Dreams of Economic Transformation and the Reality of Economic Crisis in Japan: Keidanren in the Era of the 'Bubble' and the Onset of the "Lost Decade, from the mid-1980s to the mid-1990s"

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Introduction

The economic stagnation that Japan experienced between 1990 and 2003, what the Japanese have dubbed as the "lost decade," marked the end of four decades of impressive economic growth Hence, examining the causes of that economic crisis has attracted much attention (Amyx, 2004; Beason and Patterson, 2004; Grimes, 2001; Katz, 1998; Lincoln, 2001; Rosenbluth and Thies, 2010). Moreover, the lost decade's impact has lingered. The global financial crisis of 2008 pushed Japan back into the economic doldrums, and the nation has had to cope with the challenge of rebuilding after the Great Japan Eastern Earthquake of March, 2011.

This study finds that a determination that evolved in the mid-late-1980s to carry through a specific program of economic reforms shaped the slow response of the business community, as represented by Keidanren (The Federation of Economic Organizations), to the onset of the nation's economic crisis in the early 1990s. This commitment inhibited rapid and bold intervention by the government to stimulate the economy. On the other hand, this reform agenda encouraged the types of major legal changes and shifts in management practices that some scholars argue have now occurred in Japan (Schaede, 2012). Today, Keidanren (now Nippon Keidanren) is still advocating the same basic policies that it did twenty-five years ago.

The contours of what happened during the lost decade are well known (see Warner, 2011). The trouble started after 1985 with financial speculation that fueled a rise in the prices of stocks and then in the price of real estate. The Nikkei average on the Tokyo stock exchange tripled from 13,000 yen in 1986 to 39,000 yen by the end of 1989. The price of land quintupled between 1985 and 1991 (Itō 2007, 124). By 1989, concern about these trends led officials at the Bank of Japan to begin a rapid increase in its discount rate, from 2.5 percent to 6 percent in August, 1990. Meanwhile, starting in 1990, the Bank of Japan sharply reduced the growth in the supply of money (Grimes 2001, 141-142; Flath 2005, 132). Although Japanese officials were trying to engineer a soft landing by gradually deflating the speculative bubble, it burst with surprising speed. By October, 1990, the Nikkei had fallen to nearly 20,000 yen. The price of real estate began its descent in 1991 (Flath 2005, 145 and 141). Underscoring the continuing effects of the collapse of the markets, the stock market in 2003 remained mired at the level of 7,000 yen, while by 2005 land prices had given up all of their gains of the late 1980s (Itō 2007, 140). Non-performing loans piled up at banks. Economic growth virtually ground to a halt, as it averaged only one percent per year from 1990 to 2003.

Review of the Literature

As one might expect, analysts are still trying to discern the causes of this economic collapse. As Kikkawa Takeo has pointed out, Japanese scholars have often seemed at a loss to explain in a systematic way how characteristics of corporate governance and management that drove economic success for decades suddenly failed after 1990 (Kikkawa 2005, 22-28). Among Western scholars, one approach to explaining this course of events has centered on arguing that despite Japan's impressive record of economic growth during the previous four decades, major sectors of the economy had become inefficient as a result of government protectionism (Beason and Patterson, 2004; Katz, 1998; Rosenbluth and Thies, 2010). Other analyses have focused on the specific ways in which the economic collapse unfolded after 1989. Why, some have asked, did the Japanese government respond so slowly? Noting that Japan experienced an "extraordinary delay" of eight years in responding to the banks' problem of bad debt, one scholar describes the "mismanagement of banking sector woes" as "enigmatic" (Amyx 2004, 1-2 and 6). The Bank of Japan eventually slashed its discount rate to nearly zero percent, but took five years to reach that point. The Ministry of Finance matched that slow pace by also taking five years to issue its first estimate of the total amount of bad loans held by Japanese banks. According to one observer, before 1998 only the budgets of 1994 and 1995 were "truly stimulatory" (Metzler 2008, 657).

The aim of this study is to examine the attitudes and actions of Keidanren, as the economic crisis developed during the early 1990s. Carrying on the legacy of the Japan Economic League (Nihon Keizai Renmeikai) in the interwar period, Keidanren during the post-1945 era has been considered the most powerful representative of big business in Japan. During several decades prior to 1990, the Japanese business community had astutely sized up changing economic circumstances and had adjusted accordingly. The first oil crisis of 1973-1974, when the Arab oil embargo and a resulting spike in oil prices had brought both a recession and high inflation, had provided the most recent example. Japanese firms had responded by becoming much more energy efficient (Kikkawa 2005, 17). Why, then, in this instance did the Japanese business community miss the boat, so to speak?

Propositions

The perspective of the Japanese business community during the crisis has not received adequate attention. Presumably, if Japanese business leaders had been clamoring in the late 1980s for measures to prevent a speculative bubble or in the early 1990s to respond promptly and forcefully to its collapse, those opinions would have had some impact on government officials. The question then arises as to why business leaders did not make these demands.

One could conjecture [1.] *that Japanese executives had incentives not to confront publically Japan's economic crisis, because they did not wish to advertize their mismanagement. For example, banks initially may not have wanted to draw attention to their rapidly increasing stockpile of non-performing loans and resultant weak financial condition* (Amyx 2004, Chapter

7). Firms in some other sectors, however, might well have not felt the same constraints. One could also conjecture [2.] *that what one might call the "mind-set" of a broad segment of the Japanese business community, represented by Keidanren, in the late 1980s and early 1990 created a major obstacle.*

The leaders of Keidanren had developed by the late 1980s such a firm definition of the economic challenges facing Japan and of the necessary solutions that this perspective blinded them to the crisis that was building underneath their feet and, once it erupted, to the need for the quick action that it demanded. This stance became manifest in the "*Keidanren shūhō [Keidanren Weekly Reports]*" as well as special reports issued by the federation and public statements by its leaders.

<u>Envisioning an Historic Shift in the Japanese Economy</u>

To understand the attitudes of Keidanren toward developments in the Japanese economy in the early 1990s, one first has to examine the specific circumstances of the mid-1980s and the federation's response to them. One major economic problem in the mid-1980s was the increasingly severe friction between Japan and its largest foreign market, the United States, because of the large surplus of Japanese exports there compared to imports from the United States.

In this atmosphere, the Economic Investigation Group (Keizai Chōsakai) of the federation issued a major report in 1985 enunciating the need for basic changes in Japan's financial and economic policies. The nation, the report argued, faced an historical "turning point" (*Keidanren shūhō*, 1985, 2). It placed a top priority on reducing overseas criticism of Japanese surpluses in foreign trade. Japan had to stimulate domestic demand, remove barriers to imports and create a strategy for orderly exports (*Keidanren shūhō,* 1985, 2-4).

The report posited that fiscal and administrative reforms of the government were essential to reviving the economy's vitality. Claiming that Japan's fiscal situation was "the worst among advanced nations," Keidanren pleaded for a balanced national budget. The report noted with approval that a Temporary Administrative Research Council appointed by the government had begun work in March, 1981, on ways to streamline the bureaucracy. Because raising taxes to pay for national bonds would exhaust the economy, Japan had to aim to "emerge from a dependence on deficit national bonds by 1990." (*Keidanren shūhō*, 1985, 5-6).

In general, the Japanese had to unleash the potential dynamism of the private sector both to raise the people's quality of life and to become more economically competitive. Japan, according to the report, had a large Gross National Product but fewer real assets than other developed nations in terms of infrastructure, such as roads, housing, sewers, and parks. One solution was for the private sector to play a greater role in providing these resources (*Keidanren shūhō*, 1985, 6-7). Of course, to do so companies would have to create and keep more capital (*Keidanren shūhō*, 1985, 7-9). Policies of deregulation and tax cuts evolving in the United States provided worthy models for Japan (*Keidanren shūhō,* 1985, 9). In the future the government had to spur the "creativity of enterprises" by "revising the circumstances of enterprise management starting with deregulation." The report's emphasis on the comparatively low corporate tax rate in England and the United States and on the increase in the Japanese rate since 1980 suggested the need for a major reform of the national tax structure (*Keidanren shūhō*, 1985, 9-10).

In brief, this report of May, 1985, presented an agenda for reform that aspired to historical significance in altering the fundamental principles of previous economic policy. To blunt foreign criticism of Japan's growing trade surplus, the economy had to switch from growth led by exports to growth centered on the expansion of the domestic market. Instead of regulating the private sector, the government had to abandon deficit financing and liberate the energy of private enterprise.

Just a few months after this report, the so-called Plaza Accord seemed to confirm the need for a more vigorous and competitive economy. In September, 1985, the Group of Five—France, Japan, the United Kingdom, the United States, and West Germany—agreed in New York City to coordinate their policies to effect a depreciation of the value of the U.S. dollar relative to other currencies, including the Japanese yen. The prospect of a sharply appreciating yen caused considerable alarm within Japanese business circles because of the obvious potential effect on the nation's trade balance.

Keidanren continued to stress the need to enhance the competitiveness of Japanese firms, especially through the reform of national taxes. During 1986 the federation continued to complain that Japan's corporate tax rate was higher than that of other developed nations and that the income tax unfairly burdened Japan's managerial employees. Ideally, the tax system should spread the burden of financing the government more equally among all citizens through an "indirect tax system in which the people would share the burden thinly and widely" (Keizai Dantai Rengōkai 1999, 623). In December, the governing Liberal Democratic Party proposed a "moderation" of the graduated nature of the income tax, a lowering of the corporate tax below 50 percent, and the introduction of a 5 percent national sales tax (Keizai Dantai Rengōkai 1999, 625).

The federation participated actively in the national debate that followed. In early 1987, Saitō Eishirō, the chairman of Keidanren, declared that "there is no reason that only Japan rejects a sales tax that is common internationally." After the LDP in 1988 endorsed a cut in the corporate tax rate to 37.5 percent and a reduction in the proposed new sales tax to 3 percent, a report of the federation's Public Finance Committee in October noted approvingly that the current plan of the LDP "basically follows our thinking." A "very large" tax cut for the middle income group represented by company managers would stimulate consumption and advance "the arrival of an economy led by domestic demand." Japan would also join other advanced nations by slashing the corporate tax to 37.5 percent. (*Keidanren shūhō*, 1988b, 2-4). The Diet finally passed the legislation at the end of the year. Subsequently, the cabinet maintained its incipient trend of lessening its budgetary dependence on bonds so that from 1990 to 1993 the government issued no deficit bonds (Grimes 2001, 77).

Representatives of large corporations in Japan also sought to reduce trade friction in major markets. The federation from 1986 to 1989 consistently advocated the elimination of barriers to imports and stimulating internal demand (Keizai Dantai Rengōkai 1999, 523-526 and 582). Many members backed the deregulation of agricultural imports, more efficient handling of imports, and substantial reform of the Large Store Law that strictly regulated the spread of supermarkets and large retail stores in commercial areas populated by small shops (Keizai Dantai Rengōkai 1999, 556-557 and 589-594).

As a more general strategy, the federation firmly supported a broad movement to reduce the role and size of government through "administrative reform." At the end of 1986, Chairman Otsuki Bunpei explained the need to reverse previous attitudes toward government interference in the private sector by "making the principle freedom, the exception regulation," minimizing "administrative guidance," and instilling the "principle of the self-responsibility of the people" (Keizai Dantai Rengōkai 1999, 557-559). Keidanren later proposed "to make 1988 the year of implementing 'small government'" with a ceiling on the national budget and the continued privatization of public corporations. In 1990 Vice-Chairman Matsuzawa Takuji championed the need to end “120 years” of “regulation and protection” and the specific goal of eliminating 50 percent of all regulations (Keizai Dantai Rengōkai 1999, 562-563).

Coping with a Disaster

Overall, economic trends in the late 1980s inspired confidence in the economy. Real economic growth chugged along at a real rate of 4-5 percent per year. The issuance of government bonds fell and the trade surplus declined. In 1988, the government White Paper on the economy claimed that Japan had “overcome the high yen recession since the fall of 1985” and had switched to a pattern of “economic growth led by domestic demand.” By June, 1990, Japan had experienced 43 months of economic expansion (Keizai Dantai Rengōkai 1999, 542-543). In this context, the soaring prices of stocks and of real estate may have appeared as simply irksome aberrations because other economic indicators were so strong. For example, a Keidanren report in June, 1988, acknowledged the soaring price of land but viewed this development not as a threat to overall economic growth but as just a specific obstacle to solving the problem of overcrowding in some urban areas. According to the report, deregulation would lead to better planning for the use of land and increasing its supply (*Keidanren shūhō*, 1988a, 5). Members of the Economic Policy Committee accepted without challenge a positive economic forecast of officials from the Economic Planning Agency who took comfort from the low unemployment rate and three years of stable prices (*Keidanren shūhō*, 1989a, 2-3).

Indeed, because the leaders of Keidanren harbored a fear of inflation, they would view the initial descent of the price of land as benign. While the federation issued a generally favorable outlook for the economy in 1990, the group’s forecast included a concern about the importance of keeping prices stable (*Keidanren shūhō*, 1989b, 6). In fact, a major assessment of the economy in early 1991cited land speculation as one of the major problems of the 1980s that could carry over to the new decade. In this perspective, the fall of stock prices and land prices represented a positive "correction of asset inflation" (*Keidanren shūhō*, 1991, 3-4).

If this assessment anticipated no immediate economic problems, it continued the drumbeat for a fundamental shift in national economic policies. On the positive side, the report took pride in the nation's recovery from the threat posed by the rapidly appreciating yen after the Plaza Accord by switching from an export led economy to one fueled more by domestic growth. Moreover, the "emergence from reliance on bonds" to finance deficit spending had begun. The authors predicted a respectable real economic growth rate of 4 percent in the first half of the 1990s and 3.5 percent in the second half of the decade (*Keidanren shūhō*, 1991, 3 and 5). Still, the times demanded change. The broadest challenge lay in moderating the strong bureaucratic leadership evident since the Meiji era and "creating a 'market economy' led by the private sector" that would be "strong and flexible." "The 1990s" would be nothing less than a "turning point in world history" because of the spread of globalization and increased competition. "Japan's national economic society had reached an important turning point" as well. The maturing of the economy and the aging of society threatened to bring a dramatic drop in economic dynamism. Various areas of the economy, such as the distribution and retail sector, had to become more productive through the introduction of market principles. Moreover, Japan should also contribute to "global development" by becoming "a truly open international market for capital and finance." Touting a "new economic democracy," Keidanren advocated that "[a]s needs diversify Japanese must reject government interference and advance deregulation" (*Keidanren shūhō*, 1991, 3 and 6-10).

Japanese bankers were also slow to recognize the financial crisis that was about to unfold. In April, 1991, figures released by the Japan Bankers Association (Zenkoku Ginkō

Kyōkai/JBA) revealed a sharp drop in the rate of growth in lending by the 12 city banks (*Yomiuri shinbun*, 1991a). The chairman of the JBA, Suematsu Ken'ichi, refused to advocate a cut in the Bank of Japan's discount rate, because "there is [some] doubt as to whether speculation has disappeared" (*Yomiuri shinbun*, 1991b).. Two months later, when the JBA released data showing that for all 154 members of the JBA deposits and the value of financial assets fell for the first time since 1948 (*Yomiuri shinbun*, 1991d), Suematsu termed a cut in the discount rate "appropriate." He cautioned, however, that "one cannot say that the bubble economy has calmed down uniformly across the entire country. The magma remains underneath. In the future, vigilance is necessary" (*Yomiuri shinbun*, 1991e). Bankers, in fact, during the early 1990s seemed more concerned about competition from the government's postal savings system than with the direction of the economy (*Yomiuri shinbun*, 1991c).

Gradually, leaders of the business community began to realize the severity of the economic crisis that was unfolding through the steep drop in first the stock market and then the price of real estate. In September Hiraiwa Gaishi, the chairman of Keidanren, had joined the call for lowering the Bank of Japan's discount rate and reiterated his support in December while noting that "the freezing of the investment mind-set *[maindo]* of enterprises is severe beyond expectations" (*Yomiuri shinbun*, 1991g). The first cut in the discount rate occurred in the second half of 1991, and over the next three years it declined step-by-step to 0.5 percent in 1995 (Grimes, 2001, 95). Some business leaders, however, advocated further action. Saitō Hiroshi, the chairman of the Japan Steel Federation (Nihon Tekkō Renmeikai), fumed, "one cannot say that the cut [in the discount rate] is adequate. I want to expect from now on flexible policies from the authorities" (*Yomiuri shinbun*, 1991g). After observing two months later that the "slowdown in business conditions is accelerating," Suematsu of the JBA raised the same point by hinting at the need for an expansive fiscal policy: "…there is some unease as to whether one can revive with only financial measures the frozen mind-set of enterprises. One must have some vitality from the side of public finance" (*Yomiuri shinbun* 1992a).

The steep fall of the average stock market price in March, 1992, below 20,000 yen, a drop of almost 50 percent since early 1990, sparked a new sense of urgency. Sentiment within the business community leaned toward support for two measures: a large-scale supplement to the national budget to stimulate demand and major cuts in taxes on investment and/or on income (*Yomiuri shinbun*, 1992c). Even though the banking sector began to favor reducing taxes and utilizing deficit spending to stimulate the economy (*Yomiuri shinbun*, 1993a), most of those leading the charge for such policies came from the manufacturing and retail sectors. A vice-president of the New Japan Steel Company (Shin Nihon Seitetsu) urged more public investment in the national budget (*Yomiuri shinbun*, 1992b). The president of the Daiei Department Store Chain opined that an "income tax cut was necessary to revive the consumption mind-set." Muramatsu Atsushi, the vice-president of the Nissan Automobile Company, and Saito Hiroshi, the chairman of the Japan Steel Federation, each predicted that the cabinet's timidity would delay economic recovery by a year (*Yomiuri shinbun*, 1992d). Kume Yutaka, chairman of the Japan Automobile Manufacturers Association (Nihon Jidōsha Kōgyōkai) declared, "I would like to have [the government] first reduce taxes and stimulate consumption. There is no alternative to issuing deficit bonds" (*Yomiuri shinbun*, 1993b).

As pressure grew for a tax cut, the Tax System Investigation Committee appointed by the government issued an interim report that proposed combining a reduction in the income tax with a raise in the consumption tax. Hiraiwa, the chairman of Keidanren, voiced support by saying that he "could understand including together a reduction in the income tax and a raise in the consumption tax." The burden of the income tax, he implied, far outweighed any negative effects of the consumption tax. Inaba Kōsaku, the chairman of the Japan Chamber of Commerce, made the obvious point, however, that overall raising one tax would offset whatever benefits might accrue from lowering the other tax. Sekimoto Tadahiro, chairman of the Japan Electrical Manufacturers Association, exclaimed in exasperation, "The idea of lowering the income tax and raising the consumption tax as a package is a product of people who do not realize the severity of business conditions." He favored reducing the income tax first and deciding about the consumption tax after the economy had improved. Itakura Yoshiaki, chairman of the Japan Department Store Association, asserted that increasing the consumption tax would "ignore the psychology (*shinri*) of consumers" (*Yomiuri shinbun*, 1993c).

Meanwhile banks began to push for the strategy of using public funds to help clear away their growing stores of non-performing loans. As the Ministry of Finance began to track the increase in non-performing loans and complaints about the tightening of credit "becoming shackles on the recovery of business conditions" escalated, banks felt more pressure to redeem bad debt to create "assets that will generate profit." In this context arose the idea of using public funds to help financial institutions with this task (*Yomiuri shinbun*, 1994). The issue continued to percolate over the next two years.

By the late fall of 1995, the Bank of Japan and the Ministry of Finance were exploring the use of public funds to replenish the capital of banks as they redeemed their own non-performing loans and those of seven subsidiary "mortgage institutions" (*jūtaku kinyū senmon kaisha/jūsen*) that faced bankruptcy (*Yomiuri shinbun*, 1995e). In November, Hashimoto Toru, the chairman of the JBA, advocated a compromise strategy of "partial redemption" of non-performing loans that would take several years as opposed to a quick redemption, which would require a much larger one-time infusion of public funds (*Yomiuri shinbun*, 1995d).

As other business groups called for more forceful government intervention, Keidanren essentially held fast to its comprehensive prescription for the economy that it presented in 1985. This strategy included a healthy dose of fiscal conservatism. The federation refused to endorse tax cuts without an increase in the consumption tax. The leaders of Keidanren rarely took their eye off of what they considered their main long-term goal of promoting small government and altering the basic character of the Japanese economy by liberating the private sector from bureaucratic constraints.

Accordingly, the federation continued to devote much of its energy to pushing for structural changes, such as administrative reform and deregulation in order to invigorate the private sector, rationalize and “slim” the government, and spur “competition and the transparency” of the economy as a whole. The group proudly noted that in July, 1994, the cabinet of Prime Minister Hosokawa Morihiro had adopted 112 of the 163 proposals that the group had submitted for eliminating regulations (Keizai Dantai Rengōkai 1999, 853-860). This stance generally resonated with other business groups, as they, too, could agree in principle with the goal of reducing bureaucratic interference in the economy, even if they also wanted more governmental action to stimulate the economy.

By 1995 the leaders of the federation had yielded some ground on budgetary issues but still advocated fiscal restraint. In 1992, representatives of Keidanren had rejected a suggestion by Prime Minister Miyazawa Ki’ichi to use public funds to help banks with non-performing loans (Amyx, 2004, 159). When the Ministry of Finance asked for the organization’s opinion again in June, 1995, Keidanren responded more positively: “From the standpoint of depositors, [the government] had to invest public funds to solve the problem of non-performing loans." In the medium and long term, "measures that stress regulation of the [financial] market [were] necessary" to prevent further problems in the future (Keizai Dantai Rengōkai 1999, 876-877). Subsequently, the federation forcefully backed the use of public funds to restore international confidence in Japan's financial markets (*Yomiuri shinbun*, 1996b, and 1996c). Still, the leaders of Keidanren remained cautious. In December, 1995, the chairman, Toyoda Shōichirō, reacted to the expansive national budget proposed for 1996 by advising, "Now, it's important to plan an increase in taxes with the recovery of business conditions and with a radical reform of tax finances in the medium and long term to reform the fiscal situation" (*Yomiuri shinbun*, 1995g).

In keeping with Keidanren's previous stance, a major report that the group issued in October, 1995, emphasized the need for basic structural reforms. Once again, the federation depicted a critical turning point, "an important crossroads of the continuance of prosperity or its decline." "The cause of the structural difficulties that Japan is facing today," the report intoned, "is the stagnation of the social system since [the] Meiji [era] of bureaucratic leadership and central authority." The "Japanese economic system of 'catch up, surpass' has made a contribution in the achievement of goals in expanding the scale of the economy, but [this economic system] has become a set of shackles today when [firms] must demonstrate creativity in every area in a period of historical change." The main agent of change seemed to be the United States, which in the 1980s had reduced corporate and income taxes and introduced "thorough deregulation." The United States also "boast[ed] overwhelming competitive power in the information and communications field that [was] said to be the leading industry of the twenty-first century." In general, the forces of globalization and the spread of the market economy were making the Japanese economy face "the largest changes in its circumstances in the postwar period." With the collapse of the Cold War, Eastern Europe, the former Soviet Union, and China were entering the world economy and ushering in an "era of mega competition of contention by economic power" (*Keidanren Hōkoku*, 1995, 1-3).

To respond, the Japanese had to create a more flexible and innovative economic system. Not only the government, but large companies also had to change their ways. Their policies of "long term stable employment and seniority pay" had helped create a "stable and safe society," but these practices were "becoming an obstacle in realizing a society in which the Japanese economy is active through the creation of new industries and businesses and changes in the structure of industry" (*Keidanren hōkoku*, 1995, 5). Japanese firms faced formidable challenges to "respond to the needs of diversified consumers, quickly develop new goods and services, and deliver them at low cost…." (*Keidanren hōkoku*, 1995, 6-8).

This adjustment, according to the report, required basic structural reforms carried out by the government through changes in the tax system and deregulation. The former changes included lowering the corporate tax to the level in the United States and abolishing the taxes on dividends, securities transactions, and land. The latter changes included the "abolition of the Large Store Law by stages" (*Keidanren hōkoku*, 1995, 10-11). With these suggested reforms, the report predicted, the economy would end its stagnation to grow for the next five years at a real rate of 3 percent per year. (*Keidanren hōkoku*, 1995, 12-13).

In January, 1996, Toyoda Shōichirō unveiled Keidanren's long-term vision for the economy over the next quarter-century. To realize an "active global nation" with an average growth rate of 3 percent per year, the Japanese had to reduce direct taxes, such as the income and corporate tax, and increase the consumption tax as an "indirect" levy. Ideally the consumption tax would rise from 3 percent to 5 percent in 1997, to 7 percent in 2000, and to 10-12 percent by

2005. Depending on the rate of increase in the consumption tax, the government would cease issuing all bonds either in 2010 or 2020 (*Yomiuri Shinbun*, 1996a).

Conclusion

The basic attitudes of Keidanren, arguably the most powerful business group in Japan, became a major reason for the nation's slow response to the economic crisis that developed rapidly in the early 1990s. In the mid-1980s the federation responded to severe criticism from major trading partners, such as the United States, by advocating what it viewed as historic changes in Japan's economic policies in lobbying for the liberation of the energy, flexibility, and creativity of the private sector. These structural reforms would entail fewer governmental controls over the economy, a substantial cut in government spending, lower taxes for corporations and their managers, higher taxes for consumers, a reduction of barriers to imports, and an emphasis on increasing domestic demand. In the late 1980s, these business leaders simply were not prepared to view speculation in stocks or real estate as a major problem. In the early 1990s they initially viewed the decline in the price of real estate as a positive development.

As the ramifications of the sharp drop in the stock market and the real estate market became increasingly evident in the early 1990s, Keidanren stuck with impressive consistency to its original prescription to solve Japan's economic ills, even while other business groups lobbied for more forceful efforts to stimulate the economy through increased government expenditures and/or tax cuts. In fact, the federation would countenance a cut in the income tax only if it were offset by raising the levy on consumption. Even when the federation agreed in 1995 to the use of public funds to help resolve the problem of non-performing loans, it did so reluctantly while urging a return to fiscal restraint within several years. Its reports neglected measures for shortterm recovery to keep a focus on structural reforms to enhance the long-term vitality of the Japanese economy.

In fact, its proud backing for “administrative reform” provided a basis for the important legal and managerial policy changes that some scholars have contended have occurred, along with significant progress in deregulation (Schaede, 2012). As one study has concluded, “The 1990s was [the decade] for the actualization of the advancement of deregulation….” Indeed, the period from 1990 to 2001 saw the implementation of over 3,500 items out of more than 4,000 that the Administrative Reform Commission proposed for deregulation, including changes to the Large Store Law (Ogawa and Matsumura, 2005, 105-112).

Clearly, as suggested by proposition #2 above, Keidanren merits attention as a major participant in the formation of Japanese national economic policy during the lost decade. Tracing the positions that the group took during the period of the economic bubble and the subsequent onset of the economic crisis reveals parallels between proposals of the federation and policies of the government. As noted previously, the Japanese government did not dramatically increase spending until 1994. As the economy showed signs of positive economic growth in 1996, the cabinet in 1997 duly enacted a raise in the consumption tax from 3 to 5 percent, just as Keidanren proposed. It is a sobering thought that shortly after this bold act of fiscal probity the Japanese economy suffered a relapse that lasted another six years.

One area into which research could expand would be to broaden the examination of the business community to more fully include other groups. Another fruitful topic would center on an investigation of how members of appointed study committees within Keidanren reconciled differences among themselves to produce their proposals. The federation embraced a variety of business sectors, and, as some of the preceding analysis illustrates, leaders of different sectors could disagree on recommendations for national policy. Finally, one could probe further the ways in which Keidanren sought to influence government officials. The *Keidanren Weekly Reports* (*Keidanren shūhō*) record regular interaction between members and government officials through organized discussions, and the group regularly sent proposals about various issues to government agencies and ministries. The challenge would be to track more precisely the trail of an idea as it moved from the private sector to enactment as public policy.

Interestingly, during 2010 as the Japanese economy continued to feel the effects of the global economic crisis that began in 2008, the policies of Keidanren remained essentially the same as they were twenty-five years earlier. As one might expect, the federation continued to advocate deregulation (*Yomiuri shinbun*, 2010c). In addition the group campaigned for a lowering of the corporate tax and, to maintain fiscal soundness, a rise in the consumption tax. In April, 2010, Keidanren began to advocate a gradual increase in the consumption tax to a level of 10 percent, a doubling of the levy, by the latter half of the 2020s in order to restore confidence in social security programs and in the government's finances (*Yomiuri shinbun*, 2010a; *Yomiuri shinbun*, 2010b; and *Yomiuri shinbun*, 2010d). Not long afterwards, members began pushing for a 5 percent cut in the corporate tax. As before, the justification centered on the need to help Japanese firms become more internationally competitive by reducing the comparatively high rate of the levy, which was approximately 40 percent (*Yomiuri shinbun*, 2010e). It is perhaps a testimony to the strength of Keidanren's convictions in the mid-1980s that its agenda for reform remains much the same as it was 25 years earlier.

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