

**AS A MATTER OF FACTIONS:**  
**THE BUDGETARY IMPLICATIONS OF**  
**SHIFTING FACTIONAL CONTROL IN JAPAN'S LDP**

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### **Abstract**

For 38 years, the Liberal Democratic Party (LDP) maintained single-party control over the Japanese government. This lack of partisan turnover in government has frustrated attempts to explain Japanese government policy changes using political variables. In this paper, we look for *intraparty* changes that may have led to changes in Japanese budgetary policy. Using a simple model of agenda-setting, we hypothesize that changes in which intraparty factions “control” the LDP affect the party’s decisions over spending priorities systematically. This runs contrary to the received wisdom in the voluminous literature on LDP factions, which asserts that factions, whatever their *raison d’être*, do not exhibit different policy preferences. We find that strong correlations do exist between which factions comprise the agenda-setting party “mainstream” and how the government allocates spending across pork-barrel and public goods items.

## 1. Introduction

The study of politics and policy making in Japan centers on several, related puzzles. The most prominent of these for the last decade or so has been the question of the relative influence of elected politicians in the Diet (the national parliament) and of unelected bureaucrats in the government ministries. This is a debate with precursors in the literature on American politics (McConnell 1966, Lowi 1969, Kiewiet and McCubbins 1991) and has concerned social scientists since the time of Max Weber (Gerth and Mills 1946:196ff). Some scholars have gone so far as to assert that bureaucratic dominance implies that Japan is not democratic at all (Johnson 1987). Over the past decade, the notion of “bureaucratic dominance” has been challenged by the view that elected politicians control policy making, in part directly and in part through delegation to bureaucrats (see e.g., Park 1986; Calder 1988; Noble 1989; Haley 1991; Ramseyer and Rosenbluth 1993; McCubbins and Noble 1995 for theoretical refutations; for examples of empirical refutations, see Samuels 1986; Eads and Yamamura 1987; Friedman 1988; and Rosenbluth 1989).

Among observers who see Japanese politicians as preeminent, a second puzzle concerns the respective roles of leadership and backbenchers within Liberal Democratic Party (LDP), which maintained uninterrupted majority control over both houses of the Diet from 1955-1989. Although almost all bills originate in the cabinet and the Diet almost never rejects or even amends leadership proposals (Pempel 1986), some observers insist that LDP backbenchers exercise decisive influence over policy, usually in the pre-submission stages of policy formulation (Sato and Matsuzaki 1986; Inoguchi and Iwai 1987; Fukui 1987; Ramseyer and Rosenbluth 1993). The question of whether or not the parliament is at the mercy of the cabinet parallels long-running debates on executive-legislative relations within a parliamentary

democracy (see King 1976; Lijphart 1984) and on intraparty democracy, or the lack thereof (Ostrogorski 1902; Michels 1962; Duverger 1954; Panebianco 1988; Koelble 1989).

Still a third puzzle involves the origin and roles of the LDP's many seemingly permanent system of factions.<sup>1</sup> Some see LDP factions as a cultural artifact, simply a political manifestation of a social tendency for Japanese to join competing, hierarchically-organized groups (Nakane 1970:50,59; Ishida 1971). Others point to the incentives for intraparty competition inherent in the single, nontransferable vote (SNTV) electoral system used for the Lower House of Japan's Diet (Fukui 1984; Baerwald 1986; Sato and Matsuzaki 1986; Ramseyer and Rosenbluth 1993).<sup>2</sup> Most observers seem to agree that whatever factions do, they do *not* affect policy, either because they do not differ on policy goals (Ramseyer and Rosenbluth 1993), or because they are cross-cut by the true policy-making organs within the party, the committees of the LDP Policy Affairs Research Council and the more informal *zoku*, ("policy tribes" -- see Inoguchi and Iwai 1987).

These three puzzles are related in more than just their relevance to both Japanese politics and to broader comparative political inquiry. In the case of Japan, the debates over these three issues persist to this day for a single, simple reason: to date there has been a paucity of critical empirical tests to discriminate between the competing answers to each puzzle. The purpose of this paper is to shed some light on all three of the above puzzles by addressing one of them directly. We will test the hypothesis that LDP factions did affect policy during the party's long reign, against the more common null hypothesis that they did not. Specifically, we will test the hypothesis that the movement of specific factions in and out of the party's governing "mainstream" coalition had systematic and consistent effects on spending policy outputs: that it mattered for fiscal policy decisions which intraparty factions were setting the legislative agenda. By shedding some light on the policy role of factions, we will illuminate in part the larger

questions of executive-legislative (i.e., leadership-backbencher and bureaucracy-legislature) interactions.

Our findings imply that such research is indeed fruitful -- that Japanese politics, despite its peculiarities, can be studied in precisely the same way that other democracies are studied, and that it operates according to a strikingly similar logic. Political scientists often bemoan the difficulty of including Japan in their models. The problem is simple. Rigorous, empirical political science research most often uses changes in some exogenous variable -- such as partisan turnover or institutional change -- to “explain” changes in some policy variable of interest (see, e.g., Weingast and Moran 1983; Ferejohn and Shipan 1989). In postwar Japan, unfortunately, it would appear at first glance that Japanese politics has experienced a singular lack of such exogenous political change -- one party held power continuously for 38 years. Yet, while *politics* appeared to be unchanging, *policy* certainly was not. Hence, scholars were dubious about the prospects of explaining Japanese policy making with models or approaches that might work well elsewhere.

However, partisan turnover is not the only possible source of policy change in government. A second, less-studied mechanism is *intraparty* change. In the literature on U.S. politics, scholars have turned to intraparty shifts to explain signal events such as “realignments,” and the rise and fall of the Southern Democrats (Sundquist 1973; Rohde 1991). We searched for something both more modest and more frequent -- a form of intraparty change that might not cause political earthquakes but which might cause some policy jiggling nonetheless. The prominence and persistence of factions within the long-time ruling Liberal Democratic Party suggested a natural test. *If* factions differ in terms of policy preferences, and *if* they could affect policy differentially -- according to some observable criteria such as membership in the agenda-

setting, mainstream coalition -- then we can perform simple comparative statics tests, perfectly analogous to tests for the effects of *interparty* turnover in other democratic governments.

General models of parliamentary politics are applicable even to dominant-party democracies such as Japan (Thies 1994; Cowhey and McCubbins 1995).

### **1.1. Agenda-Setting and Policy Change**

Decision making in any democracy can be modeled as a system of delegations (Kiewiet and McCubbins 1991). The most fundamental type of delegation in modern, republican democracies is from voters to elected officials, but it does not stop there. In order to reap efficiency gains from specialization, elected representatives in turn delegate responsibility for policy implementation and often for agenda-setting to the executive. In a parliamentary system, the government -- the cabinet -- is the executive committee of the legislature, and is delegated the duty of setting the legislative agenda. When there is a single party with majority control of the parliament, “cabinet” is synonymous with “party leadership.”

To illustrate the logic of our argument, we introduce a well-known model of agenda-setting. We believe that many of the more important relationships between parliament and the cabinet can be captured by the simple, one-dimensional spatial model shown in Figure 1.<sup>3</sup> Here, the dimension might be thought of as the amount of pork-barrel spending in the national budget, where **L** denotes the ideal spending level for the agenda-setting party leadership, **B** denotes the ideal level for the median party backbencher (the “veto player”), and **R** is the reversionary policy, the spending level that obtains if no new deal can be struck by party leaders and backbenchers. If everyone knows everyone else’s preferences over spending, the agenda setter is best off proposing the policy closest to **L** that the veto player also prefers to **R**, and the veto player will agree to this spending level (Romer and Rosenthal 1978). In Figure 1, the spending level that the

cabinet proposes -- and that the back bench approves -- is denoted by point **x**.

[Figure 1 About Here]

Policy equilibrium is “induced” by the structure of the game and the preferences of the players (Shepsle 1979). In this simple model, the causes of policy change follow directly. First, the ideal policy of the agenda setter could change. Second, the ideal policy of the veto player could change. Third, the rules for decision making could change. Fourth, another player (a competing agenda setter or veto player) could be added to the game. Fifth, the location of the reversionary policy could change. The last three types of change denote changes in the structure of the game, whereas the first two only entail changes in the preferences of the players in the game. This paper is about the first cause of policy change -- wherein the ideal policy of the agenda setter changes.

A shift in the partisan control of government represents the most likely candidate for a politically-induced change in a player’s ideal policy. If the party in power changes, then so should the favorite policy of the agenda-setting party leadership or the ideal policy of the veto-player (or both). In Britain, for example, Tory leaders and backbenchers prefer different spending levels than those advocated by their Labour counterparts, and we expect that these differences will lead to policy change whenever the Tories take over for Labour, or vice versa.

However, partisan turnover is not the only way that the preferences of political decision makers can change. If the preferences of veto-wielding majority-party backbenchers or agenda-setting leaders *within the ruling party* change over time, we might expect policy to change accordingly. One way for backbencher preferences to change is if the party’s constituency were to shift over time. Thus, the rapid urbanization of a population, for example, might change the balance of urban and rural interests represented in the party’s parliamentary contingent --

leadership preferences could remain the same while backbencher preferences shift out from beneath them. Naturally, any majority party that wants to maintain that status would try to adjust its policy outputs as well. In effect, demographic changes can induce changes in the preferences of political decision makers, with or without partisan turnover in government.<sup>4</sup> A second way that the preferences of the key players in the budgetary policy-making game can change is if the identities of the leaders change. For example, shifts in factional control within the party caucus can cause leadership changes and, concomitantly, changes in leadership preferences, even if the distribution of backbencher preferences does not change (e.g., between elections). New leaders could then use their agenda-setting authority to push through different policies.

Note that Figure 1 does not imply that all changes in the preferences of the players will lead to policy change. If, for example, **L** moves, but remains to the right of point **x**, there is rightward pressure on policy to change, but **B** will veto any changes that would shift policy beyond the right edge of its indifference contour through **R** (in other words, **B** will not let policy make it worse off than would the reversionary policy, and since a veto would leave **L** with policy **R**, **L** will not propose policies that deviate too far to the right of **x**). On the other hand, if **L** were to move to the left of **x**, then policy should move in the same direction. Finally, almost any change by **B** is expected to move policy in the same direction.

### ***1.2. Factions, Leadership Change, and Agenda Setting in Japan***

In this paper we concentrate on the shifts within the LDP over time in terms of which party factions comprised the agenda-setting leadership. The LDP formed out of the merger of three conservative political groups in 1955. This merger sparked the birth of the LDP factionalization that has persisted ever since.<sup>5</sup> The component parties were the first intraparty “groups,” but each contained its own factions, and factional fission progressed rapidly.<sup>6</sup> Since

that time, the LDP has been referred to by many as more a “coalition of factions than a unified party” (Scalapino and Masumi 1962:85,94; see also Leiserson 1968; Sartori 1976:90).

For 38 years, by virtue of the party’s majority of Lower House seats, the LDP leader invariably became prime minister. In all political parties that are responsible for choosing their own leadership, prospective leaders engage in coalition building among party backbenchers, to garner enough support for a bid for the party presidency. But in the LDP, the core of each prospective leaders’ support coalitions is semi-permanent -- it is there to be tapped before the presidential contest, and will persist after the party presidency has been won or lost. Factions “are formal political entities, with a headquarters, regular meetings, known membership, an established structure, and firm discipline” (Thayer 1969:15). Securing the top post is the goal of all faction leaders, and support for their leaders’ ambitions is the duty of all faction members.

We test for the effects on policy decisions of changes in the factional control of the LDP over time. Since no single faction in the LDP has ever been large enough to control a voting majority within the party caucus, party presidents require the support of a coalition of factions to win and maintain power. The factions that back the eventual winner in the presidential election are known as the party *mainstream*, while the factions that backed the loser are called the *anti-mainstream*. We take “party mainstream” to be synonymous with “agenda-setting party leadership,” (whose preferred policy is represented by point **L** in Figure 1) and we will test the proposition that the factional makeup of the mainstream -- i.e., the “type” of LDP government -- affected policy decisions systematically. Thus, the mechanism by which political change should induce policy change is via changes in the policy preferences of the agenda-setters. When those preferences shift -- due to shifts in which factions participate in the LDP mainstream -- the agenda setter will propose different a different policy package than in the previous round, and the

policy outcome will change accordingly.

### **1.3. Outline of the Paper**

The rest of the paper proceeds as follows. In section 2, we describe the Japanese budgetary process and explain the role we see factions playing in the budgetary process. We choose the national budget because it is arguably the most important policy decision that all governments must make. In section 3, we turn to the rich literature on LDP factions. Although most observers agree -- for seemingly sound, theoretical reasons -- that LDP factions do not matter for policy making, there has to date been no test of this claim. After explaining in section 4 how we operationalize our model of agenda-setting, we perform our test of the policy relevance of LDP factions in section 5. If our model of policy making is correct, then we should see “different LDP governments” using their agenda-setting authority to pursue systematically different policies. In sections 6 and 7, respectively, we describe our results and offer our interpretations of what they mean about the policy role of factions, and for the study of Japanese policy making more generally.

To anticipate, we find that the factional composition of the mainstream coalition within the LDP does indeed matter for spending policy. Different LDP governments embody different policy bargains, and hence pursue different policy objectives in their budget decisions. More importantly, this effect is consistent over time -- certain factional coalitions will push through spending decisions that differ systematically from the decisions of certain other factional coalitions. While this finding diverges from the conventional understanding of the role factions play within the LDP, we will explain why it is not at all inconsistent with most of what we believe about factions. Our results lend further empirical support to the once heretical and surprisingly still debated notion that *politicians are in charge of policy making in Japan*, just as

they are in other democracies. This in turn implies that Japanese policy making can be studied in the same way as is policy making in other parliamentary democracies. Despite the lack of partisan alternation in government for almost four decades, policy did change over time in response to changes in the preferences of elected politicians.

## **2. The Japanese Budget Process**

In broad outline, the formal process by which budgets were made in Japan during the long LDP reign is shown in Figure 2. The fiscal year begins on April 1, and spending ministries begin preparing draft budgets for the following year. In July, the Cabinet (read “LDP party leaders”) issues guidelines to all spending ministries that set the maximum amount by which their individual budgets may grow. Each ministry, after coordinating with the appropriate standing committees of the LDP's Policy Affairs Research Council (PARC), then submitted a budget request to the Ministry of Finance (MOF) by the end of August.<sup>7</sup>

Negotiations among the spending ministries, MOF, and the various LDP policy committees continue until December.<sup>8</sup> After the MOF issues its draft budget in the last week of December, spending ministries and interest group representatives lobby the MOF and the LDP to increase spending for favored programs. To deal with these requests, PARC committees would rank the programs in their jurisdictions and pass them on to the party's Policy Deliberation Commission and then its General Council, which each winnow down the requests for spending increases. The top party leaders -- the Prime Minister, the Secretary General, the Minister of Finance, the PARC Chairman, and a few others -- made the final decisions, usually in the last couple days of December.<sup>9</sup> The MOF, together with LDP leaders,<sup>9</sup> amended and consolidated these requests and wrote up the final “government” draft budget proposal. The cabinet then submitted this to the Diet, which could amend, reject, or approve the bill, without constraint.<sup>10</sup>

[Figure 2 About Here]

Once a bill is submitted by the cabinet to the Diet, party-line voting is the norm.<sup>11</sup> This is typically the case in parliamentary democracies, in that the defeat of any bill as important as the annual budget would likely cause the government to fall.<sup>12</sup> In equilibrium, then, *intraparty* differences over the content of the bill will be worked out before the bill is formally submitted.<sup>13</sup> Then, party leadership will use the selective sanctions and rewards at its disposal (e.g., the authority to control endorsements, campaign finance, or committee assignments) to ensure that there will be no defections and no amendments. Whatever compromise is agreed upon before submission can thus be enforced afterwards. If no compromise is hammered out, submission of any bill will be postponed at the very least.<sup>14</sup>

Having described the details of the budget process in Japan, we must now explain why we expect the factional composition of the LDP's mainstream coalition to matter for the outputs of that process. The key to the answer lies in the insight that we can liken the mainstream coalition within the LDP to the agenda-setting leader in our simple intraparty delegation game (recall Figure 1). Due to its first-mover advantage, the agenda-setting leadership can achieve a policy outcome that is closer to its own ideal policy than is the policy favored by the party's median backbencher. When a new leadership group (i.e., one with different factional composition) wants something even slightly different from the previous year's policy -- and when it thinks it can get the back bench to acquiesce -- it will propose that slightly different spending package.

There is ample empirical support for the idea that the LDP party mainstream enjoys disproportionate influence in intraparty decision making, if only on personnel matters. Sato and Matsuzaki compared the percentage of cabinet posts garnered by mainstream factions between

1955 and 1985 to the percentage of the party caucus comprised by those factions and found that mainstream factions were rewarded with a disproportionate share until around 1972, when the distinction disappeared (Sato and Matsuzaki 1986:66-67; see also Ramseyer and Rosenbluth 1993:65). However, the second most-powerful party post, the secretary-generalship (*kanjicho*), went to a mainstream faction every time but once over those thirty years.<sup>15</sup> Fukui agrees that mainstream members are the big winners when decision-making positions are distributed in each new administration:

Available for distribution to the winning coalition are some 120 directorships and chairmanships in each house of the Diet and, most important of all, the 21 cabinet ministerial portfolios and 24 parliamentary vice-ministerships... *As a rule, the most desirable among them... go to the faction led by the party president or a larger key faction in the mainstream coalition. The intraparty spoils system breeds and sustains LDP factions* (Fukui 1978:60 [emphasis added]; see also Leiserson 1968; Fukui 1970).

Cox and Rosenbluth (1992) turn to party endorsements for evidence of a mainstream effect on party decision making. Control over the use of the party label by candidates for the Diet is the bailiwick of the LDP's Election Policy Committee (Fukui 1984:402). The Committee calculates the number of non-incumbent seats for which the party will vie (either LDP seats vacated by retirees or seemingly winnable opposition-held seats) and divvy up those party endorsements among the factions. Cox and Rosenbluth find that mainstream factions received more than their "fair share" of endorsements in this process.

Hence, we argue that we can substitute the phrase "factions in the mainstream coalition" for "party leadership" in the above description of budgetary policy-making, and the importance of mainstream membership becomes apparent. We concur with Fukui that there is every reason

to believe that mainstream factions enjoy a disproportionate influence over decision making within the party. Mainstream factions were rewarded with a greater share of government and party posts and of powerful or more prestigious posts. One consequence was that mainstream factions took for themselves a disproportionate share of new party endorsements. Why should we not also find that they exerted a disproportionate share of influence over actual policy decisions?<sup>16</sup>

Of course, we should never expect to see mainstream factions abuse their authority by trying to cut the anti-mainstream factions out of the policy logroll altogether. To do so would invite a party split, which would defeat the purpose of intraparty primacy. Factions want to be big fish, but not at the expense of shrinking the size of the pond. Besides, our description of the budgetary process makes it clear that the agenda-setting leadership within the party could not run roughshod over any pivotal group within the party<sup>17</sup> even if it wanted to do so. The party back bench wields a veto over odious leadership proposals insofar as any pivotal group can side with the opposition parties against their own party leadership if they were pushed too far.

Nonetheless, we expect the factions that win the intraparty competition to receive something other than disproportionate headaches from governing. Our simple spatial model demonstrates that while the agenda setter cannot impose absolute losses on any veto player (i.e., losses relative to the value of the reversionary outcome), he can push through a policy output that diverges some distance from the ideal point of the veto player. In spatial modeling terms, this divergence is called “agency slack,” and represents the “policy cost” that backbenchers pay for delegating control over the policy agenda to their leaders. In intraparty competition terms, this divergence is the price the antimainstream factions pay for backing the wrong horse in the party presidential race.

It follows that as different combinations of factions comprise the mainstream, as the ideal point of the agenda setter changes, the size or nature of that agency slack will change. These changes are what we call the budgetary consequences of shifting factional control within the party.<sup>18</sup> The empirical portion of this paper will be devoted to the problems of operationalizing the notion of shifting factional composition of the LDP mainstream, of measuring changes in budgetary allocations over time, and of uncovering the relationship (if any) between these two variables. First, however, we will review the extant literature on LDP factions, and identify the null hypothesis against which we pit our own.

### **3. The Null Hypothesis: The Factional Composition of the LDP Mainstream Does NOT Matter for Policy Outputs**

Given their visibility and seeming permanence within the LDP, it is no surprise that many scholars have studied factions. While these observers disagree about the origins and roles of factions, they are virtually unanimous in one assessment: that factions are *irrelevant* to policy making. Thus, the *null* hypothesis suggested by the literature on LDP organization and decision making is that changes in the factional composition of the LDP mainstream should *not* lead to systematic changes in policy outputs.

Traditional explanations of factions focus on their hierarchical organization. These observers attribute the persistence of factions to the tendency in Japanese politics and Japanese society more generally for people to seek patron-client (*oyabun-kobun*) relationships, and to act according to a norm of deference to seniority (Nakane 1970:50,59; Ishida 1971). Factions satisfy the politicians' "need for identity" (Thayer 1969:39). This cultural explanation gives no hint of any policy differences between factions, indeed it allows for absolutely similar preferences, with the point of contention between factions being over which group's leader will be preeminent.<sup>19</sup>

Notwithstanding his agreement that factions are consistent with other aspects of Japanese culture, Thayer sees the primary point of factions as formalizing a “contract between faction leader and faction follower” (Thayer 1969:21). Backbenchers give unstinting loyalty, turning their votes over to their faction leader as proxy in exchange for campaign support at election time. Faction leaders help their flock with fund raising, with securing the party endorsement, and with stump speeches and the like in each electoral campaign (Thayer 1969:26-39; Tomita, Nakamura, and Hrebennar 1986:248-269). Baerwald emphasizes the latter part of this contract, arguing that the “single most important reason for the survival of factions in the LDP is the medium-sized multi-member district system” used for elections to the Lower House of the Diet (Baerwald 1986:22). This system, which allows each voter a single, nontransferable vote (SNTV) requires any party seeking a parliamentary majority to win an average of two seats per district.<sup>20</sup> The nontransferability of the vote implies that the party’s candidates must compete against each other for the voters’ favor (Murakawa 1989:302; Ishikawa and Hirose 1989:99).

It is no coincidence that there only rarely can be found an electoral district that sends two LDP representatives to the Diet who are members of the same faction (Curtis 1971; Shiratori 1988). Although voters are not necessarily aware of the factional affiliation of their candidates (Watanuki, Miyake, Inoguchi, and Kabashima 1986:139), same-district LDP candidates are differentiated along factional lines. The role of factions as funding organizations (Hrebennar 1986; Iseri 1988; Hirose 1989; Iwai 1990) makes such a product differentiation strategy logical. No faction wants to spend money competing against itself. Thus, a new candidate seeking a niche in an electoral district would be wise to seek backing from a faction not already represented in his or her district (Tomita, Nakamura, and Hrebennar 1986:263; McCubbins and Rosenbluth 1995).

The lack of intrafactional competition within electoral districts leads many scholars to expect that factions would have no policy basis. The logic proceeds as follows. Non-incumbent candidates must have factional backing in order to win election. Since all non-retiring incumbents are re-endorsed by the party and by their factions, a nonincumbent must choose a faction not already represented in the district; i.e., by process of elimination. With respect to policy concerns, this is the functional equivalent of a random selection process, so we should expect that the distributions of policy preferences within each faction will be indistinguishable from each other. Each faction will be a microcosm of the party as a whole.<sup>21</sup>

The preponderance of scholarly opinion, then, weighs in with the expectation that the LDP's factions have no relevance for policy making. With regard to budgeting in particular, Campbell recognizes that 134 pages into his book "the discussion of LDP roles in budgeting has proceeded so far without much mention of the word 'faction,'" (Campbell 1977:134). Most scholars agree that "factions ... have virtually no role outside of personnel matters" (Ramseyer and Rosenbluth 1993:77).

One exception to this generalization is Fukui (1978), who sees the mainstream as the winning coalition within the majority party, whose policy preferences are articulated as the party's policy preferences (see also Tomita, Nakamura, and Hrebenar 1986). Moreover, Campbell points out that antimainstream factions often "sought to distinguish their positions from the mainstream on all major issues, including macrobudgeting questions, and criticize[d] the budgetary actions of the prime minister and finance minister" (Campbell 1977:135). But to date, no observer has tested in any rigorous fashion the hypothesis that the mainstream/anti-mainstream distinction actually affected policy decisions.

By contrast, our alternative hypothesis -- that policy influence is one of the spoils that

accrue disproportionately to mainstream factions -- suggests a test. We can check policy outputs for changes that correlate consistently with particular types of change in the factional composition of the party mainstream. Accordingly, we test the following hypothesis: *if the factional composition of the LDP mainstream changes from year  $t-1$  to year  $t$ , then the amount of money allocated to various programs in the national budget will change as a result, other things equal.*<sup>22</sup>

Note that this is not an “if and only if” statement. We do not rule out other possible causes of budgetary policy change -- it would strain credulity to do so. The budget might change for any number of reasons not related to shifts in the factional composition of the ruling party’s mainstream. On the other hand, a correlation between specific types of factional change and specific types of budgetary change would be inexplicable if factions did not in fact matter for policy making, and would thus allow us to reject that (null) hypothesis. Moreover, such a finding would lend support to our model of how the LDP made policy decisions during its four-decade-long rule -- that the LDP mainstream coalition acted as the party’s agenda-setting leadership, that it sometimes wanted something different from other potential coalitions (or from past or future coalitions), and that -- by virtue of its agenda-setting authority within the party -- it often could get what it wanted.<sup>23</sup> We next model this decision-making game and generate hypotheses about when a change in mainstream membership might matter for policy choice, and when it will not affect policy. First, however, we turn briefly to the data requirements of our model and its operationalization.

#### **4. Data**

To test our hypothesis of factional influence on budgetary policy against the null hypothesis of no relationship between factional shifts in government and policy change, we must

first define and show how we measure the concepts of government change and policy change, respectively. This section of the paper describes our operationalization of our dependent and key independent variables, so that we may test our model of factional influence in section 5.

#### **4.1. Operationalizing “Government Change without Partisan Change”**

Table 1 shows the factional membership of the mainstream for the fiscal years 1958-1987, for the five main factions of the LDP.<sup>24</sup> For example, the FY1961 budget was overseen by a mainstream coalition comprised by Sato, Ikeda, and Kishi factions, with Ikeda himself the party president. The faction led by Sato Eisaku (and later by Tanaka Kakuei and Takeshita Noboru) was in every mainstream coalition but four (1963-64, and 1975-76, the two years following Tanaka’s scandal-driven resignation from the premiership). Hence, to make things simple, we drop those four years in order to hold constant the mainstream membership of the Sato faction, and examine the consequences of adding any one of the other factions to the mainstream coalition. We then looked at the effects of starting with a two-faction proto-coalition (Sato and somebody else) and then adding one of the remaining factions to the coalition. Table 2 illustrates how we did this. The left-most column lists the “proto-coalition,” and the top row shows which faction we are adding to the corresponding proto-coalition.<sup>25</sup>

Each blank cell in Table 2, then, implies a “comparative statics” test measuring the effects on the budget of forming a coalition by adding one faction to a “proto-coalition” of one or two other factions. We ran these tests for all possible comparisons involving the addition of one of the top 5 factions to a proto-coalition comprised by one or two others. We can fill in these blank cells each time we find a systematic (statistically significant) effect of adding a particular faction to a particular proto-coalition. For example, if it turns out to be the case that pork-barrel spending declined each time the Kishi faction joined the Sato-Miki proto-coalition, or that the

pork-barrel grew each time the Ikeda faction joined the same proto-coalition, we could indicate as much in the appropriate cells of Table 2. If the null hypotheses that factional changes in the makeup of the mainstream coalition should not correlate systematically with budgetary changes is correct, then every cell in Table 2 should remain blank. If this is not the case -- if we can fill in even some of these cells with pluses and minuses, then we will have found something that the null hypothesis cannot explain, and support for our alternative hypothesis that the factional composition of the mainstream coalition does matter for budgetary spending.

#### **4.2. Budgetary Panel Data**

We test our hypothesis using a cross-sectional time series of 63 agencies between fiscal years 1956 and 1984. We chose these years precisely because they account for the period in which there was no *partisan* turnover in government. We stopped after 1984 because the mainstream/anti-mainstream dichotomy within the party was replaced in 1985 by a rule of universalism, where all factions were “in the coalition” all the time (Sato and Matsuzaki 1986).<sup>26</sup>

The agency line items are taken from the data set compiled by McCubbins and Noble (1995). In selecting individual items, McCubbins and Noble eliminated items covering fewer than ten consecutive years, tried to include virtually all of the major spending items in the budgets, as well as a sample of medium-sized and smaller items, and tried to include a broad range of substantive types, including some items that are clearly public in nature, others deemed to be purely “pork barrel,” and some “semi-public goods” in between. This three-part categorization was created as follows. The authors looked at the intended recipients of various spending programs, and gauged the extent to which the items were narrowly targeted (either sectorally or geographically) or broadly focused.<sup>27</sup> “Pork” items are those whose recipients were easily identifiable and narrowly defined (e.g., the Okinawa education program, or the Hokkaido

Fishing Port Facilities program). Public goods, on the other hand, are items that are more broad-based, which cannot be denied anyone that qualifies according to some criteria. For example, not everyone in the country benefits from unemployment insurance or the subsidy to the National Health Insurance, but they are there for any individual who needs them, and cannot be denied to anyone who qualifies. All other items, which combine elements of pork and public goods (e.g., support for the elderly, which is available to all elderly, but not to anyone else in the population) are categorized as “semi-public” items.

From this data set, we narrowed our sample to 63 items by excluding items in the following way. First, given our shorter time frame for this analysis we again eliminated items covering fewer than ten consecutive years. Next, we excluded “administrative” items which we assume will not rise and fall according to the sort of political logic described in this paper. For example, we excluded spending for the Imperial Household Agency, and the Ministries of Justice, Foreign Affairs, Finance, and Home Affairs. By the same logic, we left out spending for items such as disaster relief and meteorological administration. A full listing of the budget items that we did include appears in Table 3.<sup>28</sup>

[Table 3 About Here]

## 5. The Test

Our budget model characterizes spending as a function of political preferences, political institutions, and environmental variables such as the economy. The thrust of this paper is that while institutions have not varied in Japan over most of the postwar period, economic indicators surely have, and political preferences *may* have. Thus, the specification of an econometric test of the effects of factional change on budgetary spending will assume institutions to be constant, and will control for economic effects such as economic growth and unemployment. The focus of the

test will be for the size and statistical significance of the coefficients on variables that describe factional change in government. The *null* hypothesis, generated from the literature on Japanese budget policy and on LDP factions, is that changes in the factional composition of the mainstream does *not* imply changes in political preferences, and hence will *not* be correlated with changes in spending decisions. Our *alternative* hypothesis is that different LDP governments (in terms of their factional composition) pursued different policy objectives, and that these differences *will* show up in significant, systematic correlations of factional change and change in various spending items in the general account budget over time.

We would like to be able to predict more than this of course. To say that a change from coalition type A to coalition type B will cause defense spending to rise and welfare spending to fall, for example, is a much more powerful claim than that a given type of government change will always make the same items go up and down, respectively. The former is just the sort of test that scholars have run on American budgetary and tax data (McCubbins 1991, Sala 1993) but at this point it is not possible for us to do so for the Japanese case. The key missing ingredient is a set of *a priori* expectations about the relative preferences of coalitions A and B, respectively, for defense and welfare spending (for example). Decades of stable, bipartisan competition in the United States allowed students of American government to form such expectations (e.g. “tax-and-spend-on-welfare Democrats”). For Japan, the lack of expectations about the relative preferences of different factions for spending categories is reflected in the null hypothesis itself -- everyone believes that there are no differences. Hence, the null we are left to test is that factional shifts in government do not affect the budget in systematic ways.<sup>29</sup>

The dependent variable for our model, then, is the (logged) year-to-year change in spending for individual budgetary line items (as indicated by the subscript *i*) from 1958 through

1984 (where each year is indicated by the subscript  $t$ ) ( $Budget_{it}$ ). We first include several economic and political control variables. We take the logged growth in GNP ( $GNPgrowth_t$ ) and the unemployment rate for the previous year ( $Unemployment_{t-1}$ ) as indicative of the economic environment in which budgetary decisions were made. Next, some have suggested that the LDP spends more when it needs to shore up electoral support (see, e.g., Calder 1988). We operationalize this notion by including a measure for LDP popularity ( $LDPPopularity_t$ ) as measured by opinion polls, and one for LDP popularity in election years, in case the effect is more important when the party is putting its record up for a vote ( $ElectionYrPopularity_t$ ). Unfortunately, we were able to gather this poll data beginning only in 1961, so we further truncate our time series to cover the 1961-1984 period. Finally, to control for first-order serial correlation in the error matrix, we then added the lagged dependent variable ( $Budget_{i,t-1}$ ) as the final regressor.<sup>30</sup>

We specify our notion of the effects of government change by creating dummy variables for each faction, and including one in the regression to test the marginal impact of that faction's participation in the agenda-setting mainstream coalition relative to its absence. For example, to policy difference between Sato-Miki coalitions and Sato-Miki proto-coalitions to which the Ikeda faction is added, we include a dummy variable for Ikeda in the model, and then run the model on budgetary data for the years in which the Sato and Miki factions were both in the mainstream. We repeated this process 39 times, 13 times each for the pork items in the budget, the “semi-public” items, and the public-goods items, respectively.<sup>31</sup>

Thus the general panel model we estimate is Equation 1.<sup>32</sup>

$$\begin{aligned}
 Budget_{it} = & \beta_0 + \beta_1 faction(j)_t + \beta_2 GNPgrowth_t + \beta_3 Unemployment_{t-1} \\
 & + \beta_4 LDPPopularity_t + \beta_5 ElectionYrPopularity_t + \beta_6 Budget_{i,t-1} + \epsilon_{it} \quad (1)
 \end{aligned}$$

where faction  $j$  is the faction being added, and all other variables are as explained above. We divided the data set into pork-barrel budget items, semi-public goods, and non-pork items and reran the regressions on each subset. We ran this model 39 times, as just discussed.

In all runs, the null hypothesis for each coefficient is that  $\beta = 0$ . The coefficients on the straight economic variables  $\beta_2$  and  $\beta_3$ , respectively, are not the subject of our study, but we would expect them to both be positive, indicating that governments tend to increase spending as the economy grows, and to counter unemployment. If Calder is correct that spending increases when the LDP perceives itself to be in trouble with the voters, we would expect one or both of  $\beta_4$  and  $\beta_5$  to be negative. We were not quite sure what to expect out of  $\beta_6$ . Given that it is a lagged percentage change (as opposed to a lagged spending *level*), we have no political justification for expecting anything different from zero. However, given that spending on most items in most countries seems to increase and decrease at declining rates (i.e., neither increase exponentially toward infinity nor decline exponentially past zero) we expect that Japanese spending items also grow and shrink at less-than-exponential rates. This implies a coefficient between zero and one in absolute magnitude.

We are most interested in  $\beta_1$ , the coefficient on the dummy variable for the faction being added to the proto-coalition defined by the restrictions on the data set. Our alternative hypothesis is that for some significant number of permutations of proto-coalitions and added factions, this coefficient should be significantly different from zero. If we cannot reject the null hypothesis that  $\beta_1$  is equal to zero for each run of the model (that is if all of the cells in Table 2 remain blank), then we will not be able to reject the conventional wisdom that LDP factions had no influence on policy making.<sup>33</sup>

## 6. Results

Rather than produce an unreadable table showing the regression results for all 39 permutations of Equation 1, we summarize our results in two ways. First, Tables 4a-4c reproduce Table 2, this time “filling in the blanks” where significant factional-change effects were found. Table 4a shows the results for the pork items in our sample, Table 4b for the semi-public line items, and Table 4c for the public-goods items. The first thing that jumps out at us is that not all the cells are empty. In fact, totaling all three tables together, fully one third (13 of 39) of the runs revealed significant effects whenever a given faction was added to a given proto-coalition.<sup>34</sup> When we recall that our agenda-setting model does not predict that all changes in the intraparty ruling coalition should lead to changes in the budget -- or that changes in the mainstream will lead to changes in all budget items -- the figure of 33 percent looms even larger. Clearly, we can reject the null hypothesis that the factional composition of the party mainstream should not affect the budget in systematic ways.<sup>35</sup>

[Table 4 About Here]

The second clear implication of Table 4 is that pork-barrel spending was affected least often (only 2 of 13 times), public goods spending the most (6 of 13, or almost half), with semi-public items in the middle (5 of 13). This is consistent with the conventional wisdom concerning the importance of pork in Japanese electoral competition (Thayer 1969; Sato and Matsuzaki 1986; Inoguchi and Iwai 1987; McCubbins and Rosenbluth 1995; Cox and Thies N.d.). All factions need to provide pork for their members to take home to the district, so we shouldn't expect too much change in the average level of pork-barrel-type spending when factions move in and out of the mainstream. It also supports our hypothesis that factional differences over “public” policy can and do exist, if only in terms of priorities or relative emphasis -- these are the

line items that go up or down depending on who is setting the agenda.

In Table 4d, then, we simply list the permutations of proto-coalition and additional faction that evinced significant effects, ordering them according to the faction whose addition to the coalition results in the policy change. This way of presenting things highlights our other important (albeit preliminary) findings. The presence of the *Kishi* faction, when it matters, always results in spending *increases* relative to its absence. The opposite is true for the *Kono* faction, who always seem to bring spending *cuts* with them when they join up. Spending *cuts* also seem to accompany the *Miki* faction, when anything changes, while the Ikeda faction's presence or absence does not appear to imply anything consistent and significant about any of our three types of spending.

## 7. Discussion

Our findings enhance our understanding of the role that LDP factions play in making decisions over public policy. The literature on Japanese factions has asserted almost unanimously that factions do not matter for policy making -- that they are intraparty personnel machines and personal cliques with no systematic relevance for party decisions on the substance of running the country. We have argued in favor of the alternative hypothesis that factions should matter for policy making, and we have provided evidence that they do.

The weakest way to characterize our findings would be to ask of all who claim factional irrelevance the question, "why does the movement of particular factions in and out of the governing mainstream coalition have systematic and consistent effects on budgetary spending policy?" For example, why is that spending on public-goods items in the budget goes up each time the Kishi faction joins the Sato faction or the Sato-Ikeda proto-coalition, while the very same spending goes down when it is the Kono faction signing on? And so on. If factions were

indeed irrelevant, we would not expect to find such effects.

A slightly stronger characterization of our findings, then, would be to assert that they provide evidence that “different LDP governments” (in terms of their factional composition) pursued different policy priorities, and that these differences show up in perhaps the single most important policy decision that a government makes -- the national budget. In particular, the Kishi faction would appear to be the spendthrifts of the party, while the Kono faction (and to a lesser extent the Miki faction) apparently are more fiscally conservative. This is not to say that these different LDP governments diverge on any or all of what might be considered core LDP policies, that one faction can join the coalition and foist a new platform on the party, or that the LDP is truly a “coalition of parties,” with fundamentally incompatible policy platforms. Instead, we mean to say that *other things equal* -- perhaps holding all of the “core” LDP priorities equal -- different factional combinations in the party mainstream to use their discretion as (temporary) agenda-setting party leaders as they wish, and that they *do* wish for different things.

We hasten to point out that this revised picture of the role of factions within the LDP is consistent with most of what we know about factions outside the realm of policy. While the relationship of factions to the exigencies of electoral politics in Japan (see section 3 above) does not *necessarily* imply a link to policy making, neither does it preclude such a link. For example, given the “process of elimination” way that new entrants to the party choose which faction to join, it is not obvious whether policy proclivities should matter or not. The proscription against joining a faction already represented in the party does not narrow the decision down to only one or two choice very often -- especially in the LDP’s early days when there were ten or more factions from which to choose. However, even *if* the current slate of incumbents were to limit severely the candidate’s range of options, policy might still matter for two reasons. First, the

“remaining faction” might be able to choose its endorsee with policy in mind. A candidate does not join a faction without the blessing of that faction’s leaders, and why shouldn’t policy vetting take place? Second, if the faction can control the parliamentary behavior of its members (if switching factions is costly or difficult, and if other means of internal discipline are effective) then intrafactional policy unity might be induced *after* a new member joins up.

We recognize that our results are only a small first step toward a more meaningful understanding of LDP decision making. However, our findings suggest a fruitful avenue for future research on Japanese politics that until now has been hidden by the pervasive belief that factions are irrelevant for policy. While we have tested the proposition that factions matter for budgetary policy decisions, we have stopped there. We were not able to test more specific hypotheses concerning the desire and ability of given factions to effect policy changes on given issues. We were not even able to predict that a particular government “type” might reduce spending while another might raise it. We simply hypothesized that the effect of governmental change on the budget would be systematic. This is for the simple reason that there exists no conventional wisdom as to the policy proclivities of individual factions. Now that we have shown that factional membership in the party mainstream, in general terms, matters for policy, it would behoove us to figure out what it is that different factions want. By looking at other indicators such as divergent sources of campaign contributions or disproportionate participation on certain party and Diet committees, we might generate ideas about how factions are differentiated on policy grounds. This, in turn, would lead to more nuanced hypotheses and better-informed tests of the policy implications of political change in Japan. Indeed, the “positive” value of our findings (as opposed to the “negative” finding that the conventional wisdom of factional irrelevance for policy is incorrect) may be precisely to generate some

estimates of the relative preferences of different factions with regard to levels and types of government spending. These tentative conclusions (e.g., about the profligacy or niggardliness of the Kishi and Kono factions, respectively) are subjectable in principle to more sophisticated tests with new data. Our work, therefore, represents a first step, not a final word.

Nonetheless, our findings are sufficient to support the claim that the study of Japanese politics can -- and therefore should -- be brought into the broader debates in the comparative politics literature. Despite its unchanging, single-party government, the frequent occurrence of intraparty turnover allows us to bring the literature on coalition governments to bear on Japan. Moreover, the Japanese case can be used to push that literature further. Thus far, the coalitions literature has focused almost exclusively on formation and dissolution, and relatively little attention has been paid to how coalitions make decisions while they are together (for one recent exception, albeit one that is primarily descriptive in nature, see Laver and Shepsle 1994). In this paper, we provide some of the first evidence with regard to the relationship between coalition structure and policy outcomes. Similar studies could easily be performed on governments whose coalitions cross party lines. The difference between multiparty coalitions and single-party coalitions is probably an important one in terms of the actual impact on policy choices, but we have shown that it does not imply that we pursue different research strategies to study both, and, eventually, to draw explicit comparisons between them.

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**Table 1: LDP Mainstream Membership**

<i>FY</i>	<i>Sato</i>	<i>Ikeda</i>	<i>Kishi</i>	<i>Kono</i>	<i>Miki</i>
1958	x		PM	x	
1959	x		PM	x	
1960	x		PM	x	
1961	x	PM	x		
1962	x	PM	x		
1963		PM		x	
1964		PM		x	
1965	PM	x		x	x
1966	PM	x	x		x
1967	PM	x	x		x
1968	PM		x		x
1969	PM		x		
1970	PM		x		
1971	PM		x		
1972	PM	x	x	x	
1973	PM	x		x	x
1974	PM	x		x	x
1975				x	PM
1976				x	PM
1977	x	x	PM		
1978	x	x	PM		
1979	x	PM			
1980	x	PM			
1981	x	PM		x	
1982	x	PM		x	
1983	x	x		PM	
1984	x	x		PM	
1985	x	x	x	PM	x
1986	x	x	x	PM	x
1987	x	x	x	PM	x

- Source: Sato and Matsuzaki (1986:68-69)
- Faction names appear along top row of table. Faction names changed over time as leaders were replaced, but for clarity, we just list the faction's founder here and in subsequent tables.
- Fiscal years corresponding to the indicated mainstream coalition appear in first column.
- “PM” indicates that faction held the premiership when the budget was passed for the fiscal year indicated; “x” indicates that the faction was part of the mainstream coalition responsible for the budget in that fiscal year. Blank entries indicate anti-mainstream factions.

Table 2

## Adding a Faction to a Pre-Existing Coalition


Factions in Proto-Coalition	Faction Being Added to Proto-Coalition			
	<i>Ikeda</i>	<i>Kishi</i>	<i>Kono</i>	<i>Miki</i>
<i>Sato</i>				
<i>Sato-Ikeda</i>				
<i>Sato-Kishi</i>				
<i>Sato-Kono</i>				
<i>Sato-Miki</i>				








**Table 3: Expenditure Items**

<b>✓Pork:</b>	“Pork-Barrel”	(16 items)
<b>♥:</b>	“Public Good”	(13 items)
<b>Unmarked:</b>	“Semi-public”	(34 items)








- **Management and Coordination Agency**
  1. Pension Expenditures ♥
- **Okinawa Development Agency**
  2. Okinawa Education Promotion ✓Pork
- **National Land Agency**
  3. National Integrated Land Development Coordination
- **Hokkaido Development Agency**
  4. Hokkaido Road Construction Expenditure ✓Pork
  5. Hokkaido Fishing Port Facilities ✓Pork
  6. Hokkaido Housing Construction Industry ✓Pork
- **Defense Agency**
  7. Weapons and Vehicles ✓Pork
  8. Aircraft ✓Pork
  9. Shipbuilding ✓Pork
  10. Maintenance of Facilities ✓Pork
  11. Research and Development ✓Pork
- **Ministry of Education**
  12. Subsidies for Educational Expenses for the Handicapped
  13. Educational Promotion ♥
  14. Maintenance of Public Educational Facilities
  15. Scholarship Expenses
  16. Science Promotion ♥
- **Ministry of Health and Welfare**
  17. Research and Development ♥
  18. Subsidy to National Health Insurance Plan ♥
  19. Aid to Bereaved Families and Families of Internees
  20. Maintenance of Environmental Health and Sanitation Facilities ✓Pork
  21. Expenditure for Atomic Bomb Victims
  22. Sanitation Expenses ♥
  23. Lifestyle Protection Expenditure ♥
  24. Support for the Disabled
  25. Welfare to the Elderly
  26. Support for Women
  27. Support for Children
  28. National Supplement to Social Insurance Fund ♥

- **Ministry of Agriculture, Forestry, and Fisheries**
  - 29. Agricultural Promotion
  - 30. Strategic Restructuring of Agriculture ✓Pork
  - 31. Agricultural Pensions and Related Expenses
  - 32. Silk Cultivation and Horticulture Promotion
  - 33. Diffusion of Agriculture Improvement
  - 34. Strengthening of Wet Rice Agriculture
  - 35. Promotion of Animal Husbandry
  - 36. Sugar Price Stabilization
  - 37. Strategic Planning of Food Product Distribution ♥
  - 38. Promotion of Forestry
  - 39. Promotion of Fisheries
  - 40. Fishing Harbor Facilities
- **Ministry of International Trade and Industry**
  - 41. Promotion of Industrial Relocation
  - 42. Promotion of the Computer Industry
  - 43. Industrial Plumbing Facilities ✓Pork
  - 44. Promotion of Mining and Manufacturing Technology
  - 45. Large-Scale Industrial Research and Development ✓Pork
  - 46. Agency of Industrial Science and Technology Experimental Research Lab ♥
  - 47. Underground Resources Strategy
  - 48. Small and Medium-sized Enterprise Strategy
- **Ministry of Transportation**
  - 49. Subsidies to Accounts of Japan National Railways Corporation
  - 50. Subsidies to Japan National Railways Construction Corporation
  - 51. Railroad Track Maintenance ✓Pork
  - 52. Coastline Enterprises ✓Pork
  - 53. Subsidies for Maritime Transportation ✓Pork
- **Ministry of Posts and Telecommunications**
  - 54. Integrated Telecommunications Research Lab
  - 55. Local Telecommunications Administration Bureau ♥
- **Ministry of Labor**
  - 56. Unemployment Expenditure
  - 57. Career Change Planning
  - 58. Labor Protection Office ♥
  - 59. Employment Security Office ♥
- **Ministry of Construction**
  - 60. Strategic Planning Regarding Crumbling of Steep Inclines and Related Expenses
  - 61. Coastline Enterprises
  - 62. Housing Construction
  - 63. City Planning

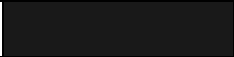
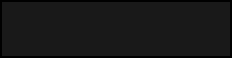





**Table 4: When (if ever) Does Factional Change Make a Difference for Public Spending?**Key:  Not applicableTable 4a: Pork (2 of 13 permutations significant -  $p < .05$ )  No cases

Factions in Proto-Coalition	Faction Being Added to Proto-Coalition			
	<i>Ikeda</i>	<i>Kishi</i>	<i>Kono</i>	<i>Miki</i>
<i>Sato</i>		Increase	Decrease	
<i>Sato-Ikeda</i>				
<i>Sato-Kishi</i>				
<i>Sato-Kono</i>				
<i>Sato-Miki</i>				

**Table 4b: Semi-Public Goods** (5 of 13 permutations significant -  $p < .05$ )

Factions in Proto-Coalition	Faction Being Added to Proto-Coalition			
	<i>Ikeda</i>	<i>Kishi</i>	<i>Kono</i>	<i>Miki</i>
<i>Sato</i>		Increase	Decrease	
<i>Sato-Ikeda</i>		Increase	Decrease	
<i>Sato-Kishi</i>				
<i>Sato-Kono</i>				Decrease
<i>Sato-Miki</i>				

**Table 4c: Public Goods** (6 of 13 permutations significant -  $p < .05$ )

Factions in Proto-Coalition	Faction Being Added to Proto-Coalition			
	<i>Ikeda</i>	<i>Kishi</i>	<i>Kono</i>	<i>Miki</i>
<i>Sato</i>		Increase	Decrease	Decrease
<i>Sato-Ikeda</i>		Increase	Decrease	
<i>Sato-Kishi</i>				Decrease
<i>Sato-Kono</i>				
<i>Sato-Miki</i>				

**Table 4d**  
**Changes in the Factional Composition of the Party Mainstream**  
**that Consistently Led to Changes in the Budget**

(Pork, Semi-Public, and Public-Goods Items Examined Separately, 1961-1984)

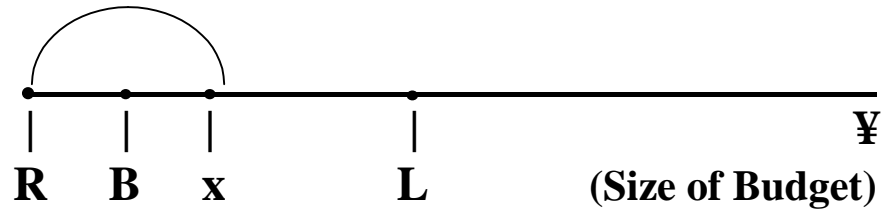
#	Proto-Coalition	Faction Being Added	Items	Effect
1	Sato	Kishi	Pork	Increase
2	Sato	Kishi	Semi-Public	Increase
3	Sato-Ikeda	Kishi	Semi-Public	Increase
4	Sato	Kishi	Public	Increase
5	Sato-Ikeda	Kishi	Public	Increase
6	Sato	Kono	Pork	Decrease
7	Sato	Kono	Semi-Public	Decrease
8	Sato-Ikeda	Kono	Semi-Public	Decrease
9	Sato	Kono	Public	Decrease
10	Sato-Ikeda	Kono	Public	Decrease
11	Sato-Kono	Miki	Semi-Public	Decrease
12	Sato	Miki	Public	Decrease
13	Sato-Kishi	Miki	Public	Decrease

Total Number of Permutations: 39 (13 pork, 13 semi-public, 13 public-goods)

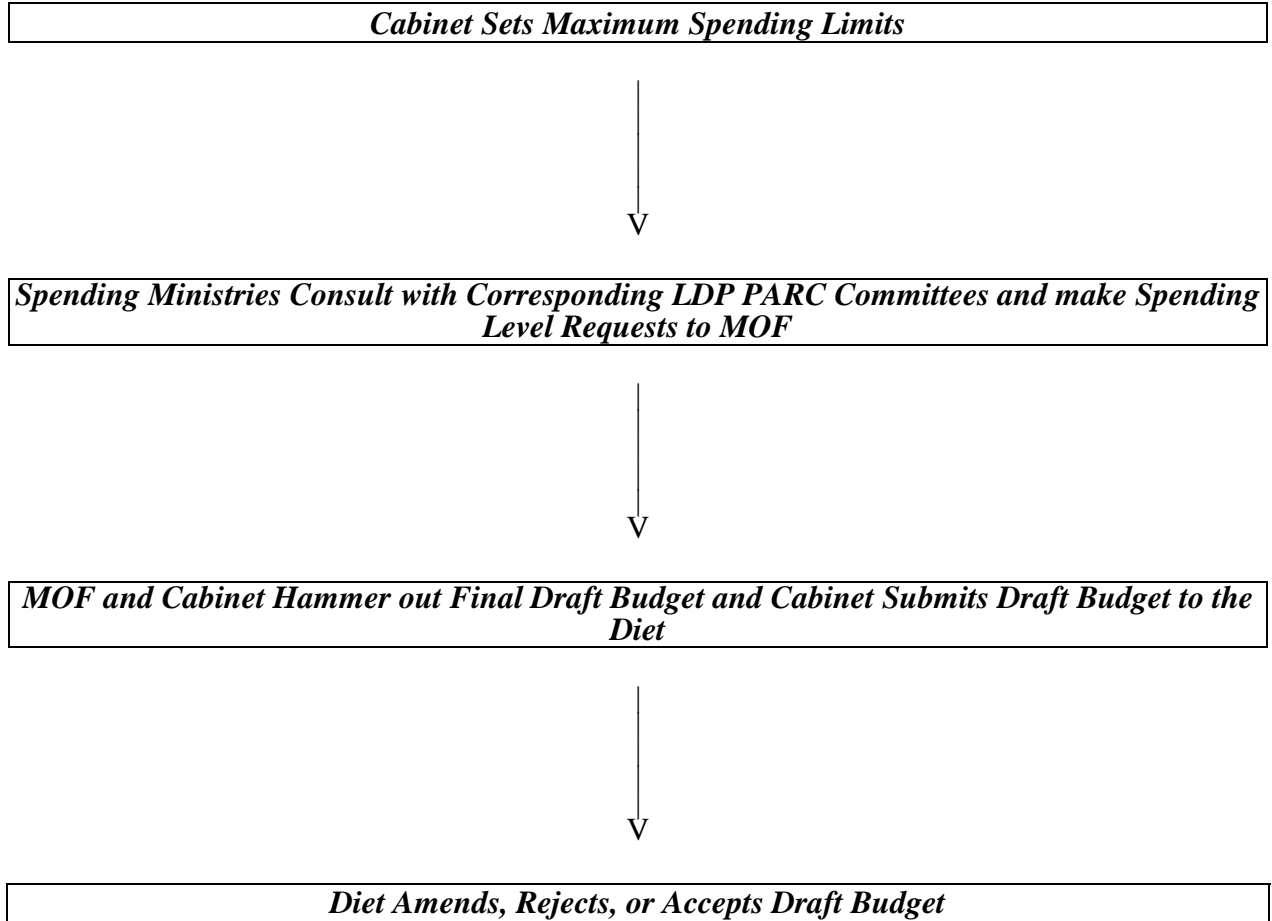
Percentage for which Significant Factional-Switch Effects were Found (p-value < .05): 13/39 =

33.33%

**Figure 1**  
**One-Dimensional Setter Model**



**Figure 2**  
**Japanese Budget Process Flow Chart**



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Recent work:

- *The Democratic Dilemma*. New York: Cambridge University Press, forthcoming 1997 (with Arthur Lupia).
- “Political Control of the Judiciary: A Positive Theory of Judicial Doctrine and the Rule of Law.” *The University of Southern California Law Review*, September 1995 (with Roger G. Noll and Barry R. Weingast).
- “Political Control of the Bureaucracy.” London: *New Palgrave Dictionary of Economics and the Law*. Forthcoming, 1997 (with Roger G. Noll and Barry R. Weingast).

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- “The Costs of Intraparty Competition: SNTV and Money Politics in Japan” (Working Paper,

with Gary W. Cox).

- Thies, Michael F. 1995. "The Japanese House of Councilors Election of 1995." *Electoral Studies* 14(4):464-470.

## Endnotes

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1. Again, factions represent a concern for students of other countries as well (Sartori 1976; Belloni and Beller 1978).
2. This system was used for every election but one between 1925 and 1993. The sole exception was the 1946 election, the first during the American occupation, which involved a large-district proportional representation scheme. SNTV was restored for the 1947 election.
3. We recognize that decision making is rarely one-dimensional, and that spatial models in general abstract from the richness of the policy-making environment, but we wish to take advantage of the straightforward logic and precise inferences that we are able to glean as a consequence of this simplifying abstraction.
4. See Sundquist (1973) or Brady (1973) on the 1896 realignment in the U.S. that saw the Republicans maintain power with a different constituency base as the result of urbanization. Also see Thies (1994) on the effects of Japanese urbanization on LDP decisions concerning spending on agricultural programs.
5. Prewar Japanese parties were also characterized by factions, as discussed in Kiseki (1965); Thayer (1969); Hayashi (1975); Sato and Matsuzaki (1986); and Ramseyer and Rosenbluth (1993).
6. The number of factions increased between 1955 and the early 1970s, but as the leaders of some of these groups died with no heirs apparent, subsequent consolidation saw the number of factions shrink to five by the early 1980s. This factional alignment persisted until the months preceding the partial breakup of the party in 1993.

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7. For example, the Ministry of Agriculture, Forestry and Fisheries consults with the PARC's Agriculture and Forestry Division and to the Fisheries Division. A good deal of the following description comes from Noble (1993). See Campbell (1977) for the seminal contribution to our understanding of the relationship between the LDP and the bureaucracy in the formulation of the annual budget. Campbell's book provides a macro-level descriptive analysis of the budgetary process, that stands up to micro-level scrutiny almost 20 years later. Thus, we see our efforts here as complementing, rather than in any way superseding Campbell's analysis.
  8. Debate over existing items differs qualitatively from debate over new spending items. The political deal for continuing items has already been cut, and normally the only question is how much they should be increased. Budget makers tend to focus instead on new items (or requests for exceptionally large increases) when they look to "change" the budget.
  9. The General Account Budget does not contain all government spending in Japan. The Diet passes "Supplementary Budgets" almost every year to fund extra public works, or reconstruction after natural disasters. "Usually, the net additional spending in the Supplementary Budget adds only about 3-4 percent to the main General Account Budget" (Noble 1993). All of these budgets require Diet approval. Finally, the Diet must approve the Fiscal Investment and Loan Program (FILP). Most money for the "off-budget investment" through the FILP is borrowed from postal savings and the national insurance and pension funds at government-determined interest rates (Campbell 1977; Honma, Kurosaka, and Ihori 1988).
  10. Only the last two steps of this process -- cabinet submission and Diet disposition -- are specified in the Japanese Constitution. The MOF's activity takes place under authority delegated it by the Finance Law. The other steps are only standard practice, not specified in law at all. For

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example, the requests from the spending ministries are not required by law; the MOF has simply requested that any advisory input from the spending ministries be offered by a specified deadline. One other point is that while the Diet is bicameral, Article 60 of the Japanese Constitution states that the Upper House can only delay passage of the budget by up to 30 days -- its approval is not required. Hence, we model a unicameral parliament here.

11. Of course, this requires us to assume away for the moment the classical agency problems inherent in the delegation of advisory roles to interested experts, but these wormy questions exceed the dimensions of the present can.

12. On the importance of the threat of a confidence vote in parliamentary democracies, see e.g., Lijphart (1984); Huber (1992) .

13. Noble (1993) writes that “the actual figures have only been changed twice since the formation of the LDP in 1955, and even then only marginally. The revisions [took] the form of a Cabinet “request” to resubmit the budget.”

14. In 1990, the LDP elected to pass a “Provisional Budget,” presumably because there was a Lower House election in February of that year -- while the Diet was debating the budget bill. After the election, the LDP Cabinet made only a few minor changes to the budget before resubmitting it. The Lower House passed this new budget on May 10, and it became law without the acquiescence of the opposition-controlled Upper House thirty days later. A second instance occurred in 1994, when a *seven-party* anti-LDP, anti-Communist coalition could not reach compromise in its first attempt at budget making. The resignation of Prime Minister Hosokawa in April and the long delay before Prime Minister Hata took the reigns of a minority coalition

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pushed back the budget process even further. The final budget for fiscal year 1994 was not passed until June, more than two months *after* the fiscal year began.

15. The sole exception was 1976, when Prime Minister Miki gave the post to the anti-mainstream Ohira faction. Miki was put into power in order to give the party a “clean image” after the previous prime minister, Tanaka, had been forced to resign due to a bribery scandal. His support within the party was not widespread, especially after he had been in office for a year already (the only other mainstream faction in 1976 was Nakasone’s, and the combined membership of the two factions was well short of an intraparty majority). Interestingly, the post of secretary general, which always went to the party president’s faction until 1972, has only once (under Ohira) gone to the presidential faction since that time, and this lone exception was reversed quickly due to opposition within the party (Sato and Matsuzaki 1986:70).

16. Anecdotal evidence that factions fight tooth-and-nail to procure specific policy-related posts such as the chairmanships of various Policy Affairs Research Council *bukai*, and especially the chairmanship of the PARC itself, can be found in Honzawa (1990:112-128). Curiously, Honzawa believes that factions care a great deal about policy, and fight hard to obtain particular PARC posts, yet when it comes down to actual influence on policy, he argues that factions are no better than “cheering sections” (*oendan*) for the relevant bureaucrats and interest groups (p. 125).

17. By “pivotal,” we mean any group whose defection from the party would be enough to cause the party to lose its parliamentary majority. See Baron and Ferejohn (1989).

18. Recall, however, that not all changes in preferences lead to changes in policy. For example, if faction A whose ideal spending level is  $x+2$ , and faction B, whose ideal policy is  $x-2$ , have

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agreed to a policy of  $x$ , this policy will not necessarily change when faction C, which likes  $x+1$  best, joins the coalition.

19. Indeed, one might ask why preeminence is so important if it is not accompanied by disproportionate influence on policy decisions. Of course, it may be the case that prestige is the sole incentive for faction leaders to vie for the top party post. And it may be true that faction rank and file see the aggrandizement of their leader as key to their own electoral chances. But prime ministers in Japan are rarely popular, and the only prediction about Japanese politics that is almost sure to be borne out is that a prime minister's public approval rating will end up much lower than it started out. Moreover, the prime minister's faction does better at election time than the rest of the party only about half the time (Ramseyer and Rosenbluth 1993).

20. Lower House seats have been reapportioned several times, but the last time the SNTV system was used, in 1993, 511 members were elected from 129 districts. A majority of seats (256) therefore required a party to win almost exactly two seats per district.

21. Ramseyer and Rosenbluth offer another explanation for what they call factional "isomorphism." They argue that the competition for the party presidency forces faction leaders to appeal to a broad swath of opinion within the party, in order to garner the necessary majority. This forces them to minimize differences and emphasize similarities between factions (Ramseyer and Rosenbluth 1993:77-79).

22. Note that this hypothesis is stronger than the one implied by the spatial model in Figure 1, insofar as not all changes in preferences are expected to induce policy change. In other words, finding "no policy change" would not necessarily belie the model. Because this stacks the deck *against* our rejecting the null hypothesis (of no correlation between factional change and policy

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change), we will feel more confident about our theory if we in fact can find support for the stronger hypothesis we state here.

23. The characterization of factions as irrelevant for policy decisions begs the following question: if factions do not care about policy -- or do not believe that a change in factional control can affect policy -- why do they care about winning the intraparty contest for supremacy? If politicians wish to be reelected and if "bringing home the bacon" -- whether through pork barrel projects or favored public policy prescriptions -- aids in the pursuit of reelection, then we should expect anyone with a greater share of influence at party headquarters to steer policy in directions that they and their supporters prefer. Then, if policy preferences did differ across factions on some issues, those differences might be reflected in policy outputs. This does not imply that factional policy differences within the party will obfuscate the party's basic platform. All members might still agree on the party's core policy stances (see Rohde 1991 on the conceptual distinction between core policies and non-core policies). It only means that if there are identifiable factional differences in preferences in some policy areas or in priorities between policy areas, those differences will be acted upon when the factional composition of the party mainstream changes.

24. These are the five that lasted for the entire period under examination. The Ono faction, which dispersed in 1971 (soon after Ono Bamboku died), and a few minor factions that did not last very long are excluded from the table and the analysis for ease of exposition.

25. The shaded cells indicate meaningless cases, and the cells with no actual cases in the time period we examine are also indicated.

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26. Since “grand coalitions” of all factions occurred only at the end of the time series, we did not want to fall victim to “end of series bias.” Several colleagues have suggested that our results might be driven by the fiscal retrenchment that occurred in the early 1980s under the heading of Administrative Reform, and that if those years were eliminated from the analysis, our results would be weakened at the very least. We have two responses, one empirical and one theoretical. The empirical point is that the results are robust to eliminating 1980-1984 or any shorter series within that span -- we re-estimated the model below without those years and no results changed substantively. The theoretical point is that the Administrative Reform movement of the early 1980s was *not* an exogenous event. The LDP’s call under every Prime Minister from Ohira through Nakasone (1979-1984 in our time series) for “fiscal reconstruction without a tax increase” was political at its very base -- it was the LDP’s policy platform in the 1980 elections, for one thing. The *Daini Rincho* (Second Administrative Reform Council) was created by politicians to oversee the fiscal reconstruction process. Hence, fiscal retrenchment in the 1980s is something we would like to explain (in part) with our model; it is not an exogenous force.
27. The general -sounding titles of programs frequently obfuscate the narrowness of their focus, so McCubbins and Noble had to turn to the details of the enacting legislation and program reports in order to categorize them.
28. Our random sample of budget items, strangely enough, picked up no “pure” pork-barrel items from the Construction Ministry budget, and only one from the Agriculture Ministry budget (almost all of the items we selected contained aspects of both public and private goods). Since there is no reason to believe that this would bias our results one way or the other with regard to factional influences on spending, however, we did not resample.

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29. Of course, our inability to generate specific hypotheses about particular items means that our results must be held to a higher standard to be called “significant.” In other words, we must perform “two-tailed” significance tests, whereas more specific hypotheses would allow us to settle for one-tailed tests.

30. This test for serial correlation in a panel model is the one described by Beck and Katz (1995).

31. Again, the Sato faction was in the mainstream coalition for all but 4 fiscal years. Adding each of the 4 other “big 5” factions to Sato and to combinations of Sato and one other faction yields  $(4)^2=16$  theoretical combinations, but three of these never appear in the data set. This leaves us with 13 runs for each “type” of budgetary spending.

32. To correct for heteroscedasticity, we used the procedure suggested by White (1980).

33. Of course, factions might still matter, but we will not have found any supporting evidence for our model of how they matter.

34. This is in a two-tailed test, at the .05 significance level. The ratio of 20 percent is just about the same if all pork and non-pork items are pooled together.

35. We also note that the coefficients on the control variables all conformed to expectations, with two caveats. First, the coefficient on *LDPPOP*, though of the correct sign, was never significant, although the coefficient on *POPELECT* frequently was significant (and negative). Second, the significance levels of the other control variables varied, largely due to variations in the number of observations in each run of the model, but were of the correct sign when they were significant.