001).

Initially MAFF bureaucrats tried to limit the impact of the new arrangement by sending only much more junior officials to the meeting (section chiefs) rather than more senior officials, thus downgrading its significance to a mere formality. However, the politicians won the battle, with meetings scheduled every Monday to be attended by the agency directors-general, as well as by bureau directors when requested. Furthermore, the politicians not the bureaucrats will assume the primary role in steering the meetings.

If Matsuoka’s claims are correct, the existence and *modus operandi* of the new group of politicians at subcabinet level in the MAFF suggest a major shift in the degree, nature and timing of LDP participation in the agricultural policymaking process. First, the ruling party now appears to be effectively penetrating the policy-formulation stage, previously the sole preserve of the MAFF. This means that the MAFF must now share the policy initiative with the LDP. As a result, agricultural policymaking may become much more of a top-down process. Second, there will be much more coordination of policies by the subcabinet within the ministry, which may mute internal divisional rivalries, as politicians come to adjudicate on budgetary and jurisdictional matters.

A key issue, however, is whether the deputy ministers and parliamentary secretaries, even though part of a revamped executive branch, should be seen (and indeed, whether they

see themselves) as representatives of the party or as representatives of the government executive. It is early days yet, but it appears that it may be the former rather than the latter. The power of the LDP over policymaking is being inflated at the expense of both the bureaucracy and the government executive (i.e., the two parts of the executive branch), which was not the intention of the reformers at all. The new positions in the ministry, ostensibly created to support the minister, are in practice merely providing another channel through which the LDP can assert its interests (and those of those of its major supporting groups) in the policymaking process. This will result in some adjustment in the power relations among the three parties to the agricultural subgovernment, with a partial retreat of the MAFF consequent upon the fusion of party and ministry structures at the top level.

Pivotal in this development is the basis on which selection to the posts of deputy ministers and parliamentary secretaries takes place. The politicians filling these posts are chosen by the Cabinet, but effectively by the prime minister and the LDP coalition, not by the minister. The significance of this is twofold. First, it means that the politicians occupying the subcabinet posts in the ministry will not be the minister's men, but appointees chosen by others. Second, those selected for the new posts will be chosen in the same way as the minister is, ensuring that there will be a factional balance in each ministry and across ministries and agencies. In other words, the traditional factional criteria for appointment to the government executive will remain important. On the other hand, there are important new requirements for the job based on skills-related criteria. As Nabeshima points out: 'Unless these politicians are well-versed in policy matters, new appointees will be unable to direct bureaucrats or to even answer questions in the Diet' (Nabeshima 2001).

'Expert' in an LDP policymaking context, however, means the politicians with the closest ties to special interests. In the agricultural sector, for example, the deputy ministers and parliamentary secretaries have been chosen from among those well versed in agricultural policy and/or who represent agricultural constituencies and interests. Tanaka, for example, is an LDP representative in the Upper House from Niigata prefecture, the son-in-law of former Prime Minister Tanaka Kakuei and advisor to the Japan Rural Promotion Association (Nihon Noson Shinkokai). Many of his votes come from farmers and those connected to the rural public works industry. Similarly Matsuoka, Kaneda and Kunii are all Diet members who are heavily dependent on votes from agricultural, forestry and fishery industries but, in their case, they also 'have knowledge and ability in dealing with the ministry's administrative affairs and are competent enough to equal bureaucrats in handling policy matters' (*Yomiuri*

*Shinbun*, 17 January 2001). Matsuoka in particular is a *norin zoku*, a leading LDP agricultural policy executive, and therefore particularly well versed in agricultural affairs. He is relishing the opportunity to throw his weight around his old ministry.

Politicians in the new posts of deputy minister and parliamentary secretary thus increase the power of the party relative to both the minister and the ministry. They also significantly entrench the iron triangles of vested interest. If they maintain their cosy ties with bureaucrats and supporting interests, they 'will only expand the notorious triangular relationship in the name of political leadership' (Nabeshima 2001).

In sum, although strengthening the government executive – namely the prime minister and Cabinet – and its role in initiating, setting and coordinating policy was a key objective of the program of administrative reform, ministers and their revamped executive support structure of deputy ministers and parliamentary counsellors will transfer policy leverage from the ministries to the special interest politicians in the ruling party. This particular aspect of administrative reform will encourage the *zoku* and their younger cohorts to penetrate the ministries and to aggrandise their role in policymaking. In this respect, the MAFF is a pacesetter.

### **Seeking allies: Japan's WTO strategy**

Japan's trade-inhibiting tariff levels will be a serious matter in the next round of WTO agricultural negotiations. The 15-nation Cairns Group of agricultural exporters, led by Australia, and the United States are keen to eliminate all trade-distorting agricultural subsidies. The United States is also maintaining bilateral pressure for greater market access on Japan.<sup>117</sup> The United States wants farm issues at the WTO discussed separately for a quick conclusion, but Japan, along with the EU, is insisting on a comprehensive approach for the 2000 talks, wanting to conclude agreements on a wide range of issues in one package. The idea behind this strategy is to reduce the focus on agriculture, thus making it easier for Japan to hide the issue and minimise concessions on rice tariffs (*Nikkei Weekly*, 30 August 1999).

Given the efficacy of foreign pressure as the main instrument of agricultural liberalisation and its attendant domestic consequences, Japan has been determined not only to forge a national consensus behind agricultural support and protection, but also to bolster its international strategies in order to avoid isolation at the WTO. The Japanese government is basing its negotiating position on two main principles: agriculture's multifaceted functions

and food security, which both have a strong emotional appeal, and which can be used to forge alliances with other protectionist countries. Japan's demand is that these assertions must become global principles (*sekai no rinen*).

Furthermore, Japan is consciously seeking allies in the international community, using diplomatic and foreign aid leverage. The 1999 White Paper on Food, Agriculture and Rural Areas released in April 2000 advocated the strategic use of official development assistance (ODA) to developing nations to influence their position on agricultural trade liberalisation at the WTO. This was first time an agricultural white paper had clearly stressed the strategic use of ODA at the WTO talks. It was directly targeted at the developing countries who make up about three-quarters of the WTO membership. The paper argued that 'the current WTO agreement fails to balance the rights and obligations of exporters and importers and does not provide sufficient consideration of national security in terms of food supplies' (*Daily Yomiuri Online*, 5 April 2000).

It is critical for Japan that it gains broader support for its agricultural trade negotiating position. The Zenkoku Noseikyo reports that:

The Japanese government is grappling with expanding supporting countries for agriculture's multifunctionality with a view to forming a majority coalition. The MAFF dispatched to uncommitted countries seven teams led by MAFF bureau chiefs (*bucho*) and counsellors (*shingikan*) in March-April 2000. Also, it is endeavouring to exercise its influence on uncommitted countries through the Food and Agriculture Organisation (FAO). In the 2000 budget, it allocated ¥170,000,000 to the FAO, in order to get it to develop techniques to evaluate the importance of the multifunctionality of agriculture. The objective is to devise a methodology for putting a concrete value on for agriculture's role outside of production in maintaining rural society and preserving the environment. The MAFF listed the 25 countries such as the main Asian countries as candidates to work on for support, and as a result of the analysis of each countries assertions, 16 countries showed understanding of multifunctionality, and of these 13 were food importing countries where agriculture and rural policy was economically in trouble and which attached importance to special considerations. (Nosei Undo Jyaanaru 2000g: 25)

Japan's main allies in the quest for an international majority against agricultural trade reform are the other arch-protectionists – the EU, Switzerland, South Korea and Norway –



who all argue that agricultural goods cannot be treated like industrial products because farming has a 'multifunctional' role in modern society. That role includes protecting the environment, maintaining food security and preserving rural life (*Reuters News Service*, 19 November 1999). They all oppose the full-scale drive against agricultural subsidies and tariffs. Japan is also targeting Southeast Asian countries such as Thailand, Malaysia and Indonesia, who are major recipients of Japanese aid.

Japan is endeavouring to band together with these countries to form a block against the Cairns Group and the United States. In particular, Japan has been courting the EU as a potentially powerful ally at the WTO negotiating table. Prime Minister Obuchi met with European Trade Commissioner Pascal Lamy in Tokyo in November 1999 before the Seattle meeting in order to secure a common line on a wide-ranging agenda for the WTO talks. They were united on the issue of agriculture, arguing that the next round of negotiations should focus on more than just subsidies and should take into account the non-trade aspects of agriculture. Lamy and Japan's foreign minister, Kono Yohei, also called for multifunctionality, such as farming's role in protecting the environment, to be recognised. In addition, Lamy supported MAFF Minister Tamazawa's call for agricultural functions such as land conservation to be considered in the negotiations over farm trade liberalisation. According to Lamy: 'Multifunctionality is today's name for non-trade concerns of agriculture' (Investext Group 1999).

In another development, Japanese and Korean politicians have formed a group to counter the Cairns Group, called the Multifunctionality Friends Group. It was established before the WTO Seattle meeting, although it has achieved by no means the equivalent level of institutionalisation (interview with Hinode Eisuke, Tokyo, January 2000). The Japanese and South Korean agricultural ministers have also teamed up to make greater efforts to expand the number of countries endorsing their protectionist position.

However, the early signs are that Japan's strategy of courting allies for purposes of resisting agricultural trade liberalisation is having limited success. Its key ally, the EU, has labelled Japan's proposal to the WTO agricultural negotiations group<sup>118</sup> in December 2000 as 'backward' (interview with Masayoshi Honma, Canberra, February 2001), sharing as it does only the multifunctionality aspect of the proposal.<sup>119</sup> In fact, Japan's proposal was distinctively regressive. Among other things, it opposed a lowering of tariffs on agricultural imports including those on rice, it advocated a reduction or elimination of minimum-access quantities including that for rice, and it called for a relaxation of criteria for the WTO's Green

Box. Indeed Japan styles itself as one of those importing countries wishing to put the brakes on further agricultural trade liberalisation (Nosei Undo Jyaanaru 2001d: 19).

## **Conclusion**

Radical changes in Japan's agricultural policies or agricultural policymaking processes have not taken place in recent years. In fact, as this study has argued, agricultural interests have dug themselves in even more firmly for the fight against deregulation and liberalisation. The triad of agricultural interests remains firmly entrenched despite the arguably weaker position of each of its entities in Japan's political economy. This is notwithstanding some deregulation of domestic agricultural markets, liberalisation of import controls, reductions in agricultural support and stabilisation prices and the marketisation of pricing systems. The structure and methods of support may have changed, but little has altered in terms of outcomes. Where change is most apparent is in the modes by which agricultural support and protection are delivered, particularly in the separation or decoupling of farm incomes from agricultural prices, and in the nominal conformity of Japanese agricultural import policies and other policies with WTO rules. The Japanese government, however, has no intention of allowing market forces free play in its domestic agricultural sector. Its aim is to manage and control the impact of market forces in such a way that the livelihood of domestic agricultural producers is supported and protected.

Although the New Basic Law was heralded as providing the guiding principles of a new agricultural policy, it merely genuflects to principles of efficiency and productivity. It is not a blueprint for converting farming into an efficient sector. In fact, composite measures of agricultural protection in Japan continue to rise, not fall. Price differentials between Japanese food prices and world food prices are growing. The 2000 OECD report on agricultural policy identified Japanese farming as a sector where deregulation, competition and structural change could provide immediate and immense productivity benefits (*Australian Financial Review*, 31 March 2000).

Meanwhile, rural policies remain embedded in pork-barrel politics, a system that has become even more entrenched as a result of the singular overemphasis on fiscal stimulus as the main instrument for reviving the Japanese economy. The principal players in this seemingly unending saga – farmers, farm organisations, the government's agricultural

agencies, MAFF bureaucrats, agricultural politicians and construction companies – have been glorying in a bounty of public spending and will fight to retain their vested interests.

It will not be a change in government policy that will induce major structural reform in the agricultural sector, but the corporatisation of farming in all its forms, with commercialisation creeping in to all forms of agricultural production from factory farms to traditional land-intensive types. Farmers will slowly commercialise their operations away from small-scale family farms and commercial capital from outside the sector will increasingly enter the farm sector. Joint-stock companies are establishing commercial factory farms, employing managers and hired labour, especially in the horticultural and livestock sectors (vegetables, fruit and organic farming). They are also contracting with groups of farmers who have developed hi-tech farming (Honma 2000a).

In 1995, 4,986 agricultural production corporations were operating, exactly two-thirds of which were in livestock and horticulture. Of these, 1,529 were farmers' group corporations (*noji kumiai hojin*) but, significantly 2,073 were limited companies (*yugen gaisha*) and 1,529 were joint-stock companies (*kabushiki kaisha*) (Miwa 2000, p. 69). The MAFF's proposal that agricultural production corporations be allowed to transform into joint-stock businesses and that non-farmers be permitted to buy up to 25 per cent of the shares of such companies was realised with the amendment to the Agricultural Land Law in November 2000. The ministry is hoping that cross-sectoral flows of capital from competitive industries will lead to higher efficiency in agriculture. Although nothing dramatic has been achieved in this direction yet (*Nikkei Weekly*, 10 January 2000), it suggests that Japanese farming will become more technologically oriented and capital-intensive, diverting resources away from rice and land-intensive farming. In the future, many farmers may become agricultural labourers and managers working for salaries and wages in larger amalgamated farms that are run commercially. Japan may even export products in which it has a comparative advantage, such as high-quality beef and mandarin oranges (Homna 2000). Even Nokyo has committed itself to establishing its own farm companies. The move is seen as a major change in Nokyo's position, which hitherto had strongly supported family farming. Such companies will be permitted to join Nokyo as group members (*Daily Yomiuri Online*, 3 September 2000).

Until these developments take hold, however, land-intensive sectors such as rice, where part-time farm households are dominant, will remain the Achilles heel of Japanese agriculture and will mean that Japanese farming policy as a whole will retain its predominantly

protectionist characteristics. For the medium term, many farmers will remain just as dependent on the government as before, although the mix of support policies may be different.

For all this, Japan's farmers and agricultural organisations will never be able to return to the heyday of agricultural support and protection they enjoyed during the 1970s and 1980s. The overall trend toward marketisation, liberalisation and deregulation is inexorable. The underlying public policy values are also changing across a whole range of sectors, including agriculture, in line with these trends. Furthermore, Japan's agricultural protection regime remains under external challenge through the WTO. Change is just a question of pace and compensation.

## Notes

- 1 See, for example, George Mulgan (1982) and Fukui (1977).
- 2 Nokyo ('JA' as it now styles itself – JA being short for 'Japan Agriculture') is a statutory organisation established under its own organising legislation in 1947. Nokyo's main attributes are its universal membership of farmers, its nationwide network of local agricultural cooperatives providing all kinds of agricultural, economic, social, cultural and welfare services for farming members and non-farming associate members, and a vertical hierarchy of specialised prefectural and national federations and central unions. Nokyo's economic and financial activities make it one of Japan's largest business entities, the equivalent of an enterprise network (*keiretsu*) in the agricultural sector.
- 3 Although the concept of subgovernment has been replaced by 'policy communities' and 'policy networks', it is the most appropriate term in this context. Notions of policy communities or policy networks, particularly the latter, imply much greater informality and fluidity in policy formation. Neither necessarily has a tripartite membership, which is one of the defining elements of subgovernments.
- 4 See George Mulgan (2002c), which details opposition to agricultural support and protection from Japanese industry and sections of the bureaucracy.
- 5 This is now officially called JA-Zenchu in English.
- 6 Besides Nokyo, the other statutory organisations or so-called agricultural policy interest groups are the agricultural committees, agricultural mutual aid associations and land-improvement groups.
- 7 For details of these organisations, see George Mulgan (2000: 39–163).
- 8 The Norin Bukai currently has six subcommittees focusing on particular issues such as livestock and dairy policy, wheat policy and the implementation of Uruguay Round-related countermeasures. The Sogo Nosei Chosakai has four subcommittees,

on the rice price, basic agricultural policy, agricultural development and rural development.

- 9 There is some dispute among MAFF officials whether the *nosei hachininshu* is still in existence. Certainly the term is not much in use these days, although it was widely used in the 1980s. Five out of the current group have been chairmen of the Norin Bukai. They are: Eto Takami (although he is old and does not attend any more), Sakurai Shin (who lost his seat in the 2000 Lower House election), Matsuoka Toshikatsu (currently MAFF deputy minister – see below), Nakagawa Shoichi (former MAFF minister), Akagi Norihiko, Tani Yoichi (former MAFF minister), Matsushita Tadahiro and Miyaji Kazuaki.
- 10 Before the administrative restructuring of 6 January 2001, these were the Prime Minister's Office (and its agencies), the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Welfare.
- 11 This is the Norin Chuo Kinko, or Norinchukin, Nokyō's national financial institution.
- 12 See also the discussion below on the impact of administrative reform on elite decision-making structures within the agricultural policy subgovernment.
- 13 They were discerned across a range of sectors in the 1970s as the Japanese state became more pluralistic and as the LDP consolidated its ties with a range of supporting interest groups. Muramatsu and Krauss (1987), for example, referred to 'the growth of entrenched "subgovernments" of party, interest group, and bureaucratic coalitions'. As Nakano (1992) subsequently pointed out, close, patterned relationships exist among *zoku giin* in specific areas, specific interest groups, and relevant ministries and bureaucrats. These groups oligopolise or monopolise channels and rules of adjustment, and the distribution of interests in specific areas. Ito (1991) makes the same point, arguing that the 'policy-making process in contemporary Japan is best conceptualised in terms of tripartite communities comprising government bureaucracies, business associations and the governing Liberal Democratic Party – in particular, the *zoku* (tribes) within the LDP, differentiated groups of LDP Diet members concerned with, and involved in, specific sectors of government policy. Within these communities, actors with resources of their own may interact with each other, using a variety of strategies under sets of well-developed rules of the game, so that their power position may be maintained or enhanced'.
- 14 For details of these activities, see George Mulgan (2000), especially Ch. 6.
- 15 Agricultural public works have traditionally involved farmland consolidation, the installation and maintenance of irrigation facilities for paddy farming and the reclamation of land for agricultural purposes, all under the broad heading of land improvement.
- 16 These are integral elements of what Aoki (1988) calls the political 'stock' of ministries. He argues a general thesis of Japanese ministries and agencies as 'political-stock-maximising'. See George Mulgan (2002a).
- 17 For example, 166 former MAFF officials were hired by construction firms between 1991 and 1995. Of this number, 133 had been in charge of agricultural public works projects while at the ministry. Studies confirm that contracts for farm-related public works projects are awarded to companies that have former officials as directors. In

- 1991, 54 former ministry officials were hired by Japan's enormous construction sector. The number was 35 in 1992, 39 in 1993, 22 in 1994 and 16 in 1995. Looking at it from another angle, an annual 65–88 per cent of ministry public works officials who later found work in the private sector ended up in construction (*Nikkei Weekly*, 10 March 1997).
- 18 Around 550,000 construction companies employ more than 6 million workers in Japan.
- 19 Some of these ministries were reorganised in January 2001. See below.
- 20 See Table 3.6 in George Mulgan (2002b).
- 21 See below.
- 22 This view accords with the argument expressed elsewhere that 'farmers who had been the traditional bulwark of the LDP electorally were rapidly declining in number, but the LDP could still preserve its political power by relying on the areas in which its former constituency resided' (Calder 1998: 307).
- 23 The value of gross agricultural production as a percentage of GDP fell from 3.8 per cent in 1975 to 1.3 per cent in 1996 (Norinsuisansho 1999: 96).
- 24 This is the official category of 'persons engaged in own-farming' (*jiei nogyo jujisha*), which refers to farm household members over 16 years old who are engaged in their own household's agricultural production activities, no matter how limited that engagement is.
- 25 See Zenchu's home page at <<http://www.rim.or.jp/ci/ja/ejahome.html>>.
- 26 MAFF statistics cited in Miwa (2000: 72).
- 27 In these electoral districts, employment in primary industry is 20 per cent and above (Nishihira 1995: 4101).
- 28 In fact, Kishimoto Mitsuzo from the Lower House district of Wakayama (2), who was first elected in 1991, and who has served as MAFF parliamentary vice-minister and vice-chairman of the Norin Bukai, has since been appointed to the position.
- 29 Tamazawa's failure also had something to do with the fact that the Liberal Party won three out of the four constituencies in Iwate prefecture, the home region of party leader Ozawa Ichiro. Tamazawa lost to a Liberal candidate.
- 30 The number of Nokyō Diet members has fallen from a peak of 51 in 1971 to 13 in 2000.
- 31 Inoue Kiichi in Hyogo (4), ex-LDP; Nakanishi Keisuke from Wakayama (1), ex-LDP; Nikai Toshihiro from Wakayama (3), ex-LDP; and Noda Takeshi from Kumamoto (2), ex-LDP.
- 32 This was Yoshida Koichi from Tokyo (5), who is a former member of the LDP.
- 33 Many of these are ex-LDP. For example, Hatoyama Yukio, leader of the Democratic Party and Hata Tsutomu, a former LDP *norin zoku* and secretary-general of the Democratic Party. See also the comments below.
- 34 This may cause a disjunction between the kind of support that its leaders require to get elected in their own electorates and the policies that the party needs to espouse

- to attract urban voters. In the 2000 Lower House election, Hatoyama almost lost his Hokkaido seat because he campaigned on an anti-public works platform. Many voters in his Hokkaido constituency supported the LDP contender to protest Hatoyama's stance against public works projects (*The Japan Times Online*, 26 June 2000).
- 35 Ozawa Ichiro, the leader of the Liberal Party, is a good example.
- 36 See below.
- 37 New Komeito came up with a plan for rice market liberalisation in the early 1990s in an effort to appeal to urban consumers.
- 38 One Japanese economist calculated that the ¥106 trillion worth of public works projects carried out since 1997 had boosted GDP by a mere ¥10 trillion, with the remainder serving as a rescue package for construction firms. The expenditure also indirectly served as a bank bail-out program, insofar as construction firms had borrowed heavily from the banks (Masaru Kaneko, Professor of Economics at Hosei University quoted in *The Japan Times Online*, 3 June 2000).
- 39 Between 1990 and 2000, outstanding government debt rose from just over 60 per cent of nominal GDP to almost 130 per cent. Japan now has the highest ratio of outstanding long-term government debt to GDP in the OECD.
- 40 These ministries and agencies have now been restructured. See below.
- 41 Others include pharmaceuticals, medical supplies, housing, energy, insurance, automobiles and automobile parts, telecommunications and retailing.
- 42 See below.
- 43 See below.
- 44 See below.
- 45 See below.
- 46 Article 22 of this law promotes the incorporation of farm management and Article 28 promotes the activities of agricultural production organisations. See also below.
- 47 See below.
- 48 Other incidental victories were subsequently recorded on the quarantine front. In December 1999 Japan began importing Gala apples from the United States (imports were allowed beginning in July 1999); and imports of US tomatoes enjoyed a sudden increase from October 1999, spurred by the lifting in September of all bans on tomato imports into Japan (*Japan Agrinfo Newsletter* 2000: 2).
- 49 A comprehensive evaluation of the effects of agricultural trade liberalisation can be found in Food and Agriculture Policy Research Centre (2000).
- 50 Administrative prices for agricultural products rose precipitously in the 1970s, reaching a peak in the mid-1980s, after which time they have steadily declined. Between 1985 and 1998, the government's purchase price for rice fell by 15.3 per cent; the government's purchase price for wheat by 19.2 per cent; the guaranteed price for raw milk for processing by 18 per cent; the pork stabilisation ceiling price by 35.3 per cent; the pork stabilisation standard (i.e., the floor price) by 36.7 per cent; the beef stabilisation ceiling price by 28.2 per cent; the beef stabilisation standard price by

- 28.1 per cent; the minimum producer price for sugar beet by 16.7 per cent; the minimum producer price for sugarcane by 4.4 per cent; the standard price for soybeans by 18.2 per cent; and the standard price for cocoons by 77.3 per cent (Toda 2000: 25). Toda attributes more recent declines to the degradation of agricultural production, changes in pricing systems, reductions in price support, the influence of imports and economic depression in the country as a whole.
- 51 Japan's URAA obligation required it to reduce its AMS by 20 per cent from the average of the base years (1986–88, i.e., ¥5 trillion) by the end of 2000 (i.e., to ¥4 trillion). As of 1997, Japan's AMS was ¥3.171 trillion, of which ¥2.97 trillion was for agricultural price support (communication with Masayoshi Honma, June 2000).
- 52 See Tables 2 and 3 in Honma (2000a: 14–15).
- 53 These charges fell to ¥45 and ¥55 respectively over the course of the URAA, that is by 2000.
- 54 These fell to ¥29 and ¥39 respectively by 2000.
- 55 These fell to ¥304 and ¥396 + 21.3 per cent by 2000.
- 56 These fell to ¥806 and ¥985 + 29.8 per cent by 2000.
- 57 This point has also been made by Masahiro Matsushima who argued that 'the movement to "liberalise" rice has two aspects: the liberalisation of domestic distribution since the 1970s, and the problem of rice market opening at the GATT Round' (Matsushima 1991: 131).
- 58 See below.
- 59 This section relies heavily on a similar section in George Mulgan (2000: 265–75).
- 60 This figure is highly variable depending on the source.
- 61 According to Domon (1996: 20), setting the figure at ¥530 billion meant that only three prefectural trust federations (Miyagi, Tochigi and Saitama) would suffer from excess debts, whereas at ¥1.21 trillion, one-third of all prefectural trust federations would suffer from excess debts.
- 62 About ¥685 billion from the national budget was allocated to covering *jusen* losses by the end of 1996 (*Nikkei Weekly*, 30 December 1996 – 6 January 1997).
- 63 The government subsequently announced a plan to reduce the amount of public contributions to *jusen* creditors by using the proceeds of a fund of around ¥700 billion to be established by the commercial banking community, the Bank of Japan and Nokyō. The banks, especially the founding banks of the *jusen*, would put up about ¥500 billion, more than ¥100 billion would be furnished by agricultural cooperative credit institutions and the Bank of Japan would also supply around ¥100 billion. The return on fund investments would be channelled back into government coffers over a period of 15 years to cover a large part of the ¥685 billion in public money earmarked by the Diet to liquidate the *jusen* losses.
- 64 These were very small financial institutions in general lending, particularly in leasing and credit card businesses. Some of them got involved in real estate financing, and it was these that got into trouble.



- 65 Mamiya's argument suggests that the unofficial MAFF figure of over ¥8 trillion for Nokyo's *jusen* exposure was closer to the correct amount than officially published figures or those revealed in the media.
- 66 In 1998, 10 prefectural governments extended a total of ¥23.8 billion to various agricultural cooperatives saddled with massive bad debts (*Yomiuri Shinbun*, 29 April 1998). According to another source, 20 prefectural governments planned to spend some ¥30 billion in fiscal 1998 on support to ailing agricultural cooperatives to help them dispose of non-performing loans and strengthen their management base. Some of this money was provided as loans to funds established for promoting mergers of the cooperatives (*Financial Times*, 28 April 1998).
- 67 See below.
- 68 Various subsidies were paid to the cooperatives such as delivery (i.e., collection) fees (*shukka tesuryo*), fees for storing rice in cooperative warehouses, interest subsidies on monies advanced to farmers in payment for rice, incentive and marketing assistance payments for independently distributed and 'other' rice respectively, and fees for rice inspection.
- 69 For details of Nokyo's vested rights in the food control system, see George Mulgan (2000: 240–5).
- 70 A Zenchu official revealed to the author that Nokyo's share of the total amount of rice distributed had fallen to around 50 per cent. He may have exaggerated the downturn in Nokyo's market, but given that non-orderly marketed rice had risen to 41 per cent of the total distributed by 1998, it may not be too much of an exaggeration (personal interview, Tokyo, January 2000). See also Kome no Jukyu (1999: 55).
- 71 The government's new rice price formula is based on the *seifumai* price of the previous year adjusted by the rate of change in the *jishu ryutsumai* price and the rate of change in the production cost. The formula for calculating the *seifumai* price in the new system is:  $P_t = P_{t-1} \times [(P_{Jt} / P_{Jt-1}) \times 0.5 + (C_t / C_{t-1}) \times 0.5]$  where P is the *seifumai* price, PJ is the *jishu ryutsumai* price, C is the cost of production, t is the present year, and t–1 is the previous year. The author is grateful to Masayoshi Honma for this information.
- 72 In August 2000, the Food Agency announced that it might suspend purchases of rice produced domestically from November 1999 to October 2000 because of sluggish sales of government-purchased rice. Such a move would have been unprecedented in the history of Japan's government-managed rice marketing system (*Daily Yomiuri Online*, 17 August 2000).
- 73 Nokyo charges farmers a 4 per cent commission on the price they receive for 60 kilograms of rice.
- 74 On the other hand, a great motivation for rice farmers, particularly the smaller-scale farmers, to stay in the Nokyo system is their continuing access to joint-use facilities such as rice elevators (communication from Yoshihisa Godo, February 2001).
- 75 The basic idea of the income compensation scheme is that the government and producers jointly make an outlay to establish a fund, and when the rice price falls drastically, a part of the loss of those producers who followed production adjustment

- will be covered by the fund. If the rice price continues to fall, the government's burden also continues to increase (*Yomiuri Shinbun*, 24 October 1997).
- 76 This is separate from subsidies for public works or land improvement, which are matters between local farmers and local communities (that is, local government) and land-improvement districts respectively.
- 77 The share of local cooperatives in marketing farm products is by and large stable but their share of purchasing business has begun a slow decline. The author reached this conclusion after reviewing data supplied by Yoshihisa Godo, February 2001. In terms of outright business volume, however, the picture is all negative. The agricultural cooperatives' farm input supply business peaked in value in 1984 at ¥3.4 trillion; while on the marketing side, business volume peaked in 1985 at ¥6.7 trillion. The volume of purchasing business in 'life-related' (i.e., consumer) goods began to decline in the mid-1990s (Nogyo to Keizai 2000a).
- 78 As one Japanese commentator put it, 'the federated Nokyo organisation has progressed the review of its federated three-stage system and the merger of local agricultural cooperatives into larger-scale groups as a response to the changed circumstances consequent upon financial liberalisation and deregulation, and the much more severe competition with other financial organs' (Nogyo to Keizai 2000b).
- 79 Zenno will have absorbed 27 to 30 *keizairen* by March 2001. In reality, however, nothing has really changed at all, just nomenclature and some cuts in *keizairen* and Zenno jobs. Zenno used to have a personnel complement of around 4,000; it is now less than 3,000 (interview with Shinichi Kobayashi, Nihon University, Tokyo, January 2000).
- 80 They will create a single management council to coordinate their funding and investment operations in order to make them more efficient (*Nikkei Weekly*, 10 July 2000).
- 81 Zenchu can now recommend that ailing cooperatives and credit federations improve their business performance and even transfer their business to Norinchukin if necessary. This was to prevent the cooperatives resorting to mergers to rescue their business operations (*Daily Yomiuri Online*, 3 September 2000).
- 82 In the new MAFF Secretariat, it is strongly asserted, for example, that 'the MAFF's title is the same, but its contents (*nakami*) are different' (Nosei Undo Jyaanaru 2001b: 13).
- 83 The others were the Ministry of Construction, the Ministry of Transport, the National Land Agency and the Hokkaido Development Agency.
- 84 This is the highest position attainable in the bureau for a *gikan* (Yokota 2001: 2).
- 85 The author is grateful to Yoshihisa Godo for making these points.
- 86 This quote and all others from the Food, Agriculture and Rural Areas Basic Law is taken from the provisional translation in Honma (2000b: 1.12–1.21).
- 87 According to Zenchu, the objective and the fundamental way of thinking of the 1961 Agricultural Basic Law (ABL) was to improve the position of those employed in agriculture and to develop agriculture by correcting the productivity gap between agriculture and other industries in order to equalise the standard of living between

farmers and non-farm workers. In contrast, the objective and the fundamental way of thinking of the New Agricultural Basic Law is to expand the object (of the law) to include not just agriculture but also food and the rural sector from the standpoint of the whole nation and thus fully demonstrate the multifunctionality of agriculture and rural areas, and the stable supply of food (Miwa 2000: 14).

- 88 See below.
- 89 In contrast, the 1961 ABL made no specific reference to food policy (Miwa 2000: 14).
- 90 According to Zenchu, it gives positive endorsement to raising the food self-supply ratio and establishing food security (Miwa 2000: 13). Newspaper commentary also asserts that the new law takes as one of its fundamental principles ‘a proper conception of the nation’s food security’ (editorial, *Yomiuri Shinbun*, 10 March 1999).
- 91 There is room, however, for flexible interpretation of such key phrases as securing the nation’s food supply ‘with domestic agricultural production as a basis ... together with an appropriate combination with imports and stockpiles’ and securing ‘the minimum food supply required for the people’.
- 92 I have argued elsewhere that policy discourse about agricultural support and protection in Japan has been conducted not only in terms of the practical policy choices affecting farm production and agricultural markets but also in terms of the ideals, values, principles, doctrines and belief systems underlying these policy choices. Political, bureaucratic and organisational actors with a vested interest in high levels of government assistance to farmers and the regulation of agricultural product and input markets have constructed and utilised an elaborate ideology of agricultural support and protection to justify and defend these policies in the political marketplace. Furthermore, the ideology equates the values it espouses with the national interest (see George Mulgan 1995 and 2002c, Ch. 7).
- 93 This function of agriculture was completely absent from the 1961 Agricultural Basic Law (Miwa 2000: 14).
- 94 According to Zenchu, the New Basic Law takes family farm management as its basis (Miwa 2000: 17).
- 95 In Japanese this is referred to as ‘land utilisation type agriculture’, or *tochi riyogata nogyo*.
- 96 According to Zenchu, joint-stock companies are the only type of *kabushiki kaisha* that may participate in agricultural management. Joint-stock companies are cooperative bodies of farmers. Zenchu lists this as part of the government’s ‘structural policy’ under the new law, which focuses on the cultivation and securing of ‘diverse bearers’ who have the ‘motivation’ (to farm) in a situation where the numbers of agriculturally employed are declining. In contrast, the structural policy of the 1961 ABL concentrated on the modernisation of agricultural management by cultivating independent management (*jiritsu keiei*) by farm households through selective expansion (of production) (Miwa 2000: 14)
- 97 Under this law, farmland must be owned by cultivators, and cannot be owned by stockholders who do not cultivate the land (Honma 2000). See also below.
- 98 ‘Agricultural Policy Reform Outline’, December 1998, quoted in Miwa (2000: 70).

- 99 It consists of 12 essential elements: enactment of the new law; establishing food self-sufficiency targets; reform of food indicators (in the Japan Agricultural Standard); examining an amendment to the Wholesale Market Law; preservation of superior agricultural land; examination of a review of the land-improvement system; advancing new entrants into agriculture; activation of corporate (farm) management; income guarantees and review of price policies; policies to demonstrate the natural cyclical functions of agriculture; direct payments to hilly and mountainous areas; and support for social planning for rural women (Nosei Undo Jyaanaru 2000f: 18).
- 100 This involves a review of the policy whole, grappling with the achievement of the food self-sufficiency targets, plus steady deployment of the other policy objectives (Nosei Undo Jyaanaru 2000f: 18).
- 101 The plan was drawn up by the new Food, Agriculture and Rural Areas Advisory Council (which replaced the Agricultural Policy Advisory Council established by the 1961 Agricultural Basic Law). The new council began deliberations in September 1999 in response to Prime Minister Obuchi's request for it to draw up a Basic Plan for food, agriculture and rural areas to serve as an action plan for the nation's agricultural policies over the following 10 years, beginning in fiscal 2000. The advisory council compiled the basic plan and presented it to Prime Minister Obuchi in March 2000. It was then decided in the Cabinet and reported to the Diet.
- 102 See below.
- 103 The first introduced a system of general financing to train those who will be responsible for promoting the Basic Plan in the future, while the second involved stronger measures to help these 'bearers' accumulate land for agricultural use and to establish structures to manage regional agriculture centring on agricultural production corporations (*Japan Agrinfo Newsletter* 2001: 5).
- 104 In contrast to the 1961 Agricultural Basic Law, which emphasised stabilisation of the prices of agricultural products through price policy, the new law emphasises 'the realisation of price formation emphasising the market principle and a policy of income guarantees for stabilising management directed to "bearers of agriculture" with "motivation"' (Miwa 2000: 14).
- 105 It follows on from the passage of the Agricultural Management Base Strengthening Promotion Law in 1993, under which low-interest government loans and special tax provisions were provided to bearer farmers who had a farm management improvement plan approved by municipal government (communication from Yoshihisa Godo).
- 106 The production endeavour targets are described by Zenchu as a major pivot of future agricultural policy accompanying the food self-sufficiency targets (Miwa 2000: 19).
- 107 This is backed up by the argument that Japan's farms are so small and its production costs are high compared with those of other agricultural exporters, and therefore that domestic production would seriously decline in a short time if imports were liberalised under low tariffs. "Therefore, "import liberalization" is a synonym of "abandonment of domestic production"' (Toda 2000: 11).
- 108 These have been replaced by the deputy ministers and parliamentary secretaries. See below.

- 109 The 1997 Agricultural White Paper elaborated even more fulsomely the diverse public functions performed by the agriculture in rural areas. It divided them into internal economic effects of agricultural production (place of employment, supply of food and a place for exchange and recreation) and external economic effects in terms of water (development of water resources), disaster prevention (preservation of national land), views (formation and preservation of the national environment) and culture (furnishing culture and tradition) – all functions performed by 3.2 million agriculturally employed for the 125.9 million Japanese population (Norinsuisansho 1997). Furthermore these functions more or less correspond to the benefits identified by the Japanese public as flowing from urban agriculture in a public opinion poll conducted by the MAFF in the Kinki region in 1998 (Norinsuisansho 1997: 84). A total monetary value over one year of the diverse functions of agriculture and rural areas in relation to protecting national land and the environment was put at ¥6.9 trillion in 1998 by the MAFF (Norinsuisansho 1997: 83).
- 110 This idea is the basis of Nokyo's 'cooperative living' campaign, which seeks to forge common interests with consumers. See Miwa (2000: 94).
- 111 See Ch. 7 in George Mulgan (2002c).
- 112 See below.
- 113 This describes the main steps and stages in the agricultural policymaking process prior to administrative restructuring in January 2001. Politicians, however, have always been able to initiate policy. The LDP's agricultural leadership can instruct the MAFF to take specific measures, especially on more politicised issues.
- 114 The membership of the *kanbukai* is limited to 8 to 10 people.
- 115 This group was originally established for policy studies among young politicians but now functions as a subcommittee of the Botaii.
- 116 Nakagawa Shoichi is head of the Trade Subcommittee and he now also chairs the *sansha kaigi*. He is a former MAFF minister.
- 117 The National Trade Estimates Report on Foreign Trade Barriers released by the Office of the US Trade Representative (USTR) in April 2000 targeted the Japanese rice market for criticism and hinted that it might pursue the matter further with the WTO. The report asserted that full market access for American rice had yet to be achieved and that imported rice 'rarely reaches end consumers' but was 'either placed into stocks or exported as food aid' to other countries (*Kyodo News*, 1 April 2000). Former USTR Charlene Barshefsky also requested that Japan reconsider its stance on the agricultural sector in future multilateral trade talks when she visited Tokyo in February 2000 (*Yomiuri Shinbun*, 9 February 2000). In September 2000 the Japanese government announced that it would provide half a million tonnes in rice aid to North Korea. This amount exceeded the request for 195,000 tonnes from the World Food Program.
- 118 This was decided by the *WTO sansha kaigi* in November 2000 and ratified by the Cabinet in a WTO Related Cabinet Round Table Conference in December.
- 119 While supporting the concept of the multifunctionality of agriculture, the EU combined it with support for liberalisation and a lowering of tariffs on agricultural imports, particularly from developing countries. This is despite the fact that Japan,

out of consideration for its cooperation with the EU, aligned its stance on the 'Blue Box' (a category of subsidies safe for a specified period from reduction commitments) with that of the European Union, namely maintenance of the status quo (Nosei Undo Jyaanaru 2001: 19).

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