

Japan's Lost Three Decades: Institutional Factors Hindering Economic and Political Metabolism

This paper investigates the underlying causes of Japan's 30-year economic struggle, characterized by a decline in relative GDP, a shrinking working population, prolonged deflation, a mounting government deficit, a radically inflated balance sheet of the central bank among other issues, all occurring without changes in the ruling party.

This research sheds light on Japan's non-capitalist, non-democratic, and non-media-free elements that hinder economic and political metabolism, from the perspective of institutional theory.

Despite the long-term economic decline, the Liberal Democratic Party (LDP), the ruling party, largely remained in power throughout the so-called "lost three decades," except for a few years of administration by the opposition party from 2009 to 2012. In a country where elections are held more frequently than in other major democratic countries, the lack of change in the ruling party is noteworthy. Similarly, in a capitalist country, the slow pace of change, as evidenced by the delay in digitization, renewable energy adoption, and the lack of new industries and businesses available abroad but prohibited in Japan, is surprising. Despite these policy failures, the majority of the media could not identify fundamental issues and often supported misguided policies. In fact, Japan ranks as low as 70th in media freedom ranking¹.

This paper applies insights from institutional theory to understand the mechanisms that hinder the restructuring and innovation of Japan's economic and political landscape. To form a holistic view of Japan's prolonged stagnant economy without effective changes in the government, the author, as a researcher of the Japan Public Relations Society (JPRS), conducted extensive interviews with various leaders in Japan, including a former Prime Minister, former head of the Bank of Japan, former Dean of Tokyo University, former cabinet members, a former Diet member from the opposition party, former CEOs of multinational companies who served on government deregulation committees, a partner of a major consulting firm, former government officials in charge

¹ Reporters without Borders, RSF, <https://eleminist.com/article/3483>

of agricultural policy, education policy, foreign policy, and a former leadership member of the Japan Medical Association².

This research contributes to the field of institutional theory by illuminating the blockers to institutional change in Japan, defined as Anti-Dis-institutionalization Policies in this paper. It also highlights the role of the media from a public relations perspective, which has failed to dis-institutionalize various collective beliefs that obstruct structural reform.

This paper aims to provide readers with food for thought in developing remedial plans for the world's fourth-largest economy, which has faced thirty years of relative GDP decline and continued deterioration of the country's balance sheet.

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² As of June 2024, for the past two years, JPRS has conducted a total of 42 interviews with experts from various areas. The author has selected inputs from a few individuals relevant to the focus of this paper. Names have been kept anonymous to protect the confidentiality of the interviewees.

1. What Happened to the 2nd Largest Economy? Japan appears to have ceased to be a Capitalist Country, Lacking Economic and Financial Metabolism

After rising to the status of an economic superpower in the 1980s, Japan faced its first major economic inflection point with the Plaza Accord, which was pressured by the U.S. government due to its mounting trade deficit with Japan. This agreement triggered the rapid appreciation of the Japanese yen, whose value more than doubled within three years of the agreement. The resulting decline in exports led to a series of rate cuts to spur domestic demand, which in turn generated a rapid inflation of asset prices, particularly in real estate and the stock market.

Creation and Bursting of the Bubble, and Mismanagement of the Post-Bubble Era amidst Intensified Global Competition

The unfortunate creation of the economic bubble was followed by another policy mistake: the sudden tightening of loans to the real estate sector, resulting in the collapse of real estate prices. This triggered massive losses in financial institutions and left them with colossal bad debts.

This financial systemic risk coincided with other economic shocks, both internal and external. The decline in the working population began in 1995. China entered the global market, replacing Japan as the world's production center. Japan's export hegemony in semiconductors, automobiles, ships, and electronic machinery was lost to Asian competitors such as South Korea and China.

Worse still, Japan took many years to clear the bad debts while failing to remove old regulations that hindered resource allocation in the economy. These regulations protected old industries, suffocating the birth and growth of new businesses.

Prolonged Deflation and Lowered Expectations for Future Growth

In addition to the decline in the working population, the combination of low productivity growth and Japanese companies' preference for cash savings over investment added deflationary pressure to the economy.

Deflation negatively affects capitalism, partly because companies choose to return cash to banks due to the increasing value of the currency. Prolonged zero-interest-rate

policies also made the capital market inefficient, as companies with low productivity could survive due to limited pressure from the capital market.

The combination of prolonged deflation and zero-interest-rate policy undermines the normal functions of capitalism. Despite massive financial expansion policies, bank loans did not grow meaningfully because demand for lending is driven by investment demand, which is based on future growth expectations in the real economy, not merely through financial expansion policies.

Financial Expansion Without Structural Reform

Prolonged and massive financial expansion policies did not resolve deflation, but instead, hindered economic metabolism. Rather than reallocating human and capital resources from outdated declining sectors to new growth areas, the Japanese government chose to maintain the status quo through a decade-long continuation of low-interest-rate policies, sometimes pressuring banks not to withdraw capital from distressed companies, and massive government bond purchases by the central bank.

To be clear, there is nothing inherently wrong with financial expansion policies or central bank government bond purchases if conducted appropriately. In fact, the central bank must occasionally provide financial liquidity to address demand shortages driven by structural reforms.

The problem lies in the lack of policy coordination between financial policy and structural reforms for productivity growth. For instance, during one administration's structural reforms, the central bank did not provide sufficient financial expansion, adhering instead to the “cleanliness” of its balance sheet. Conversely, under another administration, the central bank underwent drastic financial expansion inflating its balance sheet fivefold³, while the government did not implement any major structural reforms, resulting in the maintenance of an inefficient supply side.

³ From approximately JPY 158 trillion in 2012 to around JPY 750 trillion in 2023, the central bank's balance sheet size as a percentage of nominal GDP grew from roughly 30% to about 130% during the same period. When Mr. Kuroda stepped down from his

Opportunity Cost of High Support Rate and Financial Capacity: “Lost Healthy Balance Sheet of BOJ”

The past three decades of policy evaluation cannot be conducted without assessing the policies of the longest-serving prime minister⁴. Former Prime Minister Abe⁵ had significant political capital, supported by a high approval rate and ample room for financial expansion. However, instead of using these resources to undertake a series of structural reforms that would require substantial political capital, the necessary reforms for productivity growth were not carried out. The so-called “Abenomics three-arrow reforms” ended up focusing on the easier arrows of fiscal and financial expansion.

One of the biggest losses in terms of the government’s economic resource can be the discipline of the financial policy and the quality of BOJ’s balance sheet. During this administration, the balance sheet of Japanese government deteriorated dramatically. Japan's government debt-to-GDP ratio rose from approximately 230% of GDP in 2012 to around 250% of GDP by the end of Abe's term. The BOJ's balance sheet grew from about JPY158 trillion in December 2012 to over JPY700 trillion by September 2020.

This administration used its strong political capital to focus on somewhat ideological agenda reflecting the hawkish voters’ perspectives. As a result, much-needed regulatory changes for structural reform, as well as other high-priority economic agendas such as social security reform and population policy, were left unaddressed.

Lack of Financial Pressure from the Capital Market and Low Return on Investments: Declining Attractiveness of Japan as an Investment Destination

Decades of financial expansion policies have skewed the sound development of the capital market. Low-interest rates and aggressive refinancing from banks have allowed less competitive companies to survive, hindering resource allocation towards growing sectors.

position in April 2023, the size of the balance sheet had grown to JPY 735 trillion.

⁴ 8 years and 8 months in total

⁵ 2006/9/26 to 2007/9/26, 2012/12/26 to 2020/9/16

These policies also hinder the capital market's development, where different costs of capital should be assigned to companies with different risk profiles. Low-interest rates allowed struggling companies to access cheap capital, lowering the return on investment across various asset classes. For example, Japanese private credit's return is around 5%⁶ lower than that of other developed economies, making investments in Japan less attractive than overseas financial products. This partly explains Japan's extremely low FDI level, one of the lowest among all countries.

As a result, Japanese asset managers struggle to raise overseas capital to invest in Japan's fundamental growth stories, limiting fund-raising to relatively cheap assets driven by low-interest rates and a weakening currency, with recent exceptional geopolitical capital outflows from China into Japan.

The skewed and slower development of Japan's capital market has led to lower returns on investment for Japanese households, amounting to JPY 2000 trillion, or USD 12 trillion. Additionally, decades of low interest rates⁷ effectively borrow future demand, adding downward pressure on future demand and creating additional deflationary pressure.

In summary, Japan appears to have ceased to be a capitalist country, as the combination of prolonged deflation, zero-interest-rate policies, and various regulations hinder market mechanisms that drive economic metabolism.

Excessive Old and New Regulations

On top of the policy failures and an inefficient capital market, Japan maintained or even added further regulations to protect existing players. As a result, Japan lagged behind in digitization and related new business opportunities. Representative cases include the

⁶ As of July 2024

⁷ Interest rate, which used to be approximately 6 % as of August 1990, was lowered to 0.25% as of September 1998. Zero interest rate policy (record low 0.15%) started in February 1999. Minus interest rate policy was introduced from January 2016, which had continued till March 2024.

lack of ride-share businesses, high costs of money transfers, incredible inefficiency of banking services, and the notorious "stamp" culture in both public and private sectors.

This stands in stark contrast to neighboring countries such as China, which did not provide protection to banks and insurance companies, spurring their digitization and reducing money transfer costs.

Consequently, various new industries, businesses, and services that are available overseas are prohibited in Japan, making the country outdated and lagging behind in terms of overall productivity⁸.

Lack of Leadership Changes, Hidden Unemployment, Bureaucratic Nature of Japanese Companies

The lack of metabolism and slow pace of innovation are widely observed in corporate organizational structures and culture, too. CEOs are seldom fired despite weak financial results, as boards of directors are often not independent from the executive management team. While companies have begun introducing external board directors, their numbers seldom constitute the majority needed to replace the CEO.

In terms of leadership succession, previous CEOs often nominate their successors, who then maintain the paths paved by their predecessors, making it extremely difficult to change the strategic course. Additionally, an excessive focus on short-term plans detracts corporate leaders from long-term planning.

To add, strict labor laws, which make firing very difficult, also contribute to the lack of human resource metabolism in corporate Japan. Some estimates suggest that hidden unemployment absorbed by companies could amount to up to ~5% of the working population, although actual figures vary according to different sources.

What's more, bureaucratic organizational structures, characterized by excessive numbers of organizational layers, vertically segmented administrative systems, and

⁸ Japan ranks 30th out of 38 OECD countries, International Comparison of Labor Productivity 2023, <https://www.jpc-net.jp/research/detail/006714.html>

fragmented sections forming silos, are often considered a hindrance to change and innovation in both public and private sectors in Japan.

In a nutshell, Japan's sluggish economy low economic metabolism has a variety of reasons. After the Plaza Accord, the mismanagement of the bubble (its creation, bursting, and recovery timeframe) cooled down demand, exacerbated by the decline in the working population, low productivity growth due to regulations, bureaucratic organizational structures and culture, and excessive dependence on financial and fiscal expansion without meaningful structural reforms.

2. Definition of the Lost 30 Years: What Was Lost, What Was Chosen, What Could Get Worse

This section clarifies what was actually lost and what was selected or gained during Japan's economic struggles over the past thirty years. From certain perspectives, Japan's overall performance during this period is not necessarily as dire as some critics claim, despite the gloomy outlook and sustainability concerns.

Progress in Welfare

Firstly, Japan's welfare level has progressed in several areas. Despite a 14.4% decline⁹ in the working population over three decades, working hours also decreased significantly, from 48 hours a week to 40 hours a week, while the GDP level has largely been maintained. Japan's welfare level growth is evident across various standards. In this respect, some of the economic slowdown can be seen as a result of societal choices, either by the voters or due to an election system that does not necessarily reflect the voters' will.

Massive Government Deficit Still Domestically Financed

Secondly, Japan's government deficit, which is nearly 260% of its GDP which is the highest in the world, is financed by domestic capital. To avoid misunderstanding, this does not justify the lack of fiscal discipline, as such policies maintain an outdated

⁹ From ~87.0 mil in 1995 to ~74.5 mil in 2020

supply side with low productivity, adding downward pressure to the currency, as observed to date.

Nevertheless, unlike other Asian countries during the financial crisis in the late 90s, Japan is unlikely to face rapid capital outflows driven by foreign investors. Additionally, unlike smaller economies, Japan will not face technical defaults, as the central bank can continue refinancing government bonds. Furthermore, Japan holds the largest foreign reserves, amounting to 70% of GDP. In some sense, Japan still has buffers that can prevent a drastic economic collapse, which partly explains the gradual and continuous decline.

Sustainability Concerns

However, these mitigation factors do not ensure the sustainability of the Japanese economy. The logical outcome of lacking fiscal and financial discipline is the gradual decline of asset value. The JPY, which was 80 per USD in late 2012, is approximately priced at 160 per USD as of June 2024. Reflecting different inflation rates and purchasing power, the actual exchange rate level is similar to the pre-Plaza Accord level of JPY 360 per dollar¹⁰.

No major economy has experienced a 50% devaluation of its currency in just a decade. This is a side effect of low productivity combined with undisciplined fiscal and financial expansion, which has led to a drastic deterioration of the government's balance sheet over the past three decades, especially in the past decade. The social security system, lacking sustainability and being financed by the growing government deficit, also presents significant sustainability concerns.

Definition of the "Lost Three Decades"

Setting aside a number of socially positive developments, while some of which may not be sustainable, there are clearly "lost" decades for Japan. This paper defines the "Lost Decades" as problems identified decades ago but left unaddressed or even exacerbated

¹⁰ According to a former BOJ leader

by misguided policies. If a problem was identified but not addressed for thirty years, it is fair to call it a "lost thirty years."

“Lost Population Policy”

For example, the working population decline began in 1995, nearly three decades ago. Policymakers have been discussing immigration policies to offset the population decline without meaningful progress. The birth ratio continued to decline from 1.4 in 1995 to 1.2 of 2023¹¹. Despite recognizing these issues for three decades, some policymakers repeatedly resorted to outdated slogans like "women need to have more babies" or "those without many children should regret and reflect over their behaviors"¹² a pattern continuing until July 2024.

To be clear, the author does not agree with the notion that women need to have more babies. One could argue that the government should not interfere with individuals' personal family decisions. Furthermore, excessive population growth can contradict sustainability goals. However, it is not a healthy society if people cannot have families or children due to economic or social challenges.

While some European countries, such as France and Hungary, managed to recover their population trajectories through a combination of substantial financial support for marriage or its equivalents and childcare, and the introduction of immigrants to sustain the working population, Japanese policymakers have not made meaningful progress on either increasing the birth or developing immigration policy. This lack of progress is largely due to opposition from conservative voter groups, which constitutes a stronghold for conservative LDP politicians.

“Lost Deregulations”: Stagnant Structural Reform and Deregulation for New Industry

To maintain or improve living standards, the working population decline must be offset by productivity growth through optimal resource allocation or more efficient

¹¹ The Japan Research Institute, 2023, <https://www.jri.co.jp/page.jsp?id=107273>

¹² Tokyo Shinbun, July 7th, 2024 <https://www.tokyo-np.co.jp/article/338587>

investments generating higher returns, but policymakers have failed to deliver on these fronts.

Rock-solid regulations persist to protect existing players from new entrants, diverting resources from consumers or taxpayers to those shielded by such regulations. Representative cases include Japan's agriculture, transportation, and medical industries, among others.

As a result, human and financial resources could not shift to emerging industries to a satisfactory degree, failing to produce new sectors after the decline of manufacturing. Consequently, while the U.S. gave rise to tech giants like GAFAM, whose market capitalization surpasses the entire Tokyo Stock Exchange, Japan lagged in digitization and the introduction of new business opportunities which could have spurred productivity growth.

The Japanese people have become accustomed to an extremely inefficient way of doing things, which they take for granted and accept. Irrational regulations have existed for so many decades in various areas that people seemingly unconsciously given up fighting to remove them.

3. Lack of Political Metabolism: Political Stability Despite Economic Decline

Despite thirty years of economic and policy failures, what stands out is the fact that the ruling party has largely remained in power¹³. While leaders have changed, they have all been within the framework of the LDP. This section aims to illuminate the institutional factors responsible for the lack of political metabolism in Japan.

Relative Lack of Political Pressure for Change: Distance from Voters and Weak Opposition Parties

¹³ LDP has been in power from 1993 to 1994 and from 2009 to 2012

The lack of policy changes in Japan is partly attributed to the lack of political pressure, i.e., the relative lack of governance over the administration from voters and the Diet.

In the U.S., the electoral system allows a few "swing states" to determine the presidential election winner, reflecting voters' will. In South Korea, the direct voting system switches the government by a narrow margin every five years¹⁴. In contrast, Japanese voters have relatively limited influence over the selection of the Prime Minister, as the Prime Minister is determined by a handful of "king-makers" in the ruling party, who almost never lose their seats due to their senior status in the party.

Partly due to the fragmented nature and weakness of opposition parties, Japanese national elections have almost never provided voters with an opportunity to change the ruling party.

Lack of Governance from the Diet

Another key factor is the lack of governance provided by the Diet. In the U.S., Congress has strong scrutiny power over the government. For example, the U.S. Government Accountability Office (GAO) can significantly cut budget proposals made by the administration. Congress has rich resources that enable members to submit laws and investigate the government. Lawmakers receive substantial support from various resources, including the Library of Congress and dedicated assistants, often advised by capable researchers in think tanks.

This contrasts sharply with Japan's Diet, where the majority of members have never submitted laws, and the Diet has no think tank or investigative function towards the government. Additionally, Japanese Diet members need support from twenty other members to submit a law, making legislation by Diet members extremely difficult. In

¹⁴ Note that the author is not necessarily expressing the superiority of the election systems of the countries mentioned here, as these countries also have a wide range of different political issues, including low voter trust in politicians in general.

this sense, Japanese lawmakers are not Diet members but central government agencies, making Japan's democracy quite different from that of other countries.

Abusive Use of the Power to Dissolve the Diet by the Prime Minister and the Side-Effect of Frequent Elections

On top of the weak governance from the Diet, the Prime Minister of Japan is often accused of abusing his right to dissolve the Diet, choosing an optimal timing for the ruling party to win the election. Originally, this right was for the Prime Minister to advise the emperor to dissolve the Diet if the administration and the Diet were at odds. However, this right is often criticized for being abused by the Prime Minister to choose a time when the ruling party has the highest chance of winning the election.

Frequent elections, which are said to occur on average every less than 3 years, cause the government to shift away from long-term vision, focusing more on short-term, often populist election agendas. The single-year budgeting system also makes long-term planning and budget allocation more difficult.

Concentration of Power to the Cabinet: Failed Electoral System Reform

Electoral system and organizational factors also explain the lack of political metabolism. The concentration of power towards the cabinet was accelerated by the introduction of the single-seat constituency system in 1994, abandoning the multiple-seat constituency electoral system previously employed. This electoral reform was intended to reduce the amount of money necessary for elections and allow voters to choose the ruling party based on the quality of policies.

However, those who spearheaded the reform, now in leadership positions in the LDP and its major opposition party, lament that the reform failed. They argue that election results are now more determined by the popularity of party leaders, with less emphasis on policy discussions. Also, only candidates who appease party leaders can gain party recognition, sacrificing diverse opposition voices within the LDP.

To add, the large number of seats assigned to the proportional representation electoral system¹⁵ also contributes to the lack of political turnover. Senior political leaders who lost their seats in the single-seat electoral system often return to power thanks to their high ranking in the proportional representation system.

Relationship with Government Ministries and Regional Outreach

To add, long-standing close ties between the LDP and central government ministries and agencies are also something its opposing parties do not have, which was a challenge the Democratic Party faced during their brief time in power. The concentration of political power to the cabinet was further augmented by the introduction of the Cabinet Bureau of Personnel in 2014.

Additionally, the regional organizational infrastructure of the ruling party is much stronger than that of opposing parties, often helping the LDP control the power. Low voter turnout also favors the ruling party, backed by organized votes from special interest groups.

Family Succession of Political Powers

Another factor explaining the lack of political turnover in Japan is the family succession of political power. Japan has one of the highest ratios of family succession in politics, with a staggering 30% of LDP Diet members¹⁶—triple that of the opposition party and the fourth highest in the world after Thailand, the Philippines, and Iceland. This number rises to 60%, or 12 out of 20, for cabinet members. To add, the past three decades, 64% (9 out of 14) of Prime Ministers succeeded to power from their families.

The inheritance of such political organization is executed without tax implications; the zero-inheritance tax on political foundations helps family members maintain their political power base. Some argue that accumulated donations to a politician should be

¹⁵ Out of the 465 seats in the lower house, 289 seats are decided by a single-seat electoral system, while 176 are determined by proportional representation

¹⁶ Diamond Online, April 2023, <https://diamond.jp/articles/-/321431>

returned to the party when the politician retires or passes away, but this has not been meaningfully implemented to date.

Well known political family names among voters, coupled with the inherited political funds and supporters' group serve as high entry barriers for new candidates who don't have the luxury of such family heritage.

Lost Thirty Years of Political Funding Transparency

Issues over political funding transparency can also be considered an issue of the lost three decades, as the same issues were discussed thirty years ago without meaningful development, or the situation is even worsening. The previous political fund scandal involving Recruit shares was initiated by a private company back then, whereas the recent political fund scandal¹⁷ igniting voters' anger was planned and executed by the senior leadership of the LDP.

In summary, there exist multiple factors that hinder political turnover in Japan, despite a series of policy failures by the ruling party and the increasing resentment among voters..

4. Lack of Media Freedom or Quality Media

Lastly but not the least, another key factor that contributed to the lost three decades is the poor quality of media, which often serves as a loudspeaker for politicians or special interest groups that benefit from the status quo.

Influential mass media outlets are sometimes deeply connected to political leaders, who are also important sources of information for media companies. The notorious Press Club serves as a community that benefits a limited number of journalists who can access information from the government, potentially fostering closer relationships between the media and the government.

Journalists, TV commentators, scholars, and other media figures gain access to more information by disseminating favorable information about political leaders. In fact,

¹⁷ Political funding and slush fund scandal that led to the dissolution of political factions ("Habatsu") within the LDP in 2024

political leaders have actively invited groups of journalists to exclusive events such as “Sakura-wo-miru-kai,” where the Prime Minister invites numerous influential people and celebrities, indirectly serving as a support group for the government. Similarly, political leaders also invite the management teams of influential media groups for dinners to strengthen relationships.

On the other hand, some media outlets opposing the ruling party tends to focus on criticizing everything about the government, including seemingly positive reform initiatives and tiny minor issues, shifting voters' attention away from fundamental issues.

Blockers to Dis-Institutionalization: A History of Misguidance by the Media

Regrettably, various influential media outlets have a history of disseminating information crafted by those who oppose any structural reforms that undermine their special interests. For example, during Japan's period of bad debt restructuring, the central government’s policy was to swiftly and aggressively clear the bad debts. However, major media campaigns against this policy prolonged the period of financial systemic risks.

Consumption tax increases, which hamper consumption, were also supported as a means to achieve fiscal sustainability, a contraction policy seemingly inconsistent with financial expansion.

Mounting government deficits are often justified as something held by the people, referred to as assets, not deficits. This argument is flawed, as the asset value of Japanese Government Bonds (JGB) will decline if the JPY declines due to a lack of fiscal discipline.

Attempted structural reforms, such as loosening labor laws to allow companies to lay off employees, are often criticized as “cutting off the weak” and “widening the income gap.” Innovative new businesses such as Airbnb and Uber were pushed back by regulatory barriers, pressured by existing industry groups from hotels, ryokan, and taxis, often citing “safety” concerns.

The inefficient and costly prolonged financial expansion to date was also largely supported by leading media as a means to spur the economy.

Politically Biased “Quasi-Academics”

In forming public opinion to affect the institutional environment, “scholars” also play a key role, particularly those often cited in the media or invited as council members to government-led committees.

However, such scholars invited to government councils are often those who are basically supportive to government policies. Additionally, it is often the case that council members are not given enough time to review policy agendas. Those invited to media are often selected based on their similarities in political stance.

To add, in Japan, there exist no credible think tanks that can evaluate public policies from independent perspectives, adding less pressure to the accountability of political leaders. The lack of professional journalism schools may partly explain the relative lack of governance provided by the media.

5. Implications from Institutional Theory

To understand the theoretical backbone of the lack of changes in both the economy and politics in Japan, the author applies the lens of institutional theory to analyze Japan’s “stable institutional environments”. Institutional theory has been developed to understand organizational behaviors that are not necessarily rational but are taken for granted and considered legitimate over a long period of time, even after the original functional rationality is lost.

Institutional theory draws on constructionism, a process by which shared collective understandings of shared reality are formed and widely shared, regardless of the lack of objective reality or rationality. Institutional theory argues that legitimacy has regulative, normative, and cognitive elements, regardless of the functional rationality. Isomorphism is often achieved through coercive, normative and mimetic pressures.

Institutional change can be caused by political, social, and functional pressures. For a certain institution to change, dis-institutionalization and theorization must occur, where the problems of the old institutions are revealed, and the merits of new institutions as better alternatives are theorized, often by the role of institutional entrepreneurs.

The introduction of new institutional logic would often result in a hybrid of the old and new institutions. Building on the logic of institutional theory, for various dysfunctional institutions to change, a phase of dis-institutionalization must occur in Japan.

Conclusion: Anti-Dis-institutionalizing Policies in Japan delaying the Dis-Institutionalization Process

This paper started with a research question, asking why there were very limited changes in Japan's political power, despite thirty years of sluggish economic performance and relative decline. This research has identified a combination of institutional factors that alleviate economic and political pressures, delaying the dis-institutionalizing process.

First, the perceived economic and functional pressure have been moderate in Japan, due to the long years of financial expansion policies without fundamental structural reforms. Second, there is a lack of political metabolism, though stability persists due to factors such as a weak Diet, fragmented opposition parties, changes in the electoral system, strengthened control of government ministries by the cabinet, and family succession of power, among others. These policies and mechanisms can be collectively defined as "Anti-Dis-institutionalization Policy" in this paper. Additionally, the relative lack of pressure from the media also contributes to delaying the dis-institutionalizing process.

Inflexion Points for the Institutional Change

Having said this, aforementioned factors could be facing inflexion points.

First, fiscal and financial expansion might have alleviated demand-side shocks, but such policies are helpless against large-scale supply shocks caused by heightened geopolitical risks, such as wars.

Second, the stability and the cohesiveness of the ruling party began to collapse after the assassination of former Prime Minister Abe, making political stability within the LDP more fragile under external scrutiny. Also, public trust in the government is severely damaged due to a series of government financial fraud amidst the cost-push inflationary pressure.

Third, the widespread development of social media has enabled individual leaders, without any organizational support or media relationships, to discuss and disseminate

their vision and views to a mass audience. This trend was evident in the recent Tokyo Governor Election in July 2024, where such leaders outperformed candidates from traditional political parties.

However, these changes are not necessarily driven by the rationality of the policy proposals from opposition groups, but rather by anger and disappointment toward the ruling party. This implies that potential leaders who may replace the ruling party might not have the right vision, policies, or organizational capacity to implement necessary changes.

Therefore, it is pivotal that the media and academics, among others, collaborate with future potential leaders, be they from the opposition or the ruling party, to deeply understand the fundamental issues and focus on critical policy agendas that truly matter.

To this end, the role of public relations is increasingly important to manage multiple stakeholders and participate in the process of dis-institutionalizing old beliefs and theorizing and legitimizing new institutions.

Outlook Going Forward and the Rold of Public Relations

Whether the LDP loses to the opposition party or manages to maintain power, if the next political leader tackles the necessary structural reforms, voters and the media must be aware of the tremendous political backlash that may follow.

Special interest groups in various industries will use all available financial, media, and political resources to crush such reform initiatives. A large proportion of Diet members would resist structural reforms around the election system to ensure they continue to benefit from inherited political assets. For example, implementing electronic voting via mobile phones and requiring mandatory YouTube presentations by candidates, where they answer key questions about deregulation and reform, would drastically increase voter turnout among the younger generation, diluting the influence of organized votes. However, Diet members who benefit from the existing system would likely raise "safety concerns," a typical institutional logic to oppose to any major deregulations.

Additionally, during the restructuring phase, numerous people will lose jobs, and there will be increased bankruptcies.

However, once difficult but impactful dis-institutionalization is achieved, potential areas for growth is vast. There can be accelerating the introduction and development of new industries and businesses, including a shift to renewable energy which is currently hindered by existing conglomerates, rebuilding the agriculture industry by abolishing various outdated regimes, streamlining fragmented regional government units and entities to spur collaboration and share limited resources.

Depending on the scale and quality of public relations, dis-institutionalization can penetrate deeply into Japan's societal structures, including its constitution, relationship with the U.S., concepts of marriage and family, definition of defense, reflection and education about wars, and even the definitions of capitalism, democracy, goals, sustainability, and growth, among many other aspects.

This dis-institutionalization process is difficult to achieve. In fact, many interviewees who held leadership roles in the Japanese government are more pessimistic about Japan's future, admitting that it might take another three decades or more of long-term efforts to put Japan back on a growth trajectory.

Therefore, to prepare the public opinion and the next political leaders for the necessary structural reforms that must challenge various traditional institutional logics, the role of public relations is increasingly more important.