Introduction: A Crisis of Governance in Japan and Europe

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The set of essays presented in this special issue of Governance is a result of a project launched by Ikuo Kume on the “Political Economy of Crisis,” under the auspices of the Japanese Political Science Association and the European Consortium for Political Research program to stimulate comparative research on Japan and Europe. The idea was to bring together scholars of European and Japanese politics and to encourage cross-regional comparisons. As a substantive focus, we examined recent crises of governance in Sweden, Japan, and Germany. These countries were chosen because they represent outstanding examples of an alternative and (previously) successful model of governance. In contrast to the political economies of Britain and the United States—which analysts have typically viewed as “free market” or “liberal”—those of Japan, Germany, and Sweden were termed “neo-corporatist,” “consensual,” “socially embedded,” and, most recently, “coordinated market economies” (terms that will be defined in more detail below, as well as in the essays that follow).

In spite of their long records of economic success, however, these nations have recently experienced economic downturns and political problems. We interpret these crises as “crises of governance,” because the very organization of political and economic coordination in these countries has been called into question. Our project investigates the development and response to this crisis in a number of specific policy spheres—industrial relations, banking, economic policy, and electoral reform. By analyzing the renegotiation of the institutions of coordinated market economies in response to crisis, we aim to better understand how these political economies work today, as well as the ways in which these governance models worked in the past.

Discussions of such an “alternate governance model” have a long history. From the beginning of the twentieth century through the postwar period, numerous scholars, such as Rudolf Hilferding, Joseph Schumpeter, or Andrew Shonfield—to name just a few examples—pointed to various political and social institutions that made possible diverse types of capitalism. Responses to the economic crisis of the 1970s brought a
renewal of the debate, with books such as Peter Katzenstein’s *Between Power and Plenty* (1978) focusing on “domestic structures”—comprised of centralized versus decentralized “states” and “societies”—as a critical variable in explaining economic adjustment to the oil crisis. Although the concept of a “strong state” has been the subject of much discussion, a well-developed executive bureaucracy capable of professional implementation of public policies was a key element of this perspective on the state. Similarly, highly organized interest-group associations (enrolling large proportions of potential members, with exclusive jurisdictions, and aggregated into peak associations) were thought to provide the institutional (“neo-corporatist”) basis for constructive societal participation in both the legislative decision making and administrative implementation phases of the policy process, particularly for groups representing “capital” and “labor” (Berger 1981; Goldthorpe 1984; Katzenstein 1985; Schmitter 1979). More recent work on “varieties of capitalism” has shifted the focus slightly to production regimes (Berger and Dore 1996; Crouch and Streeck 1997; Hall and Soskice 2001; Hollingsworth and Boyer 1999; Kitschelt et al. 1999). This means paying more attention to firms, banks, and coordination among employers, as well as on the product markets that can sustain high-cost and high-value-added production processes (Streeck and Yamamura 2001).

Our collective project focuses more squarely on the *politics* of crisis, and hence on the *political* basis for such societal political and economic coordination. Furthermore, whereas much of the varieties of capitalism literature has stressed the comparative advantage of particular institutional arrangements, and thus the sources of continued institutional stability and hence capitalist diversity, we focus on current changes—or attempted changes—in these institutions (see also Kitschelt and Streeck 2003; Streeck and Yamamura 2001). In so doing, we hope to contribute to the recent focus of some new institutionalists on the problem of institutional change (Pierson 2000; Streeck and Thelen 2005; Thelen 1999, 2003, 2004). The essays that follow examine the politics of crisis in specific areas of public policy: industrial relations; finance; economic and fiscal policy; social policy; and constitutional reform. The authors analyze attempts to rene-gotiate the institutions of these coordinated market economies in these particular domains, and discuss the extent to which a new organizational equilibrium has emerged. As we will see, in each case institutional change has been attempted, but there are important differences, both cross-nationally and across the various policy sectors.

Kathleen Thelen and Ikuo Kume examine the *political* dynamics of *employer coordination* in Sweden, Germany, and Japan. They argue that the varieties of capitalism approach is indeed helpful for understanding the comparative advantage yielded to employers in these coordinated market economies, and hence for explaining why many employers in these nations seek to preserve their institutions for coordination, even when faced with “globalization” pressures. However, Thelen and Kume also
point out that the varieties of capitalism approach has tended to stress distinctly national patterns of employer interests, neglecting internal variance in the preferences of both employers and workers in these political economies. Moreover, even if the concept of comparative advantage is useful for understanding the continued resilience of these forms of economic coordination, it has neglected the need for continual political renegotiation of the terms of coordination. That is, in viewing cooperation as based on mutual self-interest, the varieties of capitalism approach has tended to adopt the rational choice view of institutional equilibria as “self-enforcing.” By contrast, Thelen and Kume argue that mutual advantage is not sufficient as an explanation for patterns of institutional stability and change in the area of industrial relations. Instead, they view employer (and labor) coordination as a “political settlement,” which may not only entail “the exercise of power or dominance of some firms or industries over others,” but which is best conceived of as a “political process . . . that is not self-sustaining but in fact has to be constantly nurtured and “patched up,” and sometimes renegotiated entirely.” The consequence of this more political view of economic coordination is that socially embedded institutions are no longer analyzed in terms of periods of stasis interrupted by sudden, inexplicable changes. Rather, Thelen and Kume view change as continual, and as part and parcel of the sustainability of particular sets of institutions. However, some outcomes of these political negotiations may indeed have repercussions that provoke more deep-seated change. This has been the case in Sweden, Germany, and Japan, albeit movement toward a new status quo has gone furthest in Sweden. Although employers as well as liberal economists and political parties have been quite visible in publicly questioning the viability of coordinated systems of industrial relations in these countries—as well as the generous wages and benefits paid to industrial workers—it is not abandonment of systems of employer coordination that we see, but renewed coordination among a smaller core group of firms in these economies. Moreover, it is precisely the intensified coordination among the employers and unions within this core that has made traditional economy-wide or sector-wide coordination more difficult, thereby leading to new forms of dualism in these political economies.

Torsten Svensson, Masaru Mabuchi, and Ryunoshin Kamikawa compare the banking crises in Sweden and Japan. In Sweden, a center-right coalition government reacted decisively to the banking crisis with the support of the Social Democrats, spending billions of Swedish crowns to set up a government guarantee and banking authority to rescue the banks. The subsequent recovery of the financial sector was so rapid that the government in the end spent less than one-half of what had been allocated for the bank bailout. In Japan, by contrast, policy makers were slow to acknowledge the banking crisis, and loath to put a stop to questionable banking practices that exacerbated the extent of the problem. Different strategies of “blame avoidance” account for these differences. In Sweden,
the banking sector had been deregulated and “privatized” to such an extent that policy makers could blame the banks for the crisis without implicating themselves. Indeed, politicians and bureaucrats had an interest in pointing out the failures of the banks to the public, so that together with the very rapid and dramatic denouement of the crisis, a credible argument could be made that public money and massive government intervention would be necessary to halt the crisis. In Japan, the Ministry of Finance continued to be deeply involved in the financial sector, which made it very difficult to point to problems without taking on blame or to call for a government bailout without being accused of corruption. This made it more attractive for financial experts within the executive to minimize the extent of the problem, downplaying it to both politicians and the public. Furthermore, the large size of the Japanese economy (in comparison to the Swedish) and the more gradual development of the crisis provided more scope for this avoidance behavior. Thus we see that strategies of “blame avoidance” are limited by institutional settings and public beliefs. The extent to which politicians (and bureaucrats) can avoid blame, and the strategies they can pursue in order to do so, depend upon the exact nature of relationships among politicians, bureaucrats, and private actors within a specific policy sector. Moreover, public beliefs are not infinitely malleable, but depend upon common sense reactions to both the problem at hand and to the previous policy record of executive governments. Swedish voters were prepared to believe that spending government money to bail out the banks was necessary and legitimate; Japanese voters, on the other hand, saw the banking crisis as just one more instance of governmental and bureaucratic mismanagement.

Similarly, Junko Kato and Bo Rothstein address the causes for the greater success of Swedish Social Democratic governments in comparison to Japanese Liberal Democratic governments in controlling deficits and deploying the tools of economic policy to restart the economy after the crisis of the 1990s. This outcome is particularly surprising given the usual assumption in studies of political partisanship that social democratic governments are more prone to deficit spending and large public sectors than conservative governments. Indeed, ceteris paribus, it should be more difficult to control deficits in countries with large public sectors than small ones. Just how little partisanship contributes to an understanding of fiscal and economic policy results is further demonstrated by the economic record of interim opposition governments that took office in both countries in the 1990s, interrupting periods of nearly unparalleled social democratic versus liberal democratic (respectively) one-party dominance. Center-right governments in Sweden proved ineffective in reducing deficits in spite of their antideficit liberal ideology; similarly, when the Japanese opposition parties came to power, they were neither able to reduce the deficit nor stimulate the economy through expansion of public spending, despite a long record of promoting greater government involvement in social redistribution. Kato and Rothstein argue that these patterns of
policy stability are best accounted for by "bureaucratic structures" and "institutionally driven public beliefs." This argument is distinct from standard policy feedback or universalism arguments as advanced by Gøsta Esping-Andersen (1990), Walter Korpi (1989), or Paul Pierson (1993), although it shares some similarities. Kato and Rothstein look more closely at the micro links between politicians, bureaucrats, and citizens. As they put it, "[p]olitical parties actively seek to make their policy stances permanent by structuring taxation and expenditure policies so as to create institutionalized support for their policy preferences." In Sweden, universal social policies were financed by high levels of general taxation and payroll taxes. From its inception, the Swedish welfare state was designed to be nonstigmatizing through policies that did not require means tests, and hence, did not allow much leeway for administrative discretion in policy implementation. Further, the emphasis on graduated benefits in its cash benefit programs and high-quality standards of treatment in the social services meant that middle-class voters were prepared to pay relatively high taxes for this high-quality social protection. In contrast to the efficient revenue mechanisms of the Swedish tax system, Japanese liberal democratic politicians and bureaucrats sought to limit the institutional means for generating public funds, so as to create fiscal pressures against expanding public programs, especially redistributive ones. Instead, bond financing was more compatible with public works projects and distributive subsidies to favored constituents, as well as with higher deficit levels. These institutional logics created very different patterns of public beliefs in the two countries. In Sweden, public spending was viewed as legitimate, with benefits allocated according to fair procedural standards, and the burdens of taxation to be equally fairly distributed. In Japan, the public viewed government spending as based on particularistic interests and as economically ineffective. Consequently, Swedish politicians had more scope for raising taxes and cutting social benefits than their Japanese counterparts, who were unable to obtain political support for raising taxes to cut the deficit and failed in their efforts to use deficit spending as an economic stimulus.

Finally, Ellen Immergut and Sven Jochem address the role of political institutions in the development and renegotiation of "strong state" governance in Japan and Sweden. They argue that executive governments based on stable parliamentary majorities—and indeed, "one-party dominance"—was crucial to the consensus model of governance that emerged in these two countries in the postwar period. Consequently, the elimination of the institutional basis for one-party dominance through electoral and constitutional reform delivered a severe blow to these governance models, just as they were being subjected to pressure by international economic changes. In Sweden, constitutional reform initiated by the Social Democrats (Socialdemokratiska Arbetarepartiet) eliminated the Upper House of parliament and made the electoral system more proportional, thereby greatly increasing the probability of changes in govern-
ment, and hence, destroying the basis for one-party dominance. In Japan, Liberal Democratic Party (LDP) defectors joined with the opposition to reform the electoral method for the Lower House, introducing a mixed-member system based on single-member districts combined with seats allocated via proportional representation. Whereas the splitting-off of the members of some LDP factions into new parties, as well as improvements in the apportionment of the electoral districts reduced the electoral share for the LDP, the new single-member districts rendered the LDP a higher number of seats per voter share than the previous system. In addition, the single-member districts (although viewed as a requirement for ending political corruption) provide the LDP with many opportunities for strategic maneuvering to maximize their number of parliamentary seats, as well as incentives for distributive politics that satisfy local interests. Not surprisingly, the policy consequences of these constitutional and electoral reforms in both countries have been different. In both cases, the one-party dominance of the postwar period under which a single party maintained its control of the executive without serious challenge from Parliament has been broken. Even though the previously dominant parties retain their status as the largest parties, majority government of extended tenure has been replaced by coalition governments of shorter duration and more frequent changes in the partisan composition of government. In Sweden, however, the tough competition of the new electoral method, as well as the mistakes made in adjusting to the economic crisis of the 1970s, have encouraged continual innovation of the governance model and a complete break with state-led governance in the 1990s. In Japan, on the other hand, the electoral rewards for sticking to traditional policies have made a radical break with previous policy more difficult, and a new governance model has yet to emerge, although the latest election (2005) may constitute a political watershed.

Immergut and Jochem thus conclude by arguing that the changed political frame for the institutions of these coordinated market economies may explain some of the recurring policy patterns across the cases. In all areas of policy, Swedish governments appear to have gone further in introducing radical crisis measures and supporting significant modifications to the traditional Swedish model of strong-state government. Welfare state programs have been significantly restructured (including the historically significant Allmän Tilläggs pension [ATP, universal supplementary] pension system) and social policy benefits have been cut; the role of the national bank in industrial policy has been eliminated virtually; the government has removed itself as an informal arbiter in industrial relations agreements. Perhaps even more significant, the ambition of tightly coupled policy interventions involving negotiations and coordination across classes, industrial sectors, and regions has been abandoned in favor of a more liberal and decentralized approach. In Germany—a case that has been more systematically covered by Yamamura and Streeck (2003) as well as Kitschelt and Streeck (2003)—similar types of reforms
have been discussed, but few have been implemented. Similarly, in Japan, reforms have been debated since the outset of the 1990s, but progress has been slow. In all three countries, the political stability necessary for the government to play a role in making the “credible commitments” necessary for the institutions of coordinated market economies (as Peter Gourevitch and James Shinn 2005 point out) has been severely lessened, if not entirely eradicated. However, the causes for this loss of “Berechenbarkeit” or calculability as Max Weber called it are different, and consequently, the policy consequences are different as well. In Sweden, constitutional changes were directly responsible for the loss of one-party dominance and, after a messy transition period, political actors came to recognize that the entire governance model was outdated. Even though many political and normative commitments, such as to social equality and the welfare state, were maintained, political actors eventually accepted that new approaches to public policy were required, and that even the scope of government action itself needed to be reconsidered. In Japan, political scission within the dominant party ended one-party dominance, but the ensuing electoral reform buttressed liberal democratic power and failed to eradicate some incentives for criticized policies, making the reform process more difficult than had been hoped. In Germany, as Stewart Wood (2001) points out, continuity in policy had been guaranteed by the many veto points in the German system, which meant that agreement between government and opposition was necessary for political decision making. In the 1990s, however, changes in the party system and a new regional cleavage caused by German unification have so increased electoral competition that previous areas of political consensus—such as the pension system, for example—are now marked by intense political conflict.3

The other authors in this special issue of Governance view the relative variation in reform efforts in Sweden, Germany, and Japan in the same light—with Sweden showing markedly more changes in its governance model in all policy areas than either Japan or Germany—but take a less “state-centered” approach. Thelen and Kume point out that while the state may have had an impact on the Swedish pattern of industrial relations, in recent employer and union negotiations in Japan and Germany, executive governments have strictly adhered to the principle of autonomy in collective bargaining. Shifts in the industrial relations systems have come about because of the interplay of changes in economic interest among various strata of forms and workers with political negotiations regarding how to cope with these changes in both the domestic and world economy. Kato and Rothstein see the difficulties in Japanese efforts to control its deficit as rooted in both its policy instruments and decades of policy feedback at the administrative level. Bond financing and political resistance to increasing tax revenues have resulted in a pattern of policy expenditures that does not convince the public that increased public revenues will be put to good use, such that even effects to raise taxes to cut the deficit have been met with public resistance. Furthermore, they point
out how at various points in both Japanese and Swedish history, the economic myths created by political parties have come back to haunt them by affecting contemporary policy making in unanticipated ways through their influence on the beliefs of citizens. Svensson, Mabuchi, and Kamikawa also focus on institutionally driven public beliefs in explaining the scope for different types of blame avoidance strategies, and hence the greater hesitation of Japanese policy makers to grapple with the bank crisis.

Cutting across these essays is a focus on politics that constitutes the unifying theme of this special issue. As adherents of the “new institutionalism,” we have found to our own surprise that our research on the politics of crisis in coordinated market economies has resulted in a renewed emphasis on the role of public attitudes in many of our essays. This is surprising because the role of public attitudes is a theme, which was actually more emphasized in an earlier phase of policy studies, namely, by the political behavior movement, to which the new institutionalism responds. Thus we see that what may emerge as a potential area for future research on this topic may in fact entail a rediscovery of earlier work.

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Notes

1. For a fuller discussion see Thelen (2004).
2. Some exceptions are Kitschelt (2003a, 2003b) and Wood (2001) as well as papers presented at a conference on “Political Institutions and Varieties of Capitalism,” organized by Tom Cusack and David Soskice and held at the Science Center Berlin (Wissenschaftszentrum Berlin) from October 31–November 1, 2003.
3. After the election of September 2005, the Christian Democratic, Christian Social, and Social Democratic parties have formed a “grand coalition,” which may help to contain rivalry amongst these parties, but will not eliminate competition from the smaller parties outside the coalition.
References


