Executive Leadership and Fiscal Discipline:
Explaining Political Entrepreneurship in Cases of Japan

Naofumi Fujimura

fujimurana@yahoo.co.jp

University of Washington
&
Kyoto University

Abstract

This article discusses effects of executive leadership, the prime minister or the president, on fiscal policies and performance. I argue that executive leadership, as a political entrepreneur who provides collective goods for the organization, has incentives to maintain fiscal discipline so that he or she can stay in office by developing his or her party's reputation and leading party legislators to electoral win. Theoretical consideration induces the hypothesis that executive leadership with stronger public support is more likely to restrain fiscal expenditure and maintain fiscal discipline. I demonstrate this hypothesis by quantitatively showing that the prime minister who receives higher public support is more likely to restrain fiscal expenditure in Japan.

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Introduction

Some countries have large fiscal deficits, whereas others do not. Some administrations achieve balanced finance whereas others do not in a same country? What explains these variations in fiscal discipline.

Various social, political, and economic factors determine each country's fiscal outcomes. Among these factors, from a perspective of political science, a large number of studies have focused on effects of political institutions on fiscal outcomes. Political institutions are largely divided into budgetary and electoral ones. Some have emphasized an impact of the budget process on fiscal outcomes (e.g., Alesina *et al*. 1999; Hallerberg and Marier 2004; Hallerberg and von Hagen 1999; Kontopoulos and Perotti 1999; von Hagen and Harden 1995). They argue that setting numerical targets for the budget, delegation of the budgetary powers to a financial minister, or a small number of spending ministers contributes to maintaining fiscal discipline.[1] In contrast, others focus on effects of electoral systems on fiscal outcomes (e.g., Miles-Ferretti *et al*. 1999; Person and Tabellini 2003). They indicate that a proportional representative system (or electoral systems with a large district magnitude) tends to encourage a large number of effective parties, coalition government, or a weak governing party and, as a result, causes fiscal deficits more than a plurality system. Stein *et al*. (1999) indicate that both budget procedures and electoral institutions determine fiscal outcomes. In addition, Cheibub (2006) shows that budget deficits are smaller in presidential than parliamentary courtiers on 98 countries between 1970 and 2002, whereas government's coalition status (one party or coalition) and majority status (majority or minority) do not have a significant effect on fiscal outcomes.

My research emphasizes an individual executive leader and public support for a leader. Some former studies focus on executive power but most of them analyze centralization of the budget process instead of the prime minister or the president as an individual. They generally ignore importance of executive leaders. Most importantly, although they show that strong executive power encourages budget balance, they do not clearly specify how strong leadership in the executive branch maintains fiscal discipline and why leadership prefers fiscal discipline.

The purpose of this article is to examine what determines variations in fiscal discipline. I argue that strong executive leadership, especially a leader who receives strong public support, can restrain fiscal expenditure and maintain fiscal discipline. My research differs from former studies in that this presents that variations in the prime minister's strength as an individual determine the spending size of the government, while former studies explore effects of structural institutions.

[1] Kontopoulos and Perotti (1999) state that a larger number of spending ministers are more likely to cause higher level of expenditure, whereas the number of parties in coalition has a partial influence on a yearly panel of 20 OECD countries.

Emphasizing executive leadership will allow us to find how and why leadership in an executive branch of the government tries to keep fiscal discipline.

In order to support my argument, I deal with relationship between an executive leader and fiscal performance in Japan and analyze how strength of the prime minister influences fiscal spending between 1961 and 2005. It was commonly believed that the Japanese prime minister's leadership was weak and former Prime Minister Jun'ichiro Koizumi (2001-2006) built strong leadership for the first time in Japan. Contrary to the common belief, this article demonstrates that even before Koizumi Cabinet the prime ministers receiving strong public support, as a political entrepreneur, could influence fiscal policies.

This article has six parts. First, I theoretically examine party leadership's impact on fiscal discipline. I propose that party leadership has incentives to restrain fiscal spending and maintain fiscal discipline, while rank and file legislators have incentives to expand fiscal expenditure. Second, after developing the above theoretical investigation and defining strong leadership, I present the hypothesis that executive leadership receiving stronger public support is more likely to restrain fiscal expenditure and maintain fiscal discipline. Third, in order to support this hypothesis in cases of Japan, I describe the Japanese budget process and how an executive leader, the prime minister, is involved in budget formulation. Fourth, I build a model to support the hypothesis and, fifth, test the hypothesis by using quantitative analyses. Finally, I explain three Cabinet's fiscal policies: the Nakasone Cabinet (1982-1987), the Mori Cabinet (2000-2001), and the Koizumi Cabinet (2001-2006) to enhance the hypothesis.

1 Theoretical Investigation

1.1 The Tragedy of the Commons

Garrett Hardin analyzes incompatibility between individual rational action and collective goals, telling a famous fable named "the tragedy of the commons" (Hardin 1968). Hardin argues,

> The tragedy of the commons develops in this way. Picture a pasture open to all. It is to be expected that each herdsman will try to keep as many cattle as possible on the commons… Each man is locked into a system that compels him to increase his herd without limit – in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons (p. 1244).

Because marginal utility of cattle breeding exceeds marginal cost of it, each herdsman tries to increase as many cattle as possible. Consequently, overgrazing is caused and the commons are lost. The tragedy of the commons shows that rational actions for individuals turn out to cause undesirable results for all.[2]

1.2 A Political Entrepreneur

One way to solve collective action problems is to establish leadership posts within the organization and delegate powers to a leader. Leadership that provides collective goods for the organization is often called a political entrepreneur. Riker and Ordeshook (1973) define a political entrepreneur as a person who pursues political profits through achieving collective benefits (p. 75).

A political entrepreneur tries to achieve collective benefits by generating selective incentives to contribute to collective goals for members. While a political entrepreneur gives rewards to members who contribute to collective goals, he or she imposes sanctions on members who do not contribute. If a political entrepreneur can provide collective goods for the organization, he or she can receive compensation from members and stay in the position. However, if he or she fails to provide collective goods, he or she is dismissed.

1.3 Application of the Collective Action Theory to the Party Organization

Gary W. Cox and Mathew D. McCubbins apply the collective action theory to the party organization in the U.S. Congress. They argue that a party is organized to solve a variety of collective action problems that legislators face (Cox and McCubbins 1993: chapter 4 and 5).

Legislators seek to maximize their probability of reelection. Both legislators' individual reputation and party's reputation affect their electoral results. Because individual reputation is essentially private goods, legislators try to enhance their own reputation through influence peddling to their district. In contrast, they pay less attention to party's reputation, which is a public good (p. 123). That is, while legislators have enthusiasm for promoting their own reputation, of which marginal utility exceeds its marginal cost, they are less interested to promote the party's reputation, of which marginal utility is below its marginal cost.

Poor party's reputation damages each member's reelection. Even though some members are elected, they may lose power if their party loses office. Cox and McCubbins argue that creating an attractive and elective leadership post can solve collective action problems that a party faces (pp.

[2] Elinor Ostrom extends Hardin's model and proves that institutions can solve common pool recourse problems (Ostrom 1990). Moreover, see the prisoner's dilemma game (Dawes 1975) and the logic of collective action (Olson 1965) as the works that consider collective action problems.

125-134).[3]

1.4 Expansion from Existing Works

Regarding collective action problems over government expenditure, Cox and McCubbins merely cite a case without conducting deep theoretical investigation. Therefore, I develop the argument of collective action problems over government expenditure, combining the theory of Hardin (1968) and Cox and McCubbins (1993).

I investigate competition for pork barrel projects to each constituency within a ruling party. The commons and herdsmen in "the tragedy of the commons" are a government budget and legislatures, respectively.[4] Legislators seek to maximize their probability of reelection. To be reelected, they require both their individual reputation and party reputation. Legislators' individual reputation indicates that they can bring profits to their district. This is private goods that only each legislator can enjoy.[5] On the other hand, party reputation indicates that a party can formulate the appropriate budget as a whole. This is collective goods that all party legislators can enjoy. If some party legislators encourage party's reputation, other members can take a free ride on the reputation.

In order to promote their own individual reputation, legislators try to bring as many subsidies and public projects to their constituency as possible since marginal utility of influence peddling exceeds its marginal cost. However, excessive extending of subsidies and public projects ruins their party's reputation. Voters recognize that excessive financial expenditure will cause tax increases and that the party cannot formulate the reasonable budget and the party has less governance capacity. As a result, poor party reputation has adverse effects on each member's reelection. Although some members are reelected, they may lose power if their party loses office.

Even if legislators face this situation, they will not stop influencing peddling politics because marginal utility of influencing peddling exceeds its marginal cost without any rule or institution. Although some party members try to reduce pork-barrel effects, it is not certain that others will also do. When a legislator alone restrains influence peddling for party, his or her individual reputation will be ruined and party's reputation cannot be improved.

In order to avoid this incompatibility between individual rational action and collective goals, a party needs to create leadership as a political entrepreneur (Cox and McCubbins 1993).

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[3] Pekkanen *et al*. (2006) argue that the ruling Liberal Democratic Party in Japan formulates the legislative organization so that the party can encourage individual legislator's reelection and maintain a strong party label.

[4] Hallerberg and Marier (2004); Hallerberg and von Hagen (1999); Stein *et al*. (1999) also focus on increase in a budget as the common pool resource problems that Ostrom (1990) propounds.

[5] See Arnold (1990) and Bianco (1994) for good analyses into the relationship between legislators and constituents.

While rank and file members delegate their policy making and decision making authority to party leadership, leadership provides collective goods for members. Collective goods are benefits that all members can attain from party reputation. Leadership tries to establish party reputation by showing voters party's governing ability such as reducing influence-peddling politics or formulating the reasonable budget.

For party reputation, which is collective goods, party leadership gives members selective incentives to follow leadership. Selective incentives consist of rewards for members who follow leadership and sanctions for members who do not. In concrete terms, rewards are to receive official party endorsement in an election and get good positions in the legislative organization, while sanctions are to not receive them.[6]

Political compensations for party leadership as a political entrepreneur have authority to make policies and decision the way he or she prefers. While party leadership can stay in the position if he or she can provide good party reputation for members, leadership is dismissed if he or she fails to provide collective goods. In particular, a leader who achieves party's electoral win and high government or party approval ratings can keep staying in power but a leader who fails to do is removed from office.

In short, the theoretical investigation induces the two following assumptions.

> Assumption 1: Rank and file party legislators, whose primary goal is to promote their own probability of re-election, seek to expand government spending as much as possible since marginal utility of influence peddling exceeds its marginal cost.
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> Assumption 2: Party leadership seeks to restrain government expenditure and maintain fiscal discipline because he or she can stay in office by developing party reputation and leading party legislators to an electoral win.

2 Building a Hypothesis: Defining a Strong Executive Leader

The two assumptions induced in section 1 suggest that rank and file party legislators have incentives to expand fiscal expenditure, while party leadership has incentives to restrain fiscal spending and maintain fiscal discipline. The assumptions indicate that the power relationship between leadership and rank and file legislators influences fiscal discipline of the government. In

[6] Fujimura (2007) examines how the prime minister, also a ruling party leader, controls ruling party legislators under the parliamentary Cabinet system.

parliamentary countries, a ruling party (or ruling parties) governs policymaking including budget formulation and a ruling party leader serves as the prime minister. In order to remain in power, the prime minister needs to encourage his or her ruling party's reputation and allow the party to keep a majority of seats in the Diet by formulating reasonable budget. That is, I suggest that stronger prime minister leadership is more likely to maintain fiscal discipline.

I can apply my theory to presidential systems. Also, in presidential systems legislators require the government to expand fiscal spending so that they can promote the reelection probability by bringing benefits to their district. However, excessive fiscal expenditure will cause criticism against pork-barrel politics and ruin public support for the government. In order to be elected or stably manage the government, the president is required to preserve an appropriate level of spending. That is, I propose that stronger presidential leadership is more likely to maintain solid fiscal discipline. In summary, I assume that stronger executive leadership, whether the prime minister or the president, is more likely to restrain fiscal expenditure and maintain fiscal discipline.

What is "the strong executive leadership"? How can "strength of executive leadership" be defined? I can suppose two types of strong leadership. In other words, there are two ways to establish strong leadership. One way of strong executive leadership is to depend on strong support and approval from legislators. In parliamentary courtiers the prime minister requires support from a majority of legislators in the Diet to pass bills and budget drafts. Because a ruling party is supposed to command a majority of seats, the prime minister can pass all bills if a ruling party supports him or her. Therefore, the prime minister who receives support from a ruling party can exercise strong leadership. Similarly, in presidential countries the president requires support from a majority of legislators in the Congress to pass bills. The president who receives support from legislators can also exercise strong leadership. Another way of strong executive leadership is to depend on strong support from the public. This type of a leader, whether the prime minister or the president, can control legislators and implement desired policies with strong support from the public.

This article defines "strong executive leadership" as leadership who can control legislators on the basis of strong public support because preferences over expenditure policies between an executive leader and rank and file legislators are different. Rank and file legislators have incentives to expand public spending for legislators' individual reputation, while executive leadership has incentives to restrain public spending for reputation of his or her party or the government. The role of executive leadership in fiscal policies is to reject legislators' demands for extending a budget. In order to reject legislators' demands and formulate a reasonable budget, executive leadership needs support from the public instead of a legislative branch.

I can expect criticisms against my definition of strong leadership. Critics will claim that the prime minister with support from a ruling party or the president with support from a legislative branch can exercise strong leadership. Consequently, in an empirical part I will verify which type of executive leadership, one obtaining public support or one receiving support from legislators, is more likely to maintain fiscal discipline.

Note that most countries have a massive budget deficit and executive leadership faces pressure to reduce fiscal deficits recently. Therefore, it is considered that executive leadership consistently has incentives to restrain government expenditure and maintain fiscal discipline.

I propose the following hypothesis.

> Hypothesis: Executive leadership with stronger public support is more likely to restrain fiscal expenditure and maintain fiscal discipline.

3 The Budget Process in Japan: The Prime Minister's Involvement in Budget Formulation

In order to support this hypothesis, I focus on Japan and analyze how the prime minister determines fiscal spending.

The Japanese government issued construction bonds in 1966 and deficit-covering bonds in 1976 for the first time in the postwar period. Figure 1 illustrates accumulative long-term debts of the central and local governments in Japan. Since the late 1970s, the government has seriously been concerned about budget deficits and attempted to reform fiscal balances. The Ohira Cabinet (1978-1980) announced that Japan faced a severe fiscal crisis and the government needed to rebuild public finances. The Suzuki Cabinet (1980-1982) undertook administrative and fiscal reforms and the Nakasone Cabinet (1982-1987) adopted a serious stance on reforms. The Nakasone Cabinet cut fiscal expenditure and reduced the government size by imposing an upper limit on a budget and privatizing public companies such as the Japanese National Railways, the Nippon Telegraph and Telephone Public Corporation, and the Japan Tobacco and Salt Public Corporation. After the Ohira Cabinet and the Nakasone Cabinet concretely tried to adopt sales tax but failed, the Takeshita Cabinet (1987-1989) at last succeeded in its introduction in 1989. The Hosokawa Cabinet (1993-1994) attempted to raise the sales tax rate from 3% to 7% in spite of failing, while the Murayama Cabinet (1994-1996) raised the sales tax rate from 3% to 5%. The Hashimoto Cabinet (1996-1998) and the Koizumi Cabinet (2001-2006) pursued significant administrative and fiscal reforms to rebuild government finances. In particular, the Koizumi Cabinet drastically succeeded in restraining fiscal expenditure and reducing the government size. In short, since the late 1970's, Japan has faced fiscal deficits and the government has been forced to improve fiscal balances.

It is technically argued that problems caused by fiscal deficits are 1) inequality between generations, 2) crowding-out effects or inflation, and 3) fiscal rigidity. From a viewpoint of people, they are concerned that special-interest politics causes fiscal deficits that lead to future tax increases. If the government cannot restrain fiscal deficits, people do not trust a ruling party's governance capacity and a ruling party may fail a next election. Therefore, the prime minister, as a ruling party leader, is required to restrain government expenditure.

<Figure 1 should go around here>

Who formulates a budget in Japan?[7] It is the Ministry of Finance (MOF) that directly drafts a budget. Each ministry submits required budget amount to the MOF and the MOF makes a draft budget every fiscal year. However, the Liberal Democratic Party (LDP), which has nearly consistently been in office since its formation in 1955, has positively engaged in budget formulation since the late 1960's and been involved in decision of the guideline for budget estimated request since the 1980's (Mabuchi 1993 and 2004). The prime minister attempts to set an upper limit on total expenditure, while rank and file legislators tries to expand spending. In particular, *zoku* legislators, who have special interests and expertise in each policy area, aim to obtain more budgets in cooperation with each spending ministry. Each ministry's request reflects demands from ruling party legislators.

Every May, each ministry starts to make the budget request (*Gaisan Yokyu*), which shows required policy spending. Within a ministry, divisions evaluate budget requests from sections in May and then bureaus assess requests from divisions in June. An accounts division of each ministry calculates requests from bureaus and summarizes the budget request as a ministry in July and August. In late July, the MOF indicates the guideline for the budget request (*Gaisan Yokyu Kijun*), which sets an upper limit on the budget amount that each ministry can request. Finally, a ministry submits the budget request to the MOF at the end of August. The Budget Bureau of the MOF conducts hearings with ministries in September and evaluates the budget request in October and November. In December, the MOF makes a draft budget. The MOF's draft budget is reported at a Cabinet meeting and announced to ministries. After restoration negotiations between the MOF and each ministry, the government approves the MOF's draft as a government budget draft. The government submits a draft to the Diet in next January. The Diet usually enacts a government budget without revision of increase or decrease in spending.

How can the prime minister determine the budget size under this budget formulation process? The prime minister's way to restrain government expenditure is, first, to make a public commitment on expenditure targets in a party president election, a national election, a Cabinet

[7] The description of the budget process here is based on Mabuchi (2004: chapter 10).

meeting, or the prime minister's policy speech in the Diet. Next, concretely, the prime minister can set an upper limit on the spending size that each ministry can request to the MOF in the stage of the guideline for the budget request.

Contrary to common belief that the MOF governs budget formulation in Japan, I have shown that both the prime minister and rank and file legislator are fully involved in the budget process. In particular, the MOF consistently aspires to maintain fiscal balances due to its responsibility as a fiscal authority. Therefore, when the prime minister aims to restrain fiscal expenditure, he can cooperate with the MOF and use the ministry to achieve his goal. In short, the prime minister manage to determine the budget size by making a public commitment on expenditure targets and setting an upper limit for the spending size in the stage of the guideline for the budget request.

4 The Model

Through quantitative analyses I test my hypothesis that executive leadership with stronger public support is more likely to restrain fiscal expenditure and maintain fiscal discipline. I make time series analyses regarding strength of the prime minister and fiscal discipline between 1961 and 2005 in Japan. The reason that an observation period starts in 1961 is that the data of the Cabinet approval rating are available from 1960.

In making a time series analysis, we should pay attention to problems of autocorrelation and heteroskedasticity. If errors correlate with each other (autocorrelation) or errors do not have homogeneous variance (heteroskedasticity), an ordinal least square (OLS) regression cannot make effective estimates. Therefore, I first run standard OLS regressions and conduct the Durbin-Watson test for autocorrelation and the Breusch-Pagan test for heteroskedasticity. If autocorrelation or heteroskedasticity is detected, I will implement measures to solve the problem and run other models.

The dependent variable for fiscal expenditure is *Fiscal Expenditure* $_t$, which is the year-to-year percentage change in the ratio of the general account expenditure excluding the bond expenditure to GDP from term t-1 to term t.[8] The general account expenditure is the annual closing

[8] The fiscal data are based on the information of the Ministry of International Affairs and Communications and the Ministry of Finance. The GDP data are based on the information of the Cabinet Office.
<http://www.stat.go.jp/data/chouki/zuhyou/05-02.xls>
<http://www.stat.go.jp/data/chouki/zuhyou/05-03.xls>
<http://www.mof.go.jp/jouhou/syukei/syukei.htm>
<http://www.esri.cao.go.jp/jp/sna/qe011-68/gaku-jfy01168.csv>
<http://www.esri.cao.go.jp/jp/sna/qe053/gaku-jfy0531.csv>

of accounts including both the initial and supplementary budgets. The annual closing of the general account expenditure including the initial and supplementary budgets is considered appropriate as the measure for fiscal expenditure of national government because it is a comprehensive and ultimate index of national government expenditure. The reason for excluding the bond expenditure is that it is expenditure for redemption and interests of past national bonds and the government cannot arbitrarily determine its size. Using the year-to-year percentage change as the dependent variable is considered reasonable because the Japanese budgetary process is incrementalism. By indicating the budgetary request guidelines every July before each ministry's budgetary request formulation, as stated above, the MOF sets an upper limit of each ministry's budget request as compared with the previous fiscal year (Mabuchi 2004: chapter 10). Budgetary formulation and negotiation have been based on the budget of previous year in Japan.

The key independent variable for strength of the prime minister is *Cabinet Approval Rating* $_{t-1}$, which is the log of the average of the preceding fiscal year's Cabinet approval ratings (April-March). The reason for using the preceding fiscal year's values is that the budget implemented in term t is formulated in term t-1. The data of the Cabinet approval rating come from *Jiji Yoron Chosa* [the Jiji Opinion Poll] by *Jiji Tsushin Sha*.[9] The poll has been conducted every month since 1960. I average out of the Cabinet approval ratings between April and March. The hypothesis suggests that *Cabinet Approval Rating* $_{t-1}$ should have a negative influence on the dependent variable. Figure 2 shows time series values of *Cabinet Approval Rating* $_{t-1}$ and *Fiscal Expenditure* $_{t}$.

<Figure 2 should go around here>

Some may argue that the Cabinet approval rating is not an appropriate measure of the prime minister's strength because it represents not only the prime minister's individual popularity but also a ruling party's one.[10] However, my hypothesis is based on the assumptions that rank and file legislators of a ruing party are supposed to follow the prime minister if the prime minister is popular and can lead them to an electoral win. If the prime minister encourages a ruling party's popularity, legislators should be more likely to accept the prime minister's policies. Therefore, the fact that the Cabinet approval rating reflects a ruling party's popularity indicates that the Cabinet approval rating is more appropriate as a measure of the prime minister's strength in order to

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[9] The data can be obtained from *Yoron Chosa Nenkan* [the Opinion Poll Yearbook] issued by the Cabinet Office.

[10] Miyake *et al*. (2001: chapter 8) show that people's support for LDP is one of major factors determining the Cabinet approval rating in Japan

examine my hypothesis.

I put two independent variables for political factors. First, as already stated, contrary to my definition of strong executive leadership, some may argue that a strong executive leader is the prime minister with support from a ruling party or the president with support from a legislative branch. Thus, I put *Factionally-Balanced Cabinet Line-Up* $_{t-1}$, which is a correlation coefficient between a faction's share of the LDP's Lower House members and its share of Cabinet posts.[11] The LDP has had strong factions and, by tradition, the prime minister has proportionally allocated Cabinet posts to factions according to each faction's size (Cox *et al.* 1999; Kawato 1996; Köllner 2004; Park 2001; and Sato and Matsuzaki 1986). Cabinet reshuffling is a top concern for ruling party legislators and Cabinet portfolio determines each faction's attitude toward the prime minister. When the prime minister proportionally distributes posts to factions, he shows his cooperative attitude toward ruling party members and most of them will support him. In contrast, when the prime minister unproportionally distributes post, it is a sign of his adversarial stand against some factions and thus members of discriminated factions turn against him. Hence, *Factionally-Balanced Cabinet Line-Up* $_{t-1}$ represents the prime minister's attitude toward ruling party legislators. Including *Factionally-Balanced Cabinet Line-Up* $_{t-1}$ allows us to examine whether the prime minister who receives high support from a ruling party is more likely to restrain fiscal expenditure. If it is appropriate to define the strong prime minister as the prime minister whom ruling party members strongly support, *Factionally-Balanced Cabinet Line-Up* $_{t-1}$ should be negative. The reason for using *Factionally-Balanced Cabinet Line-Up* $_{t-1}$, instead of *Factionally-Balanced Cabinet Line-Up* $_{t}$, is also that the budget implemented in term t is formulated in term t-1.

Second, as stated above, Miles-Ferretti *et al*. (1999) and Person and Tabellini (2003) note that a proportional representation system is more likely to expand fiscal spending than a plurality system. Japanese electoral system of the Lower House was once a multiple-member district system (single non-transferable vote) between 1949 and 1993. In 1996, the electoral system was changed into a system that combines single-member districts (SMD) and proportional representation (PR). I include a dummy variable, *SMD & PR* $_{t-1}$, which is coded 1 if the electoral system is a combination of SMD and PR. The reason for using *SMD & PR* $_{t-1}$, instead of *SMD & PR* $_{t}$, is also that the budget implemented in term t is formulated in term t-1.

As control variables, I include three economic parameters that are considered to influence fiscal expenditure. First, tax revenue is considered to affect fiscal expenditure. An increase in tax

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[11] The data are obtained from Sato and Matsuzaki (1986); *Asahi Nenkan*, each issue; and *Kokkai Binran*, each issue. Regarding the Hosokawa Cabinet (1993-1994) and the Hata Cabinet (1994), coalition governments consisted of anti-LDP parties, I used a correlation coefficient between a party's share of Lower House members within the ruling parties and its share of Cabinet posts.

revenue can cause an increase in fiscal expenditure. I put *Tax Revenue* $_t$, which is the year-to-year percentage change in the rate of the ratio of the taxes and stamp revenue to GDP from term t-1 to term t.[12] The taxes and stamp revenue is also the annual closing of accounts. Second, *Government Debt* $_t$, which is the year-to-year percentage change in the rate of the government debts and borrowings to GDP from term t-1 to term t, is included to control for effects of accumulated fiscal deficits on budget formulation.[13] Finally, I include *Population Ration of People Aged 65 and over* $_t$, the log of population ratio of people aged 65 and over. Development of the aging of the population tends to extend public welfare expenditure. In addition, elderly people may demand to expand government expenditure because they do not have to worry about oncoming tax increase caused by a present spending increase.

We may need to control for political business cycles. Inoguchi (1983) and Kohno and Nishizawa (1991) observe that in Japan the government tends to expand fiscal expenditure around the time of an election in order to win an election. Furthermore, it is possible that the government maintaining a very slim majority of seats in the Diet is more likely to expand the budget and stimulate the economy to increase or maintain its seats in a next election. On the other hand, the government holding an outright majority does not have to seriously worry about its seats. Therefore, I ran models including four control variables for the relationship between elections and fiscal spending: *Lower House Election* $_t$, the dummy variable coded 1 if an Lower House election is held in term t; *Upper House Election* $_t$, the dummy variable coded 1 if an Upper House election is held in term t; *Ruling Party's (Parties') Seat Share in the Lower House* $_{t-1}$; and *Ruling Party's (Parties') Seat Share in the Lower House* $_{t-1}$. Regression analyses showed that these four variables were not significant and adding them did not influence effects of other independent variables. As a result, I exclude these four variables from main analyses.

Table 1 indicates summary statistics of variables.

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[12] The tax revenue data are based on the information of the Ministry of International Affairs and Communications.
<http://www.stat.go.jp/data/chouki/zuhyou/05-01.xls>

[13] The fiscal deficit data are based on the information of the Ministry of International Affairs and Communications and the Ministry of Finance.
<http://www.stat.go.jp/data/chouki/zuhyou/05-12.xls>
<http://www.mof.go.jp/jouhou/kokusai/siryou/zandaka02.pdf>

5 Results

5.1 1961-2005

Table 2 shows the OLS regression results between 1961 and 2005. At the beginning, I verify whether the models can make effective estimates regarding autocorrelation and heteroskedasticity. First, I use the Durbin-Watson test for autocorrelation. The Durbin-Watson ratio of each model shows that the presence of autocorrelation in the errors can be rejected ($p < 0.05$). That is, there is no autocorrelation in the errors. Second, I used the Breusch-Pagan test for heteroskedasticity. The test cannot reject homoskedasticity in errors. As a result, the two tests demonstrate that the OLS regression models can make effective estimates.

I run five regressions to test the model's robustness. *Cabinet Approval Rating* $_{t-1}$, the key independent variable for strength of the prime minister, is statistically significant at 0.1% or 1 % level and negative in all models. These results indicate that the prime minister with higher Cabinet approval ratings is more likely to restrain fiscal expenditure. That is, my hypothesis that executive leadership with stronger public support is more likely to restrain fiscal expenditure and maintain fiscal discipline is sufficiently supported.

The two variables for political factors, *Factionally-Balanced Cabinet Line-Up t-1* and *SMD & PR* $_{t-1}$, are not significant. In particular, insignificance of *Factionally-Balanced Cabinet Line-Up t-1* illustrates that we cannot observe that the prime minister who receives stronger support from his ruling party, the LDP, maintains fiscal discipline. Another political parameter, *SMD & PR* $_{t-1}$ is not significant, either. We cannot find electoral rules' impact on fiscal spending.

Regarding control variables for economic conditions, *Tax Revenue* $_t$ is significant at 5% level and positive in Model 3 and 5. These results support a common theory that increases in tax revenues tend to inflate public expenditure. *Government Deficit* $_t$ is also significant at 5 % level and positive in Model 5. Debts do not limit increases in fiscal expenditure but they allow the government to inflate expenditure. *Population Ration of People Aged 65 and over* $_t$ is negatively significant in Model 5 but not significant in Model 4.

<Table 2 should go around here>

The OLS regression analyses fully support my hypothesis that executive leadership with stronger public support is more likely to restrain fiscal expenditure and maintain fiscal discipline. On the other hand, we cannot observe the prime minister who receives strong support from the ruling party maintains fiscal discipline. As a result, regarding fiscal policies, the analyses here support my argument that strong executive leadership is leadership based on strong public support instead of the alternative argument that strong executive leadership is leadership based on strong support from a ruling party or a legislative branch.

5.2 1961-2001

The quantitative analyses demonstrate that the prime minister with stronger public support is more likely to restrain government spending. In contrast, it is commonly believed that Jun'ichiro Koizumi, who stayed in office between 2001 and 2006, was the first prime minister who built strong leadership, while the prime ministers before Koizumi had not fully exercised their leadership in the government and the ruling party.

The former multi-member constituency system (single non-transferable vote: SNTV) in the Lower House obliged the LDP to field about three or four candidates in each district to win a majority of seats. Because LDP candidates competed with one another in a same district, support for the party did not contribute to candidates' win. Instead of the party, political factions within the party played an important role in leading candidates to win and thus controlled the party such as selecting the party president, appointing posts, and making policies. Moreover, the policymaking process of the LDP was a decentralized and bottom-up style before the Koizumi Cabinet. *Zoku* legislators, who had special expertise and influence of each specific policy area, had played an important role in policymaking.

Many scholars argue that former Prime Minister Koizumi built strong leadership of the prime minister in the government and the Liberal Democratic Party (LDP) due to the political and administrative reforms in the 1990s (*e.g.*, Ito 2006; Machidori 2005; 2006; Makihara 2005). In 1996, Japan adopted a new electoral system, a combination of single-member district and proportional representation. Under the new system candidates from different parties compete for one seat in each district instead of competition between LDP candidates. Therefore, party label and party official endorsement become essential to each candidate's electoral win. Moreover, since only one party candidate runs in each district, party leadership has the power to select candidates. By holding the power to select candidates, party leadership, the prime minister, can control party members.[14]

In addition, the administrative reforms since the late 1990s has advanced the prime minister's leadership and policymaking capacity. Due to the revision of the Cabinet Law in 1998 and 1999, in addition to enhancement of the legal position of the prime minister and the Cabinet Office, the prime minister can gain the policymaking body such as the Council on Economic and Fiscal Policy (CEFP), assistants to the prime minister, and Cabinet Office bureaucrats who report

[14] Even after the electoral reform of the Lower House in 1996, factions kept their power to some extent (Cox *et al*. 1999; Köllner 2004; Park 2001).

directly to the prime minister. In particular, the CEFP has played an important role in the prime minister-led system of policymaking since its foundation in 2001.

Contrary to the common belief described above, my theory proposes that the prime minister should have incentives to maintain fiscal discipline and be able to influence fiscal policies even before the Koizumi Cabinet if he receives strong public support.[15] In order to support the theory, I make time series analyses between 1961 and 2001. Models and variables are the same with those of the regressions in section 5.1. Table 3 illustrates results. The Durbin-Watson test indicates that these models have no autocorrelation in the errors ($p < 0.05$). The Breusch-Pagan test also shows that homoskedasticity in errors cannot be rejected. Thus, the two tests demonstrate that the OLS regression models can make effective estimates.

Even when the analytical period is restricted between 1961 and 2001, before the Koizumi Cabinet, *Cabinet Approval Rating* $_{t-1}$, the key independent variable for strength of the prime minister, is still significant at 0.1% or 1 % level and negative in all models. These results show that the prime minister with higher Cabinet approval ratings was more likely to restrain fiscal expenditure between 1961 and 2001. In contrast, *Factionally-Balanced Cabinet Line-Up t-1* is not significant in either models That is, even before the Koizumi Cabinet, the prime ministers receiving stronger public support was more likely to restrain expenditure and maintain fiscal discipline.

<Table 3 should go around here>

6 Case Studies

In order to enhance my hypothesis that the quantitative analyses already support, I explain three Cabinets' fiscal policies: the Nakasone Cabinet (1982-1987), the Mori Cabinet (2000-2001), and the Koizumi Cabinet (2001-2006). The Nakasone Cabinet and the Koizumi Cabinet received high public support and thus restrained fiscal spending. On the other hand, the Mori Cabinet, unpopular among voters, expanded fiscal spending. My purpose here is to examine the relationship between the prime minister's leadership and economic and fiscal policies. I am not concerned with foreign and defense policies.

6.1 The Nakasone Cabinet (1982-1987)

In November 1982, Yasuhiro Naksone took office. During five years in office, he

[15] Krauss and Nyblade (2005) argue that the decreased vote share of the LDP, the increasing percentage of the public who did not support any political party, and the increasing importance if television in politics have led to an increase in the importance of the Japanese prime minister's public image over the last two decades

implemented tight budget policies and administrative and fiscal reforms under the slogan of "fiscal reconstruction without tax increase." The Nakasone Cabinet's policies and reforms derive from the previous Suzuki Cabinet (1980-1982). The Suzuki Cabinet tried to improve fiscal balances, facing a massive budget deficit caused by the end of high economic growth, huge public investment, and increasing social security costs. Prime Minister Zenko Suzuki originally presented "fiscal reconstruction without tax increase," a synonym for the Nakasone Cabinet. Also, the Suzuki Cabinet established the second Ad Hoc Commission on Administrative Reform (*Daini Rincho*), which initiated Nakasone's reforms and appointed Toshio Doko as the chair of the commission in 1981.

Nakasone was from the fourth biggest faction and his foundation within the party was weak. He won the party president election with support from the biggest Tanaka faction. For the first cabinet formulation he appointed Susumu Nikaido from the Tanaka faction as the Secretary-General of the party and gave the faction seven Cabinet posts. Nakasone, who did not have a strong support base, needed to depend on the Tanaka faction in order to stably manage the government. On the other hand, significantly, he sought to gain public support by implementing administrative and fiscal reforms. People were disaffected with pork-barrel politics and lax finance. After the suggestion of Prime Minister Masayoshi Ohira (1978-1980) that the government planed to introduce sales tax caused the ruling LDP to lose a majority of seats in the Lower House election of 1979, the LDP turned to fiscal reconstruction thorough cut in expenditures instead of increasing taxes. Nakasone aspired to keep him and the LDP in power by achieving fiscal reconstruction and showing the governance capacity of him and the party.

Nakasone formulated and implemented his fiscal and economic policies, based on neo-liberalism, the philosophy that economically values the market mechanism and reduction of the role of government to promote economic efficiency. Nakasone generally accepted neo-liberalism from the Thatcher administration in the U.K. and the Regan administration in the U.S. Nakasone ordered the second Ad Hoc Commission on Administrative Reform to plan outline of economic and fiscal policies and the council submitted reports calling for fiscal reconstruction without tax increase, maintenance of austerity budget, and privatization of the three companies such as the Japanese National Railways, the Nippon Telegraph and Telephone Public Corporation, and the Japan Tobacco and Salt Public Corporation. Nakasone formulated budgets and implemented reforms according to its outline.

The Nakasone Cabinet formulated the supplementary budget of 1982 and the initial and supplementary budgets of 1983-1988. Naksone developed zero-based budgeting, which the previous Suzuki Cabinet initiated, and consistently had minus-based budgeting from 1983. As stated in section 3, by showing the guideline for the budget request (*Gaisan Yokyu Kijun*), the Ministry of

Finance (MOF) sets an upper limit on the budget amount that each ministry can request. Minus-based budgeting forced spending ministries to reduce the requested amount as compared to the previous fiscal year and revolutionary limited the growth of expenditures. See Figure 3, which shows the general expenditure and expenditure on public works of each fiscal year (the Ministry of Finance, 2006, *Zaisei Tokei*). The two accounts are settlement of accounts including the initial and supplementary budgets. The general account is substantial policy costs and excludes bond and local government finance spending from the general account expenditure which is the government's total expenditure. By the 1982 budget, both the general expenditure and expenditure on public works clearly increased but their increases suddenly stopped under the Nakasone Cabinet. In particular, the Nakasone Cabinet significantly succeeded in the increase of the general expenditure.

<Figure 3 should go around here>

Nakasone accomplished a historical achievement, privatization of the Japanese National Railways, the Nippon Telegraph and Telephone Public Corporation, and the Japan Tobacco and Salt Public Corporation. He attempted to leave to the private sector what it can do, based on the neo-liberalism. First, he worked on privatization of the Nippon Telegraph and Telephone Public Corporation and the Japan Tobacco and Salt Public Corporation. After the Diet passed the bills to privatize the Japan Tobacco and Salt Public Corporation on August 3 and the bills to privatize the Nippon Telegraph and Telephone Public Corporation on December 20 in 1984, the two companies were privatized on April 1 1985. Nakasone could generally smoothly privatize the two companies because the government generally guaranteed workers' employment after privatization.

On the other hand, privatization of the Japanese National Railways (JNR), which had over 37 trillion yen accumulated debt, faced serious difficulties. It could easily be expected that JNR privatization would cause massive job cuts. The National Railway Workers' Union, one of the strongest and biggest unions, strictly opposed JNR privatization for fear of workforce cuts. Also, those politicians who were concerned that a newly privatized railway would review some unprofitable lines also rejected its privatization (Samuels 2003: p. 20). Moreover, bureaucrats, in particular Ministry of Transport, objected to JNR privatization because it would ruin their licensing and approval authority.

Facing strong opposition from the union, politicians, and bureaucrats, Nakasone carried out JNR privatization, depending on public support (Samuels 2003: p22, 23). The public was disgusted at the costs and incontinences of the JNR. Nakasone appealed to the public that JNR privatization would benefit the public. Most importantly, Nakasone implemented JNR privatization reforms in cooperation with Toshio Doko. Doko served as the president of Ishikawajima-Harima Heavy

Industries and Toshiba and restructured the two companies. He was also the chair of the Federation of Economic Organizations (*Keidanren*), the biggest business group in Japan, between 1974 and 1980. Doko led Nakasone's reforms as the chair of the second Ad Hoc Commission on Administrative Reform (1982-1983) and the chair of the Provisional Council on Administrative and Fiscal Reform (1983-1986). Doko was a powerful business administrator, while he was famous for his modest life. A NHK TV program of 1982 broadcasted his daily life and reported that he dressed simply and took plain food in a small house in spite of a top manager. Many people warmed to and supported him. By using Doko's popularity Nakasone pursued administrative and fiscal reforms, in particular privatization of the JNR, and austerity budgets.

Austerity budgets and privatization of the public companies would make legislators difficult to bring benefits to their district. However, since people generally supported Nakasone's policies in combination with their support for Doko, legislators reluctantly accepted Nakasone's policies. That is, Nakasone pursued his neo-liberal reforms with public support. At the same time, by working on administrative and fiscal reforms, he increased public support for him. Figure 4 illustrates the Nakasone Cabinet's approval rating. The approval rating gradually increased from 30 % in the early days of the government and exceeded 50 % in July 1985. The average approval rating of the Nakasone Cabinet was 40.7 %, while the average approval rating of the Cabinets between 1960 and 2006 was 36.5%. With high public support Nakasone achieved a historical win in the simultaneous elections for the Lower House and Upper House of July 1986. The LDP, which won only 250 seats in the last election of 1983, obtained 300 seats of the 512 seats in the Lower House. Similarly, the party earned 72 seats for a total of 142 of the 252 seats in the Upper House election.

The landslide win reinforced Nakasone's dominance because he, as a political entrepreneur, achieved high party reputation and led party legislators to the electoral win. The LDP changed a party rule and extended his term in office as the party president for another year at the Joint Plenary Meeting of Party Members of Both Houses of the Diet on September 11 1986. The Diet passed the bills to divide and prioritize the JNR on October 28 1986 and the JNR was prioritized on Aril 1 1987.

<Figure 4 should go around here>

In summary, Nakasone accomplished austerity budgets and administrative and fiscal reforms by obtaining support from those who were concerned lax finance and fiscal deficit. Based on public support, he persuaded legislators, bureaucrats, and unions to accept his policies. At the same time, achieving reforms allowed him to obtain public support and reinforce his power. That is, Nakasone pursued reforms with public support, whereas he developed and obtained public support by achieving reforms.

6.2 The Mori Cabinet (2000-2001)

On April 2 2001, Prime Minister Keizo Obuchi was suddenly hospitalized after suffering a stroke. Obuchi became comatose and thus the selection of the new prime minister became necessary. Chief Cabinet Secretary Mikio Aoki and four top executive of the ruling LDP, Secretary-General Yoshiro Mori, Acting Secretary-General Hiromu Nonaka, Chairman of the Policy Research Council Shizuka Kamei, and Chairman of the General Assembly of LDP Members in the Upper House Masakuni Murakami, gathered together and decided to appoint Mori as the new president of the party. On April 5, the Joint Plenary Meeting of Party Members of Both Houses of the Diet formally elected Mori as the party president and the Diet appointed Mori as the prime minister. The media criticized that the only five members decided to elect Mori as the new prime minister in a backroom deal. Mori received lasting criticism for being undemocratically elected.

The Mori Cabinet earned 33.3 % approval rating in the early days of the government (Figure 5). However, since the media relentlessly tripped him up on his comments as inappropriate, in addition to the criticism for being undemocratically elected in a backroom deal, its approval rating suffered a sharp decline. The Cabinet was extremely unpopular among people, as compared to successive Cabinets. Its approval rating was 9.6 % in March and 10.8 % in April 2001 in the last days of the administration (*Jiji Yoron Chosa* [the Jiji Opinion Poll by *Jiji Tsushin Sha*]). Because of being unpopular among the public, Mori had no choice but to depend on the ruling party. Mori gave consideration to factions and very proportionally allocated Cabinet posts to factions according to each faction's size in his two opportunities to form a Cabinet.[16] Also, he consistently appointed legislators from the three biggest factions excluding his faction as three top executives of the party. Furthermore, in the second cabinet formulation he extremely exceptionally invited two former prime ministers, Kiichi Miyazawa and Ryutaro Hashimoto, to the Cabinet.

<Figure 5 should go around here>

A large number of people viewed expansionary fiscal action critically since they thought that pork-barrel projects benefited only special-interest group, inflated fiscal debts, and had little impact on economic recovery. In particular, Japan faced a serious financial crisis. Accumulating

[16] The correlation coefficients between a faction's share of the LDP's Lower House members and its share of Cabinet posts in Cabinets formed by Mori on July 4 and December 5 in 2000 were 0.971 and 0.893, respectively. The average of correlation coefficients between 1960 and 2005 is 0.814.

debts of the central and local government exceeded 600 trillion yen (about $5 trillion) and its ratio to the GDP was over 120% (Figure 1). On the other hand, ruling LDP legislators required the government to expand spending so that they could bring benefits to their constituency. Although Mori was torn between people and ruling party legislators, his Cabinet's low approval ratings forced him to accept ruling party legislators' demands and manage the government. Because of being unpopular among voters, Mori had no choice but to depend on the ruling party. In fact, he entrusted Chairman of the Policy Research Council of the LDP Kamei with economic management. Kamei was a large public spending-oriented legislator and thus positively increased public investments.[17]

The Mori Cabinet compiled a supplementary budget to stimulate the economy immediately after taking office in 2000. Subsequently, the government decided 11 trillion yen (about $100 billion) government spending (Kusano 2005: pp. 213-128). The Mori Cabinet formulated the supplementary budget of 2000 and the initial budget of 2001. See the Figure 3. In this figure both the general expenditure and expenditure on public works of the 2000 and 2001 budgets were extremely high (the Ministry of Finance, 2006, *Zaisei Tokei*). The Mori Cabinet implemented expansionary economic and fiscal management. Indeed, Japan suffered a serious economic recession in the 1990s and the government was required to stimulate the economy. However, the Hashimoto Cabinet and the Koizumi Cabinet also struggled with a serious slump but pursued a fiscal austerity to recover fiscal balances (Figure 3). Low public support forced the Mori Cabinet to expand fiscal spending.

In short, in spite of public criticism for lax finance, the Mori Cabinet kept expansionary economic and fiscal policies. As Mori could not receive public support, he had no option but to manage the government, depending on support from the ruling party. Mori could not reject demands from ruling party legislators to expand budgets. Eventually, most ruling party legislators required him to resign, arguing that he would not lead the party to electoral win in the next election. Mori was forced to resign after only one-year office since he could not fulfill his role as a political entrepreneur to promote party reputation.

6.3 The Koizumi Cabinet (2001-2006)

The LDP elected Jun'ichiro Koizumi as the party president on April 24 and then the Diet appointed him as the prime minister on April 26 in 2001. When Koizumi announced his candidacy for the party president election, most of politicians and the media believed that he would fail because few party legislators supported him. In this party president election, the LDP adopted a vote

[17] Kamei partly reviewed and canceled public works projects. However, overall, the Mori Cabinet formulated very high total expenditure and expenditure on public works in the 2000 and 2001 budgets, as Figure 3 shows.

of both party legislators and non-parliamentary members. In order to win, a candidate needed considerable support from party legislators. However, a result of the primary election by nonparliamentary members before the final election by legislators was shocking. Koizumi got 123 votes of 141 nonparliamentary members' votes. Nonparliamentary members' strong support for Koizumi came from their serious concern that the LDP would lose office. The LDP had never gained a majority of seats in any general election since 1993 and had been forced to confront a powerful opposition party, the Democratic Party of Japan (DPJ), since the late 1990s. Especially, as descried above, the previous Mori Cabinet (2000-2001) was extremely unpopular among people. Most nonparliamentary members expected Koizumi to receive high public support and keep the party in office (Ishikawa 2004: pp. 203, 204; Takenaka 2006: p. 148). Koizumi's landslide victory at the primary election forced party legislators to vote Koizumi at the final election. Public support gave birth to the Koizumi Cabinet.

During his five and half years in office, Koizumi consistently managed the government with strong support from the public. The Koizumi Cabinet kept extremely high cabinet approval ratings (Figure 6). The average approval rating of the Koizumi Cabinet was 47.3% (*Jiji Yoron Chosa*). His fresh image, attitudes against the LDP's traditional special-interest and factional politics, and media strategy contributed to his high popularity. On the other hand, few ruling party legislators supported him. From the very start of his administration, Koizumi appointed ministers without considering factional balances, breaking the party conventional rule that ministers must proportionally be appointed based on factional requests and size. His Cabinet formulation style generated massive protests from the ruling party.[18] In particular, the Kamei Faction and a Lower House group of the Hashimoto Faction, which were the most discriminated, strongly opposed Koizumi. In addition, Koizumi's small government-oriented economic and fiscal policies, as stated later, caused backlash of most ruling party legislates. Koizumi received high public support while few ruling party legislators supported him.

<Figure 6 should go around here>

Japan faced both a serious recession and a sever fiscal crisis in the 1990's. Facing these problems, most Cabinets prioritized economic recovery over fiscal reconstruction, whereas Koizumi prioritized fiscal reconstruction. The Koizumi Cabinet put together budgets for five fiscal years between 2002 and 2006. See Figure 3. The table shows the general expenditure and expenditure on

[18] The Factionally balanced rule was a device to encourage cooperation among party members (Sato and Matsuzaki 1986). Furthermore, faction leaders could control their faction members by allocating members to the Cabinet.

public works of each fiscal year (the Ministry of Finance, 2006, *Zaisei Tokei*). The table illustrates that Koizumi consistently restrained fiscal spending. While the general expenditure and expenditure on public works steadily increased before the Koizumi Cabinet, Koizumi drastically succeeded in building the declining trends of them. He implemented austerity budget formulation in spite of facing pressure from legislators and interest groups to expand public spending for economic recovery. Similarly, Koizumi decided various administrative and fiscal reforms to cut the government size, based on the ideas, "from a big government to a small government" and "from the public to the private sector." In particular, he privatized the four highway-related public corporations, governmental financial institutes, and the postal service.

In order to formulate austerity budgets and administrative and fiscal reforms at the prime minister's initiative, Koizumi used the Council on Fiscal and Economic Policy (CFEP, *Keizai Zaisei Shimon Kaigi*), a consultative organ built in 2001 to facilitate full exercise of the prime minister's leadership.[19] The CFEP allowed the prime minister to govern budget formulation by presenting outline and numeric goals in each stage of the budget process. Furthermore, the CFEP planned the administrative and fiscal reforms and contributed to the prime minister-led reforms.

The reasons that Koizumi sought to restrain government expenditure and restore fiscal balances were that he recognized a public aversion to patronage politics benefiting only interest groups, as well as Japan faced a serious fiscal crisis. By overthrowing LDP's traditional special-interest and factional politics, Koizumi and the LDP received pubic support (Ishikawa 2004: pp. 205, 206: Takenaka 2006: chapter 5). These restrained budgets and reforms formulated by Koizumi prevented pork-barrel politics. Legislators had difficulty in bringing benefits to their constituency.[20] Yet, LDP legislators reluctantly accepted these budgets and reforms, except for postal privatization. Indeed, a large number of party legislators strongly managed to reject the budgets or reforms in the ruling party review process. However, they finally approved submission of budgets and bills to implement reforms to the Diet, and voted for them.

Many scholars emphasize that electoral and administrative reforms since the middle 1990's allowed Koizumi to govern ruling party legislators (*e.g.*, Ito 2006; Machidori 2005; 2006; Makihara 2005). However, some LDP legislators rebelled against the postal privatization bills at a floor meeting of both houses in 2005. Among 250 LDP legislators, 37 voted against the bills and 14 abandoned from voting in the Lower House. Also, among 114 LDP legislators, 22 voted against the

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[19] <http://www.keizai-shimon.go.jp/english/about/index.html>

[20] Privatization of highway-related public corporations would limit highway construction. Funds deposited into postal saving and insurance were used for pork-barrel projects via governmental financial institutes. Thus, privatization of the postal service and governmental financial institutes would restrain pork-barrel projects.

bills and 14 abandoned from voting in the Upper House. If Prime Minister Koizumi had been able to strongly control party legislators, nobody would have rebelled.[21] In other words, LDP legislators reluctantly accepted Koizumi's budgets and reforms, except for postal privatization. If they had seriously rejected them, they should have rebelled. In addition, the previous Mori Cabinet had the same institutional conditions with the Koizumi Cabinet. Yet, the Mori Cabinet, due to its unpopularity among voters, could not exercised leadership or implement policies to recover fiscal balances. That is, high public support for Koizumi played a critical role in his exercising strong leadership and implementing policies to maintain fiscal discipline. Because Koizumi's high popularity contributed to party members' electoral win, they required Koizumi and accepted his policies.

Conclusion

This article has discussed what determines variations in fiscal discipline, focusing on executive leadership's influences on fiscal policies and performance in Japan. My research demonstrates that executive leadership has incentives to maintain fiscal discipline because he or she can stay in office by implementing appropriate fiscal management and developing his or her party's reputation, and leadership with stronger public support is more likely to contribute to the maintenance of fiscal discipline.

In particular, this article has three findings. First, while former studies mainly emphasize effects of budgetary and electoral rules on fiscal outcomes, I provide a different perspective and argue that variations in the prime minister's strength as an individual determine the spending size of the government. Second, this article contributes to defining strong executive leadership: leadership with strong public support or leadership with strong support from a legislative branch. My research shows that leadership with stronger public support is more likely to restrain fiscal spending, whereas a legislative branch's support for executive leadership does not influence the size of fiscal spending. That is, regarding fiscal policies, the analyses suggest that it is reasonable to define leadership based on strong public support as strong leadership. I generate these two findings from Japanese cases. I need to test my theory on other countries, both parliamentary and presidential countries, and tests will make my theory more developed and generalized. Finally, contrary to the common belief that the Japanese prime minister's leadership was weak and Jun'ichiro Koizumi, due to electoral and administrative reforms since the middle 1990s, exercised strong leadership for the

[21] Fujimura (2007) analyzes the power relationship between the prime minister and ruling party legislators and legislators' parliamentary voting, focusing on the political process of postal service privatization. This article shows that anti-Koizumi legislators underestimated the prime minister's power and thus rebelled.

first time, this article demonstrates that the prime ministers influenced fiscal policies with public support even before Koizumi.

This article shows that public support for an executive leader determines variations in his or her strength. Strong public support for a leader allows him or her to exercise strong leadership and maintain fiscal discipline. In that sense, the public is one f the important actors who deterines the government's economic and fiscal policies.

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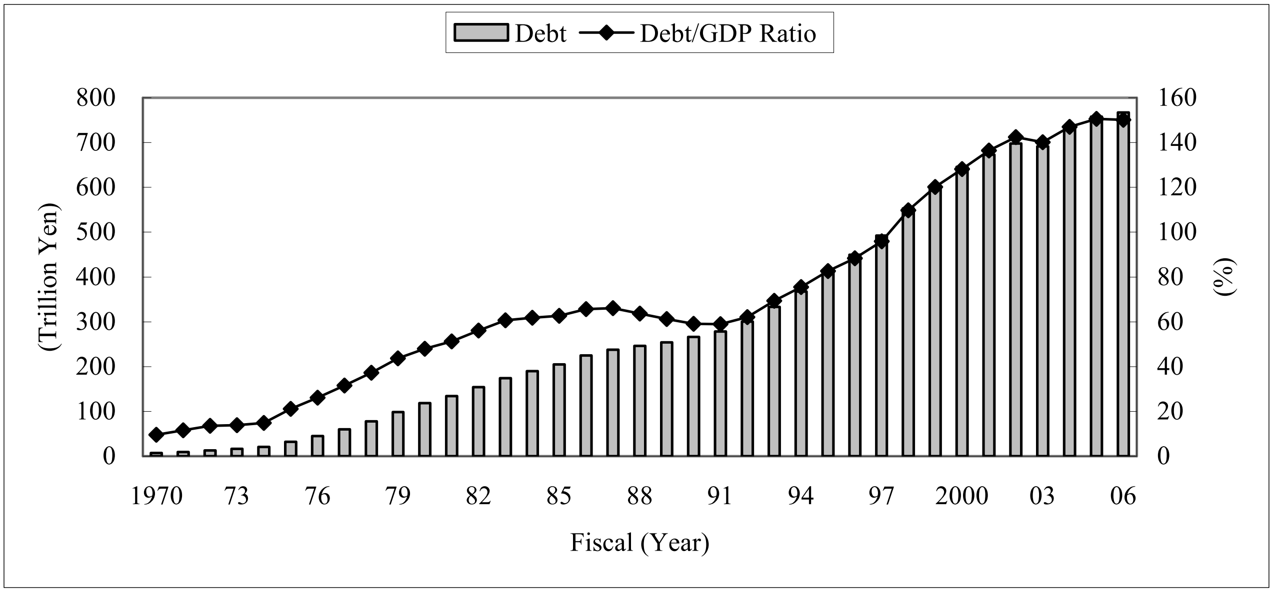
Figure 1 Accumulative Long-Term Debts of the Central and Local Government (1970-2006)



Resource: the website of the Ministry of Finance
< http://www.mof.go.jp/jouhou/syukei/siryou/sy1903h.pdf >

Figure 2 The Cabinet Approval Rating and Fiscal Expenditure (1961-2005)

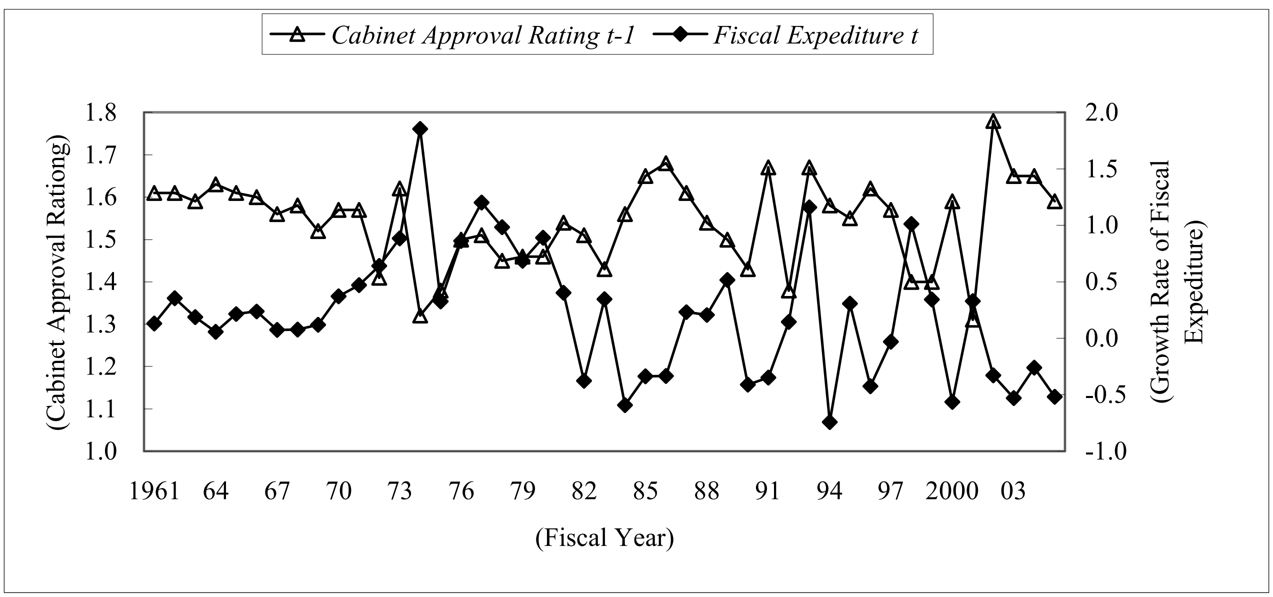


Table 1 Summary Statistics

	Mean	S.D.	Minimum	Maximum
Fiscal Expenditure $_t$	0.22	0.56	-0.74	1.85
Cabinet Approval Rating $_{t-1}$	1.54	0.10	1.31	1.78
Tax Revenue $_t$	0.15	0.56	-1.24	1.35
Government Deficit $_t$	3.43	3.85	-1.78	15.17
Population Ratio of People Aged 65 and over $_{t-1}$	0.14	0.57	-0.74	1.85
Factionally-Balanced Cabinet Line-Up t-1	0.82	0.15	0.27	0.98

Table 2 Ordinal Least Square Regression Analysis (1961-2005)

		Model 1		Model 2		Model 3		Model 4		Model 5	
		Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
	(constant)	4.324***	3.851	4.242**	2.893	5.075**	3.590	6.579***	4.388	6.215***	4.372
	Cabinet Approval Rating t-1	-2.661**	-3.655	-2.634**	-3.311	-2.952***	-3.900	-3.117***	-4.143	-2.635**	-3.578
Economic Parameters	*Tax Revenue t*					0.347*	2.581	0.266	1.957	0.274*	2.138
	Government Debt t									0.072*	2.427
	Population Ratio of People Aged 65 and over t							-0.801	-1.221	-1.375*	-2.077
Political Parameter	*Factionally-Balanced Cabinet Line-Up t-1*			0.049	0.088	-0.436	-0.782	-0.923	-1.412	-0.894	-1.452
	SMD & PR t-1							-0.159	-0534	-0.515	-1.627
R Square		0.238		0.238		0.345		0.426		0.503	
Adjusted R Square		0.220		0.220		0.297		0.353		0.425	
Durbin-Watson Statistic		1.766		1.766		1.765		2.065		1.900	
Number of Observations		45		45		45		45		45	

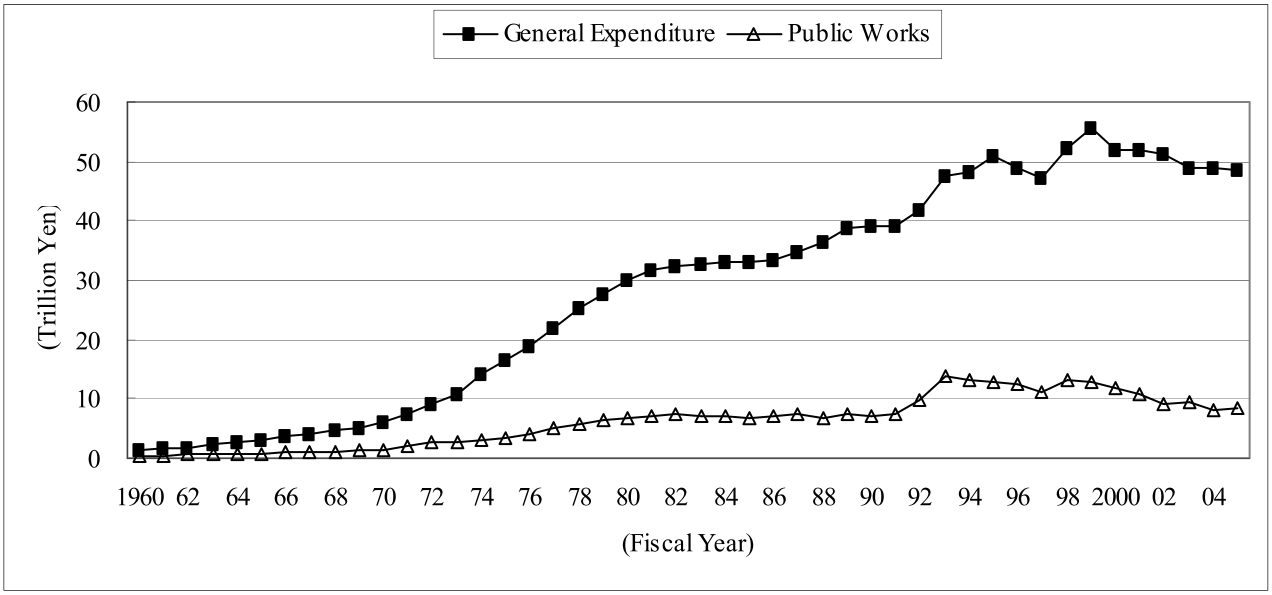
The dependent variable for fiscal expenditure is Fiscal Expenditure t, which is the year-to-year percentage change in the ratio of the general account expenditure excluding the bond expenditure to GDP from term t-1 to term t.
***: $p < 0.001$, **: $p < 0.01$, *: $p < 0.05$

Table 3 Ordinal Least Square Regression Analysis (1961-2001)

		Model 6		Model 7		Model 8		Model 9		Model 10	
		Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
	(constant)	3.970**	3.164	5.052**	3.293	6.248***	4.271	7.048***	4.461	6.439***	4.150
	Cabinet Approval Rating t-1	-2.411**	-2.947	-2.527**	-3.079	-2.998***	-3.962	-3.230***	-4.047	-2.667**	-3.251
Economic Parameters	*Tax Revenue t*					0.417**	3.099	0.358*	2.445	0.349*	2.480
	Government Debt t									0.069	1.956
	Population Ratio of People Aged 65 and over t							-0.423	-0.601	-1.049	-1.401
Political Parameter	*Factionally-Balanced Cabinet Line-Up t-1*			-1.064	-1.153	-1.714	-1.994	-1.710	-1.785	-1.473	-1.585
	SMD & PR t-1							-0.051	0.175	-0.486	-1.436
R Square		0.182		0.210		0.373		0.404		0.464	
Adjusted R Square		0.161		0.168		0.322		0.319		0.370	
Durbin-Watson Statistic		1.759		1.796		1.928		2.086		1.991	
Number of Observations		41		41		41		41		41	

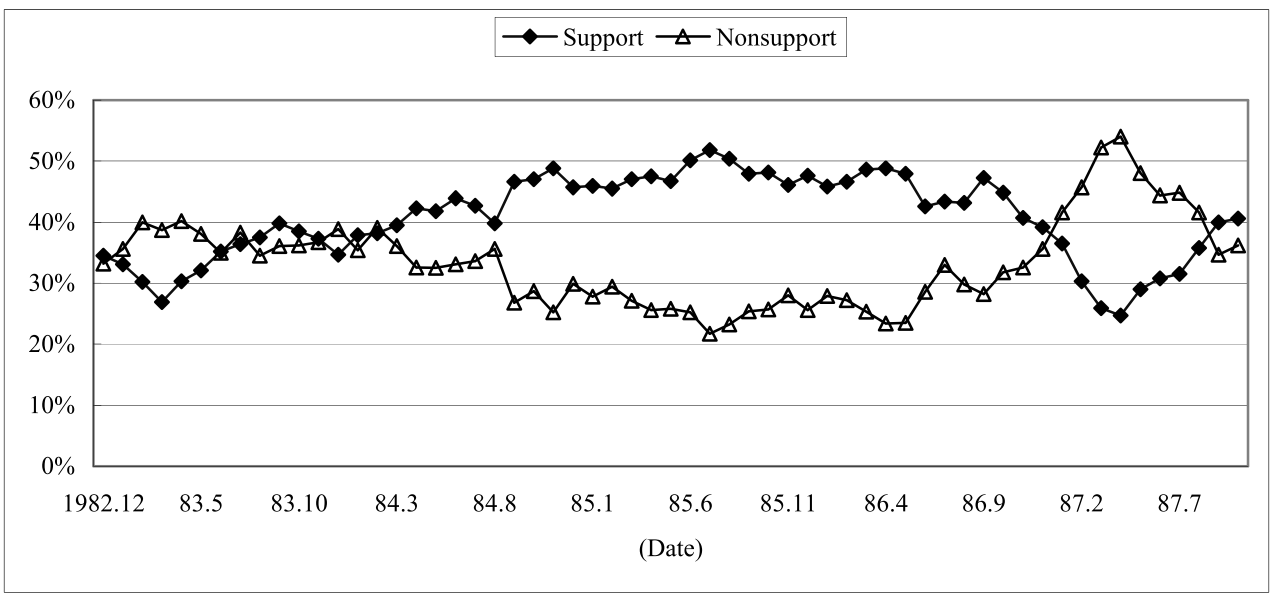
The dependent variable for fiscal expenditure is Fiscal Expenditure t, which is the year-to-year percentage change in the ratio of the general account expenditure excluding the bond expenditure to GDP from term t-1 to term t.
***: $p < 0.001$, **: $p < 0.01$, *: $p < 0.05$

Figure 3 The General Expenditure and Expenditure on Public Works (1960-2005)



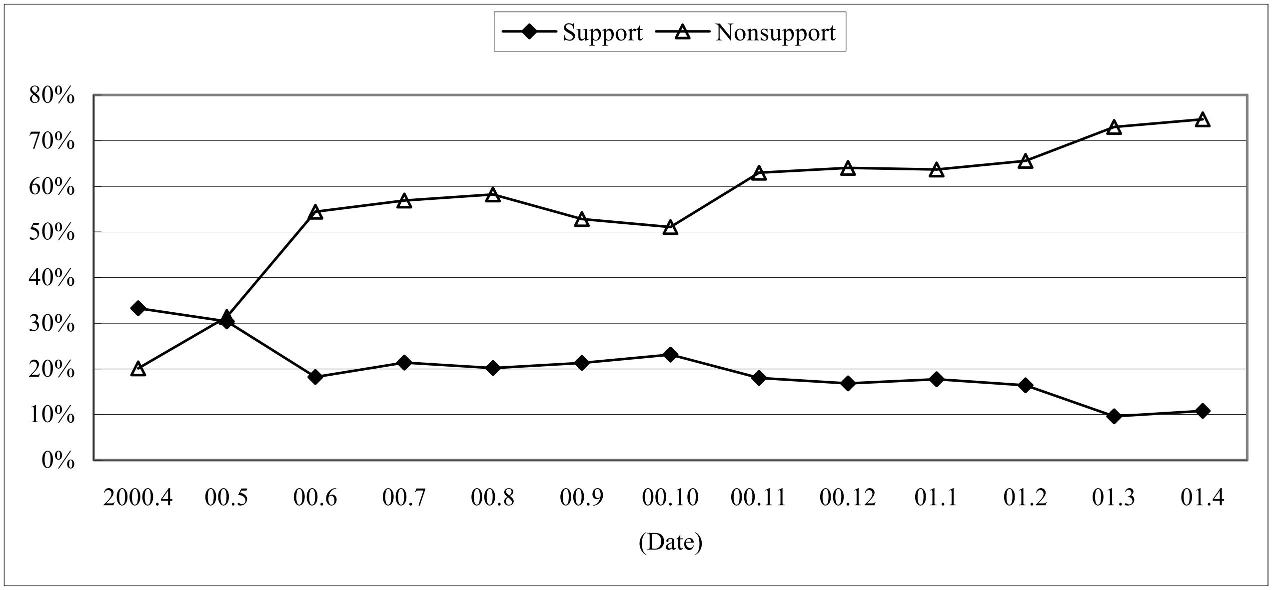
Resource: the Ministry of Finance, 2006, *Zaisei Tokei*

Figure 4 The Nakasone Cabinet's Support and Nonsupport Ratings (December 1982-October 2001)



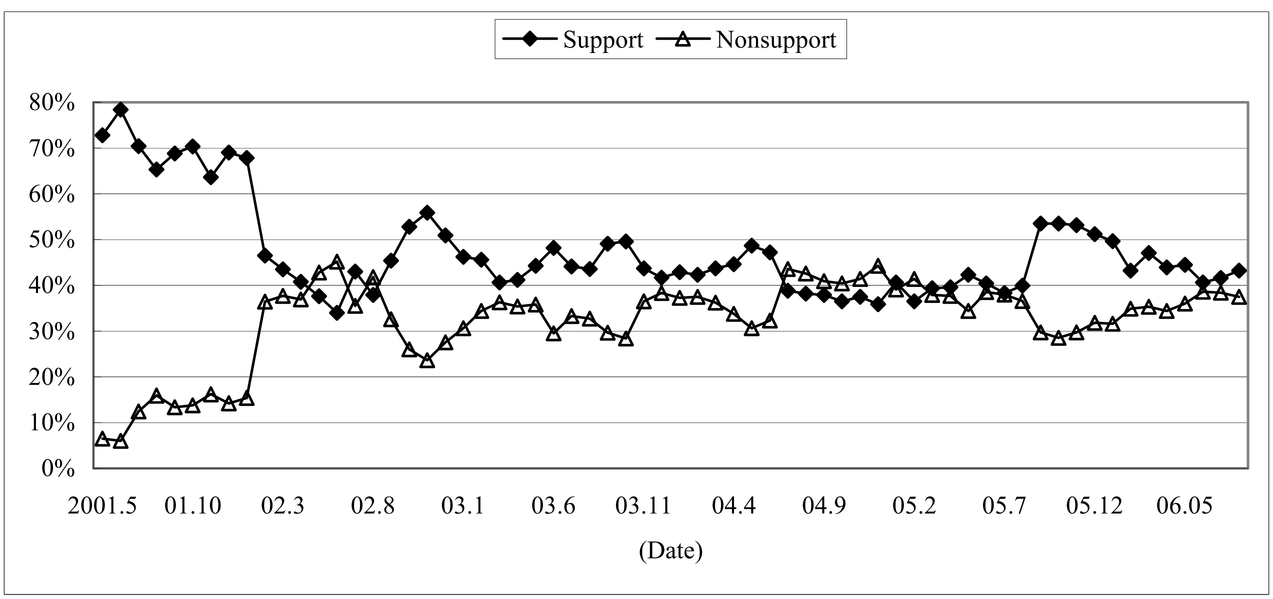
Source: *Jiji Tsushin Sha*, *Jiji Yoron Chosa*

Figure 5 The Mori Cabinet's Support and Nonsupport Ratings
(April 2000-April 2001)



Source: *Jiji Tsushin Sha*, *Jiji Yoron Chosa*

Figure 6 The Koizumi Cabinet's Support and Nonsupport Ratings
(May 2001-August 2006)



Source: *Jiji Tsushin Sha*, *Jiji Yoron Chosa*