

Why Electoral Reform and Party System Reorganization? The Impact of Global Capital Mobility on the Consensus Democratic Institutions of Italy and Japan

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Abstract

In the early 1990s, two stable democracies, Italy and Japan, overhauled their electoral systems and experienced party system reorganization. Whereas reform movements in Italy destroyed the incumbent parties and their control of the state, in Japan a reform movement internal to the ruling party resulted in the reorganization of the opposition camp but kept intact the government's relations with the state and social groups. These differences derive from the ruling parties' responses in the 1980s to increased electoral vulnerability caused by the need to enact unpopular market-accommodating policies. Because electoral reform was enacted to rectify these exceptional responses, convergence characterizes the pattern of policymaking of the two countries in the latter half of the 1990s.

I. Introduction

The Puzzle: Why Electoral Reform and Party System Reorganization?

For most of the entire postwar period, Italy and Japan were renowned for the long-term reign of the Christian Democratic Party (DC) and the Liberal Democratic Party (LDP), which persisted until "earthquake" elections occurred in both nations in 1992-93. Almost simultaneously, the ruling parties lost their grip on power, new parties emerged to replace old ones, and similar electoral systems (composed of single-member districts supplemented with proportional districts) were adopted, all resulting in the reorganization of the party systems in both countries. Overhauls of electoral systems and reorganizations of party systems are truly rare incidents in stable and developed democracies and thus what occurred in Italy and Japan in the early 1990s was extraordinary (cf. Boix 1999).

The purpose of this article is to explain the simultaneous adoption of similar electoral

systems, the divergent patterns of breakdown of long-term rule, and the subsequent reorganization of the party system in Italy and Japan. In Italy referenda movements and new political parties supporting electoral reform destroyed the ruling coalition by demanding changes in economic policies and the party control of the state (*partitocrazia*), while the main opposition party, the Democratic Party of the Left (PDS), remained relatively unaffected. In contrast, in Japan the LDP and its ally parties initiated electoral reform, and the LDP and the government's relation with the state survived the crisis relatively intact, while the non-LDP camp was totally reorganized. In both countries, however, the demand for electoral reform was intertwined with condemnation of the way the ruling parties had controlled the state apparatus. The question is how to account for these similarities in addition to the contrasts.

Two common explanations are often presented to explain party system change in Italy and Japan. One explanation, originating in observations of Italy, ascribes party system change to the collapse of Communism. The argument that the collapse of Communism compelled the left parties to moderate their Marxist ideology—making it impossible for opponents to label them “anti-system,”—, loosened partisan allegiances of the left and right parties, and eventually allowed the excluded parties to ascend to power seems to fit the relatively intact former PCI better than the former JSP, which in effect disintegrated (cf. Bull 1996; Fouskas 1998; Newell 2000, ch. 1-2; Ushiro 1994; Magara 1998). Furthermore, the argument fails to explain why electoral reform took place, why both left parties were reluctant to support electoral reform, and why the Italian ruling parties disappeared.

An alternative explanation, which adds the prevalence of corruption scandals to the impact of the end of the Cold War to explain party system change, still has problems. The claim here is that the elimination of the threat of Communism liberated the voters and allowed them to openly air resentment about corruption in the ruling center-right parties (Cf. Gilbert 1995; Narita 1996; Sasaki 1999; Newell 2000). The disintegration of the parties of the five-party (*pentapartito*) coalition¹ and the resilience of the LDP are both explained by the destructive impact of corruption scandals, which is claimed to have been greater in Italy. Still, the adoption of electoral reform cannot be accounted for by this explanation. Furthermore, this approach is

somewhat circular and puzzling. The argument that corruption scandals were more destructive to the ruling coalition in Italy because they caused more damage to the government (or alternatively, that the government in Italy was weaker because it sustained heavier damage) is clearly circular. The argument is puzzling because one would expect the relatively unscathed PDS to have benefited from the collapse of the *pentapartito* and thus favored change, whereas the relatively unscathed LDP should have benefited from the chaos of the left and thus opposed changing the system that had kept it in office. In fact, neither the PDS nor the LDP benefited from the demise of their rivals. Finally, above all, it is not obvious why electoral reform was proposed as a remedy for corrupt practices.

This examination of conventional explanations indicates that a nuanced Italy-Japan comparison is still needed to explain why these rare instances of electoral reform and party system reorganization occurred in stable and developed democracies, why corrupt practices became problematic in only the 1990s, and why electoral reform had divergent impacts on the party systems.

It is noteworthy that similarities in Italian and Japanese economic circumstances and in the form and strength of the ruling parties make the nations an ideal pair for comparing the impact of the ruling parties' economic policy strategies and the transformation of the party systems. Indeed, both countries prior to electoral reform score as fairly strong consensus democracies in Lijphart's index (Lijphart 1999, appendix). In addition, under similar economic conditions both countries experienced nearly identical trends in the strength of the ruling parties from the mid-1970s to the early 1990s. In the 1976 elections, against the backdrop of worldwide stagflation, the strength of the DC-led coalition government and the LDP government dropped to about 40 percent of the vote. After managing tenuous majorities between 1976-79, the ruling parties in Italy and Japan devised formulae that enabled them to regain and stabilize popular support during the period of economic growth in the 1980s. In Italy that formula was the *pentapartito* coalition and in Japan it was the LDP's collaborative regime. Throughout the 1980s, electoral support for the *pentapartito* and the LDP regime stabilized at 45 to 50 percent of the vote, until the sudden ousting of both governments led to the enactment of electoral reform.

In the remainder of the first section of this paper, I elaborate an alternative framework. Drawing on recent developments in international political economy, I first explain how the dramatic increase in capital mobility across borders in the 1980s weakened incumbents by increasing the threat of currency crises and compelling governments to undertake tight monetary and fiscal policies. Second, I explore the two extreme strategies—*policy neglect* and *voter neglect*—that incumbent governments are tempted to use to ease immediate electoral vulnerability and government instability. I argue that such responses, embedded in institutionalized relations between the government and the state, risk generating demands for electoral reform. Third, I identify the specific circumstances under which elected officials across party lines come to regard such government strategies as problematic and view the electoral system as the root of the problem. I argue that the details of electoral reform will be similar if the common aim of reform is the remedy of extreme responses to the same dilemma. Finally, I argue that post-reform convergence is to be expected when electoral reform is enacted as a means to remedy extreme practices and restore responsive or responsible governments.

The second section of the paper is divided into four parts. As a baseline for comparison of the contrasting strategies seen in the 1980s, the first part shows that Italy and Japan took similarly inclusive approaches to policymaking in the late 1970s during a period of worldwide stagflation. The following two parts describe the *pentapartito* and the LDP's collaborative regime of the 1980s to show that they represent strategies of policy neglect and voter neglect and to illustrate how these strategies generated movements for electoral reform. The last part finds post-reform similarities in the two countries' patterns of budget austerity, as is predicted by the framework developed here. Finally, the conclusion briefly reiterates my framework's theoretical underpinnings.

The Argument: The Impact of Capital Mobility on the Consensus Democratic Institutions

The recent global increase of short-term capital mobility is a phenomenon that became prominent in the 1980s, facilitated by floating exchange rates and the recycling of petrodollars (Helleiner 1994, ch. 1 & 6; Simmons 1999). As economies become integrated in terms of capital

flows, differences in interest rates cause mobile capital to flow towards countries with higher interest rates and away from countries with looser monetary policy. The more globally integrated economies are, the less room governments have for monetary policy divergence because interest rate differences can ignite massive movements of short-term capital and impose severe exchange market pressures on currencies. Faced with such a situation, a government may experience severe downward pressure on its currency and a deterioration of its balance of payments unless it adjusts its macroeconomic policy, particularly if its trade partners have tightened their economic policies. Especially problematic are cases in which the market doubts a country's ability to take tough measures to stem inflation and show fiscal restraint comparable to that of its trade partners. Loss of market confidence increases the chance of a currency speculation. This leaves the government of the affected nation with no choice but to enact market-assuring measures and tighten economic policy in order to halt massive capital outflows, even at the cost of a sharp economic downturn and a rise in unemployment rates. In order to retain market confidence in their disinflationary commitments, governments have to reform inflation-generating practices, particularly wage bargaining, and reduce government deficits (Eichengreen et al., 1995). Even in times of low inflation and balance of payments surpluses, a government is restrained in the extent to which it can relax monetary and fiscal policy to cater to the electorate if it wants to keep the market confidence in its policies. Thus, governments have to consistently take steps to reduce public debt and control wage inflation even when deficit spending has not (yet) caused a currency crisis.

The constraint of capital mobility on major advanced countries since the mid-1970s can be seen by examining Figures 1 and 2. Figure 1 shows the convergence among advanced industrial states toward lower inflation, which is the result of the pressures of globally mobile capital. Figure 2 shows that some countries have allowed unemployment rates to rise to levels unprecedented in the postwar era, implying that countries have been forced to control inflation even at the cost of high unemployment.

Figures 1-2

For incumbent governments, the constraints of mobile capital exacerbate the dilemma between enacting responsible macroeconomic policy to assure markets and responding to popular demands in order to win elections and remain in power. *Responsible* policies to reassure global markets—wage restraint, tight monetary policy, and fiscal reconstruction (i.e., expenditure cuts and tax increases)—are also policies that aggravate unemployment and reduce social protection. These policies are unpopular and make governments vulnerable to voter displeasure and internal conflicts and therefore are those that governments prefer to avoid if they wish to be *responsive* to the policy needs of the voters.

Although all incumbent governments typically muddle through the dilemma between *responsible* policy to assure markets and *responsive* policy to satisfy their electoral supporters, they do so differently depending on how the state structures electoral control of policymaking. Broadly speaking, democratic governments can be classified according to two typical ways policymaking is supposed to be conducted and controlled by the electorate—consensus democracy and majoritarian democracy (Lijphart 1999, ch. 1-3; Powell Jr. 2000, part 1). The defining feature of consensus democracies²—the type examined in this paper—is the use of proportional electoral systems that tend to create multiparty systems and coalition governments that organize corporatist groups to facilitate policy accommodation and implementation. Between elections in consensus democracies, the parties in coalition governments negotiate and compromise among themselves and with powerful organized interests over wage restraint (usually in exchange for employment programs) and the distribution of fiscal reconstruction.³ When facing economic difficulties, governments in consensus democracies generally attempt to intensify policy consultation and become more inclusive in policymaking. However, extensive and prolonged policy negotiation may ignite frequent coalition break-ups and reshuffling or delay the timely implementation of policies, eventually leading to a complete or partial replacement of the parties in power.

To reduce impending electoral vulnerability and government instability, incumbent governments in consensus democracies may deviate from this adjustment pattern embedded in

the electoral system in one of two ways— *policy neglect* or *voter neglect*. In the case of *policy neglect* governments continue popular policies that undermine market confidence until such policies are rebuked by currency speculation. In other words, the incumbents ignore *responsible* policy in order to maximize *responsiveness* to voters. A currency crisis, however, destroys the economic policy credibility of incumbents, ignites a voter backlash, and leads the public to question the ability of elections to produce competent and *responsible* governments. The other response, *voter neglect* occurs when incumbent governments systematically preempt policy discontent from being expressed at elections or cushion its impact in order to enact unpopular cost-imposing policies that sustain market confidence. In other words, the incumbents pursue *responsible* market-assuring policies to maintain strong currencies and balance of payment surpluses by finding ways to lessen the need to be *responsive* to electoral policy preferences. Such insulation of policy-making undermines the ability of elections to bestow officials with a policy mandate. In either case, policy and voter neglect enable incumbents to maintain power by compromising the ways in which elections are supposed to structure electoral control of policymaking. Thus, when the institutional arrangements of policy/voter neglect come under fire, the electoral system is also likely to be criticized.

The persistence of policy/voter neglect depends on institutional arrangements that deviate from those seen in typical consensus democracies. For policy neglect to persist, incumbent governments must be exceptional in their ability to exclusively mobilize partisan supporters by providing selective benefits and protecting them from cost-imposing measures. Conducive to such a strategy is a state that is subjected to the partisan needs of the government, although the provision of selective benefits to government supporters is likely to result in irresponsible fiscal policies. Incumbents can win elections by being responsive to their supporters, but in the long run they compromise the ability of elections to produce governments that enact responsible policies. By contrast, for voter neglect to persist, incumbent governments must be exceptionally accommodative in the making of cost-imposing policies by skillfully distributing the costs among relevant social groups. Conducive to such a strategy is a state that conducts close consultation with social groups and initiates compromises among diverse interests. However, this

coordination insulates policymaking from electoral control. Although incumbents can win elections by appealing to diffused policy credibility and preempting policy protest at the ballot, it comes at the cost of diminishing the ability of parties to obtain strong popular mandates by representing the interests of their supporters.

Electoral reform is promoted by elected officials across party lines when two conditions are fulfilled. First, the electoral system must be seen as having maintained an arrangement that allowed governments to continue irresponsible policies or remain unresponsive to policy debates at elections. Second, elected officials, including government insiders who benefited from the system, must find it advantageous to open new political opportunities by destroying the condemned arrangement. Voter protest against unpopular cost-imposing policies is insufficient to provoke electoral reform. For the electoral system, and not just the incumbent government, to be seen as the source of the problem, scandals must reveal how corruption had enabled incumbents to systematically compromise the role of elections via policy or voter neglect. In such cases, elected officials will contemplate electoral reform in order to distance themselves from the discredited arrangements that were sustained by the electoral system. Advocating electoral reform to destroy such an arrangement becomes an attractive option to elected officials regardless of partisan affiliation. Not all politicians, of course, will support the reform; the key point here is that support for reform spreads across party lines among those who see new opportunities as better than those available under the discredited system.

However, the effect of electoral reform on the political parties depends on the arrangement that is under attack; i.e., policy neglect or voter neglect. In the case of policy neglect, a currency crisis discredits the government's economic policy and allows outsider politicians to mobilize voters excluded from and frustrated by the government's economic policy and its control of policymaking. Challenged by such forces, the ruling parties, when faced with scandals, are likely to face extensive damage. In contrast, in the case of voter neglect economic policymaking is less challenged and electoral reform becomes more of a means for elected officials, including insiders, to abandon the discredited arrangement and to initiate the creation of a formidable political grouping that can utilize the opportunities opened up by reform. Thus, the

ruling parties are more likely to remain relatively intact and the opposition parties have a strong incentive to reorganize to forge an alternative to the relatively unscathed ruling parties.

In the next section, I examine the cases of Italy and Japan to test my argument. First, I show that between 1976 and 1979 the governments of Italy and Japan followed inclusive policymaking strategies typical of consensus democracies facing economic difficulties. However, while partisan competition destroyed the Italian government's inclusive strategy, changes within the ruling party and social groups enabled Japanese governments to intensify policy inclusion. Second, I demonstrate that approaches to economic policymaking in Italy and Japan in the 1980s represent incidences of policy and voter neglect that led to electoral reform. Finally, I show that changes in the governments' relations with the state and social groups after the adoption of similar electoral systems made fiscal reconstruction policymaking in the two nations converge.

II. The Evidence

Inclusive Policymaking and the Bases of Contrasting Government Strategies

After facing major electoral setbacks and economic stagflation, both the Italian DC-led coalition and the Japanese LDP government struggled to maintain tenuous majorities between 1976 and 1979 and were forced to include and accommodate opposition parties and the unions in policymaking. However, while the ruling parties in Italy abandoned their inclusive strategy in the 1980s, the Japanese LDP refined its inclusive approach in response to changed relations with the state and society. The ruling parties' relations with the state and society were critical not only in the abandonment or reinforcement of inclusive strategies but also in the shaping of policy and voter neglect in Italy and Japan.

In Italy the *pentapartito* of the 1980s emerged after a failed collaboration attempt between the DC and the Italian Communist Party (PCI) that lasted from 1976 to 1979. The PCI's advance in the 1976 election was founded on union militancy prevalent since 1969. Union militancy had established wage indexation (*scala mobile*), income security for redundant unionized workers through the *Cassa Integrazione Guadagni* (CIG), and stronger workers' rights—all of which exacerbated inflation. The “national solidarity” government experiment by

the DC and PCI aimed to establish cooperation between the major parties in order to cope with the economic crisis. However, the experiment did not entail significant changes in the parties' relations with the state or social groups, which remained divided according to partisan affiliations. Three characteristics of this period of national solidarity governments are critical for understanding the *pentapartito* of the 1980s. First, the DC engaged in legislative cooperation with the PCI in 1976 in order to stabilize government after an electoral defeat and to control inflation and the unions in the wake of a lira crisis. However, although the Italian national unions advocated wage moderation and peak-level dialogue for socioeconomic reforms (the so-called EUR line), the unions maintained partisan loyalties and the EUR line reflected the rapprochement between the DC, the Italian Socialist Party (PSI), and the PCI. Second, the PCI faced a major electoral setback in the 1979 election after it became clear that the party was unable to compel the DC to either undertake policy reforms or formally invite the party into government in exchange for union restraint. Thus, the PCI was forced to return to the opposition without changing the ruling parties' subordination of the state bureaucracy. Third, the PSI, which had been pivotal in compelling the DC to open government to the PCI, was squeezed in between the two major parties during the DC-PCI rapprochement and thus joined the DC in government as soon as the PCI returned to opposition (cf. Golden 1988). Once it became apparent that neither the PCI nor the PSI had benefited electorally from rapprochement, the arrangement broke up and partisan competition resumed in Italy.

Facing a precarious majority between 1976 and 79, the ruling LDP pursued a reconciliatory strategy similar to that of its Italian counterpart. However, in contrast to the Italian ruling parties, the LDP continued following the strategy into the 1980s. The divergence can be explained by the three developments seen in Japan during the late 1970s that were not seen in Italy. First among the developments was the reinforcement of employer-union cooperation in coping with stagflation. In Japan, the export sector led adjustments to the recession caused by the first oil crisis in 1973 and the 1977-78 yen appreciation by initiating coordinated wage moderation and soliciting government assistance for troubled industries. Corporations rewarded the unions' wage restraint by enacting measures to preserve employment,

while the government set up policies that aided this market-based adjustment by helping troubled industries to contract and by subsidizing employers in retraining, redeploying, and re-employing redundant workers. Wage moderation not only drastically reduced inflation, but it also became the foundation for the unification of private sector unions. During the adjustment period, the export-sector unions reunified the private-sector labor movement, which had been divided according to partisan affiliation, and urged the moderate parties to negotiate with the LDP on their behalf. Compared to the Italian EUR-line, in which partisan divisions remained in the union movement, in Japan the unified labor movement transcended partisan loyalties and shaped national politics by becoming the foundation of partisan rapprochement (Ogata 1980; Tsujinaka, 1986; Sekiguchi 1994).

The second development that occurred during 1976-79 was the cooperation between three moderate parties⁴ and the LDP based on the reorganization of the union movement. After the 1976 election, the three small moderate parties opened dialogue with the government, instead of continuing to ally with other opposition parties. Once the LDP responded, the small parties began a rivalry of sorts to influence government policy, as seen in the passage of adjustment laws and the budgetary processes of 1977-79 (Uji 1990). It is noteworthy that the LDP let the bureaucracy formulate budget drafts that balanced opposition and social group demands for tax cuts and expenditure increases. The balancing of these demands became the base of the LDP's negotiations with the moderate parties. Although the opening to the opposition parties resembles the DC-PCI rapprochement of the same period, the LDP let the state coordinate conflicting interests and encouraged the inclusion of moderate parties in policymaking, instead of directly allocating control of public agencies to each of the parties in the manner of the Italian ruling parties.

Finally, the 1975 Lockheed scandal led to the emergence of the Tanaka faction within the LDP, which became a pivotal actor in transforming from infighting to collaboration both the LDP's internal factional relations and its relations with other parties. The indictment of ex-Prime Minister Kakuei Tanaka (in office 1972-74) in the Lockheed bribery case triggered intense factional bickering and resulted in the LDP's 1976 election defeat. Being forced to retract his

LDP membership, Tanaka devised an inclusive strategy that distributed LDP and government spoils to *all* major factions according to seniority and faction size. This replaced the previous system that had favored only the mainstream factions. This new practice allowed Tanaka and his faction to exert influence proportional to its size without actually having to obtain a majority in the LDP or assume the party leadership. For a faction in such a precarious situation it was critical to avoid ending up an alienated minority in the party. The faction further made itself indispensable to the party by becoming the exclusive intermediary between the government and the opposition parties. Thus, while the Italian Socialists under Bettino Craxi competed with the DC factions and other coalition partners to expand their power over state and public agencies in the 1980s, the Tanaka faction installed an arrangement that stalled factional and inter-party competition and ensured its control of the party.

During the economic hardships—in particular, rampant inflation—of the late 1970s, the Italian and Japanese ruling parties pursued similar strategies typical of consensus democracies by encouraging opposition and union participation in economic policymaking in order to tame inflation. However, while the ruling parties in Italy revoked this strategy to competitively and exclusively mobilize supporters by subjecting the state to their partisan needs, the LDP used the state to perfect its system of inclusive and coordinated policymaking. With this in mind, we can now examine how the contrasting strategies of the government in Italy and Japan represent cases of policy neglect and voter neglect.

Policy Neglect and Breakdown of Italy's Pentapartito

The Italian five-party (*pentapartito*) period represents a case of policy neglect. The governments of this period adopted popular but irresponsible fiscal policies that undermined market confidence and led to a currency speculation. Economic policymaking in Italy was subjected to intense partisan competition over the mobilization of supporters. This aggravated fiscal irresponsibility and alienated supporters of the opposition (Kostoris, 1996). The eruption of the *tangentopoli* (Bribe City) scandal and the lira crisis in 1992—both focused on irresponsible fiscal policies and electoral competitiveness—produced disastrous election results for the ruling

parties. The reform movement and the new parties targeted the electoral system as the source of inept and corrupt government. Government and opposition lawmakers came to see electoral reform as the best way to reinstall responsible governments and policy-based competition. Challenged by such forces, the former ruling parties split and self-destructed, leaving the new parties and the PDS to fill the void.

The *pentapartito* period differed from the national solidarity period in two ways. First, the *pentapartito* tried to isolate the PCI and Communist unions by driving a wedge in the union movement over disinflationary measures. During the boom of the early 1980s, the *scala* accounted for over 60 percent of annual wage increases, fueled inflation, and weakened the competitiveness of Italian firms. In order to stem inflation, the PSI-led Craxi government reduced benefits for discharged workers, introduced flexible hiring and work-hours, and, in 1984, unilaterally revised the *scala* by government decree. These moves were calculated to ignite a split between the technical employees of the non-Communist unions who accepted the revision and the semi-skilled workers who remained loyal to the Communists and defended more egalitarian measures. In the end, the Communists' 1985 failure to pass a referendum abrogating the decree fixed the isolation of the Communist unions and the Communist party. (Golden 1988; Locke 1995) Thus, partisan conflict within the union movement increased to a great degree.

Second, the *pentapartito* parties reinforced partisan control of the state (*partitocrazia*) and used spoils and patronage to aggrandize partisan and personal power. Although *partitocrazia* had long characterized government-state relations under postwar DC rule, once the national solidarity experiment failed, the PSI, led by Bettino Craxi, began to fiercely compete with the DC in expanding patronage and clientelist ties. The competitive use of *partitocrazia* eventually rendered fiscal reconstruction impossible. Rather than retrenching social programs to curb public debt, the *pentapartito*'s efforts turned social policies into mechanisms to distribute benefits to party clientele. For instance, the local health units (USLs), created in 1978 as part of a universal national healthcare scheme, came to be staffed by local party organs as spoils. Resources were allocated according to local partisan strength, frequently in amounts excess of the annual spending ceilings set by the central government. Instead of cutting costs, the partisan

social welfare administration encouraged fraud and false welfare applications. Required co-payments aimed to reduce healthcare expenditures were undermined by exemptions for specific groups, especially the self-employed. Furthermore, expenditures for non-contributory benefits, such as disability pensions (a surrogate for unemployment benefits in the South), were exempt from budgetary cost-cutting measures and increased rapidly. Income compensation for redundant workers was also dispensed liberally. Such expenditure increases exacerbated the public debt problem, despite a nominal growth in tax and contribution rates. Programs fueled by patronage, such as health care, public pensions, and income protection, increased social expenditures at an annual real-term rate of 5.5 percent in the 1980s, while the increases in pension and health-care contributions and taxes, undermined by widespread evasion, did little to improve the situation (Ferrera 1995; Fargion 1996; dell'Alringa & Lodovici 1996)

The competitive use of *partitocrazia* also spread corruption as another means to win votes. The *tangentopoli* scandal of 1992 involved kickbacks in public construction and was initially centered in Milan, Craxi's stronghold. Investigations revealed the prevalence of kickbacks and bribes from private companies and the delivery of money and "packets of votes" in exchange for political placements in state-owned companies and government agencies. The money gathered was used to purchase faithful party members and votes on electoral lists (della Porta 1995; Sassoon 1995; Rhodes 1997). Thus, corruption was an integral part of the arrangement that enabled the *pentapartito* parties to monopolize power and mobilize popular support, although that fact was not fully disclosed until 1992.

The *tangentopoli* scandal and the lira crisis in 1992 revealed that the *pentapartito* parties had ignored the need to reduce public debts in order to mobilize electoral support via partisan control of the state. As a result, public debt had accumulated in Italy in the 1980s and eroded market confidence in the government's ability to reduce budget deficits and inflation. This situation became critical as the governments of other EU nations, especially France, imposed disinflationary discipline by pegging their currencies to the D-mark. A speculative attack against the lira signaled that the foreign exchange markets dismissed the ability of the Italian government to control inflation and reduce budgetary deficits in accord with Maastricht criteria (Daniels

1993; della Salla 1997). Such external pressures made it critical for Italy to put its fiscal house in order if it were to remain a part of the progressing European monetary integration.

The crisis of 1992 galvanized new political forces already critical of the economic and political consequences of the *pentapartito*'s monopolization of power. Umberto Bossi's *Lega Nord* burst into the national political scene, criticizing the *pentapartito*'s economic policies by claiming that a corrupt, party-dominated bureaucracy in Rome had appropriated the resources of the North to maintain its power in the underdeveloped South. Allegations of partisan welfare abuse in the South had bred anti-tax and anti-South sentiments in the North. Frustration over the corrupt public works system in the South led to the rise of the *Rete* (the Network), an anti-Mafia movement. Internal reform efforts within the *pentapartito* parties came too late and the parties were plagued with defections, disastrous local election defeats, and factional splits as corruption investigations eliminated sources of funding and crippled membership. Meanwhile, the Electoral Referendum Movement led by Mario Segni, who had been unable to reform the DC from within, gained support across partisan groupings. To the dismay of the leaders of the *pentapartito*, the group successfully passed a referendum in 1991 abolishing preference votes, and in 1993 won a referendum, which introduced single-member districts for three-quarters of the Senate and made similar changes to the Lower House electoral system (Hine 1993; Mannheimer 1993; Walters 1994; Donovan 1995; Gundle 1996; Furlong 1996; Diamante 1996). Most of the new political groupings supported electoral reform as a means to install responsible governments by facilitating power alternation and party competition based on policy debates.

This stylized history highlights how Italy represents a case of policy neglect that resulted in electoral reform. The characteristics of the Italian path to electoral reform become clearer when contrasted with those of Japan.

Voter Neglect and Breakdown of Japan's LDP Collaborative Regime

Japan, like Italy, repeatedly faced the problem of public debts in the 1980s. In the Japanese case public debts mounted as the result of domestic stimulus packages enacted during economic downturns caused by the yen appreciations of 1978-79 and 1985-87. Both of the yen

appreciations and the domestic stimuli were concessions to strong US demands for reduction of the bilateral trade deficit. The US had threatened unilateral trade sanctions if Japan did not address the issue. Yet, in the 1980s, Japan recorded the largest budget surplus (as proportion of GDP) among the G7 nations and was only one of two G7 countries (along with the UK) that had significantly reduced public debt.

In contrast to the *pentapartito*, the LDP in the 1980s enacted unpopular retrenchment policies and successfully curbed public debt, keeping Japan's fiscal expenditures (proportionate to GDP) at one of the lowest levels seen in the OECD countries. Fiscal reconstruction and restraint were achieved through cooperation with the three moderate parties, promotion of factional truce within the LDP, and the state's skillful distribution of the costs of fiscal retrenchment through consultation with social groups. However, the pattern of inclusive and coordinative policymaking stifled policy-based electoral competition, aggravated the cash dependency of electoral politics, and bred discontent within the LDP and its allies. The eruption of the Recruit scandal and the imposition of a new consumption tax not only caused an unprecedented defeat for the LDP and its ally parties in the 1989 Upper House elections, but also galvanized groups frustrated with the workings of the LDP's collaborative regime. The electoral reform movement, led by "reformists" within the LDP and leaders of the moderate parties, criticized the electoral system for weakening the ability of parties to mobilize supporters and for allowing elections to be dominated by campaign spending. Thus, the Japanese path to electoral reform represents a case of voter neglect.

In the first half of the 1980s, the Japanese government passed health care and public pension reforms to reduce the public debt amassed in the late 1970s, and in 1989 it introduced a general consumption tax to curb public debt incurred by the domestic stimulus packages of 1985-87. All three of these major reforms—health care, pension and tax—were passed by an alliance of the LDP and three moderate parties after the bureaucracy designed reform packages to broadly distribute the cost of reforms across social groups. In each of these cases, state agencies consulted social groups and coordinated conflicting interests prior to the involvement of the political parties. In health care and pension reforms the state bureaucracy packaged the

retrenchment (benefit cutbacks and burden increases) favored by large corporations that had private insurance schemes, with cross-subsidization in favor of the self-employed, whose welfare schemes faced insolvency. While reducing the role of the public welfare system in exchange for shifting part of the burden to large corporations, the packages also reduced the rate of state subsidization. Similarly, in the realm of tax reform, the bureaucracy designed the new debt-reducing consumption tax so that the government was left with more than enough room to allow for future welfare expenditures and income tax cuts requested by business associations and unions.

By letting the state agencies devise bills that distributed retrenchment costs, the LDP could cooperate with its ally parties by making minor concessions. Indeed, the legislative debates among the parties regarding the reforms focused on the sizes of the increases in welfare and tax burdens and left untouched the issues of reducing state subsidization and the redistribution of these burdens across social groups, the linchpins of the compromise forged by the bureaucracy. In the legislative debates, the moderate parties supported the bills after winning minor concessions catering to their core supporters, while the Socialist Party came to represent popular sentiments by stressing its absolute opposition to any welfare retrenchment or tax increase. In welfare reform, the concessions to the moderate parties included reductions in proposed benefit cuts and payment increases. Nevertheless, these concessions did not impede the future reduction of state welfare burdens. In tax reform, concessions came in the form of reducing the new consumption tax rate from 5 to 3 percent, additional income tax cuts, promises to increase social services (via the so-called Gold Plan), and elimination of tax inequalities, which further strengthened the country's tax base (Sato & Miyajima 1990, 373-417; Yokoyama & Tada 1991, 280-290; Hiwatari 1998).

The LDP's strategy of partisan cooperation to pass welfare and tax reform bills was founded on factional collaboration within the party that was orchestrated by the Tanaka faction. By 1980, the LDP established the practice of faction-proportionate distribution and strict seniority promotion to cabinet posts and party leadership positions—a practice that favored the largest faction, the Tanaka faction (Iseri 1988; Kawato 1996). The continuation of cooperative

factional relations was critical in protecting the power of the Tanaka-Takeshita⁵ faction from challenge by the other factions. After 1980, the Tanaka-Takeshita faction also continuously occupied critical positions in the party and Cabinet. In particular, the faction monopolized the positions of party vice-president and secretary general, which control electoral coordination; the chairs of the Lower House Ways and Means Committee and the LDP's Diet Countermeasure Committee, key positions in inter-party negotiations; and the Finance Minister portfolio which takes the lead in fiscal retrenchment policy. Furthermore, throughout the critical period of welfare and tax reform a Tanaka protege occupied the post of coordinator of Cabinet policy (Cabinet Secretary). This strategy allowed the Tanaka-Takeshita faction to cultivate exclusive ties with the leaders of the small parties and to broker compromises to secure the passage of unpopular bills, as recorded in numerous recollections of journalists and politicians (cf. Asahi 1985; Asahi 1992; Yano 1994).

However, the arrangement that enabled the LDP government to enact unpopular policy reforms weakened the ability of the LDP and its ally parties to mobilize voters and obtain mandates via policy competition and thus accumulated discontent within these parties. The discontent finally exploded in 1988-89 and converged into the electoral reform movement. Stifled competition had made it difficult for the major factions to increase size, while the moderate parties' policy cooperation with the government had only led to electoral stagnation, given that voters wanting to register their discontent with the government had begun to vote for the Socialist party rather than for the moderate parties. Indeed, the electoral swings in the 1980s were between the LDP and its ally parties on the one hand and the Socialists on the other.⁶

Electoral stylization bred discontent particularly within three groups inside the LDP and the small allied parties. One group was made up of ambitious leaders of the LDP who were frustrated with consensual policy-making that obscured policy debates, trivialized strong leadership, and forced top leaders to be coordinators instead of initiators of new policy agendas. Another group of discontented politicians consisted of junior members of the LDP and political hopefuls who saw their chances of promotion as being stifled by rigid seniority, and their electoral fortunes as being dictated by the factions. These junior Dietmembers were the sharpest

critics of money politics and the lack of policy-based competition. Being electorally vulnerable, they required large sums of money to maintain constituent organizations; this in turn made them dependent on faction leaders because lack of seniority limited their access to the very posts that would help raise funds. The entrenchment of personal constituent organizations disadvantaged junior Dietmembers with little political capital and ironically also made them vulnerable to popular protests against money politics and corruption. Thus, as electoral competition was stifled in favor of senior politicians, junior LDP politicians came to favor electoral mobilization based on policy ideas instead of cash. (Ôtake 1995; Wolfe 1995)

The third discontented group was made up of the small parties that saw their electoral fortunes falter after 1979. While policy cooperation with the government only led to electoral stagnation, attempts by the moderate party leaders to formally take power by allying with dissidents within the LDP failed. Every time it seemed a breakthrough might be possible, the dissidents refused to split away from the LDP. Electoral reform provided the smaller parties with the best opportunity to split the LDP and ignite party realignment across government-opposition lines, a strategy that would bring them into power without being absorbed into the LDP (Asahi 1985; Suzuki 1985; Yano 1994).

The Recruit Scandal of 1988, which implicated top leaders of the LDP and its ally parties, and the unprecedented rout of the LDP and its allies in the 1989 Upper House election put electoral reform on the agenda. The 1989 election showed that voters were dissatisfied with the corrupt arrangement that had enabled the LDP and its allies to pass unpopular policies without consulting them. Indeed, the government's introduction of the consumption tax in 1989 was an obvious betrayal of Prime Minister Nakasone's public denial of any plans to introduce a comprehensive sales tax in the 1986 election campaign (Uchida et al. 1988, part 1; Kabashima 1992).

Immediately after the Recruit scandal, the Takeshita government set up advisory committees in the Cabinet and the LDP to discuss ways to reform politics. The committees faulted the electoral system for making elected officials dependent on money illicitly raised by faction leaders, and as a remedy, endorsed variations of a mixed-member system that combined

single-member districts and proportional-representation blocs (Tanaka 1997). This type of system was expected to enhance policy-oriented and party-centered competition and to reduce the role of money in politics. Meanwhile, electoral reform became a focal point for the aforementioned discontented groups of politicians in both the government and the opposition who sensed that reform would encourage policy-based competition and force a party system reorganization that would create an alternative to the discredited LDP. Such groups became the backbone of the Kaifu Cabinet, which had committed itself at its inauguration in the wake of the political turmoil to implement the recommendations presented by the reform advisory committees.

Another string of corruption incidents in the early 1990s revealed the persistence of money politics and enhanced the pressures for electoral reform. Kaifu's failure to pass the electoral reform bills in 1991, backpedaling on the issue by his successor, and the sudden local emergence of a new pro-reform party—the New Japan Party—in 1992-93 further galvanized the movement. Paradoxically, the dissident groups within the LDP, especially within the Tanaka-Takeshita faction, led the reform movement, which united frustrated politicians across LDP-opposition lines. When the Tanaka-Takeshita faction leader was banished in an illicit fund scandal, a group led by senior member Ichiro Ozawa assembled frustrated junior members and moderate party leaders broke away from the LDP—which had been reluctant to push the divisive issue—and joined forces with other non-LDP parties after the 1993 election. Thus, although it was a non-LDP government that passed electoral reform, its leaders were those who had controlled the LDP's collaborative regime. In contrast, the new outside parties failed—as witnessed by the breakdowns of the New Japan Party and a neo-liberal group launched by Ken'ichi Ôhmae—because the collaborative regime had accommodated a broad array of social interests in policymaking and made alienated social groups electorally unavailable (Asahi 1992, 160-192; Asahi 1993a; Asahi 1993b; Itô 1996; Narita, 1996; Iio 1999; Taniguchi, 1999)

Post-Reform Policymaking in Italy and Japan

So far I have argued that Italy and Japan adopted electoral reform in order to rectify the

corrupt arrangements of policy neglect—which resulted in a currency crisis caused by irresponsible policies—and voter neglect—which imposed economic costs without obtaining the consent of the voters. Elected officials in both nations saw the electoral system as encouraging structural corruption and irresponsible/unresponsive government and thus supported electoral reform as a means to break the incumbents’ grip on power. Coincidentally, both Italy and Japan adopted new electoral systems that retained proportional districts to encourage policy consultation and policy responsibility while introducing single-member districts to facilitate government alternation and destroy existing arrangements via party system reorganization. As a result of the breakdown of extreme arrangements and the adoption of similar electoral systems, one should expect the governing patterns of the two countries in the post-reform period to converge to some degree. Based on the framework presented here, it should thus be expected that policy neglect in Italy would be replaced by increased policy consultation, that voter neglect in Japan would be rectified by increased electoral competition, and that both countries would enact fiscal reconstruction under the shadow of possible government alternation. In other words, government and electoral stability should decrease as the incumbent governments of both countries again become vulnerable to the dilemma between market-responsible policies and electorally-responsive policies.

A brief examination of post-reform Italian and Japanese coalition governments to date meets these expectations to a large degree. Both countries enacted fiscal retrenchment despite frequent alternations of coalition governments. In Italy, the collapse of the *pentapartito* weakened *partitocrazia* and facilitated policy consultation regarding fiscal and welfare retrenchment, especially with the unions, which were no longer subject to partisan divisions. Post-reform Japan witnessed increased partisan competition, although the state and societal institutions of policy consultation remained more or less intact.

In Italy, after the 1992 lira crisis, which forced the Amato government to enact deficit cuts, the governments of Carlo Ciampi (1993), Silvio Berlusconi (1994), Lamberto Dini (1995), Romano Prodi (1996), and Massimo D'Alema (1998), continued efforts to reduce public debt and retrench expenditures. Three major points about these governments are relevant to our

discussion. First, there were alternations in the ruling coalitions after the 1994 election, which brought parties of the right to power, and the 1996 election, which brought parties of the left to power. Most of the governments were dubbed “technocratic,” (with the exception of the Berlusconi and D'Alema governments) because of the professional background of the leaders and their relative autonomy from political parties (Pasquino & Vassallo 1995; Pasquino 1996; McCarthy 1997; Parker 1997).

Second, the governments enacted welfare reform and fiscal reconstruction in an effort to reduce the public debt in spite of government alternation and strong dissent within the ruling coalitions. The Amato government enacted pension reforms that raised the retirement age, extended the pension reference period from the last five to the last ten years of employment, increased the minimum contribution period, and eliminated certain early retirement benefits for public employees. The Dini government eliminated “seniority” pensions (which enabled early retirement), replaced earnings-related with contribution-related pensions, ended occupational pension inequalities (which favored the self-employed), fixed the retirement age at 57, tightened the eligibility for disability pensions, and introduced tax measures to promote supplementary private pension schemes. In health care, the reform of 1992 led to two important changes that weakened patronage and partisan control of field agencies. First, the local health units (USLs) were converted into “public enterprises” with autonomy from local parties. Second, the regions were forced to cover spending beyond their annual budget allocations through either higher taxes or co-payments (Castellino, 1996; Raynaud & Hege, 1996; Granaglia, 1996).

Finally, these reforms were enacted in consultation with employers and the reunited unions. In the 1990s the national unions began to reunite and pursue consultative peak-level negotiations on policy reform and issues such as the abolition of the *scala mobile*, changes in labor regulations, and income policy. This new union strategy was an attempt to adjust to two changes that had occurred in the 1980s. One change was the spread of firm-level organizations and “autonomous unions” not affiliated with any national union, which served as a firm-level foundation of social partnership. The other change was the radicalization of the public sector unions, which had realized steep wage increases through militant strikes, but faced challenges

from the private sector firm-level organizations. These new directions in the union movement, led leaders of the national unions, after the collapse of the *pentapartito*, to conduct peak-level negotiations over income policy, social policy reform, and public-sector labor regulation reform. They particularly catered to the private sector unions, which had become concerned with the detrimental effects of high inflation and high labor costs. In 1992 the unions agreed to abolish the *scala* and in 1993 they agreed to link wage increases to the government's expected rate of inflation. The unions also took an active role in negotiating with employers and the government concerning plans to overhaul public pensions (Levi 1994; Braun 1996; Carrieri 1996, Locke & Baccaro 1996). In short, based on firm-level cooperation, private-sector unions in Italy after electoral reform began to participate in retrenchment policy negotiations, an outlook resembling the changes that took place in organized labor in Japan after the mid-1970s.

Thus, as expected, after the collapse of the policy neglect arrangement and the adoption of the mixed-member system, Italian governments engaged in policy consultation with unions over budget reconstruction, while also facing the possibility of more frequent alternations in governments (cf. Newell & Bull 1997).

The alternation of coalition governments and early efforts to reduce the public debt through policy consultation were also seen Japan from 1993 until the 1997 banking sector crisis plunged the economy into its deepest postwar recession and compelled the government to re-stimulate the economy. Japan's public debt increased in the early 1990s as a result of fiscal stimulus packages enacted by the last LDP majority government in 1992-93 in response to the Clinton administration's demands that bilateral trade imbalances be reduced. Fiscal reconstruction measures in Japan—the increase of the consumption tax rate from 3 to 5 percent and the passage of the Fiscal Restructure Law mandating expenditure cuts—were enacted under circumstances similar to those seen in Italy.

First, the raising of the consumption tax and the enactment of fiscal reconstruction measures were carried out by four coalition governments of different compositions: the Hosokawa non-LDP government (1993-1994); the Hata non-LDP, non-Socialist government (1994); the Murayama Socialist-LDP-*Sakigake* government (1994-1996); and the Hashimoto

LDP coalition government (1996-98). Although the LDP has returned to power in coalition since 1994, the party fared poorly in the 1996 and 2000 Lower House elections, as well as in the 1995 and 1998 Upper House elections, making it dependent on other parties to control both Houses and remain in power.

Second, despite the frequent administration changes, the government passed a tax reform package in 1994 and put into law a bill mandating that the government balance the budget by cutting expenditures. The similarity of the 1994 tax reform (which came into effect in 1997) to the earlier reform testifies to the persistence of the pattern of inclusive policy coordination led by the state bureaucracy. In a repeat of its 1989 reform, the bureaucracy packaged income tax cuts with a consumer tax increase. The initial proposal was to raise the consumption tax from 3 to 7 percent in exchange for a 5 trillion-yen income tax cut. The government later made further concessions by increasing the size of tax cuts—requested by business and the unions—and committing to future social service spending—requested by representatives of low-income groups. As a result, the government reduced the proposed tax rate from seven to five percent—which still enabled it to make additional tax cuts—and committed itself to future expenditures on social services for the ill and elderly as part of an insurance package dubbed the New Gold Plan. The first Gold Plan, incidentally, had been promised as a sweetener for the 1989 tax reform and was also not an impediment to fiscal reconstruction. In addition to the tax increase, the government passed a fiscal reconstruction law directing it to cut expenditures in order to reduce budget deficits. However, the governments' efforts to control public debt and the resulting economic slump resulted in electoral setbacks in all of the elections since the mid-1990s, making government stability tenuous and forcing the LDP to depend on small parties to retain power (Asahi 1994; Shiota 1995, 11-117; Etô 1998; Kishi 1998, chaps. 8-10).

In short, government instability and electoral fluctuation increased in Japan after electoral reform, making the arrangements of consultative policymaking—the state agencies' consultation of social groups and coordination of interests prior to fine-tuning by the ruling coalition—less insulated from electoral results than in the 1980s.

The governance patterns of Italy and Japan in the 1990s show a convergence towards

increased policy consultation, government instability, and regime alternation as is expected after the breakdown of the arrangements of policy/voter neglect and the adoption of similar mixed-member electoral systems. Although it is premature to ascribe such changes solely to the adoption of mixed-member electoral systems, they are in line with theoretical expectations of the new systems. However, the overall point is that this resemblance as well as the resemblance seen in the late 1970s supports the argument that the strategies of the *pentapartito* and LDP's collaborate regime in the 1980s were deviations from the pattern of adjustment expected of consensus democracies in need of fiscal retrenchment.

III. Concluding Remarks

This article has attempted to explain the simultaneous adoption of electoral reform and the divergent patterns of party system reorganization in Italy and Japan. In contrast to conventional accounts, I have identified financial globalization, which aggravates the dilemma between market-assuring *responsible* policies and popularly *responsive* policies, as the major cause of electoral reform. More specifically, I have argued that electoral reform and divergent patterns of party system reorganization can be explained as resulting from two extreme responses of consensus democracies to the dilemma of financial globalization. Electoral reform is seen as a way to destroy corrupt arrangements that enable governments to remain in power even when they are characterized by either irresponsible policies (policy neglect) or unresponsiveness to policy debates (voter neglect). In the case of policy neglect, elected officials mobilize discontented voters to attack the arrangement that allowed incumbents to continue irresponsible policies, whereas in the case of voter neglect, politicians attack the arrangements that constrained their ability to engage in policy-based electoral competition. Thus, the effect of electoral reform on incumbents depends on whether they have engaged in policy or voter neglect. Finally, because electoral reform is a means to rectify *only* the extreme strategies that allowed incumbents to monopolize power, post-reform governments continue to face the dilemma of mobile capital.

Both Italy and Japan in the late 1970s followed inclusive strategies typical of consensus democracies. However, in the 1980s the two nations took differing approaches that were driven

by the different relations the ruling parties had with the state and social groups. When the extreme arrangements generated demand for and were destroyed by electoral reforms, a similar the pattern of policymaking conditioned by the new hybrid mixed-member electoral systems emerged in both nations.

This article has used the static notions of democratic ideal types to explain how policy adjustment based on existing institutions can cause changes in democratic institutions, such as electoral systems. In doing so, the framework presented here has combined recent insights derived from the political economy and democratic taxonomy literatures. Recent developments in international political economy indicate that capital mobility, rather than trade, can impose constraints on macroeconomic policy-making (cf. Garrett 1998). The notion of a common policy constraint faced by advanced democracies enables us to speculate about policy predicaments faced by governments in various types of democracies. Furthermore, the comparative political economy literature provides rich insight into how state institutions and organized social interests shape the policy adjustment alternatives available to governments. Thus, the political economy literature enables us to utilize new studies of democratic taxonomies to identify the types of changes that are likely to occur given the internal working of each type of democracy. This allows us to move beyond the preoccupation of democratic taxonomies with the distinctions between consensus and majoritarian democracies and examine how elected officials change institutions to democratically control policymaking (cf. Lijphart 1999; Powell Jr. 2000).

The framework presented here is valuable to the extent that it presents a better account of electoral reform and party system reorganization in Italy and Japan than do existing explanations that cite corruption scandals and the end of the Cold War. First, this framework can coherently account for the similarities of Italy and Japan in the late 1970s and the 1990s, as well as for the differences in the 1980s, by embedding the explanation in the governments' changing relations with the state and social groups. Second, the argument also explains why electoral reforms occurred and why they had contrasting impacts on party system organization. Neither of these points can be addressed by conventional explanations and thus I believe that the voter/policy neglect framework has considerable explanatory power.

Notes

¹ The five parties were the Christian Democrats (DC), the Socialists (PSI), the Liberals, the Republicans, and the Social Democrats.

² In contrast to consensus democracies, majoritarian democracies are characterized by two-party systems created by disproportional (single-member plurality) electoral systems, which not only facilitate electoral competition based on policy mandates but also enable a single-party majority to dominate the legislature in carrying out its mandate

³ Given their defining characteristics, governments in majoritarian democracies are likely to curb high wage settlements and implement fiscal reconstruction and welfare retrenchment in a divisive way that rewards party supporters and places burdens on party opponents. To curb wages, conservative parties favor market deregulation, while leftist parties favor income policy arrangements. To achieve fiscal reconstruction, rightist parties reward investors and target the “undeserving” poor by proposing regressive income tax cuts, privatization, and expenditure cuts on income-support and employment programs, whereas leftist parties reward the needy and target the affluent by endorsing progressive tax reforms and the elimination of investment tax incentives. However, governments that fail to fulfill their promises to improve economic performance become more vulnerable in elections and are likely to be voted out of office, making power changes frequent in times of economic difficulties.

⁴ The three small moderate parties were the New Liberal Club, the Democratic Socialists, and the *Komeito*. The New Liberal Club was a group of politicians who defected from the LDP in 1976 and were reintegrated into the LDP in 1986.

⁵ Noboru Takeshita took over the reigns of the faction from Tanaka in 1985. Hereafter the faction will be referred to as the Tanaka-Takeshita faction.

⁶ Calculated by the author.

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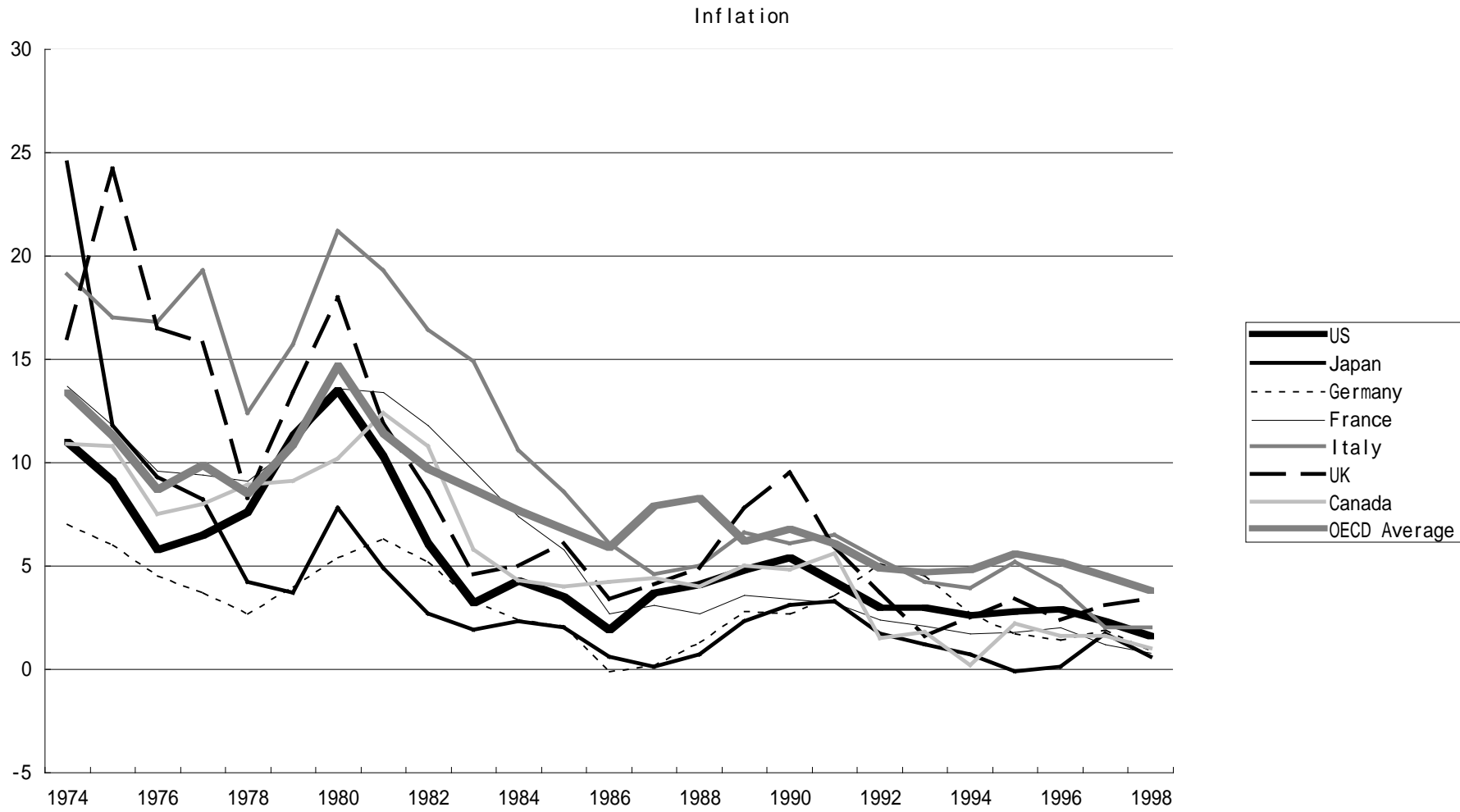
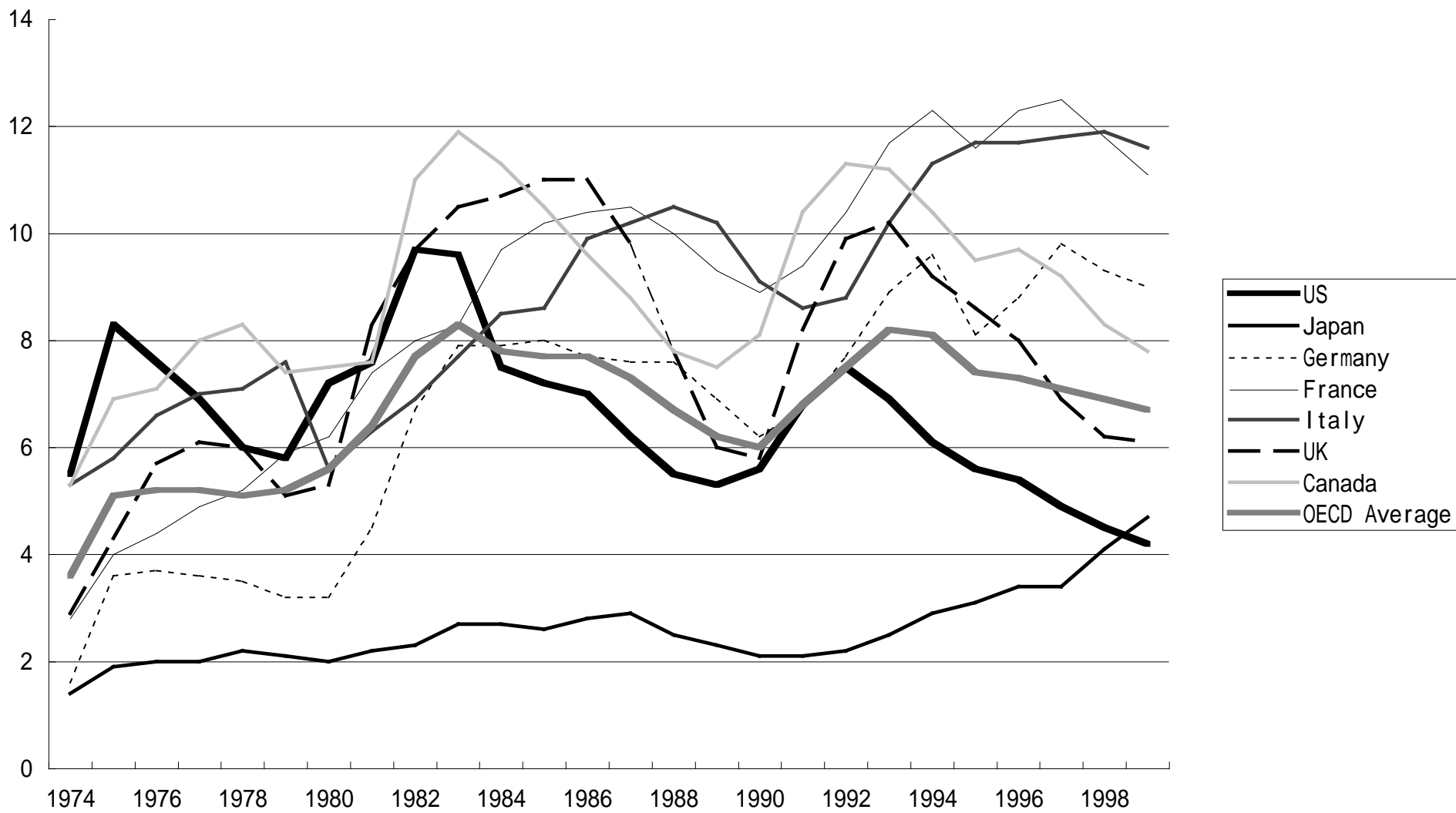


Figure 1: Inflation rates of G7 countries and OECD average (Source OECD)

Unemployment



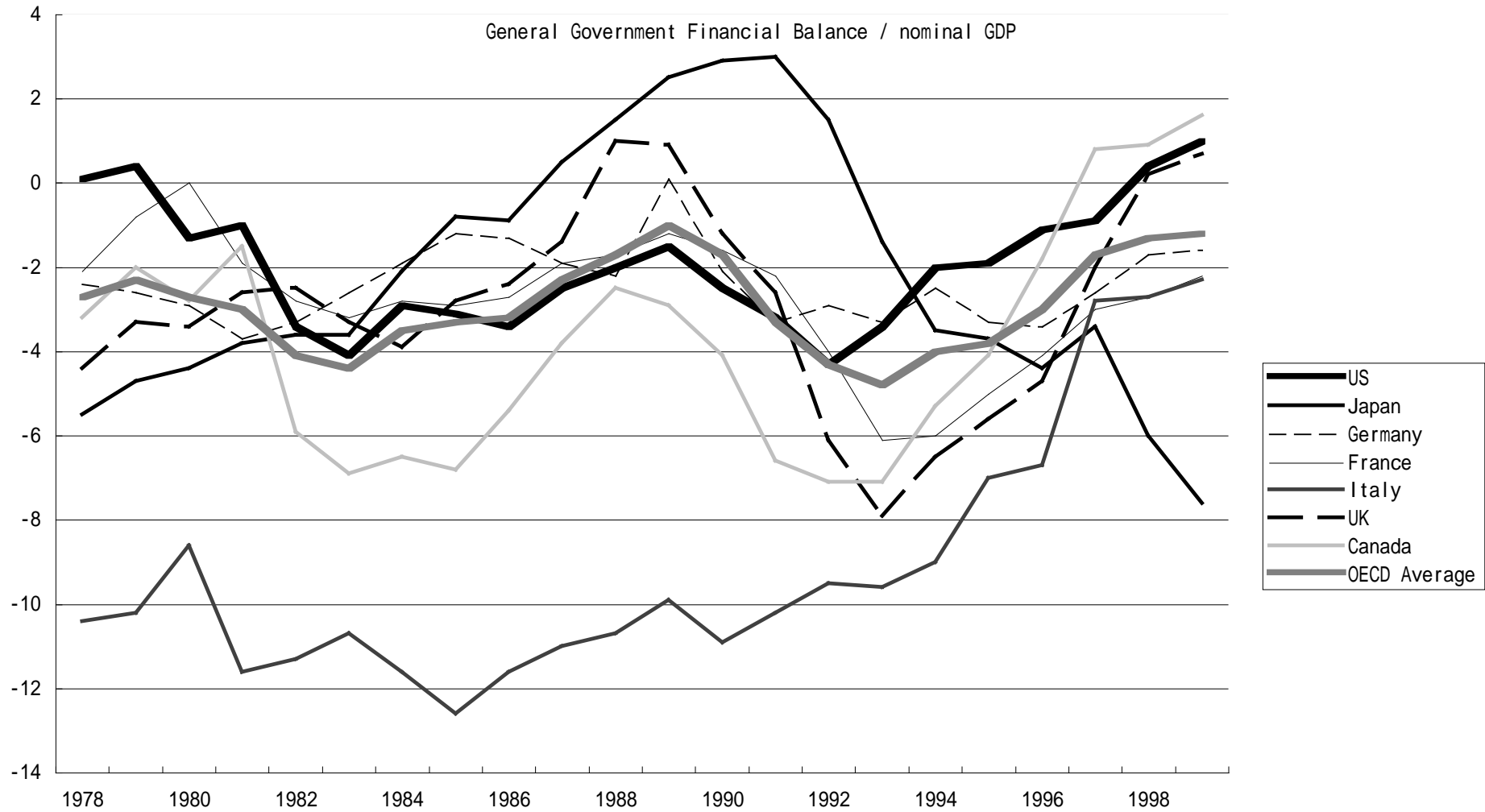


Figure 2 Budget deficits of major industrial nations (Source: OECD)

*Data for New Zealand not available

	Type of Democracy		
		Majoritarian	Consensus
Strategies facing the Predicament of Capital Mobility	Voter Neglect	Elite Disregard (New Zealand)	Elite Cartelization (Japan)
	Policy Neglect	Policy Oscillation (UK & France*)	Policy Collusion (Italy)

Table 1: The Four Typical Paths toward Electoral Reform

*The UK and France are cases of incomplete electoral reforms that can be put in this category

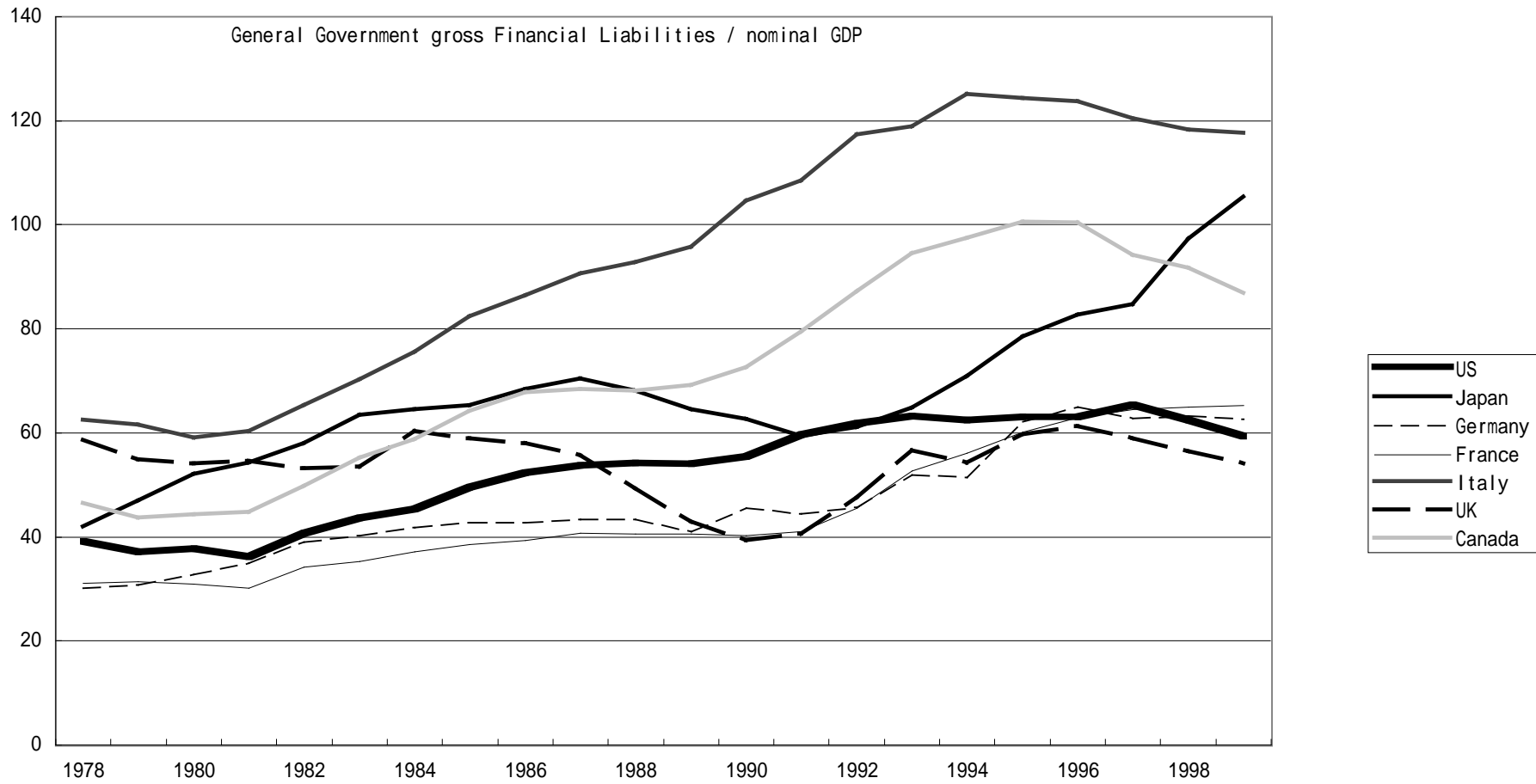


Figure 2 Trends in public debts of industrial nations (Source: OECD)

*Figures not available for New Zealand

Source: OECD