1. Introduction: two decades of structural reform and political change in Italy and Japan

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I believe that reforms will not really take hold if they do not gradually come into the culture of the people. (Mario Monti)¹

1.1 RECIPROCITY BETWEEN POLITICAL CHANGE AND SOCIAL-INDUSTRIAL REFORM

Any reform needs to become the culture of the people if it is going to drastically change the entire political economy. However, the appropriateness of the reform is a totally different issue. The Italian and Japanese political economies have been characterized by the following forces for decades: deadlocked democracy; a stagnant economy; and sticky institutions surrounded by vested interests. Italy and Japan have been in need of fundamental reforms for more than two decades.

The Japanese election in December 2012 restored the Liberal Democratic Party (LDP) back into office, and the Italian election in February 2013 brought the entire nation into a critical phase of unprecedented uncertainty. While the Democratic Party of Japan (DPJ) was defeated because of its self-destructive style of governing throughout its tenure, the technocratic Monti government lost in the 2013 election because of the Italian voters' exhaustion from the severe austerity package forced upon them by the Monti regime. Were the Japanese and Italian voters not patient enough to support significant reforms? Or did they feel the need to protect themselves from incompetent DPJ governments (Japan) or from excessively harsh policies (Italy) through elections – the most important mechanism of democracy? This book examines the reasons why Italy and Japan were unable to circumvent the systemic crisis they encountered in the late 2000s and early 2010s by retrospectively tracing both countries' attempts at social and industrial structural reforms in

the 1990s and 2000s – the era in which neoliberal policy ideas swept the world.

Italy and Japan have been facing severe pressures of government debt, which makes them stand out among the Organisation for Economic Co-operation and Development (OECD) countries. The Lehman Brothers shock of 2008 aggravated this problem. Both countries have had a long need to induce economic recovery by implementing effective structural reforms. Unfortunately, however, the unprecedented magnitude-9 earthquake and nuclear accident disasters of March 2011 had a devastating impact on Japan's economy. Also in 2011, the yield on ten-year Italian government bonds soared around the 7 percent level, and the prospect of Italy, the third-largest economy in the Euro Zone, defaulting or requiring a huge bailout terrified the world economy.

Since the 1990s, it has become evident that a completely new type of capitalism dominated by global finance is sweeping the world. The impact of globalized financial capitalism has been sufficiently deep and widespread to change the very norms and culture of citizens in advanced economies (Boyer, 2011; Dore, 2008, 2009). The collapse of Japan's bubble economy in 1991 was the prelude to deeper, chronic cycles of crisis from which Japan is still trying to escape. Italy did not experience such a sudden decline in the early 1990s; however, its economy entered into a long slump characterized by low growth. This weak economic growth diminished tax revenue, worsened unemployment and increased welfare expenditures.

Italy's and Japan's political change and the attempts by their governments toward industrial and social reform since the 1990s must be understood in this context. Their reforms tended to have a certain neo-liberal color, regardless of either government's ideological orientation. In retrospect, their attempts toward a reform in the 1990s and 2000s could not prevent the sudden economic downturn triggered by the Lehman Brothers' collapse of 2008 and followed by the euro crisis in 2011.

Can Japan and Italy turn these crises into an opportunity for change? When confronted with the government debt crisis, Italian Prime Minister Silvio Berlusconi was unable to demonstrate sufficient leadership. He maintained the old political order and used public spending as a tool to mediate conflicts among different interest groups. The market stimulus was crushed. It was the financial market that finally said 'no' to the Berlusconi government. He resigned in November 2011. The following month, a new government led by Mario Monti implemented a package of anti-crisis policies comprising tax hikes and spending cuts, promising to balance the budget by 2013. Monti needed a breakthrough to get the Italian economy back on the right track. The Italian people, however, neither wanted to be further subject to the imposition of heavy economic

burdens nor sacrifice themselves to rescue the whole country in the name of public good. They were already exhausted under the Berlusconi government and unwilling to accept Monti's even more painful reforms. In Japan, in comparison to Monti's quick policy implementation, the reaction of the DPJ government to the crisis was laggardly and confused. Japan had to wait for change until 2013 when the LDP, which was returning to office led by Prime Minister Shinzo Abe, surprised the world economy by implementing a dramatically new monetary policy, combined with an enormous increase in public expenditure.

Why were Italian and Japanese leaders unable to avoid the political deadlock and policy stalemate when their economies were hit by the crises of 2008 and 2010–11? To answer this question, this book highlights the contradictory nature of Italian and Japanese politics in the past two decades by closely investigating the outcomes that these two countries could and could not achieve throughout their repeated attempts at structural reform in the 1990s and 2000s. The politics of social and industrial reform in Italy and Japan during these decades was contradictory in the sense that the political leaders wanted to introduce neoliberal reform policies, but failed to implement effective social and macroeconomic policies by which they would have been able to compensate for the harshness of neoliberal reforms.

This volume analyses how political reshuffle in the mid 1990s affected social and industrial restructuring, and how such reforms in turn influenced recent political and economic upheavals in Italy and Japan. What impact did the political changes of the 1990s have on the development of structural reforms in both countries? What consequences, then, did these structural reforms have for current Italian and Japanese politics? By comparing the two countries' party politics, corporate governance, labour markets and welfare regimes, this volume demonstrates the dynamics of social and industrial reform and its political and economic repercussions today.

1.1.1 Reforming Uncommon Democracies: The Political Background of the 1990s

Can a democracy, as a form of representative institution, promise to implement necessary and feasible reforms? While things can be improved by democratic politics, democracy has certain limits in shaping and transforming societal lives and cannot always guarantee effective reform (Przeworski, 2010).

This subsection investigates the political change in Italy and Japan in the 1990s. The most striking fact during the political reshuffles of the

1990s was that Italy and Japan drastically weakened the political power of workers by way of political restructuring. This fact, combined with the leftist parties' visible retreat, had significant impacts on social and industrial reform in the 1990s and 2000s. Neoliberal reforms, such as the flexibilization of labour markets, wage cuts and centralization of corporate governance, reflect the weakened political power of workers. However, in an exceedingly globalized world economy, both Japan and Italy – advanced economies with welfare states – although very different from the social democratic welfare model, can never win the low-wage competition with developing countries. Thus, the Japanese and Italian economies are gradually losing their competitiveness.

In the late 1980s and early 1990s, electoral reform and large-scale political realignment in Italy and Japan drew world attention. It was often argued that there were many similarities in the political and cultural backgrounds of these two countries, and similar processes and characteristics could be observed in the political changes in both countries. Until the first half of the 1990s, the conservative parties – the Christian Democrats (Italy) and the LDP (Japan) – held office for too long and political life suffocated. According to this argument, these party governments gave rise to corruption, and the people were finally moved to effect a change. However, the processes and consequences of political transformation in Italy and Japan were different (Magara, 2012).

In the past, Italy and Japan were referred to as 'uncommon democracies' (Pempel, 1990), that is, democracies in which government alternations rarely occurred. The political transformations of these two countries show certain common characteristics: the timings of political reform were roughly the same, and the electoral reforms of the 1990s were primarily on the basis of a single-seat election constituencies system. It cannot be considered a mere coincidence that political reform was promoted at nearly the same time in Italy and Japan and that political realignment developed rapidly. Both countries had few center-left governments until the 1990s.

In Japan, the voters who might have become supporters of the center-left did not have the political channels possibly because of the failure of political parties to form a counter-hegemonic culture (Takabatake, 1994), or a setback in shifting leftist policies into more realizable ones in response to the socioeconomic transformation after the period of high economic growth (Ishikawa and Yamaguchi, 2010). Thus, social democratic ideas in Japan were lost even before the electorate had the opportunity to compare them with other policy ideas. In Italy, where social democratization arrived late, the left aimed at uniting democratic forces beyond the social democratic framework. Under the influence of globalizing neoliberal forces, the

leftist parties of Italy and Japan tried to transform themselves rapidly into post-social democratic entities. In the last two decades, Italy and Japan have pursued social and industrial reforms within this environment.

1.1.2 Divergent Political Changes, Different Social and Industrial Reforms

Drastic reforms require the consent of social partners. A government often seeks the agreement of unions when reforms reflect stringent policies. Particularly during economic crisis, successful reforms tend to postulate corporatist agreement among a government, unions and business associations. Immediately after the Lehman Brothers shock, a corporatist style of policy consultation was incorporated in many countries. Corporatism was revived when advanced economies were hit by the euro crisis.

Strictly speaking, neither Italy nor Japan has neo-corporatist unions. In both countries, neither a social democracy nor a social democratic welfare state was realized. It was the conservative parties that invented the 'Italian style' and 'Japanese style' welfare states. Although leftist parties count unions as their key allies in both countries, they did not take office as the primary party until the mid 1990s and did not provide unions with the benefits for which social democratic governments have usually legislated.

Amable et al. (2012) argue that the relative weakness of the Italian leftist parties stems from the industrial structure. While Italy has numerous small and medium-sized companies, most of which are owned and managed on a family basis, the number of large firms is significantly limited. In the Japanese case, the leftist parties are similarly weak because of the hierarchical subcontracting relationships between large firms and small and medium-sized companies. The two countries' industrial structures therefore prevented Italian and Japanese workers from effectively organizing nationwide collective actions.

The Italian left launched into political realignment, calculating that the risk of maintaining the status quo was greater than that of reform, despite the latter being extremely high. This calculation owed something to the failure of the Democrazia Cristiana (DC) and the Partito socialista italiano (PSI), their major rivals and the leading actors in a series of *Tangentopoli* scandals. The left, recognizing voters' resentment toward conservative politics, reasoned that their opportunity to redraw the political map of Italy had arrived. Although similar scandals occurred in Japan, the Japanese left never took the initiative to implement political reform. They failed to quickly respond to the drastic change in the political world after 1989. With regard to political realignment, they were not even able to obtain an intra-party consensus, and reluctantly followed the scenario for

change advocated by the conservative forces. This divergence engendered sharp differences between the countries' political and economic outcomes.

Amid the spread of the neoliberal policy trends spanning nearly the whole world in the 1990s, with even leftist parties pursuing Thatcherite policies, the political balance of power generally tended to lean toward the right. However, the contrast between the Italian and Japanese efforts toward political restructuring and their corresponding social and industrial outcomes were stark. While the so-called left lost legitimacy in Japan, the Italian left discovered a means to survive. Conversely, in Italy, the post-war predominant party, the DC, disappeared, but Japan's counterpart, the LDP, managed to survive (it currently plays a 'colorful' role again under the Abe administration). The Japanese conservative realignment partly stemmed from the failure of the left to appropriately respond to globalizing socioeconomic changes. However, this difference also implies how much stickier institutional coordination in Japan was compared with that of Italy.

After the electoral reforms, the Italian party system came closer to bipartism (Segatti, 2011); however, the basic structure of left–right confrontation did not disappear. In contrast, the shift in Japanese politics in the 1990s was fundamental. The leftist space, which had always been small, became even more insignificant. Hence, the party system turned into a two-centrist party system. This political realignment divergence in Italy and Japan in the 1990s resulted in differences in the outcomes of the social and industrial reforms carried out in the last two decades in both countries, although the reforms in both cases reflected the weakened position of workers and leftist parties.

Neoliberalization can be interpreted as the attempt to reconstruct a new dominant social alliance under globalization, rather than a straightforward political reaction of adapting to exogenous economic constraints (Amable et al., 2011). Although both Italy and Japan pursued neoliberal economic reforms, their impact on each society was not the same. This volume examines the meaning that structural reform had for Italy and Japan, even though both countries found themselves in the midst of the same worldwide trend of neoliberal globalization.

Considered retrospectively, it is striking that Japanese voters finally said 'no' to the LDP on 30 August 2009 – election day for the House of Representatives with its 480 seats.² The historic victory of the DPJ had been preceded by the massive neoliberal structural reforms of the labour market, the welfare state, corporate governance and financial policies under the LDP in the preceding two decades, many of which most citizens thought to be excessive. Unlike Italy, Japan took 15 years to achieve the first government alternation since its electoral law was changed in 1994.

This may be one reason why the LDP was able to pursue intensive and thorough neoliberal reforms in the late 1990s and 2000s. Japanese voters expected that the new DPJ government of 2009 would ‘normalize’ their economy and welfare system by conducting its own series of significant structural reforms different from those of the LDP (Ido, forthcoming). The DPJ, however, failed to open a path for a ‘liberal revolution’ (Salvati, 2007) as attempted by the Italian Democratic Party. Voters’ expectation rapidly turned into disillusion as it became clear that the DPJ was creating even greater chaos in Japan’s political economy.

1.1.3 The Dynamics of Reform

Faced with economic globalization, accumulated fiscal and public deficits and an aging society, every developed country attempts to achieve structural reform. The 1990s and 2000s were characterized as eras of neoliberal ‘policy regime’ (Przeworski, 2001, forthcoming), in which every government, both right and left, pursued similar policies. Ideas about effecting a drastic change in economic structures and political institutional reforms were widely accepted. Indeed, there was worldwide policy diffusion (Meseguer, 2009) in that most countries learned about and adopted the same sort of efficiency-oriented policies. Nonetheless, there were varying opinions regarding which reforms should be pursued and to what extent. Since the Lehman Brothers shock of 2008, the international norm appears to be shifting from straightforward neoliberalism to ‘something else,’³ although showing a varying degree of change among countries.

By comparing the Italian and Japanese social and industrial reforms, this volume clarifies (1) the conditions that make structural reform possible; (2) the variables that determine the nature of reforms; and (3) the political and social consequences of these reforms.

To examine the nature and dynamics of social and industrial reforms and their political and economic consequences, a brief review of major analytical frameworks, such as the partisan theory, the two-party rivalry hypothesis, veto players/points, varieties of capitalism and social alliance theory will be helpful.

The partisan theory highlights the ideological role of political parties, stressing clear differences between the policies adopted by leftist and rightist governments.⁴ It assumes that government alternations between leftist and rightist parties lead to policy innovation. This presumption challenges the conventional wisdom that under globalization there is very little policy difference between rightist and leftist governments. Notably, the major economic reforms of the 1990s and 2000s were conducted by a conservative government in Japan, while such initiatives in Italy were first

undertaken by a center-left and then by a center-right government. Was Romano Prodi's or Massimo D'Alema's structural reform significantly different from that of Berlusconi's? Was there any similarity between Junichiro Koizumi's and Berlusconi's reforms? Why was the historic government alternation from the LDP to the DPJ in 2009 unable to achieve a major reform of economic structures and political institutions?

The two-party rivalry hypothesis focuses on the confrontation between two major competitors (in most cases, the top two parties/alliances). It claims that the smaller the difference between the two players' competencies, the greater the likelihood of reforms.⁵ Viewed within this framework, the DC and the LDP were unevenly strong throughout the post-war period and up to the first half of the 1990s. Reforming the economic structures that enabled both countries to attain such high rates of growth was electorally unnecessary. When they realized their delay in responding to economic globalization and the urgent necessity of structural reform at the beginning of the 1990s, they were obliged to dramatically change the very political system followed by the economy.

The veto players/points theory predicts policy change by counting how many veto points/players exist in each country's policy-making processes. The higher the number of veto points/players, the greater is the government's difficulty to introduce drastic policy changes.⁶ According to this theory, it became more difficult to promote reforms within a certain period after the introduction of new electoral laws in two countries because Italian and Japanese politics shifted in a direction opposite from what had been expected: a greater number of parties emerged to compete with each other. The increased number of veto players implied greater difficulty of reform. However, a series of mergers among parties at certain critical phases are likely to open the possibility of simpler party systems with fewer veto players.⁷

Our study introduces an extra-parliamentary dimension that is thought to significantly affect policy-making processes, namely, varieties of capitalism (VoC). An increasing number of scholars have explained why unions rapidly lost influence in some countries but not in others in the 1980s by focusing on the organization of business interests, the ways in which employers coordinate their markets and thereby how they respond to economic change (Hall and Soskice, 2001; Soskice, 1999).⁸ In essence, it becomes more difficult for governments to carry out structural reforms when they have strongly coordinated market economies. Such economies often embrace nested interest structures and certain economic interests have rigid ties to political parties that can obstruct policy innovations in the parliamentary arena.⁹

While this framework does not ignore the role of the state, the state in

this case only indirectly reacts to the behavior of private actors without undertaking explicit initiatives in organizing economic interests.¹⁰ In Italy and Japan, however, the state played a crucial role in systematizing business interests during the phase of rapid economic growth in the 1950s and 1960s, either by building public enterprises (Italy) or indirectly guiding the organization of the private sector through banks (Japan). At critical junctures, the state helped employers organize their interests in significant ways (although both countries also had historical legacies dating from the pre-war period). Unlike previous corporatist arguments, which had a clear background of partisan ideological confrontation, the VoC framework implies the neutral state. It seems, however, that the economic policies of the state are affected by party politics, that is, which parties are in office and for how long.¹¹

The social alliance approach, in this regard, provides a useful framework with which researchers can analyse the dynamics of structural reforms. According to Amable et al. (2011), a notable change was observed in the dominant social alliance during the political-economic regime shift from the post-war settlement to the neoliberal coalition. The dominant social coalition changed from one between capitalists and workers (under Keynesianism) to one between chief executive officers (CEOs) of large firms and international investors (under the neoliberal financial capitalist regime). The authors imply that the neoliberal structural reforms of the 1990s and 2000s largely reflected the interests of the latter groups.

Our comparative analyses of the Italian and Japanese cases show, explicitly or implicitly, how veto points/players, types of capitalism, government ideology, political institutions and the patterns of social alliance influence governments' efforts to reshape their economies and welfare states.

1.2 OVERVIEW OF SOCIAL AND INDUSTRIAL REFORMS

Sartori (1976) once pointed out that the LDP and the DC resembled each other like twins. In fact, both Italy and Japan experienced drastic political turns in the 1990s almost simultaneously, attracting world attention. Although these changes were similar in the two countries in the beginning, their outcomes were different. While the DC disappeared and new parties were formed in Italy, the LDP overcame the waves of crises and found a means to survive. What factor caused this difference? Did the different forms of capitalism in Italy and Japan bring about different political outcomes in the 1990s? After the amendment of its electoral law, Italy had

rhythmical government alternation; however, Japan found it difficult to achieve relevant government alternations until 2009. Could such contrasting consequences lead to the different nature of their structural reforms in the 1990s and 2000s? Are the varied natures of social and industrial reforms, along with the varied responses to the 2008 financial crisis and the 2011 euro crisis, again bringing about different political consequences today?

1.2.1 Japanese Reforms

The restructuring of Japanese politics began in 1993 with the abolishment of the LDP's one-party dominance. Formerly, opposition parties had formed an eight-party coalition government. The Hosokawa government achieved electoral reform by introducing a single-seat constituencies system for the House of Representatives. However, because of ideological differences among the coalition partners, the anti-LDP government lasted for no more than a year. The LDP returned to power in 1994 by accepting socialist Prime Minister Tomiichi Murayama to form a coalition government. Troubled by difficult economic problems soon after the burst of the bubble economy, Murayama stepped down, and was succeeded by the Hashimoto government under the LDP.

In September 1996, anti-LDP politicians led by Yukio Hatoyama and Naoto Kan formed the Japan Democratic Party (JDP), advocating citizens' politics and a human welfare society. By clearly rejecting the bureaucratic rule in politics, they hoped to attract voters who were tired of LDP-style politics. However, the 1996 election of the House of Representatives – the first election under the new electoral system – resulted in victory for the LDP.

The Hashimoto regime advocated several major reforms, such as the privatization of postal savings and insurance, fiscal reform, economic structural reform and financial deregulation. However, achieving them was difficult. Privatization of the postal system was particularly controversial because post offices were considered an important electoral base for LDP politicians.

Moreover, Japan was suffering from a serious financial crisis. The economy was worsening, with major banks and securities companies going bankrupt. The Ministry of Finance was incapable of maintaining the so-called 'convoy system' (a heavily regulated financial system), resulting in the collapse of the Japanese growth model. Caught between budgetary constraints and an economic recession, the government was unable to quickly respond to the financial crisis. Ryutaro Hashimoto finally chose to inject liquidity into the financial market at the expense of fiscal reform.

Meanwhile, there had been a clear movement toward reform starting from the second half of the 1990s. Japan had a strong drive toward deregulation, shareholder sovereignty and greater international competitiveness. Neoliberal individualism and neoclassical marketism (that is, the ideology of market supremacy) were the origins of these reform trends (Dore, 1999). The ‘convoy system’ was therefore relaxed, initiating the financial Big Bang in 1996. The Japanese government aimed to rapidly and comprehensively reform the Japanese financial sector to meet the ‘global standards’ of advanced economies.

However, the global financial system was becoming highly unstable to the extent that the financialization of the global economy was a visible phenomenon. While the universal dominance of ‘shareholder value’ has increasingly become the sole *raison d’être* of corporations, governments are immersed in promoting an ‘equity culture’. Even before October 2008, the financialization of the global economy had social consequences, such as widening inequalities, greater personal insecurity and the decay of trust (Dore, 2008).

Strongly backed by neoliberal business leaders, the Koizumi government implemented a series of drastic reforms under the banner ‘No reform without pain.’ The Koizumi reforms include the Worker Dispatch Law of 2003 that allows manpower agencies to send workers to manufacturers for assembly work, the ‘Trinity Reform’ that cut nearly 3000 trillion yen in subsidies to local municipalities by fiscal year 2006 and a healthcare reform that required workers to pay 30 percent of their own medical expenses (10 percent more than before). The opposition parties later blamed the Koizumi regime for creating a new poverty stratum in Japan as a result of this ‘painful’ neoliberal structural reform.

1.2.2 Italian Reforms

In Italy, the 1993 electoral law distributed three-quarters of the Upper House seats into single-number plurality districts, while the remaining quarter was distributed on the basis of proportional representation (PR). The electoral law ostensibly returned to PR in the 2005 electoral reform, in which the winning coalition was guaranteed at least a 55 percent majority of the seats.

In Italy, market ideology had been unpopular in the past as the industrial bourgeoisie was not organizationally strong enough to diffuse it (Chiesi and Martinelli, 1989). Politics played a crucial role in the Italian corporate governance reform. Post-war Italian capitalism had a huge public sector dominated by the state, while the private sector consisted of numerous unlisted small and medium-sized firms, most of which were

family owned, and a small number of large private firms that were significant in the overall economy. Although Italy entered the 1990s with this traditional model intact because the DC had vested interests in maintaining a corporate governance system of family-oriented capitalism, the pressure for European integration was accelerated by the Maastricht Treaty and globalization trends.

Waves of scandals discrediting political parties forced the party system to change in the 1990s, consequently enhancing the relative positions of technocratic, elite reformers mainly from the Bank of Italy and the Treasury, including Giuliano Amato, Romano Prodi, Mario Draghi, Antonio Fazio and Carlo Azeglio Ciampi, most of whom were associated with center-left parties. At the same time, once the roles and the strength of political parties were drastically curtailed because of the disclosure of corruption, the 'technocratic' government expected trade unions to provide the necessary social consensus (Baglioni et al., 2008).

Between 1996 and 2001, the center-left government enacted far-reaching corporate governance reforms aimed at further modernization and development of the equity market by means of greater transparency and broader ownership and fortification of small investors, climaxing in the 1998 Draghi Law (Deeg, 2005).

However, these reforms failed to reduce the concentration of shareholdings in the hands of a small number of the largest private companies in Italy. Despite the emergence of a coalition among government technocrats, small shareowners and unions, and the emergence of a new electoral system, which in theory produces fewer veto players against reform, the Italian system of patient capital characterized by the concentration of ownership and control has proved to be stable. Although the privatization initiative taken by the center-left government during the 1990s had a real impact, it only affected the concentration of former state-owned firms. In fact, there was no decrease in the ownership concentration of private companies between 1996 and 2004. The Draghi Law did increase transparency and minority shareholder protection, but was unable to significantly weaken the controlling power of large shareholders (Culpepper, 2007).

With the new Berlusconi government (2001–06), political parties regained their power over unions. The center-right government switched from trilateral pacts to new agreements with Confindustria, Confederazione Italiana Sindacato lavoratori (CISL) and Unione Italiana del Lavoro (UIL), but not with Confederazione Generale Italiana del Lavoro (CGIL). The CGIL trade union has thus become a source of disagreement (Baglioni et al., 2008).

1.2.3 Trade-off between Inequality and Unemployment

Today, advanced industrial democracies are faced with a trade-off between inequality and unemployment, instead of the traditional trade-off between inflation and unemployment, as stylized in the 1970s by the Phillipps curve (Boix, 1998). How does the nature of labour market institutions affect this trade-off? According to Checchi and Garcia-Penalosa (2008), strong institutions such as employment protection legislation and more generous unemployment benefits correlate with lower income inequality, but some institutions are associated with higher rates of unemployment. What were the outcomes of the labour market and welfare reforms of the late 1990s and early 2000s for the current political economies of Italy and Japan?

In Italy, the comprehensive welfare reform proposal submitted in 1997 by the Onofri Commission, which recommended the rationalization of unemployment benefits, the extension of insurance benefits to all people who had lost jobs and the introduction of assistance benefits for the long-term unemployed and low-income groups, was not implemented. In retrospect, difficulties to reform the welfare and employment regulation system in Italy were observed. A series of reforms were put into effect, including the 1991 reform of collective dismissals, the 1997 Treu package, the 2003 Biagi reform and the 2007 Protocol for welfare system reform. However, attempts to reform the social security and pension systems have struggled against diffused interests because of 'large consensus based politics' and 'financial non-sustainability' (Lodovici and Semenza, 2007).

The economic recession and financial crisis continued after Japan's Prime Minister Hashimoto resigned, taking responsibility for the poor results in the House of Councillors' election of 1998. Growth slowed and unemployment rates worsened. The LDP government implemented a budget expansion and an income tax cut, which led to increases in both budget deficits and debt. As Figure 1.1 shows, Japan's public debt has risen drastically since the mid 1990s, while that of Italy reduced under the center-left government of the late 1990s.

In these gloomy economic circumstances, the two most important areas of welfare policy, the pension and health insurance systems, became highly politicized. Accumulating deficits in the two systems were highly problematic. To avoid a system breakdown, the government needed to find a new financial source. Drastic cuts in the levels of provision and benefits were on the agenda. The center-right believed in more taxation for social welfare, while the center-left placed higher priority on the level and quality of welfare provision. Are the Italian and Japanese welfare

Source: OECD Economic Outlook, 70 and 89.

Figure 1.1 Advanced countries have huge government debt

regimes changing drastically, reflecting the trends of globalization and moving closer to the American model? Have political and social conditions changed in the transformation of the welfare states?

1.3 OVERVIEW OF THE BOOK

This volume presents a collection of comparative studies on the Italian and Japanese structural reforms of the 1990s and 2000s. Although the conclusion of each chapter may be rather tentative in the sense that the economy and the party politics of Italy and Japan are still experiencing change, each contributor conducted advanced research analysis on party politics, corporate governance, labour market reform and welfare reform. The following contexts of structural reform were analysed either implicitly or explicitly: the occurrence of office alternation and ideological differences between leftist and rightist governments (partisan theory), the degree of electoral competition between the two major rival parties/coalitions, the increased/decreased number of veto players, the impacts of varieties of capitalism and changes in dominant social coalitions.

According to Dore (Chapter 2), there have been fundamental shifts in the way in which corporations are managed and the purposes for which

they are managed in Japan over the last two decades. Compared to world-dominant Anglo-Saxon capitalism, Japan was less marketized in the past with relational transactions being considered more important relative to arms-length contractual market transactions. While Anglo-Saxons preferred to keep their options open, the Japanese were more willing to make long-term commitments. The Japanese style of corporate management was formerly characterized by a lifetime employment system and the form of labour market that sustained it, insider management, share ownership heavily weighted with inter-corporate cross-holdings, a bureaucratic pay-and-promotion system that emphasized seniority, enterprise unions and regular annual bargaining for pay. However, the norm of Japanese firms dramatically changed, reflecting the pressures of an increasingly globalized economy. Egalitarianism diminished and interpersonal competition increased. Greater numbers of temporary and contract workers were substituted for standard lifetime employees in manufacturing. These changes were driven by the definitive weakening of two important supports of the traditional corporation: cross-shareholding and unions. The role played by elite bureaucrats and businessmen who received MBAs and PhDs from leading academic institutions in the United States in the 1970s and 1980s was also significant. In other words, the 'rational economic animal' theory adherents became the dominant voice in ministries and boardrooms, backed by the media and trained professionals. All these changes, however, have resulted in heightened worsening of income inequalities and poverty growth in Japan.

Chiesi (Chapter 3) examines the distinctive features of corporate ownership in Italy. He suggests that recent attempts to introduce modern rules of corporate governance have only limited effects due to a variety of imbalances in the Italian economy, including the unequal role of firms in different areas, the public sector's huge deficit in productivity and efficiency and a polarized industrial structure dominated by a small number of large corporations. He pays particular attention to the persistent influence of politics on the economy. Unlike Japan, where firm size progressively rose in the second half of the twentieth century, Italy witnessed a combination of increases in the number of micro firms and a decline in the number of large firms. Corporate governance in Italy still depends on family control over companies, not only in small businesses but also in big corporations. The number of small firms is abnormally high in Italy, and their size has constantly diminished over the last 30 years because of positive externalities at the local level and lack of opportunities in the labour market. Moreover, large firms have strategies to preserve their business activities against external interference by authorities and against the demands of minority shareholders, even though this may impede further expansion and profitability.

Despite a series of privatizations between 1993 and 2001, the market for corporate control is still insufficiently transparent, and the introduction of public companies remains modest. These results may reflect the weakness of firm executives and their dependence on unstable parliamentary majorities. Chiesi argues that traditional practices have not changed drastically, despite considerable efforts made in the past decade to introduce corporate governance rules in line with the market-driven model.

Suzuki (Chapter 4) examines political change in Japan from an international perspective. He argues that because the Japanese economy is linked to the international economy, significant changes in the international economic order have put pressure on Japan to make the appropriate adjustments. The structural reforms that have dominated Japanese politics in the last two decades have been attempts to enhance an economy that had become less competitive and more inefficient under the new circumstances of globalization in which ordinary citizens fear an unstable economic life in deregulated markets. He focuses on 'a coordination failure,' namely the government's inability and the conservative leadership's unwillingness to strengthen social protection. Although stronger political leadership led the institutional change and shifted the distribution of power among political, bureaucratic and business elites, it does not imply that ordinary citizens concur with these neoliberal ideas. In fact, under the LDP governments, income inequality widened and the poverty rate worsened. How do Japanese voters learn to control their economic fate within an ever-changing party system?

The transitions of the Italian parties and the party system from the First Republic to the Second Republic are analysed by Segatti (Chapter 5). Italy has been experiencing mesmerizing political restructuring since the mid 1990s. For Segatti, electoral reform is itself the 'structural reform' of Italian politics. By focusing on the 2008 election, he investigates the impact of electoral reforms and political changes on traditional structural cleavages, ideological divisions in the context of increasing European Union (EU) constraints and the long-standing mass disaffection toward politics. Segatti finds that the upheaval of the early 1990s did not entirely alter political territorial traditions transmitted through family socialization. The pro-/anti-communist issue still exists in Italy. However, the post-1994 party system is clearly different from the old system: there is a move toward bipolarism. Segatti also recognizes a move toward a two-party system, especially since the 2008 election. Segatti argues that the continuities between the post-1994 party system and the pre-1992 party system may not stem from the electoral majoritarian reform of the early 1990s, but from, if anything, uncompleted institutional reforms and the political vision of most politicians.

In Ido's chapter, Japan's changing labour market is the dependent variable (Chapter 6). He explains how such a harsh situation was able to emerge, which caused the dismissal and homelessness of a large number of temporary workers in the cold winter of 2008. Focusing on the strategies of the dominant party and its social class coalition, he offers a party-centered explanation of the change in the types of capitalism. For him, party politics is the key mechanism that links changes in the structure of financial markets under globalization with changes in the labour market in Japan. The party leader, Koizumi, intended to reorganize the LDP's traditional social class alliance by cutting out 'pork' elements and mobilizing the urban population as the LDP's new base of support. The business elites, who demanded deregulation rather than protection of the domestic product and labour markets, were formally invited onto the Prime Minister's key advisory councils. While the managers of global companies exerted a huge influence in devising economic policies, labour was excluded from the decision-making process. The changes in the preferences of Japanese business had repercussions for party politics such that the policy orientation of the LDP took an increasingly neoliberal turn.

There has been a significant increase in employment in the Italian labour market in the last decade. Checchi highlights that this large employment expansion was achieved only by a slowdown in productivity growth and by stagnation in real wage growth (Chapter 7). Through a series of labour market reforms, such as the *legge Treu* of 1997 and the *legge Biagi* of 2003, Italy was able to boast highly flexible labour legislation. However, the waves of reforms had a differential impact on the labour market due to the introduction of a two-tier system. Marginal workers under temporary contracts and new entrants were hit by the new legislation. Unions were already weak at the beginning of the reform process, and they experienced these reforms as partial defeats. The decline in union power was followed by a corresponding decline in labour share, an increase in wage differentials and a decline in unemployment. Rising income inequality has been the eventual outcome of these changes. While working under a temporary contract increases the probability of workers being designated among the low-wage earners, it also increases the probability of employment for the unemployed. Labour market reform is often contradictory. In the case of Italy, reforms increased the labour flexibility of marginal workers, but not the entire labour force. Checchi argues that in the transition from jobless growth in the early 1990s to 'growthless job creation,' increased income variability translated into a greater perception of insecurity. How long will this situation in Italy last?

Japan's welfare state in the past was that of a familial type characterized by a combination of low degrees of de-commodification and

de-familialization. Welfare reform in the 1980s attempted to curtail social security expenditures to attain fiscal sustainability. They followed the idea of a Japanese-style welfare society, in which private welfare in the company and family dimensions complement retrenched public welfare. Shinkawa (Chapter 8) argues that Japan is no longer a familial welfare state. Although welfare retrenchment continues, a new trend promoting de-familialization has been emerging since the 1990s due to economic globalization and an aging society. Shinkawa defines de-familialization as a process in which the paradigmatic power of the male breadwinner model is declining as women become economically independent and various forms of the family emerge. The changes in the 1990s promoted both commodification and de-commodification. However, this process is far from social democratic de-familialization. Women are now mobilized as cheap labour; therefore, their participation in the labour market has reinforced the dualist structure of the Japanese market. Thus, the effect of de-familialization is quite similar to that of liberal de-familialization.

Sacchi (Chapter 9) analyses why Italy's recent responses to the continuing financial and employment crises failed to alleviate the social and economic problems sufficiently. Instead of creating a system of comprehensive unemployment compensation, Italy adapted short-time work schemes to the crisis, which mostly reflected the material interests of corporate collective actors. There were remarkable changes seen in Italian labour policy. When the financial crisis escalated to a sovereign debt crisis, the Italian government passed a provision allowing micro-level collective bargaining to deregulate statutory employment protection for all types of workers. It also introduced a labour market reform to make dismissals easier, together with a harsh pension reform. These reforms were introduced in a top-down fashion by the government. Tripartite negotiations with social groups were held, but the government did not conceal its impatience in having to deal with unions. According to Sacchi, a labour market reform was an attempt by Italy's technocratic government to attain credibility in the international arena, simply to signal international investors. In fact, the Italian labour market had been much less rigid than those of Germany and France.

Sacchi questions why the crisis did not result in a comprehensive reform of the unemployment benefit system. Active labour market policies were not enacted in the name of financial constraints. A minimum income scheme was not even considered in the reform process. The Italian austerity policies were a consequence of international pressures, such as those of the EU, the International Monetary Fund (IMF) and the financial markets. Sacchi implies that the impetus for the completion of the labour reform will come from widespread discontent among young educated

voters, non-standard workers who might create the possibility for social policy innovation in an era of economic crisis.

As argued by Sacchi and Shinkawa (Chapter 8, this volume), the familial model is deeply rooted because of late economic and political development. The familial welfare regime is typically seen in a country in which a capitalist economy and democratic politics are not mature enough to construct a welfare state. Shinkawa's view, however, should not be confined to the sphere of welfare regimes. Italy and Japan, as historical latecomers to the industrial world, needed to build particular political economic systems to achieve unprecedented rapid economic growth. Such systems, however, had to be reformed when the two countries encountered a variety of intense pressures in the new globalized economy (Berton et al., 2012).

While Italy's economic structure did not change drastically in terms of the capital concentration rate, with the exception of the formerly public privatized sector, in spite of the center-left government's attempt at structural reform, Japan experienced marked changes in the mentality of corporate governance and in firms' seniority systems based on a pyramid-shaped subcontracting structure and lifetime employment, which reflected the financial Big Bang and globalization.

As for the labour market, the initial conditions in Italy and Japan were entirely different. In Italy, the center-left government adopted a flexibility policy in response to particularly high unemployment rates among the young (Sacchi et al., 2011). The employment rate improved greatly; however, it was accompanied by widening income inequality. In Japan, employers excessively sought labour flexibility by exploiting the recession. Labour market policies enacted by the Koizumi government played a significant role in the creation of a new youth stratum of poverty.

In the field of pension and healthcare reforms, the Italian center-left government attempted a reconstruction of the welfare system that was different from the American model of welfare reform. Although Berlusconi wanted to pursue straightforward neoliberalism in 1994, his efforts were constrained by the interests of the unions. In Japan, the weakness of the government was exposed wherein the management of its pension system was in reality haphazard, while the Koizumi regime carried out radical welfare cuts targeting the aged and disabled.

In terms of accountability, electoral democracy sometimes poses problems. Accountability can be defined as the mechanism by which governments that have conducted good politics and implemented good policies are re-elected, while the governments that are unable to succeed in those goals are defeated in elections (Przeworski et al., 1999). However, voters cannot always make appropriate choices. The Prodi government successfully carried out a number of bold reforms to drive Italy into the

Economic and Monetary Union (EMU). Although these reform efforts, which imposed heavy burdens on the citizens, were greatly appreciated by domestic and international economists, the Italian electorate chose to return the Berlusconi government to power in the 2001 election.

Similarly, Japanese citizens enthusiastically supported the Koizumi government in the beginning, expecting radical structural breakthroughs for a new political economy. However, the Prime Minister's 'painful' reforms resulted in voters' disappointment, leading the way to the LDP's historical electoral defeat in 2009, after three brief cabinets led in succession by Abe, Yasuo Fukuda and Taro Aso. The DPJ government, too, has been reluctant to push through effective reforms, contrary to Japanese voters' expectations in the 2009 election.

Although the Monti government achieved short-term success, which consisted of unveiling austerity measures of 30 billion euros toward boosting competition, attacking privileges and opening the labour market to more women and young workers through 'flexicurity' policies, the Monti group was evidently the loser in the February 2013 election. Italian politics is currently submerged in uncertainty and unpredictability. In Japan's case, the DPJ governments' policy backwardness exposed the country's economy to multiple dangers. The Japanese voters again allowed the LDP to return to office to punish the DPJ in the December 2012 election. In any case, whether new policies are successfully devised and implemented is strongly constrained by political factors. The quality of democracy is the key to epoch-making social and industrial reform.

NOTES

1. 'The most important man in Europe: Mario Monti is trying to pull Italy and its neighbors back from the economic brink', Michael Schuman, *Time*, 22 February 2012.
2. The Democratic Party of Japan (DPJ) had 308 candidates elected, whereas the LDP had only 119 successful candidates. While 143 of the DPJ politicians were newly elected in the House of Representatives, numerous influential LDP members were removed from office.
3. 'Something else' can, of course, be a revised version of neoliberalism.
4. The partisan theory provides an orthodox explanation for why the ideological differences between leftist and rightist parties in the government bring about policy shifts (Boix, 1998; Franzese, 2002; Hibbs, 1977, 1987). For a new argument, which focuses on the role of electoral systems, see Cusack et al. (2007) and Iversen and Soskice (2006).
5. This approach is based on micro foundations. Politicians can choose the status quo if their parties have considerable electoral advantages. If the top two contending parties are evenly strong and politicians can gain a small advantage by initiating reform, members of both parties have reason to vote for reform. Party members with greater electoral advantage have little incentive to change policies. They opt for policy changes only if they think that other gains from reform would outweigh the costs of removal of the status quo. If public demands for reform are widespread, politicians may fear that

they would lose votes by opposing reform. Reforms are more likely to pass legislative obstacles when the top two parties are almost evenly strong in elections (Geddes, 1991, 1994). Boix (1999) shares a similar logic in explaining the historical transformation of electoral rules.

6. In this framework, constitutional structures define the extent and degree of influence that economic interests and organized groups have over policy making. It highlights the importance of veto points within political systems, which depend on formal institutional structures of the constitution (Immergut, 1991, 1992; Huber et al., 1993). Tsebelis (1995, 1999, 2002) proposes a sophisticated framework of veto players by introducing indifference curves to explain why the number, distance and congruency of veto players determine policy stability. For empirical studies, see Maioni (1998) on healthcare; Bonoli (2000) and Bonoli and Shinkawa (2005) on pension reforms; Birchfield and Crepaz (1998) and Crepaz (2001, 2002) on income inequality and the redistributive capacity of the state; Hallerberg and Basinger (1998) on tax reforms; Hallerberg (2002) on each government's choice between dependent/independent central banks and flexible/inflexible exchange regimes; Gandhi and Przeworski (2004) on the speed of policy change; and Franzese (2002) on redistributive policy implementation and public deficit.
7. The so-called First Republic produced a considerable number of veto players, and policy immobility prevailed over innovation. However, there were significant changes under the center-left government from 1996 to 2001. The prime minister's position in the cabinet was enhanced, and the government obtained greater agenda-setting powers. Ironically, the second Berlusconi government (2001–06) benefited from these institutional innovations achieved under center-left initiatives. After the Decree Law was approved in 2001, the Berlusconi government made extensive use of decrees. The parliament authorized the government to implement broad reforms of company law, the tax system and national broadcasting (Vassallo, 2007).
8. Soskice (1999) distinguishes 'coordinated market economies (CMEs)', from 'liberal market economies (LMEs)'. He argues that in CMEs, where business interests are strongly organized, unions maintain influence. In LMEs, in contrast, where business is not well organized and lacks the capacity to build the institutional structures needed to incorporate effective workers' representative bodies, governments realize the need for a reduction in the influence of unions.
9. For a typical case, see Martinelli's study on the first Obama administration (Martinelli, forthcoming).
10. Soskice (1999) states the following: 'The way in which business is organized – its coordinating capacity – plays a central role in the operation of institutional frameworks. Strong coordinating capacity is necessary for the CME-type framework; without business coordinating capacity, government attempts to create such a framework will not succeed. That is the topic here. The argument is presented that government cannot create business coordinating capacity; it takes typically decades to grow' (p. 126).
11. For this argument, see Ido (2012).

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