

**THE RELATIONSHIP BETWEEN
THE PRIME MINISTER
AND THE GOVERNING PARTY
IN BRITAIN AND JAPAN:
A COMPARATIVE ANALYSIS OF
RESPONSES TO THE OIL CRISES
1973-1980**

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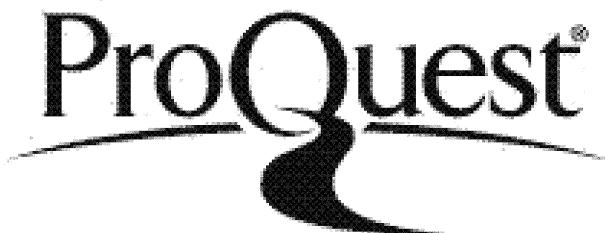


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ABSTRACT

British and Japanese prime ministers have opposite reputations in policy-making, while sharing similar systemic backgrounds and formal power resources within the executive. Prime-ministers' power in policy-making within the executive was primarily promoted and circumscribed by their relationships with their governing parties and their strategic decisions over appointing ministers. Fourteen case studies on prime ministers' responses to the oil crises in foreign, fiscal and domestic oil policies between 1973 and 1980 found that the Japanese prime ministers exerted more power, while some British prime ministers faced more constraints, than might have been expected. Edward Heath, a British Conservative premier with clear control over the party, exercised power with minimal intervention. Kakuei Tanaka, an LDP premier, exhibited the institutional potential of the Japanese prime minister and the restraints on him, which derived from the existence of autonomous cabinet ministers, enjoying independent support within the party. James Callaghan, a British Labour premier, demonstrated the substantial power resources deployed by the British prime minister and the limits imposed by divisions in the governing party and the cabinet. Masayoshi Ôhira, an LDP premier, emphasised ministerial appointment when confronted by hostile groups in the governing party. The main differences of formal power resources of the British and Japanese prime ministers

were: the more significant constitutional position of the cabinet in Japan, the superior information network centred on the British prime minister, and the policy unit available to the British prime minister after 1974. Without the support of the governing party it was difficult for the prime ministers even to mobilise their power resources, whereas with its support they did not need to make explicit interventions to achieve their preferred policies. Principal-agent theory and two-level games were relevant for analysing prime-ministerial power in policy-making and party organisation.

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INTRODUCTION

When the Supreme Command for the Allied Powers (SCAP) entered Japan after the Second World War, they and the Japanese government of the day imported into the ruling structure of Japan a British style of parliamentary cabinet system. SCAP were determined to abolish multiple power points in the Japanese government except for the cabinet and the national assembly (and effectively the civil service). These power points to be abolished included the emperor, the armed forces, the privy council, the imperial household ministry, the *genro* and the *jushin*, both of which were composed of senior statesmen (Stockwin, 1999: 38-9). Not all of them were totally removed, yet they were reformed to be politically far less significant. ‘It can be seen’, as J. A. A. Stockwin (1999: 39) remarked, ‘that what these reforms had in common was the intention to produce a Parliament/Cabinet system, essentially on the British model, with clear lines of responsibility and an unambiguous statement of where sovereignty actually lay’.¹ Such power centres as the prime minister and the cabinet were expected to be strengthened against other actors in the governing structure.

¹ Yet this system could not truly be classified as a version of a ‘Westminster model’. See Lijphart (1984: 4-9) and Verney (1987). In fact, the Japanese post-war Constitution embraced two contradictory principles within it, that is to say, the US separation of power and the British fusion of power.

If the Japanese system had functioned as it had been devised to, the two systems, the British the exporter of the system and the Japanese its importer, should have shown similar performances of the cabinet and the prime minister in policy-making. However, their reputations have been diametrically the opposite. The starting point of the thesis, therefore, is this puzzle. Why do the British and Japanese prime ministers have opposite reputations, while they share similar systemic backgrounds and formal power resources?² As Elinor Ostrom (1999: 50) aptly posited, 'All rules are the result of implicit or explicit efforts to achieve order and predictability among humans by creating classes of persons (positions) that are then required, permitted, or forbidden to take classes of actions in relation to required, permitted, or forbidden states of the world'. Predictability as well as stability are the crucial elements of having rules and institutions, although what they mean may vary (Czada, 1993: 105; Goodin, 1996: 22). If the 'same' rules set in two countries displayed 'different' outcomes, it means; (1) the rules were not the same from the outset, (2) their reputations of differences were incorrect, or (3) a different element affected the functions of the rules and therefore caused the differences of behaviour.

This thesis addresses the British and Japanese prime ministers' power in policy-making

² This crude question will be refined later in the opening chapter.

in the executive branch. Four unique properties are the distinctive and original hallmarks of this thesis. The first attribute is the emphasis on the governing party. Prime-ministerial power in policy-making has conventionally been a topic in core-executive studies. This thesis approaches the question from core-executive studies with hypotheses derived from party organisations. Second, the analogy of games is introduced to distinguish the two games the prime minister is engaged in, namely office-keeping and policy-making. The principal-agent perspective is employed to grasp the relationships between the key actors across these two games. Third, the hypotheses and counter-hypotheses are examined with the comparative case method. Discretionary case selection – that fits the researcher’s thesis – is categorically rejected. Last but not least, the extensive usage of elite interviewing reveals the intimate relationships and perceptions of the key actors around the prime minister.

This comparison between British and Japanese prime ministers addresses some significant questions of prime-ministerial studies. Formal power resources are often said to explain the characteristics of the prime minister’s power in policy-making. This thesis refutes this style of argument. By examining the variables crucial in promoting and constraining the exercise of prime-ministerial power, this thesis demonstrates that cohesion of the governing party and strategic decisions on the appointment of ministers

are the key variables explaining the differences of prime-ministerial power in policy-making games.³

Terminology is not an easy problem to deal with when countries are compared. A prime minister is denoted as ‘he/she’ in a general and in a British contexts, while a prime minister in a Japanese context is referred to as ‘he’, because Japan has never seen a female prime minister. Instead of using the term ‘bureaucrats’, ‘civil servants’ and the ‘civil service’ are used, except when bureaucratic dominance is considered. Members of the national assembly in the two countries are referred to differently. In Britain they are members of the parliament, i.e., MPs, while in Japan they are Diet members. When members of the national assemblies in both countries are referred to, ‘parliamentarians’ is the word used.

³ The governing party will be singular in this thesis, since it focuses on the British and Japanese cases in the 1970s. However, when generalising, the plural will be used.

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LIST OF ABBREVIATIONS

AMA	Administrative Management Agency
ANRE	Agency of Natural Resources and Energy
AOC	Arabian Oil Company
/b	per barrel
B/D	Barrel per Day
BNOC	British National Oil Corporation
BOE	Bank of England
BOJ	Bank of Japan
BP	British Petroleum
CCO	Conservative Central Office
CCU	Civil Contingencies Unit
CPI	Consumer Price Index
CPRS	Central Policy Review Staff
CRD	Conservative Research Department
CSD	Civil Service Department
CY	Calendar Year
DD	Direct Deal
DEn	Department of Energy
EEC	European Economic Community
EPA	Economic Planning Agency
FCO	Foreign and Commonwealth Office
FILP	Fiscal Investment and Loan Planning
FTC	Fair Trade Commission
FY	Fiscal Year
GCT	General Consumption Tax
GDP	Gross Domestic Product
GG	Government-to-Government
GTSRC	Government Tax System Research Council
IEA	International Energy Agency
IJPC	Iran-Japan Petrochemical Company
IMF	International Monetary Fund
JET	Joint European TORUS
LCC	Leader's Consultative Committee
LDP	Liberal Democratic Party
LPG	Liquefied Petroleum Gas
MDSD	Most Different Systems Design
MinTech	Ministry of Technology

MITI	Ministry of International Trade and Industry
MLR	Minimum Lending Rate
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MP	Member of Parliament
MPH	Miles per Hour
MSSD	Most Similar Systems Design
MSP	Minimum Safeguard Price
NCB	National Coal Board
NEC	National Executive Committee
NEDC	National Economic Development Council
NICs	National Insurance Contributions
NIOC	National Iranian Oil Company
NPA	National Police Agency
NPA	National Personnel Authority
OECD	Organization for Economic Cooperation and Development
OIEC	Oil Industry Emergency Committee
OJ	Official Journal of the European Communities
OPEC	Organization of Petroleum Exporting Countries
OAPEC	Organization of Arab Petroleum Exporting Countries
PAJ	Petroleum Association of Japan
PAR	Programme Analysis and Review
PARC	Policy Affairs Research Council
PCO	Price-Control Ordinance
PESC	Public Expenditure Survey Committee
PLP	Parliamentary Labour Party
PMO	Prime Minister's Office
PPS	Parliamentary Private Secretary
RPI	Retail Price Index
PSBR	Public Sector Borrowing Requirement
RAF	Royal Air Force
SCAP	Supreme Commander for the Allied Powers
SASC	Senior Appointments Selection Committee
TGWU	Transport and General Workers Union
TSRC	Tax System Research Council
TUC	Trades Union Congress
UAE	United Arab Emirates
UKREP	United Kingdom Representation
WPI	Wholesale Price Index

CHAPTER I

PRIME MINISTERS FACING TWO-LEVEL GAMES

Prime ministers involved in policy making are in a game with other actors. Actors enter the game so that they can achieve their own goals, whether they are personal, political, or unique policy preferences. They all have their different and unequal sets of power resources, which they utilise to obtain those of other actors to achieve their goals. Actors play the game within a certain set of rules, norms and practices. They strive to make their best choice of strategies within these sets of arrangements. British and Japanese prime ministers are no exception to this picture. However, analyses of the formal rules and studies on prime ministers encounter deep trouble, when comparison is made between the British and Japanese prime ministers. The first section of this chapter illustrates this puzzle, while section two explains the answers the literature on prime-ministerial studies offers, which are not fully satisfactory. Section three provides a definition for the key concept in this thesis, namely power. Resorting to the principal-agent perspective, section four distinguishes the two-level games the prime ministers participate in. Section five induces hypotheses and counter-hypotheses that are likely to promote and/or constrain prime-ministerial power in policy-making in the executive branch. The last section reveals the structure of the thesis.

1. SIMILAR SYSTEMS, DIFFERENT REPUTATIONS

Britain and Japan have often had rather opposite reputations for their premiers.

‘Powerful’ was the adjective for the British, with ‘reactive’ and ‘weak’ for the Japanese prime ministers (Campbell, 1977: 164-5; King, 1985a: 1; Hayao, 1993; Elgie, 1995, chaps two and six; Edström, 1996; Richardson, 1997: 105; Stockwin, 1999: 97).

Comparing nine countries, Anthony King (1993: 437-8) evaluated the British prime minister at almost the top of the list ‘(n)ot far behind the French president’, while Japan was at the bottom with Italy. The British government and its prime ministers have received titles, such as ‘prime-ministerial government’, ‘elective dictatorship’, ‘elected monarch’ and ‘British presidency’. Britain even had discussions on how to circumscribe the prime minister’s power (Crossman, 1963; Crossman, 1972; Hailsham, 1978; Benn, 1985; Brazier, 1991; Foley, 1993; Foley, 2000; Allen, 2003). The strength of the prime minister was often conceived as part of the feature, if not a problem, of the governing system in Britain.

In contrast, the Japanese counterpart has hardly ever received such a remark. Administrative reform in Japan in the late 1990s was based on the understanding that the power centre of the government, notably the prime minister and the cabinet, was

reactive and weak (Tanaka and Okada, 2000: 72-83). An observation by Bradley

Richardson (1997: 105) was typical;

‘Compared with democratic countries like Britain or France, post-World War II Japan has had extremely weak leadership. The prime minister has an important part in public policy making. But prime ministers took the lead less often than might be expected in view of the long dominance of the LDP and the authority granted the prime minister in the constitution’.

Anecdotes and recognitions could, in fact, be found on the crucial role of the prime

minister in formulating major policies: for instance, Hatoyama Ichirô’s role in the joint

declaration by the Union of Soviet Socialist Republics and Japan in 1956, Hayato

Ikeda’s role in the income-doubling plan in the early 1960s, Eisaku Satô’s role in

Okinawa returning to Japan in 1971, Kakuei Tanaka’s role in the normalisation of

Japan-China diplomatic relations in 1972, Yasuhiro Nakasone and Ryûtarô Hashimoto’s

respective roles in the public administration reforms in the 1980s and 1990s (see for

similar remarks, Fukui, 1977a: 40-1; Watanabe, 1977: 34-5; Campbell, 1989: 125).

Kenji Hayao (1993: 12, 17-9 and 27) indeed stressed that the Japanese prime minister

did play a major and critical part in policy-making. However, he argued they were better

characterised as ‘reactive’, in that the prime ministers did not have well-defined goals at

the outset and the agenda were already there in place. Hence, they were neither,

according to Hayao, goal pursuers nor agenda setters. Prime-ministerial power was not

seen as particularly effective in policy-making in Japan. The two countries had opposite

reputations about their prime ministers.

This stark contrast may not be so interesting if the two countries had different systems of governance. When explanations in the literature comparing prime-ministerial power are brought forward, the issue becomes more remarkable. Richard Rose (1991a: 18-9) proposed a typology of the prime minister's role mainly to compare the European countries. The two criteria were (1) whether the constitution centralised power or dispersed it broadly throughout government, and (2) whether there was a single-party government or a multi-party coalition.

FIGURE 1.1
A TYPOLOGY OF PRIME-MINISTERIAL ROLES

<i>Constitution centralises</i>	Yes	No
<i>Party government</i>		
One	Leader	Bargainer
Many	Juggler	Symbol

(Rose, 1991a: 19)

The British and Japanese prime ministers both fell in the same category (i.e., 'Leader').

This typology suggested the two countries should display similar prime-ministerial roles.

More detailed comparison of the 'formal' power resources of the prime ministers in both countries might explain the difference better. Formal power resources meant in

Japan those provided in the statutes, including the Constitution and the cabinet law, whereas in Britain there was no clear legal basis. In Britain, according to George W. Jones (1990a), 'The only statutes that mention the Prime Minister relate to salary and house'. King (1993) and James (1999) provided a list for the formal resources of the British prime ministers, which is useful for comparative purposes.¹ These formal resources overlapped the observed functions of the prime minister in Britain (see for the latter Hennessy, 1995: 86-90; Hennessy, 2000: 59-101).

Fifteen items could be discerned, which related to prime-ministerial power in policy-making in the government. Prime ministers in Britain and Japan shared: the power to appoint and dismiss ministers (1) (2), power to allocate portfolios (3), access to information (6), role of setting the basic policy of the government (7), influence over the press (8), legal (in)security of tenure (9), size of staff (11), and power to dissolve the legislature (12). Slight differences existed amongst these items.² British prime ministers could appoint more ministers than their Japanese counterparts, and were thus able to patronise more followers. Japanese prime ministers, together with their ministerial

¹ The nature of the British Constitution makes a clear description extremely difficult. As this thesis is not one on the British Constitution, it follows the assessments by King (1993) and James (1999: 101-113). Measuring presidential power by its resources was popular in presidential studies, yet the list such studies provided was not particularly useful for the purpose here (see Shugart and Carey, 1992; Metcalf, 2000).

² Chapter three discusses the other items, such as the influence over the press, control over the civil service, and size of staff.

colleagues, enjoyed the privilege derived from the fact that the Constitution (article 65) provided 'executive power should be vested in the Cabinet'. The cabinet was constitutionally entitled to information from government departments.

FIGURE 1.2

PRIME MINISTER'S FORMAL POWER RESOURCES IN COMPARISON

	UK	JAPAN
1. power of ministerial appointment	○	○
2. power of ministerial dismissal	○	○
3. power to allocate portfolio	○	○
4. power to change structure of the executive branch	○	×
5. power to control the cabinet/cabinet committee	○	×
6. access to information	○	○
7. role of setting the basic policy of the government	○	○
8. countersigning statutes and cabinet ordinances	×	○
9. influence over the press	○	○
10. constitutional/legal security of tenure	×	×
11. control over the civil service	△	△
12. size of staff	small	small
13. power to dissolve the legislature	○	○
14. power to control the procedure of the legislature	○	×
15. location of executive power	sec of state	cabinet

Note: ○= the prime minister possessed the resource; ×= the prime minister did not have the resource; △= the prime minister possessed the resource with reservation; 'sec of state'= secretary of state.

In fact, many of the prime minister's power resources in Japan were embedded in the cabinet, which could circumscribe their exercise by the prime minister. The prime minister, representing the cabinet, submitted bills and budgets, reported on general national and foreign affairs to the Diet; the prime minister exercised control and supervision over various administrative branches in accordance with the policies to be

decided upon at cabinet meetings (Constitution, article 72; cabinet law, articles 5 and 6).

Article 7 of the cabinet law read, 'The Prime Minister shall, following consultation at Cabinet Meetings, decide on any point of doubt relating to jurisdiction between the competent Ministers' while its article 8 stated, 'The Prime Minister may suspend the official measures or orders of any administrative office, pending action by the Cabinet'.

In fact, the British and Japanese constitutionally shared a premiership, whose ministers served with him/her rather than under him/her (see for this distinction, Jones, 1991c: 166).

There were five differences between the two countries. Executive power rested in the cabinet in Japan, while in Britain it rested in the individual secretaries of state (point 15).

The Japanese prime minister did not have the power to alter the structure of the executive branch, as did his/her British counterpart. In Britain part of the prime minister's power resources was to set up, amalgamate, or divide government departments (point 4). The British prime minister could flexibly use and control cabinet/cabinet committees, whereas the Japanese system was extremely rigid on cabinet meetings (point 5). The British executive possessed a strong grip on controlling parliamentary procedure, while the Diet was more autonomous from the executive branch in Japan in procedure (point 14). The Japanese prime minister had

constitutionally to countersign all laws and cabinet ordinances (article 74), which was not a duty and a power resource the British prime minister had (point 8).

The comparison of formal power resources revealed some differences, though they were far from decisive (see also Hayao, 1993: 40). The cabinet conditioned some of the prime minister's power resources in Japan, which various reformists argued to be the cause of the deficiency of prime-ministerial power in Japan. However, the prime minister, through cabinet, had control over the civil service, and the prime minister in turn controlled patronage of ministers and set the tone of the government of the day. On a legal and constitutional basis, the Japanese prime minister could temporarily suspend government measures and in effect veto laws and cabinet ordinances, which the British premiers could only conduct conventionally. The basic power structures within the executive branch were more similar than different in Britain and Japan. To say the least, the comparison of formal power structures did not solve the puzzle. The following section examines how the literature addressed this question at issue.

2. PRIME-MINISTERIAL STUDIES: POWER-RESOURCE ANALYSIS AND SYSTEMS-LEVEL ANALYSIS OF PRIME MINISTER-GOVERNING PARTY RELATIONSHIP

The last decade saw a substantial advance in prime-ministerial studies.³ They could be characterised by two aspects. The first group was based on power-resource analysis. The second group stressed the significance of the systems-level characteristics of the governing parties, which provided the basis of the position of the prime minister.

In Britain the prime minister became the focus of a dispute in the 1960s. It was on whether the prime minister had replaced the cabinet as centre of the government. 'With the coming of Prime Ministerial government, the Cabinet', so it was declared, 'in obedience to the law that Bagehot discovered, joins the other dignified elements in the Constitution (Crossman, 1963: 54). John Mackintosh (1962, 1968, 1977) and Richard Crossman (1963, 1972) were the leading advocates of the 'prime-ministerial government' thesis. Although Mackintosh's work was more detailed, balanced and sophisticated, the attention focused on Crossman's more provocative remarks. George Jones (1965) was the leading opponent of this school (see also Brown, 1968a; Brown,

³ The 1990s started with special issues on prime ministers in several journals, such as in *Public Administration* (1990), Vol.68, No.1; *West European Politics* (1991), Vol.14, No.2.

1968b; Madgwick, 1986; Norton, 1988). The basic actors were the prime minister and the cabinet, and their fundamental relationship was understood to be ‘confrontational’ rather than anything else. It was assumed to be a constant-sum game.

The confrontational and constant-sum understanding of relationships caused reflection.

Anthony King (1975: 220) argued ‘it seems unwise to case one’s entire analysis in a mold that assumes that conflict rather than collaboration is the *métier* of executive politics’ (see also Rose, 1976/1974[originally]: 347-8; Dunleavy, 1988: 357). King’s criticism with others went on to claim that relationships between the prime minister and other players could not be seen as a stable, one-off shot. The character of relationships fluctuated from time to time, while recent scholars emphasised the interdependent nature of players in the government (King, 1985a; Dunleavy and Rhodes, 1990; Jones, 1991c; James, 1999; Elgie, 1993; Rhodes, 1995; Smith, 1995; Smith, 1999; Endo, 1999).

Based on the power-dependence theory from sociology, which R. A. W. Rhodes (1981) employed to analyse central-local government relationships, actors were assumed to require resources of others in order to gain the objectives they pursued. Relationships were seen not merely as confrontational or collaborative but also as exchange of resources.

Some scholars have looked into particular resources, such as appointing and dismissing ministers, cabinet reshuffling, and size and nature of the staff (Alderman, 1976; Alderman and Cross, 1985; Alderman and Cross, 1986; Alderman and Cross, 1987; Alderman and Carter, 1992). Comparison of power resources also took place between countries (Weller, 1983; Weller, 1985; Jones, 1991a; Jones, 1991b; Jones, 1991c; Weller, 1991; King, 1994b; and Elgie, 1995). They analysed the similarities and differences between countries, occasionally drawing attention to specific resources, and ranked their 'power' according to their resources.

The problems of power-resource analysis were its static and ambiguous arguments. Although its proponents sought to capture the varying character of power relations, they did not explicitly state which resource was crucial in causing change in the exchange of resources. Martin J. Smith's study (1995) on Margaret Thatcher's rise and fall exemplified this approach. It listed the power resources, environmental factors and strategies the actors might take and showed the possibility of fluctuating relationships between the prime minister and the cabinet ministers. Yet it did not say anything about what caused the differences in those relationships when Thatcher retained her position and when she fell, save her strategic mistake of being 'bossy'. Besides, the complicated power-resource analysis seemed to require an *a priori* judgement of which relationship

was crucial, and thus allowed Smith to focus only on the relationship between the prime minister and the cabinet ministers.

Power-resource analysis has been popular in prime-ministerial studies. It was useful in comprehending the fluctuating relationships between actors. The comparative analyses of power resources were often more useful in understanding each country's static conditions around the prime minister. Power-resource analysis allowed the observer to recognise the power structure of the relationships and its variability. It gave the observer an overview of where the prime minister stood. Nevertheless, it did not explain what caused the variance in prime-ministerial power. The distinction between the dependent and the independent variable was, most of all, not explicit at all: was the exchange of resources to be explained, or was the exchange itself supposed to produce particular power relations between the actors? Resources reflected the potential of power, yet they were not power themselves. Each resource would have different functioning. Enjoying one resource might overwhelm the possession of many other resources. Counting and grading resources was, although helpful, different from evaluating power. It did not tell what impact the difference of resources had on the prime ministers' power in policy-making.

The second group of prime-ministerial studies stressed the nature of the party system, namely the significance of the composition of the governing party(ies) – the single-party/coalition distinction – on prime-ministerial power (Jones, 1991c; Rose, 1991a; King, 1994b; Frognier, 1993; Müller *et. al.*, 1993). The studies were naturally comparativist. According to their arguments, prime ministers based on a single governing party were likely to exercise more power in policy-making than those based on multiple parties of a coalition government. The problem with this perspective was that the arguments did not necessarily provide any rationale to link the characteristics of the prime-ministerial power and the single-party/coalition distinction. Müller *et. al.* (1993: 231-6), based on a rich survey, showed merely the two variables correlating to each other. Anthony King (1994b: 154) made the point clear;

‘The prime minister of a single-party government rules alone. By contrast, the prime minister of a multi-party government has to share his authority with the leaders of the other parties that make up the coalition. They are dependent on him, but he is dependent on them’.

Such an argument did not necessarily lead to this popular distinction. As George W. Jones (1991c: 167) remarked, ‘Being leader of the party confers on the prime minister no automatic guarantee of its support’. Acknowledging their contribution and agreeing on the significance of the governing party, this hypothesis, emphasising the single-party/coalition distinction, could not explain the alleged differences within single-party governments, as in Britain and Japan, and coalition governments, as in

Germany and Italy. It was not at all clear whether this distinction itself was the affecting factor or merely mediating another implicit variable working behind the scenes.

Previous studies affirmed that institutional arrangements and the disposition of power resources were crucial in understanding prime-ministerial power. Recent comparative studies on prime ministers emphasised that '*differences between national political institutions create more variation in the office of prime minister than do differences of personalities and circumstances within a country*' (Rose, 1991a: 9; original emphasis).

The problem about conceiving the prime minister from a 'personal' perspective was, as Terry Moe (1993: 345) emphasised when exploring presidential studies in the United States, 'The paths from relevant factors – within the individuals, in the individual's past, in the individual's environment – to the individual's behaviour tend to be long, confusing, tortuous, and, in the end, quite uncertain' (see also Rockman, 1986: 115-6).

This thesis shares the stance with the institutionalists. It assumes the prime minister of each country has its own characteristics. It therefore 'makes sense to compare Spain and Germany and not just González and Kohl' (King, 1994b: 152). As Rod Hague and Martin Harrop (2001: 64) summarised, 'Put differently, the capability of institutions to shape the behaviour of their members means that politics, just like other social sciences, is more than a branch of psychology'. Pushing this argument a step forward, this thesis

holds that each governing party as well as each country is likely to carry its original settings.

This thesis contends the power-resource allocation sets the framework of the power relations, yet the power structure of the governing party vitally affects the prime minister's power in policy-making. The British and Japanese prime ministers provide a fruitful comparison; the British represented the orthodox single-party government and the Japanese provided its 'deviant' case.

3. OPERATIONALISING PRIME-MINISTERIAL POWER

Prime-ministerial power is a crucial concept for this thesis. However, power has been taken as one of the most notorious concepts in political science. Disagreement is easier than agreement. Power has various facets. Stewart Clegg (1989: xv) amongst others stated there were three groupings 'clustered around loci of dispositional, agency, and facilitative concepts of power'. Henri Goverde *et. al.* (2000: 17-8) described power as a 'family resemblance concept'. This label was created by Wittgenstein to cover concepts that could not be defined by (at least) one shared element. Members of a family may

look similar, but it is difficult, if not impossible, to characterise a family by one or a few features that all of the members of the family share. The purpose of this section is not to make an exhaustive review of the concept and relevant arguments, but rather to explicate an empirically helpful definition and some aspects this thesis is after.

Prime-ministerial studies must move forward from mere power-resource analysis or a single-minded dispositional concept of power. The allocation of resources certainly shapes the framework of power relations, and therefore it is vital to the understanding of power. Yet allocation of power resources is one thing and power is another. Behaviourists were those who stressed the relational aspect of power. Robert Dahl (1957: 202-3), their champion, defined, 'A has power over B to the extent that he can get B to do something that B would not otherwise do'. For him, power resources were not equivalent to power (Dahl, 1957: 206).

Dahl's definition and its usage provoked numerous criticisms and counter-criticisms. Amongst them were the criticisms from Peter Bachrach and Morton S. Baratz (1962; 1963; 1970) and Steven Lukes (1974). Bachrach and Baratz (1962: 948), criticising the pluralists led by Dahl, declared their point from two aspects: 'One is that the [pluralist] model takes no account of the fact that power may be, and often is, exercised by

confining the scope of decision-making to relatively “safe” issues. The other is that the model provides no *objective* criteria for distinguishing between “important” and “unimportant” issues arising in the political arena’ (original emphasis). Agenda setting and controlling the rules of the games were the instances of the other face of power as against Dahl’s definition of power. To Bachrach and Baratz, manifestation of conflict could not be an adequate sign of a ‘key’ issue. Mark Haugaard (2002: 26) summarised, ‘Not only does A exercise power over B in overt decision-making (as in Dahl) but A may equally well exercise power over B by limiting the scope of the political process to issues which are relatively innocuous to A’.

Lukes further pushed the argument. He denoted the pluralist account represented by Dahl as the one-dimensional view of power and that of Bachrach and Baratz as the two-dimensional view. He praised the contribution by Bachrach and Baratz as a ‘major advance’. However, Lukes (1974: 19) argued they also saw power singularly in observable conflict, as did the one-dimensional view. Thus, actors were assumed to be able to recognise their own interests, which was observable by their manifested policy preferences or grievances. Lukes (1974: 23), in contrast, asserted ‘A may exercise power over B by getting him to do what he does not want to do, but he also exercises power over him by influencing, shaping or determining his very wants’. Further, ‘the

bias of the system', which might be in favour of certain groups and against others, 'can be mobilised, recreated and reinforced in ways that are neither consciously chosen nor the intended result of particular individuals' choices' (Lukes, 1974: 21; see also 66). For Lukes, neither the power exerciser nor the exercised was necessarily intentional or aware of the exercised power. Lukes (1974: 23) considered 'the supreme exercise of power' as 'to secure their compliance by controlling their thoughts and desires'. The premise of this argument was a distinction between real 'interests' and 'wants' of the individuals, and 'men's [sic] wants may themselves be a product of a system which works against their interests' (Lukes, 1974: 34).

Institutionalists also tackled these issues. As Peter Hall and Rosemary Taylor (1996: 940-1) stated, 'All institutional studies have a direct bearing on power relations. Indeed, they can usefully be read as an effort to elucidate the "second" and "third" dimensions of power identified some years ago in the community power debate'. Institutions included formal and informal power resources. They set the rules of the game. Power was directly linked to institutions, in that institutions distributed power resources unevenly across actors. Coincidentally, power was a relational concept. Institutions did not determine behaviours of the individuals from the outset, as institutionalists themselves recognised (Thelen and Steinmo, 1992: 12-3). Institutions narrowed the

choices by preventing or promoting certain options and affecting the perception of the individuals, which Keith Dowding (1996: 45) referred to as 'structural suggestion'. Interactions amongst actors must necessarily be considered in order to understand power dynamically. Yet institutions biased these interactions. In politics, offices, actors with their social identities and their mutual relationships were embedded in the institutions (see Isaac, 1992: 46-9). Some were systematically privileged, while others were less so.

This 'faces of power controversy' partly centred on 'whether power should be defined in such a way that it can be measured easily' (Hay, 2002: 169). Keith Dowding (1991: 48; 1996: 5) provided a useful definition for the argument of this thesis. Political power could be distinguished into two parts: 'outcome power' and 'social power'. 'Outcome power' indicated 'the ability of an actor to bring about or help to bring about outcomes', whereas 'social power' denoted 'the ability of an actor deliberately to change the incentive structure of another actor or actors to bring about, or help bringing about outcomes'. The latter was a subset of the former (Dowding, 1991: 55). Dowding (1991: 68) pointed out four ways of changing the incentive structure of another actor deliberately.⁴

⁴ Pfeffer (1997: chap.5) saw these four ways incorporated in a single category of 'the use of rewards and incentives, including "negative" rewards and surveillance'. Pfeffer noted three other mechanisms

1. A may persuade B that an option in B's preference schedule is not what it seems, and should be raised or lowered in her estimation.⁵
2. A makes an offer to B to raise some option in B's estimation.
3. A may make some threat to B, thereby lowering some option in B's estimation.
4. A may make both a threat and an offer both raising and lowering options in B's estimation.

These definitions and illustrations of power exercise allowed the observer to incorporate the issue of altering actors' preferences.⁶ Dowding did not accord to Lukes' view of power being unintentionally exercised. This thesis follows Dowding's point for two reasons; unintentional power necessarily made the argument more complicated, while on the other hand deliberate calculation was likely to suit the reality at the centre of a government.⁷

The expression of 'exercise' of power was disputable, in that power might not be 'exercised' with a manifest action, mobilising power resources. Prime ministers were

of social control: commitment and socialisation processes; organisational culture; and leadership. However, his usage and distinction between control, power and influence were unclear and less well-defined (see also Pfeffer, 1997: 136-42).

⁵ Preference schedule indicated the order of the actor's preference.

⁶ The issue Bachrach and Baratz raised is chiefly to be addressed with case selection, which chapter two discusses.

⁷ The 'garbage can' model was likely to expect a different reality, namely, actors did not necessarily consider every movement in a straightforward means-ends basis, or means-follows-ends basis. This thesis takes the view that, while actors may not make up their minds on a means-ends basis, they calculate the extent to which they must consider the consequences of their decision.

less likely to say to their ministers, 'Who put you in that position?', 'Do you want to be sacked?' or 'You will be promoted if things go well'. *A* may get what she wants without doing anything. Still it is said that *A* 'exercised' power, when she changed other actors' preferences by any of the four ways described above. It was equivalent to what Friedrich (1937: 16-8) conceptualised as 'anticipated reaction'. This thesis consistently uses the term 'exercise' as interchangeable with 'exert' and 'wield'.

The nature of conflict was another difference between the three dimensions. Yet they all agreed on the necessity of conflict in examining power (see Lukes, 1974: 25). Dowding (1991: 50 and 55) argued 'Since conflict may arise whenever preference orderings differ in some regard, virtually any act is potentially a political one' and went to say '[But] given the very broad scope of the potential for some act's being considered political on account of its potentially conflictual properties it is unlikely that any act of social power will be considered non-political and many exercises of outcome power will also be political ones'. This thesis agrees with the point Dowding made that the absolute difference in the preference schedule inevitably causes conflict between actors. Yet the preference schedule does not always seem to be crystal-clear. Suppose *B* faced two options *X* and *Y* both indifferent to her. Having noticed *A* preferred *X*, who happened to be the prime minister, she decided to adopt *X*, since she would not want to upset the

prime minister or possibly the prime minister might positively reward her. Without conflict in any genuine sense the prime minister still exercised power over *B* to gain *X*. This thesis does not consider it indispensable to have overt, covert or latent conflict in the cases to examine power as defined by Dowding.

Social power is the key to this thesis, though outcome power is also important. 'Outcome' denotes the policy decided in the executive branch. Policy outcome is not equivalent to the success or failure of the particular policy (Barber, 1991: 134). This thesis discerns outcome power by whether or not the prime minister's policy preference is reflected in the policy outcome. Social power is looked into from two aspects; one is whether the prime minister changes other actors' incentive structures, and the other is whether other actors change the prime minister's incentive structure. The former indicates the prime minister's preference is set, while the latter implies it may be altered.

Supplementary to the exploration of power is the exhibition of the routes and channels the prime minister takes to have his/her policy preference reflected in the policy outcome. The routes and channels that the prime minister uses are suggestive, since they intimate which power resource the prime minister tends to deploy. The possible routes

and channels are listed in Figure 1.3.

FIGURE 1.3

ROUTES AND CHANNELS OF EXERTING PRIME-MINISTERIAL POWER

- cabinet meetings;
- ministerial committee meetings;
- (informal) bilateral meetings with ministers;
- mixed committee meetings, including ministers and civil servants;
- mediating actors, who are the prime minister's confidants, for instance, ministers without portfolios including some of the 'sinecure ministers' in Britain and the chief cabinet secretary in Japan;
- Cabinet Office and cabinet secretariat;
- inter-departmental meetings at official level, such as the permanent secretaries' meeting;
- private secretaries' network;
- money allocation;
- appointments;
- re-organising government bodies;
- vetoing⁸;
- direct instructions to departmental officials.

This list does not indicate that every prime minister in both countries could make use of all of these routes and channels. It depended on the way the core executive was organised and which route and channel were more trustworthy, effective and efficient for the prime minister in office.

⁸ According to Nigel Lawson, a former chancellor of the exchequer in Britain, 'The Prime Minister's main power is the veto and that was the main way that the Prime Minister exercises his or her power. The Prime Minister basically cannot force her proposal on a minister who is not prepared to go along with it but they have a very effective power of veto' (quoted in Smith, 1999: 90).

4. TWO-LEVEL GAMES THE PRIME MINISTER PLAYS

4 (i) **Two-Level Games and Prime-Ministerial Power**

The discussion in section three showed the actors' preferences were crucial in understanding the power of the prime minister. Yet preference was not something that could be readily conceived. Scholars long debated whether politicians' core preferences were based on office-seeking or policy-seeking.⁹ They were to constitute the basic assumptions of actors in theories of coalition and electoral behaviour (Laver and Schofield, 1990: 36-7). A pure version of office-seeking indicated that actors' behaviour was based on gaining office and policy with other things was instrumental for this goal. A pure version of policy-seeking signified the contrary. Yet it was possible to find versions between these two extremes. Office as a means to influence policy and policy as a means to gain office were examples (Laver and Schofield, 1990: 55-60; Budge and Keman, 1990: 27-8). Although such a discussion naturally made one feel politicians were pursuing both, this analytical distinction was significant.

This thesis draws attention to two different games, in which the prime minister was

⁹ Vote-seeking was also regarded as a distinct preference (Strøm and Müller, 1999: 5-9).

involved coincidentally: the office-keeping game and the policy-making game.¹⁰ Prime ministers had distinct preferences in each game. The prime minister was a prime minister in a parliamentary cabinet system, primarily because he/she gained support in the national assembly, notably in the governing party(ies).¹¹ His/her attitude towards this game might differ in accordance with how secure his/her position was. They could not avoid facing the reality that they must keep an eye on and make efforts to maintain the support of his/her own supporters, particularly, when the supporters had the power to threaten his/her position and restrain his/her behaviour.¹² This was the office-keeping game.

Meanwhile, prime ministers had two types of *policy* preferences. First, they often had their own declared policies to be pursued – the key policies of the prime ministers. Sometimes they were policies advocated during general elections or their own leadership contests; sometimes prime ministers had already made their reputation by proclaiming a particular policy. Reputation was important for politicians, in particular

¹⁰ It is not an office-seeking game, simply because prime ministers already occupy one.

¹¹ This thesis uses the term ‘governing party’ throughout. It means the party that supports the government in the national assembly and takes part in forming the executive power. However, this conceptualisation of the governing party may be too strict for understanding the party-government relationship in general. For instance, parties may support the government and not participate in it. Blondel and Cotta (1996: 5-6) preferred the term ‘supporting party’, and contended a clear distinction between a supporting party and a non-supporting party might be difficult. The concept was, they argued, in principle incremental rather than dichotomous.

¹² Without considering party rules, parliamentarians could always bring down the premier and his/her government by passing a no-confidence vote in the national assembly in Britain and Japan.

for prime ministers. It became a matter of integrity and credibility if they pursued policies completely contradicting those they had supported previously.¹³ This point was relevant to the office-keeping preference. The other type of policy preference was more derivative. Prime ministers were not likely to have preferences for all the policies, though they might have to take positions on certain issues. When they faced such circumstances, they would formulate their policy preference on the issue by calculating the costs and benefits to the office-keeping game and their key policies. The prime minister pursued these policy preferences in the policy-making game. Accordingly, the understanding of this thesis is that the prime ministers recognise their own policy preferences.

This argument holds that actors faced two games, which were nested in and affected each other. Such a fashion of discussion has been popular in political science as well as in international relations (for instance, Putnam, 1988; Tsebelis, 1990; Scholz, 1991; Evans *et. al.*, 1993; Mo, 1994; Hausken, 1995; Milner, 1997). The reason for adopting this approach, whether referred to as ‘two-level games’ or ‘nested games’, was to explain why actors chose sub-optimal options. George Tsebelis (1990: 7 and 9) asserted, ‘The observer focuses attention on only one game but the actor is involved in a whole

¹³ Note they could pursue policies contradictory with their previous commitments, if the adoption of other policies increased the welfare of the prime minister.

network of games - what I call nested games. What appears suboptimal from the perspective of only one game is in fact optimal when the whole network of games is considered', and went on 'Such contextual factors influence the payoffs of the actors in one arena, leading to the choice of different strategies; therefore, the outcomes of the game are different when contextual factors are taken into account'.

Supposing the prime minister possesses sufficient power resources to mobilise against others to achieve what he/she wants, it is natural to consider the prime minister would seek his/her policy preference in the policy-making game, which this thesis assumes. Otherwise, there is not much point in providing power resources for the prime minister, so that he/she could exert power. However, prime ministers do not always behave in such a manner. To explain this gap, prime-ministerial power must be understood in the light of these two separate games the prime minister necessarily takes part in. This section provides a conceptual framework for understanding the relationship between the two games, based on the principal-agent theory.

4 (ii) Principal-Agent Perspective

The principal-agent perspective was useful in clarifying the relationships in the two

games and later combining them. The principal-agent theory was, according to Terry Moe (1984: 756);

an analytic expression of the agency relationship, in which one party, the principal, considers entering into a contractual agreement with another, the agent, in the expectation that the agent will subsequently choose actions that produce outcomes desired by the principal.

The principal-agent perspective has frequently been applied for understanding congressional-bureaucratic relationships in the United States (for instance, McCubbins and Schwartz, 1984; Weingast, 1984; McCubbins *et. al.*, 1987; Calvert *et. al.*, 1989; Banks and Weingast, 1992; Lupia and McCubbins, 1994; Bawn, 1995). Political control over civil servants was the point at issue.¹⁴ Recent works adopted this perspective to analyse the governing structure and in particular parliamentarian-bureaucratic relationships in Japan as well (Ramseyer and Rosenbluth, 1993; McCubbins and Noble, 1995a; McCubbins and Noble, 1995b). The principal-agent perspective helped one grasp the idea of delegation, which was a basic phenomenon in modern democracy. At the most elemental level, electorates most of the time could not commit themselves to policy deliberation and implementation. Representatives, namely parliamentarians, were required. In turn, ministers and ultimately the civil servants carried out the task on behalf of the parliamentarians.¹⁵ Actors needed to delegate more than often their

¹⁴ Moe (1990: 226) contended the principal-agent theorists excessively focused on the aspect of control, while 'efficiency' was 'the neglected side of the story'.

¹⁵ The aim of this thesis is not to explore the principal-agent relationships within the civil service, and therefore it is assumed to be a unitary actor in the theoretical argument in this chapter. However, the empirical chapters deal with such aspects.

authority to achieve their goals in politics.

Agents did not necessarily share the same preferences as their principals.¹⁶ Principals would on the other hand strive to appoint an agent who shared their preferences. Appointing the agent was part of the tools for principals to achieve their preferred policy outcome (Calvert *et. al.*, 1989: 598-9 and 604-5). Yet without perfect information, principals were unable to tell whether they really knew the preferences of their agents. Besides, even though they might share policy preferences, agents might (and would) have their own personal preferences. Even though the agent might share a policy preference with her principal, she might find the cost too high to implement the policy. Principals would like to keep an eye on their agents' real performance, yet it was difficult to gain sufficient information to assess the agents' behaviour (Moe, 1984: 766; Moe, 1989: 271; Lupia and McCubbins, 1998: notably chap.5). Control was vital, although 'by itself, a system of rewards and punishments is unlikely to be a completely effective solution to the control problem' (McCubbins *et. al.*, 1987: 249). Still rewards and sanctions must be properly prepared with a way of monitoring the agents. The principal-agent theory gave special attention to the methods of control, conflict of preferences, and asymmetry of information between the principal and the agent (Fiorina

¹⁶ Conventionally principals and agents were respectively referred in masculine and feminine, which this thesis follows.

and Shepsle, 1989: 18-27; Moe, 1984: 756-7; Lupia and McCubbins, 1998: chap. 5).

4 (iii) Policy-Making Game

From section 4.1, prime ministers were assumed to have policy preferences, wherever they might originate. The prime minister him/herself did not carry out the practical formulation of the policies: such matters were left to the ministers and civil servants.

The prime minister pursued his/her policy preferences through them. Constitutionally, prime ministers in Britain and Japan were *primus inter pares*, namely first among equals in cabinet. Nevertheless, the constitutional and legal considerations in section one showed the prime ministers possessed the power resources to appoint and fire his/her ministers and set the tone of the government by representing the cabinet, although constitutionally they might not be able to give 'orders' to ministers and civil servants directly. Lord Home once stated,

'Every cabinet minister is in a sense the Prime Minister's agent – his [sic] assistant, there's no question about that. / A Minister's job is to save the Prime Minister all the work he can' (quoted in Jordan, 1994: 97).

Doubts could rightly be raised when prime ministers were regarded as similar to the president of the United States, as being the principal to his secretaries and officials in the executive branch. George W. Jones (1987a: 64) strongly asserted, 'this analogy [to view

the British prime minister as a chief executive] is false. The prime minister executes nothing, except making some appointments and allocating honours' and noted 'The logic of the British constitution is that prime ministers do not intervene in the policy responsibilities of specific ministers in order to advance personal prime-ministerial objectives' (see also Norton, 2000: 107, 117 and 123). The British and Japanese prime ministers and the US presidents were constitutionally and legally distinct from each other. This thesis does not argue the two offices and two systems to be identical. This thesis neither constitutionally nor empirically takes the relationships between the prime minister and a cabinet minister as those between a principal and an agent in their literal sense. It rather employs the principal-agent perspective as a functional framework. This assumption is similar to a Weberian 'ideal type'. The validity of this assumption is revealed in the empirical studies.

Having assumed the prime minister was the principal of his/her ministers in the executive branch, the prime minister would like to appoint a minister, who shared his/her policy preferences. By so doing, the prime minister could entrust with less monitoring the agent to carry out the prime minister's own policy preferences. If the minister were found to deviate from this line, the prime minister would intervene in the policy-making game through one of the routes listed in section three to realise his/her

policy preferences.

This thesis introduces the notion of '*optimal behaviour*' for the prime minister in the policy-making game. It indicates '*the prime minister wishes to have his/her policy preference reflected in the policy outcome, and if and when his/her agents do not comply with this preference, he/she will intervene in the policy-making game with available resources to alter the course of policy-making*'. '*Sub-optimal behaviour*' signifies the contrary and when the prime minister is forced to deny his/her political and/or policy preferences. This distinction of behaviour is crucial for providing the argument in the thesis.

Optimal behaviour includes non-action, if no action is necessary. When the agent is reflecting the prime minister's policy preferences in the policy outcome, the prime minister has no reason to intervene. 'No action' is not equal to 'no control'. Behavioural patterns of ministerial/bureaucratic dominance are not distinctive from strong control by the prime minister. Discussing a similar difficulty in assessing congressional control over the civil service, David Epstein and Sharyn O'Halloran (1999: 24) stated 'Thus, it is possible that the traditional tools of congressional control are so effective that they are never actually used – this is the problem of "observational equivalence"' (see also

Calvert *et. al.*, 1989: 605). Even though power was ‘exercised’, it might not be observable as any direct action. The definition of power in this thesis covered this aspect, as discussed in section three.

The initial puzzle posed in this chapter could therefore be expressed differently by using the principal-agent perspective. If the British prime minister performed according to his/her reputation, he/she was assumed to have behaved optimally in the policy-making game. In contrast, if the Japanese counterpart lived up to his name, he must have adopted sub-optimal behaviour. However, the question was more complicated than their reputations went. For it was never verified that the British and Japanese prime ministers indeed behaved according to their reputations. Therefore, the real question could be restated as follows; *why did prime ministers behave optimally on some occasions, while they displayed sub-optimal behaviours on other occasions in the policy-making games?*

4 (iv) Office-Keeping Game

Prime ministers were involved in another game to maintain their offices as prime minister and party leader/president. The attribution of the principal and agent changed in this office-keeping game. The prime minister and party leader/president became the

agent of the governing party.¹⁷ The governing party allowed the prime minister to gain and retain his/her office. With whatever procedure, the governing party in Britain and Japan effectively chose its party leader/president and thus the prime minister to achieve certain goals, which the governing party pursued. They could be, for instance, achieving specific policies, reflecting certain ideologies in government policies and presentation, or merely retaining power. The office-keeping game was played between the prime minister, the agent, and the governing party, the principal.

The governing party as principal encountered the same problem that all principals did, namely controlling their agent. Besides this common problem as principal, the governing party faced two unique problems. One was on the question of who constituted the governing party as principal. Various voices existed in the governing party. The party leader/prime minister was not selected by a ‘general will’ of the party but usually by part of it. This evident fact indicated the existence in the party of voices speaking different preferences from the prime minister’s. Not all the voices in the party participated in this selection process. The Conservatives did not until the mid 1960s even allow their backbenchers a vote in electing their leader, but rather the leader merely ‘emerged’. As a consequence, who in practice controlled the agent, the prime

¹⁷ See Koelble (1996), for an application of the principal-agent model on political parties.

minister, became problematic. Formally the party executive should carry out this role.

However, the party executive was often fused with the cabinet in a parliamentary-cabinet system, which the prime minister formally selected. Even though (part of) the governing party felt the prime minister was deviating from the former's policy preference, individual members or smaller groups might not wish to take on the burden for the whole (or greater part of the) party. Such an activity was also likely to invite retaliation from the prime minister, for instance in the case of an MP, in re-election and promotion. It was a collective action problem.

From the viewpoint of the principal it was difficult to overcome this collective action problem. One way of solving this problem was to form a fresh body to display these voices.¹⁸ The other way was to utilise existing groups in the party, such as factions, policy groups, social groups and official bodies. This usage of existing groups saved the cost of organisation (Olson, 1971: 47). These groups or organisations might not necessarily be formed for the purpose of influencing the prime minister. Nevertheless, their existence could be used to organise the voices in the party. Each party differed in

¹⁸ The creation of the backbench 1922 committee of the Conservative party was intriguing in this respect. Robert McKenzie (1955: 58) quoted Gervais Rentoul, the first chairman of the committee, explaining the background. 'Sir Gervais Rentoul ... has recalled that the decision to form the committee was a direct result of the feeling of "ineffectiveness and bewilderment" among the new elected Conservative M.P.'s [sic]. The advent of the 1922 Committee was not, he wrote, "exactly welcomed by the powers that be. The leaders of the party considered it rather a nuisance. It is always easier to deal with either supporters or opponents individually than collectively. The 'Whips' feared it might be a 'cave', an opportunity for the ventilation of criticism, which it would be better should not exist"'.

the types and arrangements of their internal groups and organisations.

Because the principal, the governing party, was composed of various individuals and groups, the prime minister was able to take advantage of picking some but not other parts of the principal to resort to (Rose, 1964: 45). The prime minister did not need to incorporate the preferences of every part of the governing party. As Morris P. Fiorina and Kenneth A. Shepsle (1989: 21) argued;

‘the political leader is the *common* agent for a *collection* of principals. ... There may be conflicts of interest among the multiple principals so that the “principals’ problem” is as much a game among themselves as it is one of controlling their leader-agent. The agent, on the other hand, may be faced with the problem of performing in behalf of *some* of the principals and compromising the interests of other of the principals’.

The prime minister could exploit this advantage as an agent of multiple principals. The prime minister would still nevertheless have to confront individuals and groups carrying preferences different from his/her own. How to contain their opposition against him/herself was a delicate matter. The prime minister could deliberately exclude a certain group within the governing party, as long as he/she could maintain the winning coalition. However, when the critical individual or group started to gain support amongst members of the governing party, the prime minister as agent must shift his/her position to compromise and try to include them in his/her support in the governing party.

The other unique problem for the governing party as principal was that the agent, the prime minister, possessed counter-power resources to fire back against his/her principal.

This problem was similar to what Terry Moe pointed out for the citizens-legislators relationship, which was fundamentally unlike the usual (private) principal-agent relationship. 'First, it is the agent who has effective authority, not the principal'.

Moreover, 'The agents are in charge: setting the structure, exercising control, taking steps to ensure that the *principals* comply with their wishes. The tables are turned' (Moe, 1990: 233). The prime minister could, to a varying extent, influence the result of the re-election of his/her own parliamentarians by the general achievement of his/her government and possibly by direct intervention in intra-party resource allocation and constituency politics. He/she could exploit the power resources to appoint, promote, move and fire ministers and officers of the governing party. The prime minister could have a significant impact on the political preferences of the members of the governing party. Accordingly, the possibility of a revolt against the prime minister was likely only when such political preferences were seriously damaged or threatened, or the particular member or group of the governing party had some autonomy from the prime minister.

The collective action problem further strongly restrained them from standing up against the prime minister, without means to induce collective action. Noting these problems of control, the prime minister still faced control from the governing party, his/her

immediate principal.

The office-keeping game had another significant dimension. In the policy-making game, ministers were assumed to be the agents of the prime minister. Civil servants were the basic agents in formulating policies. Civil servants had a direct principal-agent relationship with their ministers, and accordingly they were indirectly the agents of the prime minister. Save the difficulty of controlling agents in general, the prime minister was likely to keep a grip on the activities of his/her agents, on the condition that the prime minister was the sole principal of the agents (see Moe and Caldwell, 1994: 187-8).

In fact, this was not the case. Ministers had another principal, the governing party.

Ministers were in a similar relationship with the governing party, as was the prime minister. Ministers were chosen as ministers because of the support in the governing party to a varying extent (Jones, 1987b: 9). Ministers had two principals, namely the prime minister and the governing party. If the control of the governing party was effective enough, it could lead the ministers to certain decisions. On the other hand, because of the dual principality on the ministers' side, they were in a position to take advantage of it. If the support in the party was strong enough, ministers could pursue their own preferences or the governing party's preferences contradicting the prime

minister's. It depended on how ministers calculated the balance of the strength of the strings attached to them from their principals. Whether the prime minister could achieve what he/she wished depended on whether he/she could exert power over the ministers, which in turn depended on the relationships between the prime minister and the governing party and on those between ministers and the governing party.

The office-keeping game was crucial in explaining why the prime minister behaved optimally at one time and sub-optimally at another in the policy-making games.¹⁹ As George Tsebelis (1990: 248) wrote, 'in games in multiple arenas, events or strategies in one arena influence the way the game is played in another arena'. The two games could impact each other, though the focus below is chiefly given to the office-keeping game affecting the policy-making game. The prime minister's preference and position in the office-keeping game constrained his/her preference and behaviour in the policy-making game.

¹⁹ See Panebianco (1988: 23-4) for a similar discussion. He distinguished between negotiations among leaders (horizontal power games) and leader-follower negotiations (vertical power game), and contended 'Vertical power games are thus the (logical) precondition for horizontal power games; and the outcome of the negotiations among leaders depends on the outcome of the negotiations between leaders and followers'.

5. HYPOTHESES AND COUNTER-HYPOTHESES

This thesis posed a central question: why did prime ministers display optimal behaviour on some occasions and sub-optimal behaviour on others in the policy-making games.

Hypotheses could not be examined on their own. Their explanatory strength must be examined in comparison with other hypotheses.

5 (i) Hypotheses

Following the discussion in section four, this thesis proposes its twofold hypotheses;

1. the likelihood that the prime minister has his/her policy preferences reflected in the policy outcome decreases, when a minister, who has strong coherent support in the governing party, differs with the prime minister in policy preferences;
2. the likelihood that the prime minister has his/her policy preferences reflected in the policy outcome decreases, when the governing party possesses more veto points within it and holds different policy preferences from the prime minister's.

5 (ii) Counter-Hypotheses

The power and role of the prime minister has often been explained by many variables

(see, for instance, Greenstein, 1969). Yet it was not necessarily helpful to start with a

complicated framework. Gary King (1993: 397) refuted this style of analysis when he

stated, '*for social science, no reasonable argument can be constructed in which all*

conceivable explanatory variables could be used at once in making inferences' (original

emphasis). Terry Moe (1993: 353-4) emphasised an alternative fashion of explanation,

'one that places positive value on not being comprehensive, on eliminating rather than

proliferating variables, on capturing just the essence of a problem rather than describing

the whole thing'. To narrow the focus, counter-hypotheses are induced from the

literature. This thesis brings forward four basic counter-hypotheses, which seems to be

indispensable for the understanding of prime-ministerial power. They concern (a)

bureaucratic dominance, (b) power-resource differences, (c) ministerial government and

(d) personality.

a. *Bureaucratic Dominance*

The bureaucratic-dominance thesis had three interpretations. If the civil servants

literally dominated political leaders, there would be no sign of prime-ministerial power.

Civil servants were the main providers to political leaders of information on policies –

the options themselves, their availability and cost. Civil servants often decided on the

details of policy with their expertise. Their political masters might claim control, though

these politicians might lack information on the details of policy and on preferences of

the civil servants and possibly even their own exact policy preferences. Civil servants

might have their own organisational as well as personal preferences. ‘The crime of

runaway bureaucracy requires opportunity as well as motive’ (McCubbins *et. al.*, 1987:

243). The power of the prime minister might be severely restrained by the reality that

he/she could not keep control of the civil servants. The control was doubly slippery. The

prime minister needed to control the ministers, and the ministers, the civil servants.

Civil servants, the ultimate agents, might dominate the policy-making game.

On the other hand, the real issue might be the fragmented system of the civil service

(Page, 1992: 81). If the civil service were so fragmented and ill-organised, the same

observation of no political control would be found without opposition by the civil

servants. This interpretation of bureaucratic dominance thus did not necessarily involve

civil servants’ actual power over the prime minister, since unintentional effect was not

by definition power in this thesis. Nevertheless, the prime minister was obstructed in

achieving his/her policy preference.

The second interpretation was that the civil services of some countries were more powerful than others. Prominent scholars, such as Chalmers Johnson (1982: 320), denoted Japan as 'a system of bureaucratic rule'. The Japanese system was often explained as bureaucratic dominance in the past. The Japanese civil service was regarded as more active and politicised than the British (for instance, Silberman, 1993: 82-3; see also Wright, 1999). According to this interpretation, the British prime ministers would exhibit power, while the Japanese counterparts would not. The third facet of bureaucratic dominance was that government departments might vary in their significance in the policy-making games (Stockwin, 1999: 229, endnote 5 for chap. 4). The 'strength' of the civil servants might differ between and within government departments.

b. Power-Resource Differences

To overcome the problem of controlling his agents, the principal needed to acquire information to compete with the agents, whether they were ministers or civil servants. The difference in power resources might explain the difference of prime-ministerial

power in the policy-making game. The British prime minister had three formal power resources, which his/her Japanese counterpart lacked: to alter the structure of the executive branch, to formulate and run the cabinet/cabinet committees, and to control parliamentary procedure, although the last is not directly relevant to policy-making in the executive branch. These resources might have indeed caused the differences in exercising power between the British and Japanese prime ministers. On the other hand, more detailed analysis of the power resources might explain the differences. The nature and size of the staff attracted attention in Japan; the reason the Japanese prime minister could not exercise leadership was, so it was claimed, because he did not have a proper staff to serve him solely, for instance, as the special advisers for the US presidency (Ôkôchi, 1976: 97-103). More resources might help the exercise of prime-ministerial power, while the availability of a key resource might cause the difference in its exercise.

c. Ministerial Government

The term derived from George Jones's analysis of the British system, though such assessment was also possible in Japan. This argument emphasised the legal aspect of the administration in government. Lee *et. al.* (1998: 14) argued, 'Government is always ministerial government. Ministers exercise powers derived either from the royal

prerogative or from an Act of Parliament. Neither the prime minister nor the Cabinet has any formal statutory powers' (see also Jones, 1985: 72-3; Jones, 1987: 64; Jordan and Richardson, 1987: 119-21; Rose, 1980: 32). In Japan former government officials tended to lay stress on the equivalent discussion of ministerial government, which led covertly to fragmented bureaucratic dominance. They argued the cabinet law assigned ministers with their respective administrative tasks, and therefore the ministers carried the supreme responsibility in a particular area of policy (Shûzo Hayashi, quoted in Itô, 1987: 34). The prime minister could not, they argued, bypass the ministers in charge and give direct instructions to the officials. If ministers disagreed with the prime minister, the prime minister had either to concede or to sack his/her minister (Okina, 1987: 95). Indeed, it was difficult to sack a minister just put in place (Jones, 1990a: 2). Recent studies notably on coalition formation have put emphasis on the role of ministers as well (Laver and Shepsle, 1990; Laver and Shepsle, 1996). The Japanese Constitution wrote 'executive power shall be vested in the Cabinet' and collective responsibility was also a fundamental character of the British constitution. The idea of ministerial government would inevitably lead to a vague role of the cabinet.

d. Personality

Personality has been given attention in leadership studies as well as in presidential studies (Neustadt, 1960; Greenstein, 1969; Barber, 1972; Greenstein, 1982; see also Rockman, 1986: 110-8). There has been a long argument about which factors shape leadership, such as personality, formal structure, or circumstances (Blondel, 1987: 37-41 and 46-7; Edinger, 1990: 512-7; Elgie, 1995: chap.1). Scholars analysed personality and related it to circumstances systematically, which was referred to as 'interactionism' (Greenstein, 1992: 109). Researchers strove to use social backgrounds or psychological tendencies to explain power, role or leadership of the presidents of the United States and other leaders. As George Edwards and Stephen Wayne (1999: 506) summarised, 'We need to take what goes inside a person's head into account if we are to understand that person's behavior'.

When personality was a matter of interest, other actors' personalities mattered as well. It was usually not only the leaders' personality, but also the interactions between the two or more personalities that created the outcome. However, this thesis cannot afford such complicated analyses. Style is the equivalent term to be used in this thesis to examine the impact of personality on prime-ministerial power (Neustadt, 1960; Rockman, 1984:

chap. 6). The often-adopted distinctions of style were between ‘forceful’ – ‘consensual’, ‘interventionist’ – ‘delegator’, ‘transformative’ – ‘transactional’ and ‘conciliatory’ – ‘entrepreneurial’ (Muller *et. al.*, 1993; James, 1992: 97-9; Burns, 1978; Rockman, 1984: 201-4). If style is the dominant variable determining prime-ministerial power, each prime minister should logically show a consistent behaviour in the policy-making games.

6. STRUCTURE OF THE THESIS

Chapter one reveals the questions and concepts this thesis addresses. By resorting to the two-level games and principal-agent perspective, it poses the hypotheses to explain the puzzle put forward. Chapter two, after discussing methods in comparative politics, adopts the comparative case method to test the hypotheses. This chapter explains the significance of case selection and outlines its procedure and the cases to be examined. The following chapter distinguishes the executive branch into two, namely the core executive and the departments. It explains the power resources the British and Japanese prime ministers possessed in the core executive, and illustrates the organisations and natures of the seven government departments considered. Chapter four shows the organisational structures, formal and informal, of the three political parties considered

in this thesis. It exhibits the extent of coherence between the parties. Chapters five to eight deal with the case studies: two prime ministers each from Britain and Japan. Edward Heath, Kakuei Tanaka, James Callaghan, and Masayoshi Ôhira are the prime ministers. Their power exercises are examined in three different policy areas. Chapter nine concludes with demonstrating the validity of the hypotheses and counter-hypotheses and analysing the routes for the exercise of prime-ministerial power. It ends with discussing the external validity of the thesis.

CHAPTER II

PRIME-MINISTERIAL POWER

AND COMPARATIVE CASE METHOD

This thesis belongs to the discipline of comparative politics. The first section of this chapter discusses comparative politics as a discipline and the second illustrates the *methods* of comparative politics. Comparative case method is the approach adopted to examine the hypotheses and counter-hypotheses proposed in chapter one. Section three explains the reasons the comparative case method is suitable for prime-ministerial studies. Section four clarifies the problems incidental to case selection and its desirable procedures. Section five explains the criteria of case selection, and the remainder of this chapter, section six, outlines the cases examined in chapters five to eight.

1. AIMS OF COMPARATIVE POLITICS

Comparative politics is not a clearly defined discipline in political science. Scholars pointed out various elements of comparative politics. Focusing on the substance, studying foreign countries or more than one country was often raised as one of its characteristics chiefly to understand their own countries and avoid ethnocentrism. On the other hand,

methods, such as using ‘concepts applicable elsewhere’ or ‘theory-building and theory-testing through systematic comparison between countries’, were also seen as part of the discipline (Dogan and Pelassy, 1990: 5-23; Jones, 1991b: 4; Rose, 1991b: 447; Mair, 1996: 310; see also Keman, 1993; Peters, 1998: 10-21). Peter Mair (1996: 311) summarised, ‘If comparative politics is distinctive, therefore, then it is really only in terms of the combination of substance and method, and to separate these out from one another necessitates dissolving comparative politics either into political science as a whole or into the social sciences more generally’.

Comparative politics includes consideration of the research methods that define research designs. Some literature focused rather on this methodological aspect of the discipline. For instance, one text book noted, ‘But whether the initial focus is on differences or similarities, the task of comparative politics is to provide understanding of constants, variations and trends in national government and politics’, while others assumed ‘the primary purpose of comparative political analysis is to infer the causes of general social phenomena that have been of enduring interest to political scientists’ (Hague and Harrop, 2001: 62; DeFelice, 1986: 423). Giovanni Sartori (1991: 244) pointedly emphasised, ‘To be sure, one may engage in comparative work for any number of reasons; but *the* reason is control’ (original emphasis). To make explicit this thesis’s understanding of the term, comparative politics is defined by its two natures, substance and method. The

comparative method is another concept, which narrows its focus solely to methodology.

The basic assumption in comparative politics is that there are 'discernible patterns in the flux of reality' (Faure, 1994: 308). When Britain and Japan are compared, an understandable scepticism concerns this assumption. To take some examples, the power of the prime ministers may not mean the same; organisations may operate in distinct manners; cultural difference is undeniable, such as in attitudes towards leadership, consensus, age or backgrounds of the actors. 'Aren't we here misled simply by verbal similarities?' (Dogan and Pelassy, 1990: 116). Whether Britain and Japan can be safely compared is at stake.

What 'comparable' means and what units are 'comparable' are far from self-evident. Gene DeFelice (1980: 123) explained this problem by noting the ambiguity of the word 'comparable'.

'If two things are said to be comparable, this usually means they are being represented as similar; but often it may mean instead that they can be assessed for likenesses and differences. It is in the first sense that we are warned against comparing apples and oranges. But it is still a proper procedure to compare these fruits in the second sense – as long, of course, as we take care to use a concept that is applicable to each. And the test of a concept's applicability depends not on the actual presence or absence of the relevant characteristic, but rather on the *capability* of the item in question to exhibit that characteristic' (original emphasis).

The issue is, therefore, 'comparable with respect to which properties or characteristics,

and incomparable (i.e. too dissimilar) with respect to which other properties or characteristics' (Sartori, 1991: 246).¹ As long as some theoretical concern leads the comparison, and the properties to be compared are (at least potentially) discernible, comparison stands.

To make it possible to focus on the concepts that are shared between the British and Japanese political systems, chapter one proposed the variables to be examined (see Dogan and Pelassy, 1990: 19 and 37-43). Further, this thesis employs a rational-choice perspective, not for its validity of assumptions, but to put aside the more cultural and personal dimensions. This procedure is to reduce the number of relevant variables, the significance of which shall be shown below. The variables concerned are selected on the basis of the question being asked and the theoretical hypotheses. If the phenomena cannot be fully explained, other variables ought to be brought in. Comparability depends on the questions posed and the concepts adopted.

2. METHODS OF COMPARATIVE POLITICS

Arend Lijphart (1971: 682) defined the comparative method as one of the basic methods

¹ DeFelice's article (1980) was in fact a direct criticism of Sartori (1970) and Kallenberg (1966), who, DeFelice argued, unnecessarily restricted the meaning of comparison.

of establishing general empirical propositions with experimental, statistical and case-study methods (see also Collier, 1993: 107; Mackie and Marsh, 1995: 177-80; Hague and Harrop, 2001: 71-5). He had a clear sense of order of 'scientific' methods. He praised the experimental method as 'the most nearly ideal method for scientific explanation' because it allowed the observer to see the explicit relationships between the variables concerned by controlling their circumstances to be *ceteris paribus* (Lijphart, 1971: 683). Yet the experimental method was not practical for political science, because experiments were practically and morally not allowed.² The statistical method was regarded as the alternative to the experimental method in political science. Although it could not artificially manipulate the conditions of the relevant variables, it dealt with the problem of control by means of *partial correlations* (Lijphart, 1971: 684; see also Ragin, 1987: 61-4; Scheuch, 1990: 31). The difficulty was to collect adequate data for a sufficient number of cases (Collier, 1993: 107). Lijphart gave the case study method a dual assessment. On the one hand, a valid generalization could be neither drawn nor rejected by a single case study. On the other hand, some types of case studies, as the deviant case study, could contribute to 'the establishment of general propositions and thus to theory-building in political science' (Lijphart, 1971: 691; see also Eckstein, 1975; Feagin, *et. al.* 1991; Sjoberg, *et. al.*,

² McGraw (1996) noted experimental methods had increasingly been used in 'mainstream' political science. She also brought attention to two problems of this method from the aspects of internal and external validity. 'Although well-designed randomized experiments can provide information about whether a causal relationship exists, they do not necessarily (and in practice rarely) provide information about the underlying processes accounting for the connection between the treatment and outcome.' 'In practice, external validity – the ability to generalize – is "the Achilles heel [sic]" of political science experimentation . . . All experiments are contextually specific, characterized by samples, procedures, settings, and time that are unique to a particular research undertaking' (McGraw,

1991: 52-60; Rhodes, 1994a).

The comparative method to Lijphart occupied a rather vague position amongst these categories. Notwithstanding the title of the essay, Lijphart (1971) did not provide its clear definition (see DeFelice, 1986: 417-20). He admitted, 'There is, consequently, no clear dividing line between the statistical and comparative methods; the difference depends entirely on the number of cases' (Lijphart, 1971: 684; see also Lijphart, 1975: 160). The comparative method did not possess sufficient cases to adopt partial correlations for systematic control.

As such, the small number of cases (small-N) was regarded as an inherent characteristic and a fundamental problem of the comparative method (DeFelice, 1986: 419; Collier, 1993: 105; Faure, 1994: 311; Ragin *et. al.*, 1996: 749).³ The 'small-N' problem was precisely that of 'overdetermination' (Przeworski and Teune, 1970: 33-4; Lijphart, 1975: 172-3; Peters, 1998: 38 and 65). When there was a far fewer number of cases compared with that of the variables, which might possibly affect the dependent variable, it was impossible to distinguish the genuine from the spurious independent variables. Too many potential independent variables existed, which might determine, or explain, the value of the dependent variable. To overcome this problem, Lijphart suggested three strategies,

1996: 772 and 774).

³ Other problems included selection bias, concept stretching, knowledge requirements, and interdependence of the cases (Hague and Harrop, 2001: 68-71).

namely (1) increase the number of cases, (2) focus on matched cases, and (3) reduce the number of variables. Increasing the number of cases would have brought the comparative method close to the statistical method. Yet if the cases could be increased sufficiently, there was no need to use the comparative method. Instead, the statistical method could substitute. In the 1975 article, Lijphart specified the definition of the comparative method to the so-called ‘comparable-cases strategy’, which was equivalent to the ‘most similar systems design (MSSD)’. It concentrated on comparison of similar cases to decrease the number of variables that might affect the dependent variable. However, even though MSSD enabled the researcher to disregard the elements that the cases shared (because arguably they could not be the causes of the differing values of the dependent variable of the cases), still there remained a countless number of elements which might be relevant for the causality under consideration.

Other methods, in contrast to MSSD, such as the most different systems design (MDSD) were proposed to master the ‘overdetermination’ problem. Yet MDSD required even more cases to eliminate potential variables, and it could still not assure no hidden variable was working unnoticed, affecting the dependent variable. Theoretical relevance, either for MSSD or for MDSD, was significant to restrain the number of the relevant variables and avoid the problem of overdetermination as much as possible (Faure, 1994: 313-4; Collier, 1993: 111-2; Meckstroth, 1975: 134; Keman, 1993: 49-50). Stanley Lieberson (1991;

1994) launched a most ruthless attack on MSSD and MDSD, expressing them to be ‘*outdated and inappropriate procedures*’ (Lieberson, 1994: 1225). He argued the two methods carried in their logic four inappropriate assumptions to infer causality: (1) the existence of deterministic causes, (2) no errors in measurement, (3) the presence of only one cause, and (4) the absence of interaction effects. For lack of precise control and indeterminacy, comparative methods seemed to be behind the experimental and statistical methods.

This thesis proposes a qualitative case method, referred here as the comparative case method. Scholars claimed its advantages from various aspects. Charles Ragin (1987: 15-6) asserted; (1) the comparative method was better in dealing with ‘questions concerning the consequences of different combinations of conditions (that is, to investigate situations as wholes)’; (2) it was better for explaining the details of a certain phenomenon, and thus more suitable for interpreting specific historical cases as well as for constructing new theories and synthesizing existing theories; (3) the researcher could set the boundaries of the examination. Cases were not samples of a particular population, which was often arbitrarily defined or undefined. (4) The researcher became familiar with the relevant cases as a meaningful whole. Researcher’s dialogue with the material was possible (see also Ragin *et. al.* 1996: 750). A qualitative analysis was more advantageous to discern errors in measurement, possibilities of other multiple causes and their

interactions. What differentiated comparative methods from the statistical method was that 'we must deal with the issues of controlling the sources of variance in the *ex ante* selection of the cases, rather than through *ex post* manipulations of data' (Peters, 1998: 36). Case selection was thus critical to the comparative methods. Section four and five address this issue.

3. METHODOLOGICAL PROBLEMS OF PRIME-MINISTERIAL STUDIES

Existing prime-ministerial studies carried discernible problems, which partly derived from the nature of the subject. This section identifies four issues over their research methods. This thesis addresses three of them while conceding on the first issue. First, qualitative analyses were vital to confirm the dependent variable in studies of prime-ministerial power. Policy-making involved various interactions between actors and the different roles the prime minister played. Cases were extremely complicated. Even though the researcher clarified definitions and points to observe, the assessment could not be straightforward but argumentative. It was desirable to display the case in detail to prove the validity of the researcher's assessment of prime-ministerial power, which was the value of the dependent variable. The necessary adoption of qualitative analysis

prevented the researcher from increasing the number of the cases.

Second, prime-ministerial as well as presidential studies shared a problem referred to as ‘the $n = 1$ problem’, n signifying the number of cases. According to Gary King (1993: 402), it was ‘the idea that only one president is in office at any one time, and so inference is inherently difficult if not impossible’. Prime-ministerial studies tended to focus on individual prime ministers as cases (if ever they were self-conscious). This fashion of research did not allow the extension of the number of the cases and, hence, put a substantial limit on the research. This thesis, instead, conceives as a case the power (not-)exercised by the prime minister in each of the policy-making games. By so doing, it enables on increasing the number of cases, since such policy-making games are numerous (G King, 1993: 406).

Third, prime-ministerial studies did not provide clear questions. Some studies tended to focus on one prime minister of a certain period, emphasising the distinctiveness of his/her personality and the circumstances. ‘Thick description’ with countless variables was introduced to show the complexity of the events and the leader (for instance, Takahashi, 1985; Donoughue, 1987; Watanabe, 1995, Shinoda, 2000). This feature was not a drawback if the question of the research was to discover what happened to the prime minister and how he/she acted at the time. However, it was not much of use for

constructing causality or a generalisation. As Gary King (1993: 399-400) rightly asserted;

‘a wide-ranging collection of all possible explanatory variables will not help us achieve any relevant goal of social scientific causal inference. In fact, it is even worse, since each additional variable for which we simultaneously estimate a causal effect reduces the precision of all of our causal estimates. Thus, “success” in amassing a larger and larger number of variables will automatically produce failure in learning about any one causal inference’.

More explanations were probable than those that could possibly have been examined.

Anthony King (1990) argued the problem was the research questions rather than the explanations. King (1990: 23) noted, ‘There are no answers because there are almost no questions’. Clearer questions and more explicit variables were essential, the more complicated the subject became. This thesis drew attention to the key variables in chapter one, while the qualitative analysis helps avoidance of neglecting relevant variables.

Finally, cases were often selected on the basis of the dependent variable in prime-ministerial studies. This manner itself is not a problem for certain questions, such as discovering the necessary conditions rather than the sufficient conditions of events.

When the research question is, ‘under what condition can the British prime minister exercise power (over *A* to achieve *x*)?’, the researcher might pick up the cases that showed the exercise of prime-ministerial power and trace the common features of these cases. This procedure is to find necessary conditions (Dion, 1998: 128). However, the background of prime-ministerial studies until recently was the dispute over prime-ministerial government. The proponents provided cases where the prime minister

indeed exercised substantial power in government, while the opponents proposed the contrary. When the presence/absence of prime-ministerial government was the point at issue, it was invalid to turn deliberately only to a single variance of the dependent variable.⁴ In this case it was equivalent to selecting cases that fitted the researcher's own argument. Cases must be selected carefully in relation to the research question. The following section discusses the procedure to select cases.

4. COMPARATIVE CASE METHOD AND CASE SELECTION

The comparative case method required a number of cases to be observed. Cases were defined as 'an entity on which only one basic observation is made and in which the independent and dependent variables do not change during the period of observation – which may cover a long time, even several years' (Lijphart, 1975: 160; see also King *et. al.*, 1994: 51-3). The comparative case method encompasses multiple cases. They are used against each other to control the potentially affecting variables on the dependent variable. As explained in section two, the control of variables is conducted through the case selection prior to the research itself. Accordingly how to select cases is critical to make the most of them in testing the hypotheses.

⁴ If the cases were selected independently of the dependent variable, and if still a single positive (or negative) case could not be found, that may well be the case.

When a sufficient number of cases was available, such as in the statistical method, random sampling was the orthodox manner to select cases. The population was identified for the research, and the cases were selected randomly. By using random sampling the researcher was able to carry out case selection, uncorrelated to any of the variables, not only the independent and dependent variables but also any unknown variables. However, this random sampling was not a suitable fashion for selecting cases for a small N research. King *et al.* (1994: 126) provided an interesting example to explain this point. Suppose there were three units that had values of High, Medium and Low, respectively. Two units amongst them were selected for the analysis. The possible combination would be High-Medium, High-Low, and Medium-Low. Only one of these combinations, namely High-Low, fully represented the population amongst them. If the two cases were selected randomly, the probability of selecting biased cases was two-thirds. As King *et. al.* (1994: 125-6) put it, 'if we have only a small number of observations ('observation' was their favourite term for a 'case'), random selection may not solve the problem of selection bias but may even be worse than other methods of selection.'

What was often observed instead in comparative methods was selecting the cases based on the dependent variable. The problem of this approach, nevertheless, was particularly emphasised when the dependent variable was not allowed to vary. A common example

would be a study on revolutions, which explored only cases that investigated successful revolutions. The researcher can never safely hold that a particular variable was the cause of the dependent variable. Because unsuccessful cases of revolutions were not examined, one could not know how this particular variable appeared in these latter cases. This manner of case selection has been under dispute recently⁵. An alternative case-selection procedure other than random sampling and that based on the dependent variable must be constructed.

The manner of case selection this thesis adopts is analogous to a simple experiment (Yin, 1994; King *et. al.*, 1994: 137; Dogan and Pelassy, 1990: 15-6). According to Robert Yin (1994: 46), 'Each case must be carefully selected so that it either (a) predicts similar results ... or (b) produces contrasting results but for predictable reasons'. It does not mean one should select cases based on the dependent variable, but on the contrary the researcher should select cases based on the independent variable that she believes would prescribe the dependent variable. By letting the independent variable vary the researcher was likely, if the hypothesis were correct, to observe a different but predicted value on the dependent variable. As such, the value of the dependent variable would become known only after the research was conducted, though it was still logically possible to predict its value (see for this point, King *et. al.*, 1994: 129, 140; Peters, 1998: 31). It was crucial that

⁵ See Lijphart (1975: 164), DeFelice (1986: 422-3), Geddes (1990: 132), King *et. al.* (1994: 108, 129-32), Lustick (1996: 610); for positive responses for this way of case selection, see Dion (1998), Collier (1995: 464).

the selection rule did not correlate with the dependent variable (Geddes, 1990: 135).

This criterion of selection was based on the independent and control variables. King *et. al.* (1994: 137) gave an explanation for this manner;

‘Selecting observations for inclusion in a study according to the categories of the key causal explanatory variable causes no inference problems. The reason is that our selection procedure does not predetermine the outcome of our study, since we have not restricted the degree of possible variation in the dependent variable. By limiting the range of our key causal variable, we may limit the generality of our conclusion or the certainty with which we can legitimately hold it, but we do not introduce bias’.

The reason for this careful case selection was the otherwise rise of selection bias. David Collier (1995: 462) noted; ‘Selection bias is commonly understood as occurring when the *nonrandom* selection of cases results in inferences, based on the resulting sample, that are not statistically representative of the population’. In statistical terms the cases assumed the existence of the population from which the cases were selected. When an inference is made from the cases, and if the cases represented the variance of the population properly, the researcher could safely generalise the inference gained from the research to the whole population. Hence, no selection bias should be allowed in the selection procedure.

In contrast, there were also views that cases in the comparative and case-study methods should not be seen as equivalent to cases in the statistical method. It was doubtful whether the cases in the former methods could be representative of some population with

such a small number (Yin, 1994: 37). Instead, the result from a particular research with small an 'N' should be generalised into a broader theory. Robert Yin (1994: 37) contended;

'The problem lies in the very notion of generalizing to other case studies. Instead, an analyst should try to generalize findings to "theory," analogous to the way a scientist generalizes from experimental results to theory'.

The cases must, accordingly, be selected on the basis of maximising the variance of the independent variable to verify or falsify the hypothesis or theory put forward.

In whatever way the selection bias is understood, it should not be allowed to enter the research procedure. Case selection must be carried out carefully and intentionally, based on the independent variable for the comparative case method. Although the researcher does not know precisely, the dependent variable should vary as much as possible through predicting the effect of the independent variables.

5. SELECTING CASES

Utilising the procedure illustrated above, the focus of case selections should be on the (potential) independent variables. Dependent variables should not be considered as a criterion in any respect. This point is particularly significant for this thesis, since it questions the validity of the assumption about the dependent variable: the British prime

minister being 'strong' and 'powerful' with the Japanese counterpart being 'weak' and 'reactive'. This basic assumption has hardly ever been seriously tackled empirically. If the cases were selected on the basis of this assumption (namely choosing cases of a 'strong' British prime minister and of a 'weak' one for Japan), the examination of these cases would naturally lead to a false verification of this assumption. It would be mere tautology.

The independent variable of this thesis was the characteristics of the governing party. It was to be observed by the extent of coherence of power under the prime minister in the party and by the strength of the ministers, which derived from the governing party. The counter-hypotheses drew attention to variables such as personality, power resources, the constitutional strength of the ministers, and bureaucratic dominance.

In Britain the Conservative and the Labour parties were the two key parties in power in the post second-world war era, while the Liberal Democratic party (LDP) was dominant in Japanese politics after its amalgamation of the centre-right parties in 1955. The analysis ought to be the prime ministers from these three parties. Several policy-making games should be observed from different policy areas to examine such variables as personality, ministers and government departments. Personalities of the prime ministers (and their attitudes towards the issue concerned) may determine their power in policy-making, which can be examined by having more than one type of prime ministers and more than

one case study for each of the prime ministers. Different policy areas involve different ministers and government departments. Departments may show different impacts on prime-ministerial power between Britain and Japan, while each department may have a different effect on the prime ministers. By comparing two prime ministers from each country, the particular department's, say, the Treasury's or MITI's, relationships with a particular prime minister can be observed.

This thesis selects the cases on the basis of events critical to the security and prosperity of Britain and Japan. The reasons are twofold. Prime ministers' time and energy are limited, thus if cases were randomly selected, the most likely result would be to end up with cases the prime minister had nothing to do with, where the prime minister had no policy preference and never became involved. They might as well be of trivial issues. It would be absurd to conclude that the prime minister possessed no power in the policy-making game. What observers wish to examine is whether the prime minister plays a part in 'key' policies and issues.⁶

Key policies and issues deriving from critical events are distinct from the key policies of a particular cabinet. For the key policies of a cabinet, other actors expect the prime minister, who is the central figure of the cabinet, to participate in the policy-making game and have

⁶ Of course, the meaning of 'key' issue was controversial in the 'faces of power' dispute, discussed in chapter one.

his/her policy preference reflected in the policy outcome. Case selection based on this criterion would be closely equivalent to selecting cases in accordance with the dependent variable, namely a positive value of prime-ministerial power. As a consequence, it becomes more likely to see the dependent variable not varying. Critical events are different. Observers may expect prime ministers to exercise power in these cases. Yet it cannot be taken for granted that the actors involved in the cases will agree to the prime minister's participation and to the responses to be taken by the government and the governing party. The issues are controversial. This way of case selection is not suggestive of the dependent variable. The prime minister is not expected to have a clear policy preference on the issues at the outset. Yet considering the importance of the issues, it is likely to see the prime minister obtaining one in due course. The calculation over formulating prime ministers' policy preferences can therefore be incorporated in the observation. The 'critical event' as a criterion also prevents the researcher from avoiding underestimation of the agenda-setting power. As the 'event' is an external crisis, as in the cases below, no domestic actor can manipulate it prior to this examination. The critical events are *a priori*. How the 'event' is conceived and set as agendas can be observed in the cases, which are both significant elements of power.

Materials and sources also cause grave concern over the case selection. Scarcity if not lack of information on the centre of government is not easy to overcome. Critical events

are well covered by secondary materials. Elite interviews provide vital sources of information for prime-ministerial studies, which this thesis heavily relies on. They reveal the intentions and perceptions of actors who face power, while putting the available information into context. On the other hand, interviewees may feel discomfort and hence inhibited from speaking publicly if the questions asked are on recent issues. They may embarrass their ex-colleagues and contemporaries and indeed still carry political meanings (at the least the interviewees may feel so) (see Lee *et. al.*, 1998: 5). It is safer to select cases from bygone days from this viewpoint.⁷

Taking these conditions into account, this thesis looks into the prime ministers' power in their responses to the oil crises between 1973 and 1980, focusing on three policy areas, namely foreign, fiscal and domestic oil policies.⁸ The oil crises were *the* issue at the time. They have been well-observed and analysed as issues themselves, and thus information is available. Four prime ministers are chosen as a consequence of this criterion: Edward Heath (Conservative, British), James Callaghan (Labour, British), Kakuei Tanaka (LDP, Japanese) and Masayoshi Ôhira (LDP, Japanese). Ôhira is added to compare the impact of personality and to replicate the examinations of the government organisations. Tanaka has often been described as a leader with 'exceptional talent' (Gotôda, 1994: 179). Although

⁷ Looking into critical events helps the interviews. If questions on cases from thirty years ago are to be asked, they ought to be memorable events.

⁸ Investigating the oil crises from three different policy areas allows the researcher to increase the number of cases while striving to keep the burden under control. Different policy areas could have been chosen as cases, though this approach would have appreciably increased the burden on the whole.

Ôhira was not by any means a 'manager' type of leader, the difference of style from Tanaka was evident. Tanaka was an interventionist, while Ôhira was more for consensus building. The comparison between Tanaka and Ôhira is to control (although crudely) the personality variable. This period was appropriate for this research, since the chance to observe the Labour party in power was in 1974-79. The three parties in the 1970s showed crucial differences from two perspectives: (1) the control over their leaders and (2) their internal divisions. The Conservative party had little control over its leader and internal division was negligible, although it existed. The rules of the LDP enabled it to restrain its leader while fierce internal competition was its trademark. The Labour party came in the middle. It possessed organisational control over its leader to a certain extent, though it was not decisive. Internal division was as intense as (or even intenser than) that in the LDP. The three policy areas enable observation of 'strong' and relatively 'weak' government departments. The Treasury in Britain and MOF and MITI in Japan were the 'stronger' departments, while the DTI and the DEn in Britain and MOFA in Japan were the 'weaker' bodies. The FCO in Britain was intermediate between the 'stronger' and 'weaker' departments. The variance of the key potential independent variables is secured by this selection.

6. OIL CRISES: THE ISSUES

6 (i) Oil Crises in the 1970s

The oil crisis in 1973 was triggered by two separate developments in mid October 1973:

an increase by seventy per cent of the posted price of Arabian light crude oil by the organization of petroleum exporting countries (OPEC) and supply cuts by the organization of Arab petroleum exporting countries (OAPEC). OAPEC announced on 17 October the cut back of crude-oil production until Israel withdrew completely from the occupied territories and the legal rights of the Palestinians were restored (*The Financial Times*, 18 October 1973). The embargo on the United States and later on the Netherlands followed these decisions (*Quarterly Economic Review*, 1973, No.4; *Petroleum Times*, 19 October 1973: 2). Countries were divided into friendly and hostile countries with the bulk being in the middle, although this classification was ambiguous and differed between oil-producers. The decision of the OAPEC to exploit their position as major oil producers was directly provoked by the conflict between the Israelis and the Palestinians in the Middle East.

Yet what made the enormous price-rise possible and enhanced the profound impact of the production cut was more structural. First, the amount of oil consumption as the primary

energy source had rocketed in the third quarter of the 20th century (see Table A.1). The industrially advanced liberal democracies enjoyed a high economic growth after the Second World War notably in the 1960s. The cheap and secure oil-supply through the international oil companies played a crucial role in advancing this prosperity. Second, nationalist movements flourished in former colonial countries and the oil-producing countries were no exception. Even the modest oil-producing countries perceived the international oil companies as exploiting their resources at the expense of their own interests. The desperate need for oil gradually altered the power balance between the international oil companies and the oil-producing countries. The latter increasingly gained a voice in determining the price and production amount of crude oil (Vernon, 1975; Penrose, 1975; Turner, 1976: 371-2, 376-8; Yergin, 1982: 97-105; Cowhey, 1985: chap. 5). Such fundamental elements led to the structural change in the international oil market throughout the 1970s.⁹ The Iranian revolution pushed this change further in 1979. The international oil companies used to dominate the selling of crude oil through their worldwide network. However, direct deals (DD) with the (semi-)national companies of the oil-producing countries and government-to-government (GG) deals increased their share in the market. So did the spot market deals (Cowhey, 1985: 181-2, 271-3; Wilson, 1987: 144). The power balance shifted from being in favour of the international oil companies to the oil-producing countries (see Table A.2) (Nye, 1981a: 9-12; Neff, 1981:

⁹ See Keohane (1984: 202-6) and Nye (1981a: 9-12) for an examination of the structural change as a decline of the stable regime and the hegemonic power of the United States and partly Britain.

23-9; IEA, 1980: 24; Lieber, 1982: 320-2). Securing oil supply became a crucial element of government policy.

The oil crises in the 1970s raised numerous issues for the oil-consuming countries.

Relationships with the oil-producing countries became vital, while the crises necessitated cooperation and coordination amongst the oil-consuming countries. The experience of discordance amongst the oil-consuming countries led to the establishment of the International Energy Agency (IEA) in 1974. However, the second oil crisis in 1978-80, which was basically about price, saw hardly any effective coordination by the IEA and the oil-consuming countries. Fear of oil shortage promoted the oil-consuming countries to take unilateral actions to purchase more oil with higher prices. They could not overcome the dilemma of collective action. It was likely that the consumer countries' panic behaviour of purchasing oil at high prices facilitated, if not provoked, the price-hike itself (Keohane, 1984: 231; Al-Chalabi, 1982: 15-8; Neff, 1981: 34-5; Morse, 1981: 41-2; Lieber, 1982: 325-6, 332-3).

Domestically the (conceived) shortage and price-rise of crude oil stipulated, at a macro level, inflation, deterioration of the balance of payments and public finance, recession and unemployment concurrently, while at a micro level, the crises intensified the pressure for domestic price hikes of oil products, distribution problems and consumption restriction of

oil products (Landsberg *et. al.*, 1979: 155-184).¹⁰ There was an ‘issue surplus’. As John Ikenberry (1986b: 121) noted, ‘it was the choice of problems to attack and how to attack them that demonstrated the decisive influence of state structure’ (see also Chessire *et. al.*, 1977: 54).¹¹ This thesis focuses on certain controversial issues which divided opinions in Britain and Japan. The issues provoked a conflict of interests and policy preferences.

6 (ii) Edward Heath

a. Foreign Policy: ‘Neutral Approach’ to the Middle East Conflict and Cooperation in the EEC

The British government took two important decisions in foreign policy. First, at an early stage of the crisis, it adopted a ‘neutral’ line against the Middle East war, which was widely interpreted as favouring the Arab side (Prodi and Clô, 1975: 106). Two specific policies comprised this line: the British government (1) announced an arms embargo on both sides, and (2) declined a request from the United States to use British air bases. This latter decision made the Anglo-American relationship tenser than before. Britain could not afford to lose the favour of the Arabs. The other policy was to take a hesitant, if not

¹⁰ In contrast, analysts, such as Douglas Bohi (1989: 1), argued that not the price-rise of oil but the ‘macroeconomic stabilization policies implemented in key countries’ affected the economic output and employment in the industrially advanced democracies.

¹¹ Literature in comparative politics tended to focus on this difference of responses to the oil crises, in other words, which problems to tackle, and how, between the countries (Ikenberry, 1986a; Ikenberry,

rejectionist, stance towards the oil-sharing scheme and a broader common energy policy in the EEC. West Germany and the Netherlands with the European commission urged policies of sharing oil supply and maintaining political solidarity towards the United States and the Middle East while France and Britain were reluctant for such a movement (Walton, 1976: 182; Lieber, 1982: 322-3). The British government continued to block a common energy policy, which gravely worsened British relationships within the EC. Two cases are thus to be considered in foreign policy.

b. Fiscal Policy: Reducing Public Expenditure

The basic economic policies of the Heath government were the 'dash for growth' policy and the prices-and-incomes policy. Such economic policies were amongst the 'U-turn' policies, for which the Heath government became infamous. Unemployment approached one million in early 1972 (see Table A.4). It was not an issue even a Conservative government could have ignored in the early 1970s. Unemployment with the miners' strike was thus the key element in leading to the 'U-turn' policies (Prior, 1986: 74; Taylor, 1996: 176-7; Holmes, 1997: 61-74). The government committed itself to an expansionary fiscal policy to tackle unemployment. A prices-and-incomes policy had to accompany the expansionary fiscal policy to confront the inevitable inflation caused by the economic expansion. In addition, Heath was not satisfied with the growth rate of the British

economy in comparison with the other countries of the EEC, which Britain joined from January 1973 (Prior, 1986: 85; Pliatzky, 1982: 108; Porter, 1996: 38; Young, 1996: 281; Heath, 1998: 339). Heath was deeply committed to the expansionary fiscal policy. The 'U-turn' policies received serious criticism from backbench Conservatives for contradicting the manifesto of the 1970 general election (Ball, 1996: 327-336). In 1973 the British economy was domestically showing signs of a boom. The oil-price hike hit the British economy at a most delicate time. Combined with the oil-price hike in the autumn and winter of 1973, the international commodity price-rises seriously affected the British trade deficit, which dragged down the rate of sterling, while domestic inflation worsened (see Tables A.5, A.6 and A.11). The government faced difficulty in sustaining its expansionary fiscal policy, as it fuelled the problems of the balance-of-payments deficit and inflation. The oil crisis was requiring the government to take measures contradictory to its basic policy.

c. *Oil Policy: From Cautious Wait-and-See to the Three-Day-Working Week*

The Heath government stressed it had received assurances of sufficient crude oil from the major Arab oil-producing countries (*Hansard*, 30 October 1973, Vol.863, Col.38; 5 November 1973, Vol.863, Col.611; 15 November 1973, Vol.864, Col.689). *Petroleum Times* (30 November 1973: 5) reported the anomaly of Britain making preparation for

oil-rationing and the previous oil-assurances by the Arab oil-producing countries. In fact, it was impossible to control the destination of crude oil in the world market (Landsberg *et. al.*, 1979: 203). The international oil companies, which took control of the worldwide distribution system, refused to favour any country, regardless of the intentions of the oil-producers. The international oil companies carried out their own allocation between countries and thus the aim of the OAPEC could not be fully achieved (Stobaugh, 1975: 189). Moreover, the amount of the assured oil seemed to fulfil only the average consumption level of that between January and September 1973 (*The Sunday Times*, 4 November 1973). As winter approached and the economy was expected to grow, oil consumption was bound to increase. Britain still did not enjoy any substantial benefit from the North Sea oil in 1973. The British government had to prepare for the shortage of oil.

Britain was unique in the way the oil crisis had hit the country. It came alongside other energy crises. In 1972 the miners' dispute led the government to concede a considerable pay-rise. The miners therefore required special care (Holmes, 1997: 102). The miners' crisis was likely to resume in the winter of 1973, when the need for energy would rise. 'So on the energy front almost for certain we were going into that winter with a dispute with the miners' [interview (19)]. The outburst of the oil crisis unfortunately coincided with the start of the phase three counter-inflationary policy of the Heath government. The

oil crisis strengthened the miners' position in the pay-rise negotiations. Electricity supply became linked to the crisis as well. Initially, the department of trade and industry (DTI) held a cautious 'wait-and-see' policy. It relied on the domestic oil companies for the practical measures. However, the deterioration and linkage of the crises ended up with the extraordinary three-day-working week policy.

6 (iii) Kakuei Tanaka

a. Foreign Policy: Clarifying the Middle East Policy

Oil-supply security emerged as an issue following the decision of the OAPEC to link oil supply with the consumer-countries' position towards the Middle East conflict. To become a 'friendly' country to the Arab oil-producers, they referred to several options, which were chiefly to supply the Arab countries with weapons or to break economic and/or diplomatic relations with Israel (*Petroleum Times*, November 30, 1973: 15). Despite these requirements, the 'three principles on arms exportation', a cornerstone of Japan's export and indeed military policies, prohibited it from providing weapons for countries in conflict (Neary, 2002: 163). Without any direct problem, breaking diplomatic relations with Israel was also implausible for Japan. Indeed, the significant drawback in declaring a pro-Arab policy was the adverse effect on the Japan-US relations, which was

the cornerstone of Japanese foreign policy in the post-war era. The United States had given full support to Israel. The Japanese government was stuck. The issues of the Tanaka cabinet's foreign policy was on (1) whether the Japanese government should clarify its interpretation of the UN security council resolution 242, thus effectively siding with one side of the conflict and (2) whether it should declare a statement including assertive terms against the Israelis.

The interpretation of this resolution itself was an issue of political conflict between the Israelis and the Arabs. The English and French texts of the resolution were slightly though critically different from the outset, which allowed different interpretations. The French text indicated Israel must withdraw from the whole territory which it had occupied by 1967, whereas the English text could be read so that Israel needed merely to withdraw from part of the occupied territories to start peace talks with the Arabs. The Japanese government had not clarified its position on this point to maintain its neutrality between the Arabs and the Israelis (NHK, 1996b: 94). The Middle East crisis in 1973 forced the Japanese government to face the issue. Joseph S. Nye (1981b: 214) described the incident from an American viewpoint as 'the most serious breach in bilateral relations [between Japan and the United States] since the Second World War' (see Tsurumi, 1975: 124; Morse, 1981: 41).

b. Fiscal Policy: From Fiscal Expansion to Contraction

When the oil crisis occurred, the Japanese economy was already experiencing a high level of growth and of inflation. Real GDP compared with the previous year was 8.1 per cent in 1973 while the nominal rate of the GDP was 21.8 per cent. Wholesale and consumer prices increased by 22.6 per cent and 15.5 per cent respectively in FY1973. The expansionary fiscal and monetary policies, nevertheless, facilitated the high growth and the so-called 'galloping inflation' (see Tables A.7-10). The 1973 initial budget expanded by 24.6 per cent per annum (MOF, 1998a: 304-5).

The expansionary fiscal policy under the Tanaka government had three main reasons. One was against the revaluation of yen in 1971 and 1973. The announcement by Richard Nixon, the US president, of floating the dollar in relation to gold eventually led the yen to be revalued by 16.88 per cent to the US dollar. An expansionary policy was needed to avoid a (further) revaluation and to aid the small-medium sized export industries, which were major LDP supporters and were hard hit by the revaluation (Nagaoka, 1981: 17; MOF, 1991: 410-12). With the recovery of the economy and increasing inflation, the necessity for an expansionary fiscal policy for this reason had already diminished in 1973. Yet the Tanaka cabinet retained it (Nagaoka, 1981: 17-8). Second, social-security and pension budgets increased by 28.8 per cent, second to the 32.3 per cent increase in public

works (Tanaka, 1981: 324-61; MOF, 1991: 308-9). The government characterised the 1973 budget as the rise of welfare policy (fukushi gannen). From the end of the previous Satō government, the influence of the left-wing parties was enhanced in elections, in particular for local governments. The Tanaka government needed to compete with its left-wing opponents in its spending programme (Shiota, 1985: 44-5).

Third, an expansionary policy was indispensable for the 'reconstruction of the Japanese archipelago' policy. In winning the presidential election in July 1972, this policy was one of Tanaka's two key policies, the other being the reestablishment of relations with the People's Republic of China. The idea of the 'reconstruction of the Japanese archipelago' policy was to make core cities all over Japan by dispersing population and industry from the existing great cities and connecting them by train and highway. This policy was to overcome various problems simultaneously, such as shortage and bad conditions of housing, pollution and overpopulation in industrial cities, and under-population and underdevelopment in the rural areas (Tanaka, 1972).

Tanaka's fiscal policy was expansionary until 1973. The government drastically and suddenly changed its position towards the fiscal policy in late November 1973.

c. *Oil Policy: Pushing Emergency Bills through the Government*

The oil crisis hit Japanese society hard. It created a panic over oil supply and a price-rise domestically. The government took an optimistic attitude towards the crisis at the outset in fear that any emergency measure might encourage cornering of the market and holding goods off the market. These problems had already been highly political issues. The government did not want the market to be seen as being in a further crisis of inflation. Indeed, the government could have left the problems of price-rise and supply shortage to the market and let the price system adjust itself. The government would have needed merely to cut public expenditure to curb total demand (Kakimizu, 1974b: 41). However, as the crisis developed, the government shifted its position; the government had to take action. Two emergency bills were compiled, both highly interventionist and therefore controversial. The original plan for the emergency measures was solely for oil products. The target extended to include other commodities, which had distribution and particularly price-rise problems. The government submitted the two bills to the Diet within a few weeks from the point it started serious consideration of legislating emergency measures.

6 (iv) James Callaghan

a. Foreign Policy: Oil-Sharing in the EEC

The oil crisis in 1973 had hit the oil-consuming countries hard, and led sixteen of them to found the International Energy Agency (IEA) in November 1974. It hammered out an emergency oil-sharing scheme in May 1976 (Keohane, 1984: 220-6; Cowhey, 1985: 269-71; Ikenberry, 1988b: 80-93). When the French refused to join the IEA and its emergency oil-sharing scheme, it was obvious the EEC would eventually need to set up its own oil-sharing mechanism to incorporate France with the other member states, the latter of which the IEA covered. Otherwise, the IEA oil-sharing scheme would become a breach of the Rome Treaty (for a different view, see Schneider, 1983: 583-4, note 113; Cowhey, 1985: 218).¹² Besides, oil-sharing within the EEC had an implicit agenda. It concerned the sharing of North Sea resources, which the British were to enjoy. The emergency oil-sharing scheme fell between resource nationalism and European cooperation. The Labour party had just been through a major dispute over re-negotiation with and a following referendum on the EEC. The party was split between proponents and opponents. The issue overlapped with the division between the left and the right over

¹² Article 34 of the Treaty of Rome stated 'any member country with natural resources of its own will be in breach of the Treaty if it prohibits the export of these resources to other member countries'. However, article 222 wrote 'there shall be nothing contained in the Community's rules which would in any way affect national ownership' (*Petroleum Times*, November 2, 1973: 3).

economic policy and was thus politically delicate. The energy council managed to reach an agreement on the scheme, though Britain retained a veto and no assurance was given to make the EEC a single entity for oil.

b. Fiscal Policy: the IMF Crisis and Controlling Public Expenditure

The balance of payments was overwhelmingly in deficit and the inflation rate was rocketing in Britain in 1976 (see Tables A.5 and A.6). Part of the problem directly derived from increased oil-import prices after 1973. On the other hand, part of the problem was the government's policy in responding to the oil crisis. The loose economic policy of the Labour government was intended to bring down the unemployment and give a boost to the depressed domestic economy because of the high prices of raw materials in the world market. It worsened inflation and the balance-of-payments deficit. The public-expenditure deficit increased steadily. The public sector borrowing requirement (PSBR) became the benchmark of the British economy and the centrepiece of the dispute (Barnett, 1982: 124).

The drastic and constant slide of the sterling was the visible disaster of the 1976 IMF crisis (see Table A.11). It eventually became necessary to obtain external support to avoid default of the British government. The IMF and the US financial authorities required a massive reduction of public expenditure. However, the Labour party and its cabinet were totally split, while the trades union disapproved of the deflationary policy. The Labour

government had just forged a delicate relationship with the trades unions to contain inflation with a 'voluntary' incomes policy. The vital economic problem of the 1970s was the fact that inflation coincided with high-unemployment (see Tables A.4 and A.6). The dispute focused on whether the slide really reflected the fundamentals of the British economy and whether external support with the harsh conditions was the unique solution to the crisis. The Callaghan government had to announce two public-expenditure reductions with other critical measures in July and December 1976 before sterling ceased to slide.

c. Oil Policy: North Sea Exploration Policy

The domestic oil policy in the other chapters deals with oil distribution and the management of the prices of the oil products. The issue for this chapter is different. Because Britain was to become a major oil-producer and a net-exporter of oil in the late 1970s, the response to secure domestic oil supply was to control oil development in the North Sea. The refusal of BP and Shell, both (partly) British companies, to favour Britain in oil supply in the first oil crisis during the previous Conservative government made the Labour government feel it necessary to construct a system to guarantee oil supply to Britain [interview (2) (77) (91)]. The Labour government was in general in favour of strengthening control over the investments and operations of the oil companies in the

North Sea. Nevertheless, there was not a clear agreement over the extent and method of this control. The British government had previously agreed to four rounds of licences for the North Sea fields. Oil companies had applied for licences to explore and develop specific fields. The main criticism of the existing licences was that the terms excessively favoured the oil companies, and Britain, the host country, was not receiving its fair share (Public Accounts Committee, 1973; Nelson, 1991: 45-6). Re-negotiations for the existing licence agreements had been in process, which eventually endowed the British National Oil Corporation (BNOC), the newly established state oil corporation, with access to oil and information the companies possessed. Some companies had already agreed to the BNOC's participation, for instance, Gulf and Conoco. Yet the negotiations with the three major oil groups, namely BP, Exxon-Shell and Amoco were yet to come. The government strove to increase stricter control while retain the investments from the international oil companies.

6 (v) Masayoshi Ôhira

a. Foreign Policy: Balancing Iran and the United States

The contradiction between developing friendly relations with Iran and maintaining amicable relations with the United States became evident in 1979. Japan had a strong

interest in maintaining ties with Iran to secure oil imports after the first oil crisis. The international oil market changed its structure in essence during the 1970s, enhancing the position of the oil-producing countries in place of the international oil companies. Iran was not only the second largest oil-exporting country to Japan, supplying 17 per cent of its crude oil in 1977. It was also one of the major non-Arab oil-suppliers (calculated from Sekiyu Renmei, 1980: 7). The Japanese government considered the Israeli-Palestinian/Arab confrontation had created the instability in the Middle East. Iran was thus expected to be a more stable oil-supplier, although ironically this expectation turned out to be wrong [interview (56)]. Japan struggled to keep friendly relations with Iran by contributing to its industrial development. The Iran-Japan Petrochemical Company (IJPC) became the symbol of cooperation between the two countries.¹³

The attitude of the new revolutionary Iran towards the United States was not clear at the outset. The US government had officially recognized the revolutionary government in Iran immediately after its declaration of the establishment of the Islamic Republic in February 1979. The relationship gradually deteriorated. In Iran the power structure fluctuated between the more liberal-Westernised politicians and those supporting ‘theocracy’ and the leadership of the religious leaders. The US-Iranian relationship critically suffered, when militant students occupied the US embassy in Teheran and took

¹³ The IJPC project was a joint venture for constructing a giant petrochemical complex between Iran’s national company and Japanese private companies, starting in April 1973. The plant had achieved 85 per cent to completion when the revolution in Iran occurred (IJPC, 1993: 114).

hostages in November 1979. The more liberal Bazalgan government collapsed two days after the occupation. Japan was stuck between the two significant countries.

b. Fiscal Policy: Fiscal Consolidation and the General Consumption Tax

After the first oil crisis in 1973 the Japanese economy suffered from an enormous setback. Inflation caused by the high import price of oil came hand in hand with recession, which was often referred to as stagflation. In sharp contrast to the tight fiscal and monetary policy executed during and immediately after the oil crisis, the Japanese government subsequently employed an expansionary fiscal policy. The Japanese economy, because of the large public spending, achieved a relatively high growth in comparison to other industrial countries. Unfortunately for that precise reason, Japan was required by other leading industrial democracies to lead the growth of the international economy with Germany, the other economically successful liberal democracy in the late 1970s. The so-called 'locomotive theory' was confirmed at the Bonn summit in 1978 (Morgan, 1997: 607). The Japanese government was under considerable pressure both internally and externally to expand its public expenditure. Public bonds occupied 39.6 per cent of the revenues in 1979 (Ôkura-shô, 1998b: 23). Fiscal consolidation arose as a critical issue in MOF as early as 1975, the year the deficit-financing bond under special legislation was

issued¹⁴. It was an emergency measure. MOF expressed its concern that the revenue shortfall in 1975 was a permanent phenomenon. The natural increase in the revenues was not likely to happen after the period of high economic growth had ended, while demand for public expenditure would become increasingly diversified and escalate notably for social security, health and pensions. Scrutinising existing expenditure and redressing inequity had to be conducted, yet from the viewpoint of MOF it was inevitable to raise tax (see Nagaoka, 1979: 8-10; Nagaoka, 1981: 84-6). The need to introduce the general consumption tax (GCT) became clearer in the deliberations in MOF and the government's tax experts council (Ôyama, 1978: 8-9)¹⁵. The Ôhira cabinet promoted the policy until the disastrous autumn of 1979.

c. Oil Policy: Ceiling-Price and Allowing a Price-Rise for Oil

Two events triggered the second oil crisis in December 1978: the OPEC price-rises and the Iranian crisis. In particular, the Iranian crisis affected the international oil market seriously. From December 1979 to March 1980 oil exports from Iran ceased and 5.2 million b/d, 8.6 per cent of the worldwide crude oil production, suddenly disappeared from the market (*Energy Statistics Sourcebook*, 1994: 123). The Iranian crisis destabilised

¹⁴ For the 'Ôkura memorandum', which expressed MOF's anxiety over the existing tax system, see Andô (1987b: 104-5 and 120-2).

¹⁵ Originally the introduction of the GCT was considered in the tax bureau of MOF as purely a matter of the taxation 'system'. It became recognised as a method to get rid of the deficit-financing bond from the mid 1970s, when its introduction was seriously discussed.

the oil-supply in the international oil market. When Iran resumed oil exports in March 1979, it did not resort to the conventional route of international oil companies but rather to spot markets, direct-deal (DD) and government-to-government (GG) contracts to put crude oil on sale directly to the consumers. Other producing countries followed Iran's steps. Perplexity in the international oil market was such that oil-consuming countries had a strong incentive to secure as much oil as possible, which drove prices higher (see Tables A.3, A.7 and A.12). Cooperation at the IEA did not function (Bending and Eden, 1984: 16; Morse, 1982: 262). The real issue during the second oil crisis was indeed price (Kohl, 1982: 1).

The price policy adopted by the Japanese government during the second oil crisis was different from that during the first oil crisis. The previous policy had artificially contained domestic prices of oil products, when crude-oil prices rocketed in the international oil market. The policy from 1979 was to allow domestic oil companies to pass rising costs down to the domestic market, while prohibiting follow-up price hikes. It was referred to as the 'ceiling-price policy'. Although prices were still kept under strict government control (at least at the wholesale stage), it was a policy change departing from the previous policy. The drawback was that the price-rise would by definition fuel inflation, which started to draw serious attention from the Ōhira government (see Tables A.7-10). A general election was likely in the autumn of 1979 followed by the upper-house election in

the summer of 1980. The balance between keeping inflation under control and allowing price-rises of oil products was a difficult task the government faced.

7. CONCLUSION

This chapter revealed the method of examining the argument of this thesis, posited in chapter one. The comparative case method was adopted, which required careful case selections. The discussion above put forward two prime ministers each from Britain and Japan, namely Heath, Tanaka, Callaghan and Ôhira, and explained the three different policy areas to look into, foreign, fiscal and domestic oil policies, responding to the oil crises between 1973 and 1980. Chapters five to eight provide the investigation of the exercise and non-exercise of these prime ministers' power. Before these observations, chapter three examines the power resources of the prime ministers of the two countries in the core executive and illustrates the organisations of the relevant government departments. Chapter four analyses the three governing parties as the principals of the prime ministers.

CHAPTER III

NETWORKS AROUND THE PRIME MINISTER

– CORE EXECUTIVES AND DEPARTMENTS

The prime minister worked in a complex network of offices and organisations. It was hardly possible for the prime minister to achieve anything without the aid of his/her ministers, civil servants and staff. This chapter illustrates the networks around the prime minister in the executive branch. This chapter conceives the prime minister as the ‘principal’, whereas the other actors in the executive are his/her ‘agents’, who, from the principal’s viewpoint, are to achieve his goals. Comparison of the British and Japanese government organisations and coordination mechanisms shows the differences of resource dependence amongst actors in the executive branch and the potential of the prime minister to participate in the policy-making game to have his/her preferences reflected in the policy outcomes. This chapter, first, distinguishes the networks and organisations into the ‘core executive’ and the ‘executive’. Section two examines the components of the core executive, while section three compares the respective inner supporters of the prime ministers in the two countries. The last section reveals the characteristics of the seven departments relevant to this thesis.

1. NETWORKS, ORGANISATIONS, AND COORDINATION

1 (i) Division of Labour or Power Dependence?

A government was a composite of organisations. Governmental organisations were assigned specific roles and often policy areas (Greenwood and Wilson, 1989: 25-6). Jurisdiction was their key feature. Each organisation held a certain role, and as a whole the government operated by division of labour.

Policy issues crossed the jurisdiction of several organisations, which coordinated opinions and interests through both rigid hierarchies and loose networks. Conflict and cooperation existed between and within organisations. The more specialised the organisations, the more necessary coordination became (Davis, 1997: 128-9). Even though a particular issue might fall into the jurisdiction of one organisation, it might need to gain resources others possessed to achieve its goals. Holding resources that other organisations wanted carried a potential of power. Division of labour in a complex world, therefore, necessarily led to power-dependent relations in government, which in turn required coordination (Pfeffer, 1997: 100).

1 (ii) Core Executives and Executives

Patrick Dunleavy and R. A. W. Rhodes (1990: 4) referred to such organisations and structures that coordinated conflicts between different elements of the government machine as constituting the ‘core executive’. Later Rhodes (1995: 12) defined the core executive as; *‘all those organisations and procedures which coordinate central government policies, and act as final arbiters of conflict between different parts of the government machine’* (original emphasis). He pointed out that his intention was to distinguish between the core executive and the executive by ‘the issues of coordination and fragmentation in central government’ (Rhodes, 1994b: 5; Rhodes, 1995: 12).

Although the term ‘executive’ appeared to embrace the whole executive branch of the central government in Rhodes’ argument, it concerned mainly ‘the policy-making role of departments and their relationship to the core executive’. Therefore, including (all of) the departments into the core executive, as Martin J. Smith (1999: 5) attempted, did not make sense, considering the implication of the concept. The departments often had strong relations with their policy clients, with which they constituted policy communities (Rhodes, 1988: 82). Fragmentation was their key feature. The core executive was supposed to let the executive as a whole ‘join up’ in a concerted fashion. Crucial was the functional distinction of the core executive from the rest of the executive.

The prime minister worked within the networks of the core executive and the executive.

The British and Japanese prime ministers were in direct command of hardly any executive department. Although it is assumed in this thesis that the prime minister is the principal of the ministers and civil servants, in reality it was vital for him/her to obtain the cooperation of the other actors within the government to realise his/her policy preferences.

Considering the distinction between the core executive and the executive, the prime minister had two ways of intervening in the policy-making game. One was through the core executive, namely the coordination process. The other way was directly through the executive, namely government departments. Before the policy options reached the core-executive level, the prime minister could approach the relevant part of a government department and input his/her policy preference into its decisions. Accordingly, two points were critical in examining the prime minister's power in policy-making in the executive branch. One was the extent of the convergence on the prime minister of the coordinating functions of the core executive. The other was the extent, to which the prime minister could directly intervene in the departments.

2. CORE EXECUTIVE AND COORDINATION

Each country had its own way of coordination. John Greenwood *et. al.* (2002: 48) argued that coordination involved both the avoidance and the resolution of conflict. This section analyses coordination in the two countries in the 1970s from three aspects: (a) money, (b) personnel and organisation and (c) information (see Jones, 1985: 73; Jones, 1987a: 48).

Allocating money is the starting point to implement any programme that involves material goods or service. Personnel and organisations matter significantly, since actors are likely to be loyal to those who have the power to appoint, promote and dismiss them.

Information, as explained in chapter one, is one of the centrepieces for understanding the principal-agent theory. Principals are usually inferior in this respect to their agents. Yet they need information to assess the performances of their agents, to be aware of the problems and options available to address them, including various costs. The prime minister's power resources in the core executive are analysed and assessed under these three headings.

2 (i) Coordination in Britain

a. Money

The Treasury occupied a key position in compiling the budget in Britain. In the 1970s it

monopolised the budget process. It had the ability to check all new spending proposals before they were passed to cabinet/cabinet committee levels (Burch and Holliday, 1996: 37). Secrecy was a major feature of this process. The cabinet did not see the budget until the day of the budget statement, presented in parliament (Weir and Beetham, 1999: 128). Control of public expenditure was based on the public expenditure survey committee (PESC) system during the 1970s. The system was created in 1961, based on the Plowden Report on the *Control of Public Expenditure* (Cmnd. 1432). The PESC system allowed the principal finance officers of the spending departments to gather as a whole under the chair of a Treasury deputy secretary to discuss the overall picture of short and medium term public expenditure. Costs under current economic conditions were forecasted on the basis of existing policies and by comparing them with prospective available resources the total of public expenditure was decided (Thain and Wright, 1995: 229-30). The chief secretary of the Treasury, a minister, recommended the annual control total to the cabinet, which was decided in the context of macro-economic strategy. Once the cabinet approved this recommendation, bilateral negotiations between the Treasury and the individual spending departments commenced (Thain and Wright, 1995: 113, 270-2 and 294).

During the 1970s the government experienced an effective breakdown of the public expenditure system. The 'missing five billion pounds' became embarrassing news for the Treasury in 1975. Cash limits were introduced in 1976, which indicated public

expenditure was to be calculated on the basis of cash rather than resources. In any case, the PESC system was not a positive way of coordination. Once programmes were approved, they effectively became entitled to exist and their merits *per se* were not discussed. Programme analysis and review (PAR) was brought into the system in the early 1970s to overcome this lack of prioritisation and strategic assessment. Yet it never took off (Heclo and Wildavsky, 1981: xlii-iii). The chief secretary delivered clues about the priorities of the government, though he hardly deployed weapons for positive coordination by the Treasury. The Treasury deliberately avoided being involved in judging the merits of programmes.

Numerous expenditure cuts outside as well as inside the routine process were carried out in the 1970s. As in the routine procedure, the chief secretary recommended his figure, which provided the basis for cabinet deliberations. Bilateral negotiations started after the cabinet had decided on the total sum. Public expenditure discussions were primarily based on the bilateral relationship between the Treasury and each spending department (Thain and Wright, 1995: 182).

b. Personnel and Organisation

The Ministers of the Crown Act 1975 and previously the Ministers of the Crown (Transfer

of Functions) Act 1946 were the legal foundations for changing central government structures. Individual cases could be carried out by an order in council (Brazil, 1999: 140)¹. Government structures were often altered, notably after general elections. The machinery of government division, moving from the Treasury to the civil service department (CSD) in 1968, supported the head of the civil service and the cabinet secretary to give advice to the prime minister on government structures (Lee *et. al.*, 1998: 240-1). As head of the government, the prime minister was deeply involved in organising the government structure, and the rearrangement was often regarded as the prime minister's decision (Thomas, 1998: 99; Coxall and Robins, 1998: 251).

During the 1970s the CSD was principally in charge of personnel affairs. The CSD and its permanent secretary, who simultaneously held the title of head of the home civil service, were in charge of the selection of the senior civil servants above under-secretary levels. They conducted the selection in cooperation with the senior appointments selection committee (SASC). The SASC consisted of around six permanent secretaries and one or two specialists in the early 1970s. Ministers had some influence over the selection of their own permanent secretaries, though the head of the home civil service could appeal to the prime minister (Kellner and Crowther-Hunt, 1980: 174-78). The SASC provided a short list of candidates with its recommendation, though the final power to decide the

¹ A separate statute was required if a new department with a 'minister' and not a secretary of state as its head was to be set up (Brazil, 1999: 140-1).

appointment resided with the prime minister as minister for the civil service (Weir and Beetham, 1999: 178). However, the CSD largely self-regulated the management of the civil service (Rose, 1980: 30).

Other than secondments to other departments, officials were usually 'brought up' in one department, and this 'growing-up' period as civil servants affected their perceptions and ways of thinking, notably for instance in the Treasury, the home office and the board of trade. Nevertheless, senior civil servants were moved between departments, and hence became less devoted to their original departments' thinking and interests. 'All officials are part of a greater civil service society'; it was not obvious whether this feeling was the case for lower grades of officials. Hugh Heclo and Aaron Wildavsky (1981: 80) argued senior officials definitely lived in such a community. The Treasury occupied a unique position in personnel affairs, which was its original responsibility. 'The respect for the Treasury stems partly from its traditional role as final coordinator, partly from the fact that promotion depends strongly on Treasury favour (so that loyalty to the Treasury is more likely to pay off than loyalty to a fleeting minister), and partly from the fact that top civil servants have usually worked at the Treasury and have been imbued with the requisite sense of loyalty' (Lucas, 1982: 93; see also Hunt, 1987: 68).

c. *Information*

Information networks were centred on various inter-departmental committees and organisations such as the Cabinet Office and the prime minister's office. The prime minister's office is discussed in section 2.3 below. The British committee system was well established. Cabinet and ministerial committees, at the apex of which the cabinet located, were crucial in coordinating departments and creating collective positions on government policies. Observers distinguished three types of committees: ministerial, official and mixed. These committees could be further divided into standing and *ad hoc* (Hennessy, 1986: 30-1; Jordan and Richardson, 1987: 151; Brazier, 1999: 115). Greenwood and Wilson (1989: 54) depicted officials' committees that shadowed ministerial committees as particularly possessing considerable influence amongst inter-departmental committees of officials (see also Barnett, 1982: 41). They left to the ministerial level only the most intractable and politically sensitive issues (James, 1992: 54-6 and 59-61). Mixed committees of ministers and officials were important, too. During the 1970s the Heath government often used such committees and a mixed committee played a major part in the North Sea participation negotiations and licence policies during the Callaghan government (Hennessy, 1986: 79; Hennessy, 2000: 345-7).

The Cabinet Office was the focal point of these networks. Its key staff were seconded

from other government departments, except its head, the cabinet secretary (Lee *et. al.*, 1998: 144, 148-51). This personnel arrangement ensured the Cabinet Office was neutral between departments. In fact, the Cabinet Office and the cabinet secretary had dual roles in the British government. Their roles were to support not only the prime minister but also the cabinet as a whole and the cabinet committees. However, the prime minister's capacity as chair of the cabinet and many cabinet committees as well as his/her closeness to the cabinet secretary tipped the balance in favour of the prime minister (Donoughue, 1987: 29; Jones, 1987a: 39-40; Burch and Holliday, 1996: 34-5) [interview (19)]. The strength of the Cabinet Office stemmed from its location at the centre of the information networks, arranging all senior level meetings for coordination. By so doing, it acquired information and could even ask for it from the departments, which would have otherwise kept the information to themselves. The prime minister's unique access to the Cabinet Office provided him/her with advantage to gain information and shape the direction of policies.

Lee *et. al.* (1998: 152) discerned two sets of functions in the Cabinet Office: (1) 'the Cabinet Office proper' and (2) inquiry and analysis. The cabinet secretariat conducted the task for 'the Cabinet Office proper', which was responsible for organising business for the cabinet and cabinet committees (Lee *et. al.*, 1998: chap. 9; Burch and Holliday, 1996: 32). It included four main secretariats in the 1970s: home, economic, overseas-defence and

Europe (Lee *et. al.*, 1998: 165). The European secretariat, formerly referred to as the European unit, was founded during the Heath government, when Britain joined the EEC. Members attended from departments affected by European policies. Its role was ‘to coordinate the strategies of departments active in Europe, and to advise inexperienced departments on European procedures’ (Lee *et. al.*, 1998: 177). The head of the European secretariat, the deputy or under secretary in charge of EEC affairs in the FCO and the ambassador to the EEC, namely the head of the permanent representative in Brussels, often referred to as UKREP, were the keystones of policy-making on European affairs [interview (1) (15) (16) (76)].

The function of inquiry and analysis had two facets: (1) research and planning and (2) contingency planning. The central statistical office and the Central Policy Review Staff (CPRS) stood for the first type and the civil contingencies unit (CCU) represented the latter (Lee *et. al.*, 1998: 186-7). The CCU was set up during the miners’ strike in 1972 (Hennessy, 1986: 21). It functioned as the informing and coordinating body of policies across the government during the energy crises [interview (1) (18)]. Edward Heath established the CPRS to provide the cabinet as a whole with long/middle term advice and strategic thinking on specific policy issues (Blackstone and Plowden, 1988). The CPRS was the last attempt, according to insiders, to strengthen support for the cabinet as a whole, although the initial intention was to enhance support for the prime minister

(Hennessy, 1986: 77; Heclo and Wildavsky, 1981: 322-6) [interview (92)].

Apart from such committees, Martin Burch and Ian Holliday (1996: 66-8) confirmed less formal networks between officials, which could be more important than formal gatherings. Senior officials had their 'contacts' through Whitehall. One significant advantage the Treasury possessed was its network across departments. Cited in Heclo and Wildavsky (1981: 278), one outsider, who was invited into the government, commented, '[the government] depends ... on an existing network of personal relationships and only the Treasury has this network throughout Whitehall'. The private offices of ministers linked officials in all government departments, the locus of which was the prime minister's private office (Jones, 1985: 79). Second, permanent secretaries had their own networks. The cabinet secretary was at their centre. Third, a network existed around the cabinet secretariat. Lastly, Burch and Holliday listed the network between special advisers, although they admitted it remained less significant than the other networks (see Jones, 1985: 83).

2 (ii) Coordination in Japan

a. Money

The Japanese Constitution prescribed that the cabinet prepared the annual budget and presented it to the Diet, while the finance law gave the finance minister the responsibility for the preparation of the budget. Formally the officials at the ministry of finance (MOF) merely assisted the minister to prepare the draft budget. The cabinet had two formal roles in budget-making: to ratify the government draft of the budget and to make the basic policy for the budget every year, which was the guideline for budget compilation (Campbell, 1977: 149). Although the draft and the basic policy were discussed at the highest political level, the budget bureau of MOF prepared both of them for the cabinet. The cabinet as such did not function as a coordinator of money (Ôkôchi, 1976: 101). MOF's role was prominent in making fiscal policy. Consultative councils existed for fiscal policy and its processes, for instance, the fiscal system council and the government tax system research council (GTSRC). MOF retained an overwhelming influence over the outcome of these council meetings.

The fiscal investment and loan planning (FILP) was another source for government spending. The FILP was based on mainly the government pension and other trust funds,

postal savings and insurance funds, and bond issues (Campbell, 1977: 209-11). Although from FY1973 the FILP was presented with the budget for a Diet approval, according to Ian Neary (2002: 119), 'there has been much less political control over the way these funds have been used'. The usage had changed from supporting heavy industry and improving the basic infrastructure during the 1950s and 1960s to supporting small and medium-sized businesses and improving the environment in the 1970s. It was to finance the low productivity sector in the 1980s (Neary, 2002: 119; see also Ôkura-shô Shukei-kyoku Chôsa-ka, 1982: 38-43). The FILP was the so-called 'second budget' of the government.

A key difference between Japan and Britain was the openness of the process in Japan to the forces outside the financial authority (Nagaoka, 1981). LDP Diet members had regular input into the budget by their access to officials in the spending departments, while senior LDP officers and Diet members had direct access to Treasury officials as well. Internal LDP committees had a strong influence over the outcome of annual as well as medium-term taxation policy (Murakawa, 1986: 94-102). A wider definition of the core executive allowed the LDP to be part of it. The unique role of the LDP as part of (or rather semi-attached to) the core executive in the Japanese system is discussed in chapters four and nine.

When Japan enjoyed high economic growth, a general agreement covertly existed in Japanese society on the goals of government activities, at least in the government (Muramatsu, 1981: 297). The budget-making process effectively supplanted the decision-making process, thus leaving less necessity for deciding on priorities (Campbell, 1977: 281). According to Daiichi Itô (1980: 160), because the cabinet gave up the role of coordinating policies, MOF had to take over this role by preparing the budget. In the 1970s economic conditions changed adversely, though the LDP continued to play this positive-sum political game at the cost of an enormous budgetary deficit (Curtis, 1988: 61 and 71). The Treasury played a key part in allocating money, though it did not succeed in controlling public expenditure. Allocating money was a (if not *the*) crucial aspect of coordination within the Japanese government.

b. Personnel and Organisation

The national personnel authority (NPA) was created during the Occupation to deal with the recruitment and conditions of the public service. It was also to reduce sectionalism and establish some centralised control over departments (Stockwin, 1999: 103). In 1965 the personnel bureau was created in the prime minister's office, but the NPA's role hardly changed (Matsunami, 1990: 72; Sakamoto, 1994: 87). The national civil service law revised in 1965 assigned the prime minister responsibility for coordination over personnel

management and planning. The administrative management agency (AMA) was another government department involved in personnel affairs. Since the national civil service law and the NPA existed before the AMA, the main role of the AMA was circumscribed to coordination through managing the number of staff in the organisations. It assessed the reorganisation plans of government departments in cooperation with the budget bureau of MOF, which was responsible for allocating their financial resources (Imamura, 1994: 63).

Nevertheless, departments in Japan historically controlled their own personnel affairs. The NPA had the authority of approving the appointment of director levels and above, yet it was excluded from the promotion and appointment systems in each department. So was the AMA. Promoting and appointing personnel were usually left to department officials themselves.² The minister of the department had the formal power of appointing and dismissing officials, while the cabinet approved and the LDP leaders scrutinised the promotions. Most of the ministers, according to T. J. Pempel (1984: 87), ‘will insist on having individuals below them with whom they can work, and will use the denial of cabinet approval if necessary to ensure this’. Although they were never politicised in the way the French civil service was, the Japanese senior civil servants were ‘by no means devoid of political sensitivity’ (Pempel, 1984: 87). Officials were occasionally posted to other departments, but still the department they originally belonged to controlled their movements. This departmentalism derived partly from this immobility. Loyalty of

officials lay to the departments they belonged to, rather than on the incumbent government or the civil service system as a whole.

Meanwhile, organisational reform required revision of the relevant statutes until the 1980s, even for changes of (ministers' and director-generals') secretariats, bureaux, departments, the positions of deputy directors-general, and creating new government departments. The post-war history of organisational reform of government was largely that of creating agencies under the prime minister's office (Itô, 1987: 36-7; Imamura, 1994: 69). The aim was to improve inter-departmental coordination. Japan had a rigid and inflexible system of re-organising government structures, and accordingly left less room for discretion by the prime minister.

c. Information

In Japan cabinet and committees at both ministerial and senior official levels existed as in Britain, though they did not usually function likewise. Cabinets and cabinet committees made formal decisions and reached agreements, though coordination was usually secured before these meetings. Several formal cabinet committees existed, such as the national defence council and that for economic policy.³ LDP leading officers attended cabinet

² See for MOFA, Fukui (1977b: 22), and, for MOF, Katô (1994: 56-61).

³ In Japan cabinet committees were referred to by various names, such as *Kakuryô Kaigi*, *Kakuryô Kondankai* and *Kakuryô Kyôgikai*.

committees by invitation (Naikaku Seido, 1985a: 583). A cabinet decision in 1977 abolished all existing cabinet committees and made explicit that they should be set up flexibly without cabinet decisions (Naikaku Seido, 1985a: 583).⁴ *Ad hoc* ministerial committees were often held, yet their role was mainly to authorise and confirm agreements reached between their officials beforehand. The administrative deputy chief cabinet secretary chaired the administrative vice-ministers' conference twice a week one day before cabinet meetings. No agenda would be proposed to cabinet without an agreement reached at this meeting. However, here again departments were expected to achieve coordination before this meeting. Nobuo Ishihara, an ex-deputy chief cabinet secretary, explained it would have been a waste of time for other members to listen to a discussion in which they had no knowledge or interest (cited in Mikuriya, 1997: 230).

Cabinet meetings and the administrative vice-ministers' conference functioned under the rule of unanimity, which gave each member a veto power (Naikaku Seido, 1985a: 149 and 581). Preceding coordination was essential. Daiichi Itô (1987: 50-3) argued that unanimity encouraged coordination at the officials' level to reach agreement before the formal meetings. Coordination was achieved through the efforts of the main department concerned on an *ad hoc* basis. Bilateral rather than multilateral coordination was the normal style. As John Campbell (1977: 39) noted, the contrast between Britain and Japan

⁴ From 1986 a cabinet decision was required for setting up standing cabinet committees, while an oral cabinet approval was required for *ad hoc* ones.

was clear; 'In Great Britain, the ministry-bureau relationship may not differ so markedly from that of Japan, but the quantity of decision making accounted for by "sideways" agreements (between the upper levels of two or more line ministries) or at the Cabinet level is substantially greater.' As Professor George Jones noted to the author, 'By many means, coordination began with the Cabinet and flowed down'. These meetings were too formal and rigid to carry out practical coordination in Japan.

Two organisations supported the cabinet in the 1970s: the cabinet secretariat and the cabinet legislation bureau.⁵ The role of the cabinet secretariat was to administer the cabinet meetings (cabinet law, article 12, clause 2). Its head was the chief cabinet secretary supported by two deputies, one administrative and one parliamentary. The cabinet secretariat was composed of the cabinet counsellor's office (*Naikaku Sanjikan-shitsu*), the cabinet councillor's office (*Naikaku Shingi-shitsu*), the cabinet research office and the cabinet public relations office, the last of which was set up in May 1973. Their staff were seconded from other government departments. The cabinet counsellor's office conducted the administration of cabinet meetings, prepared for the prime minister's policy speeches in the Diet and liaised between the cabinet and the imperial household (Hayao, 1993: 168-9). The role of the cabinet councillor's office was to primarily carry out inter-departmental coordination. Occasionally sub-offices were created in the cabinet councillor's office or the minister's secretariat of the prime

minister's office to coordinate specific issues, such as external economic affairs, Indonesian refugees, public enterprise, pollution and national land development (Naikaku Seido, 1985a: 584 and 598-9).

However, departmentalism was strong in Japan. As Masaharu Gotôda (1988: 90), a distinguished civil servant and a later senior cabinet minister, argued, it prevented issues that crossed departmental jurisdictions from reaching the cabinet early enough and indeed reaching it at all. The cabinet secretariat did not function as a regular information-gatherer or a coordinator between departments. The cabinet legislation bureau looked after the legal appropriateness of government bills, government ordinances, treaties and other legal matters (cabinet law, article 12, clause 3). The cabinet legislation bureau routinely scrutinised items and occasionally mediated in inter-departmental conflicts, for instance, over jurisdiction (Hôsei-kyoku, 1985: 225-6). Various bodies for coordination existed to support the cabinet and the prime minister at the centre. The difference from the Cabinet Office in Britain was that the Japanese counterpart did not conduct routine coordination other than the cabinet legislation bureau.

One distinctive feature of the Japanese core executive was the existence of various administrative agencies, whose role was inter-departmental coordination. They included organisations, such as the AMA, the economic planning agency (EPA), the Okinawa

⁵ The national personnel authority linked to the cabinet, though it was a semi-independent body.

development agency, the science and technology agency, the environment agency and the national land agency. Technically, although they had their own cabinet ministers as their political heads, these ministers were not the ‘competent ministers’ in the cabinet law. Since these agencies were established in the prime minister’s office, the prime minister was their ‘competent minister’. Imamura (1994: 70) argued ministers of these administrative agencies were to assist the prime minister. The Japanese prime minister had various organisations to support his role in the core executive. Notwithstanding the formality, they were marginalised as coordinating bodies, as was the cabinet secretariat. The prime minister somehow did not make use of these administrative agencies. The question this reality raised was why the prime minister did not take advantage of them.

An external type of coordination existed in the Japanese government: the consultative councils (*shingikai*). They brought inputs from experts and interest groups in society and, from time to time, took part in policy-making directly by coordinating the interests of participants, including those of civil servants (Schwartz, 1998: 52-8; Neary, 2002: 117). The fiscal system council, the *ad hoc* commission on administrative reform and the advisory committee for energy were such examples. When Ôhira became premier, he set up nine study groups. They gathered over 200 scholars, artists and novelists from outside government. One of the members characterised these study groups as a way to gain outside information and ideas different from those of the civil service (Muramatsu, 1994:

215).

The Japanese core executive showed an explicit contrast to its British counterpart in coordination through information. ‘Rigid’, ‘*ad hoc*’ and ‘marginalised’ were the key adjectives for coordination through information in Japan.

2 (iii) Prime Ministers and Coordination – A Comparison

The British and Japanese prime ministers shared the same formal limitation in allocating money. Although the cabinet had the authority to discuss and decide on public expenditure, the financial authorities and the cabinet ministers in charge controlled the drafting of the budget. The prime minister’s input was based on an informal relationship with the financial authorities. Although the prime minister was officially the First Lord of the Treasury in Britain, the prime minister’s input was mainly through the chancellor of the exchequer (Heclo and Wildavsky, 1981: 181-2 and 368-9).⁶ In contrast, apart from the relationship between the prime minister and the finance minister, in Japan the prime minister had direct meetings with MOF officials, which were on an informal basis. The frequency with which the Japanese prime minister saw MOF officials seemed much higher than in Britain.

⁶ Jones (1985: 74) noted the permanent under-secretary of the Treasury could report directly to the prime minister.

In Britain control over appointments for civil servants was formally in the hand of the prime minister, who was the minister for the civil service. In Japan ministers held the supreme command of personnel affairs for their own departments. Yet the prime minister had various formal power resources in the personnel of civil service. He was the 'competent minister' for the prime minister's office, which contained the personnel bureau from 1965 and the AMA. The national civil service law revised in 1965 assigned the prime minister responsibility for coordination of personnel management. In addition, from 1972 Kakuei Tanaka, then prime minister, demanded that ministers should gain cabinet approval for personnel affairs above the level of directors-general. The prime minister shared this residual influence with his cabinet colleagues. Personnel matters were normally left to the civil servants themselves. Yet both British and Japanese prime ministers had formal resources on this issue, although the former had a more direct part to play.

The British core executive had advanced information networks particularly in the post-war era, compared with its Japanese counterpart. Being at the centre of the information network was a crucial power resource for a British prime minister. The prime minister's control over the cabinet and cabinet committee meetings was substantial; (1) the prime minister made and dismissed cabinet committees and decided the allocation of

their business, (2) he/she appointed their chairs including him/herself. Chairpersons had unique power over, for instance, presentation of an issue, its discussion, and the timing to make decisions. Characteristically the chair summed up the discussion and votes were not counted at these meetings. (3) The prime minister decided who sat on these committees. As a consequence, he/she could manipulate the balance of the committee in his/her favourable way and even exclude from it certain people except those with direct departmental interests (James, 1992: 106-8). Collective responsibility 'precluded a minister from publicly disagreeing with government policy or attacking the actions of the Prime Minister' (Rose, 1980: 4-5). The British prime minister could depend on the committee system and the principle of cabinet collective responsibility to control ministers in government.

The Japanese prime minister had few opportunities to strategically exploit cabinet/cabinet committee meetings. They were formal and required unanimity, which made them even more rigid. Therefore, coordination was based on *ad hoc* meetings and internal consultation papers between relevant government departments. Reaching agreements between the relevant actors were the key. When ministerial coordination was required, *ad hoc* meetings were arranged with (occasionally) the chief cabinet secretary or (rarely) the prime minister present. The prime minister could instruct the ministers concerned to set up ministerial committees to coordinate government decisions on specific issues. The

chief cabinet secretary was often the key actor for the prime minister to secure his input into the coordination process.

Networks in the core executive in Britain were located around the Cabinet Office and the Treasury as well as the prime minister's office. They were the centres for information. For instance, according to insiders, 'It would be very rare for a European Community issue to have by-passed the European secretariat altogether unless it was really of relatively minor importance' [interview (1) (76)]. Although the Cabinet Office was constitutionally to support the cabinet as a whole, in reality the prime minister benefited from the highly developed informational system which converged under him. The Japanese prime minister also had various coordination bodies, which he/she could have formally exploited, such as the AMA, EPA and the cabinet secretariat. Yet they were never fully utilised.

The British prime minister could further make use of various offices to achieve coordination and provide advice. Prime ministers used 'sinecure ministers' such as the Chancellor of the Duchy of Lancaster, lord president of the council, lord privy seal and ministers without portfolio (Lee *et. al.*, 1998: 206-18 and 228-30; Jones, 1973: 370-1). Edward Heath appointed John Davies as Chancellor of the Duchy of Lancaster to let him look after the EEC affairs, while Harold Wilson and James Callaghan had Harold Lever in

the same office as their financial adviser. As for officials, during the Heath government, the head of the civil service, Sir William Armstrong, had an exceptional role in coordinating economic and industrial policies (Theakston, 1996: 87-9; Pryce, 1997: 84).⁷

The major differences between Britain and Japan were Britain's flexibility and information network that the prime minister could utilise. The Japanese prime minister had similar power resources, though they were rigid, often marginalised, and never fully exploited.

3. PRIME MINISTER'S INNER SUPPORTERS

This section examines the inner supporters, who directly worked for and serviced the British and Japanese prime ministers in the 1970s. A list is provided below to make the comparison explicit. The function of these inner supporters was to support the prime minister's relationships with other actors, such as ministers, government departments, governing party, parliament and the media.⁸ Policy staff existed as well.

⁷ However, his successors, Lord Croham and Sir Ian Bancroft, both took more reserved stances and did not participate in government policies (Kellner and Crowther-Hunt, 1980: 184-5).

⁸ There were other relations, such as with overseas heads of government, affiliated organisations of the governing party and the prime minister's own constituency.

FIGURE 3.1
PRIME MINISTER'S INNER SUPPORTERS IN COMPARISON

UK	Japan
principal private secretary	chief private secretary
private secretary for overseas affairs	private secretary from MOFA
private secretary for economic affairs	private secretary from MOF
private secretary for home affairs	private secretary from MITI
private secretary for parliamentary affairs	private secretary from NPA
chief whip	chief cabinet secretary (cabinet minister)
cabinet secretary	deputy chief cabinet secretary (administrative)
parliamentary private secretary (PPS)	deputy chief cabinet secretary (parliamentary)
political secretary	chief private secretary
press secretary	press office / chief cabinet secretary
policy unit	(special assistants in cabinet secretariat)

The prime minister's office in Britain was composed of four sections: (1) the private office, (2) the political office, (3) the prime minister's press office, and (4) the policy unit and other advisers (Jones, 1985: 86; Jones, 1987a: 49-55; Donoughue, 1987: 17; Greenwood and Wilson, 1989: 78-9; Lee *et. al.*, 1998: 29, chaps 4 to 7; Burnham and Jones, 2000: 82). A prime minister's office legally and organisationally existed in Japan. Yet its designation did not necessarily accord with the substance, since it incorporated such bodies as the EPA and the AMA. Moreover, the personnel of the minister's secretariat of the prime minister's office in Japan overlapped considerably with that of the cabinet secretariat (Naikaku Seido, 1985a: 153-4). The actors mainly located in the prime minister's official residence were more equivalent to those in the British prime minister's office. Thus, the discussion on inner supporters for the Japanese prime minister will focus on them.

The prime minister's private secretaries liaised with government departments. In Britain they composed the private office. The principal private secretary was its head, whose role was to ensure all the necessary advice and information was available to the prime minister (Lee *et. al.*, 1998: 42). The other four secretaries covered foreign, economic, home and parliamentary affairs. They were seconded from the FCO, the Treasury and various home departments (Lee *et. al.*, 1998: 52-65). Ministers and permanent secretaries had their own private secretaries and by keeping in regular contact with one another they passed on their respective masters' intentions and other information (Lee *et. al.*, 1998: 66). The private secretaries' functions were similar in Britain and Japan. The major differences were the role of the chief private secretary and the original departments of the private secretaries. In Japan the chief private secretaries were usually a political aid to the prime minister, often brought in from outside the civil service. They were often relatives and/or long-serving secretaries of the prime minister personally.⁹ They addressed political matters more than policy issues. The other secretaries were brought in from MOF, MOFA, MITI and the NPA. They were the key staff in both Britain and Japan.

To deal with the governing party the British prime minister had three actors: the chief whip, the parliamentary private secretary (PPS) and the political secretary. The first two were MPs.¹⁰ The chief whip and the PPS were the links to the parliamentary party. The

⁹ Ôhira's chief private secretary was a MOF official who also happened to be his son-in-law.

¹⁰ There was also a chief whip in the House of Lords.

chief whip was the head of the government whips team. Whips were responsible with the leaders of the Houses of Commons and Lords for (1) providing a government majority, (2) providing communication links between government and opposition and (3) organising the government's legislative programme (Lee *et. al.*, 1998: 218-25). The chief whip was often not a cabinet minister but attended cabinet meetings to report on parliamentary affairs (Burch and Holliday, 1996: 39). The PPS and the political secretary acted as informal channels between the prime minister and the governing party. The PPS was to keep the prime minister in touch with the party back-benchers (Burch and Holliday, 1996: 28; Lee *et. al.*, 1998: 91-6). The political secretary liaised between the prime minister and the governing party outside parliament, such as the party headquarters, local party organisations and the affiliated organisations, like the trades unions for the Labour party. They provided a 'two-way flow of information' between the prime minister and the party; they conveyed the prime minister's message to the party, and provided him/her with information on potential discontent and threats in the party (Rose, 1964: 44; Norton, 1979: 10-21).

In Japan the links with the governing party were through three different actors: the chief cabinet secretary, the parliamentary deputy chief cabinet secretary and the chief private secretary.¹¹ The former two were Diet members. In the 1970s the chief cabinet secretary was a senior/middle rank aide to the prime minister from his own faction and his political

deputy was its junior member. The chief cabinet secretary was particularly crucial for the cabinet and the prime minister. He/she was the spokesperson of the cabinet, communicated with the opposition parties, chaired the cabinet meeting (although the prime minister officially presided over it) and was usually a close confidant of the premier (Stockwin, 1999: 103; Neary, 2002: 111).

Handling relationships with the media was the task for the press office and the press secretary in Britain. Prime ministers appointed either a career civil servant or a journalist politically sympathetic to the prime minister. Both Heath and Callaghan appointed civil servants as their press secretaries. According to Lee *et. al.* (1998: 71-81), their job was: (1) to speak on behalf of the prime minister, (2) to act as intermediary with the news media, (3) to advise the prime minister on personal and policy presentation, and (4) to coordinate the government information services. The chief cabinet secretary handled such matters in Japan. He was the sole figure who had the authority to speak on behalf of the whole cabinet after cabinet meetings (Mikuriya and Watanabe, 1997: 197). Ian Neary (2002: 1111) noted, 'Media attention is focused on him [prime minister], which enables him to exercise considerable influence on the party and other ministers'. A press office existed in the cabinet secretariat. Its role was to coordinate presentation to maintain government unity. During the 1970s, however, the cabinet counsellor's office conducted press releases and press conferences by the prime minister and the chief cabinet secretary

¹¹ The chief private secretary was discussed in page 139.

(Okina, 1987: 102). The messages the chief cabinet secretary conveyed were the official views of the government of the day and reflected the prime minister's perspective more strongly than any other actor's in the government.

For policy advice the British Labour government created the policy unit within the prime minister's office in 1974. Bernard Donoughue (1987: 20), its first head, characterised the policy unit by noting three distinctions from existing organisations and offices; 'it was systematic, it was separate from the Whitehall machine and it was solely working to the Prime Minister'. Unlike the CPRS, the policy unit focused on short and medium term issues, providing advice and information from a party-political viewpoint. Edward Heath did not benefit from such machinery. Although not necessarily pointing to the lack of a policy unit, Douglas Hurd (1979: 35), Heath's political secretary, later expressed disappointment 'with the quantity and quality of political help which the Prime Minister actually received'; the civil service advice was 'preponderant' while political advice was 'crowded out by the sheer pressure of events'. James Callaghan appreciated the existence of the policy unit, when he wrote, 'I was in a stronger position to challenge Departmental proposals – especially those from the Treasury, which usually fired the heaviest guns' (Callaghan, 1987: 404).

Japanese prime ministers did not enjoy the luxury of having their own version of a 'policy

unit', although Masayoshi Ôhira possessed the extra staff, namely the special assistants, assigned to the cabinet secretariat. They were seconded from MOF, MOFA, MITI, ministry of health and welfare, and ministry of agriculture, forestry and fisheries, to assist Ôhira's nine study groups. Kakuei Tanaka also brought civil servants into the cabinet secretariat so that they could support his reconstruction of the Japanese archipelago policy in the early 1970s. Japanese prime ministers had added staff in the cabinet secretariat.

The British and Japanese prime ministers had similar arrangements for inner supporters directly working for them.¹² The policy unit was the greatest difference between the two systems. However, the smaller size of the prime minister's staff did not denote inferior support. Comparing the British and US staff systems, Terry Moe and Michael Caldwell (1994: 192) argued, 'Prime ministers and their parties do not need bureaucracy. It is precisely because they are so powerful that their structures of executive control can be compact, neutrally competent, and highly responsive – a desirable combination that, for all intents and purposes, is flatly unavailable to American presidents' (see also Jones, 1983; Jones, 1985; Jones, 1987a). Chapters five to eight include assessments of the impact of the staff arrangements on prime-ministerial power.

¹² Hayao (1993: 163) noted what differed was not the number of the private secretaries but the number of 'their' supporting staff, when in Japan the private secretaries had virtually none, while in Britain they had about 70.

4. DEPARTMENTS

Most policies, especially their details, were decided inside and down the relevant departmental hierarchy. Civil servants had their own policy preferences, either based on their own private welfare or on the inherited tradition of their departments. These two factors might also lead to contradictory policy preferences. Different sections within each department might be inclined to pursue different policy preferences. This phenomenon was the same as what happened between departments. Organisations have their own histories (mistakes, successes and favoured solutions), different clients and different organisational objectives. Martin J. Smith *et. al.* (2000: 148-9) refuted the existence of a 'single, unified, monolithic Whitehall culture'. As Peter Kellner and Lord Crowther-Hunt (1980: 187) stated, 'Broadly [the concept of *departmental view*] consists of the ideas and assumptions that, independently of which party is in office, flow from the knowledge and experience that are generated by civil servants working together'. This feature might erode the significance of political leadership. A cabinet minister during the Callaghan government noted, 'I have no doubt that most officials, because they felt they were working in what they conceived of as the national interest, would come to their own conclusions about each policy and then seek by every means at their disposal to carry their Minister with them' (Barnett, 1982: 19). Bureaucratic dominance has been considered as one of the prevailing characteristics of modern governments. This section

examines the relevant government departments and their organisational characteristics.

4 (i) Britain

a. Foreign and Commonwealth Office

The foreign and commonwealth office (FCO) was the government department in charge of foreign affairs. Its political head, the foreign secretary, was supported by approximately six junior ministers. During the Heath government, a minister was appointed to handle EEC affairs, given the title of the Chancellor of the Duchy of Lancaster. He was located in the Cabinet Office. ‘Departments’ were the basic units of the FCO. They were distinguished between functional departments and political departments. According to an FCO official, ‘The purpose of those technical departments was basically to liaise with the responsible department ... and to inject an international affairs dimension into their discussions and to keep an eye on them from the point of view of foreign policy in general’ [interview (16)]. The energy department looked after energy affairs within the FCO, which later became the energy, science and space department in the FCO. EEC affairs had the European integration department. Political departments were assigned a specific regional area. The Middle East department and the Near East and North Africa department dealt with their respective regions. Counsellor-level officials headed each

department and under secretaries were responsible for several departments above this level. The permanent under-secretary held every morning a meeting with his officials above under-secretary level to inform each other of what was going on in other areas [interview (16)].

The FCO by nature pursued policies seeking cooperation with foreign governments. Notable was its tendency to be pro-EEC and pro-Arab, although it did not mean all officials were so [interview (1) (14) (20)]. Roy Hattersley, an FCO junior minister during the Wilson government, argued that the FCO was keen to stay in the EEC for Britain's 'national interest' and for benefits to the FCO itself (cited in Hennessy, 2001: 405). As Peter Hennessy (2001: 401) explained, 'in bureaucratic terms, the chief beneficiary of Britain's membership of the EEC has been the Foreign Office'. On the other hand, high-fliers had often been sent to Arab countries for training when they were still junior, which brought them the pro-Arab tendency. Indeed, many senior officials regarded highly the historical links and the British interests in the region. However, the FCO did not enjoy a strong backing from any domestic client, since its main ones were foreign governments and international organisations.

b. Treasury

The Treasury was 'primarily responsible for the overall management of the economy: the control of the public expenditure; and the formulation of financial and monetary policies' (Civil Service Department, 1974: 606). Although notations changed, four groups carried out these tasks. They were, as in the *Civil Service Year Book 1977*; (1) the public services sector, (2) the domestic economy sector, (3) the overseas finance sector and (4) the chief economic adviser's sector. The public services sector dealt with public expenditure, while the domestic economy sector was in charge of 'economic strategy and matters of home finance', namely, taxation, monetary and counter-inflationary policies and policies relating to other departments such as industry and agriculture. The overseas finance sector looked after the balance of payments, reserves and international monetary cooperation. The chief economic adviser was mainly concerned with short and medium-term economic forecasts and advised on macro-economic policy (Civil Service Department, 1974: 606; Civil Service Department, 1977: 671-2). The finance group and the expenditure group were the Treasury's two large groups.

The chancellor of the exchequer was the political head of the Treasury. It normally had three other ministers, namely the chief secretary, the financial secretary, and a minister of state. Occasionally the paymaster general was attached to it. Assignments differed in

accordance with the wishes of the prime minister and the chancellor, yet public expenditure was the 'empire' of the chief secretary. The chief secretary was responsible for preparing the public expenditure survey and conducting bilateral negotiations with the spending departments. The chief secretary had his own (second) permanent secretary and two deputy secretaries. The expenditure group was much concerned about controlling public expenditure, which was eventually criticised as out of control by the mid 1970s. On the other hand, the finance group, notably the overseas finance group, were keen to retain and later restore international confidence in the British economy and the British government. They provided the economic minister to the British embassy in Washington, who was also the UK executive director of the IMF and the International Bank for Reconstruction and Development. Because of their close relations with overseas governments and organisations as well as the financial markets, they were the actors to feel the external pressure most.

The 1970s was a period when the Treasury was overtly and covertly divided between Keynesians and monetarists. The Treasury found it difficult to speak with one voice, particularly in the mid 1970s. A recent study showed the Treasury was not successful in controlling public expenditure. It could not impose its own preferences on the other parts of the government, which ended in the breakdown of the PESC system in the 1970s and promoted instability in the economy up until the early 1990s (Thain and Wright, 1995:

especially chap.24). Nevertheless, the Treasury was in a strong position in the government, partly because it effectively monopolised information on the macro-economy and were in charge of allocating money mainly through public expenditure and tax.

c. *Department of Trade and Industry / Department of Energy*

The departments responsible for oil policy were the department of trade and industry (DTI) and later the department of energy (DEn) in the 1970s. DTI was created in 1970, amalgamating the board of trade and the ministry of technology (MinTech). After 1945 energy as a whole was located in the ministry of fuel and power, which became the ministry of power after 1957. MinTech absorbed the ministry of power in 1969, the year before amalgamation into the DTI (Bromley, 1996: 94-5). The two major branches within it were trade and industry. The former tended to have a *laissez-faire* approach, whereas the latter was more interventionist (Radcliffe, 1991: 134; Theakston, 1996: 165; Hennessy, 2001: 433). In part because of its origin and in part because of the dominance of the trade side in the department, the problem of integration of the department as a whole persisted, despite the efforts made at the top level (Radcliffe, 1991: 131 and 139). In particular, the limited integration of the energy divisions into the rest of the department was recognised (Radcliffe, 1991: 149, 51-2; Cheshire *et. al.*, 1977: 36). In 1974 Edward Heath decided to separate the energy divisions, which became independent and formed the DEn.

The DTI and the DEn practiced a concept referred to as 'sponsorship'. 'Sponsorship divisions', according Kevin Theakston (1996: 170), 'provided a point of contact within government for every industry (...), acting as a channel of communication between the industry and Whitehall and also to some extent as internal lobbyists within the machine for the interests of "their" industry'. The relationship between the oil divisions and the oil industry was, however, not necessarily smooth and sympathetic to each other [interview (2) (25) (77)]. The difference of the oil industry from other industries was chiefly based on the international nature of the oil companies (for instance, BP, Royal Dutch Shell and Exxon) and it did not have a publicly owned corporation with a monopoly of supply (Chesshire *et. al.*, 1977: 36-7; Bending and Eden, 1984: 32-3). The oil divisions pursued policies to assure the domestic distribution of energy and secure oil imports and benefits from the North Sea.

4 (ii) **Japan**

a. *Ministry of Foreign Affairs*

The ministry of foreign affairs (MOFA) was composed of eleven bureaux.¹³ The bureaux

¹³ In 1980 the American affairs bureau was divided into the North American affairs bureau and the Central and South American affairs bureau.

were divided into geographic and functional groups. Bureaux such as Asian affairs, American affairs, Middle Eastern and African affairs and European and Oceanic affairs belonged to the geographic bureaux, while the economic affairs, economic cooperation, treaties, United Nations and public information and cultural affairs bureaux comprised the functional group. The geographic bureaux dealt with bilateral issues, while the functional bureaux were in charge of multilateral affairs (Fukui, 1977b: 9). Characteristic of MOFA was the existence of ambassadors and the embassies. Although they were not part of policymaking at the centre, ambassadors' opinions were critical for the department's policy (Fukui, 1977b: 14). All issues were supposed to fall into one of the bureaux and a particular section within it. The view of this main bureau constituted the basis of policy in MOFA. The director, namely the head of the section, was the key actor in compiling the view of the bureau (Fukui, 1977b: 10).

MOFA had formal and *ad hoc* meetings at various levels for intra-departmental coordination, at the deputy directors' level, at the senior directors' level and at the top level referred to as the senior officials' conference including the administrative vice-minister, the two deputy ministers, chiefs of bureaux and a few senior rank directors (Fukui, 1977b, 15; Shiroyama and Tsubouchi, 1999: 260-2). However, when a highly sensitive issue emerged, a small group, reflecting the vertical line, was gathered under the vice-minister, including heads of the relevant bureaux and sections. This group was the

core of decision-making within MOFA (Fukui, 1977b: 10; Shiroyama and Tsubouchi, 1999: 261).

The cornerstone of Japanese foreign policy was based on two contradicting but interdependent themes: the 1945 peace Constitution and the Japanese-US alliance (Drifte, 1983: 89-92; Caldwell, 1981: 70; Drifte, 1990: 6-9). Reinhard Drifte (1990: 22) depicted MOFA's stance startlingly but acutely: 'All external issues were subordinated to the welfare of the Japanese-US relationship'. Reinforced by the oil crisis in 1973, Japanese foreign policy shifted towards 'omni-directional diplomacy'. The significance of the Japanese-US alliance system did not diminish, yet securing oil supply was added to the vital aims of Japanese foreign policy (Drifte, 1983: 92-3). MOFA tended to represent voices of foreign countries in the Japanese government, yet it never had the same clout in domestic politics as MOF and MITI (Drifte, 1983: 86; Stockwin, 1999: 105).

b. Ministry of Finance

The ministry of finance (MOF) had eight key bureaux and an external administrative agency, namely the national tax administration agency, at the centre with regional offices. The bureaux included the minister's secretariat, the budget, tax, customs and tariff, finance, securities, banking and the international finance bureaux. MOF was often

referred to as 'all bureaux no ministry', since the bureaux were autonomous and fragmented. Other than the coordination (or command) conducted by the budget bureau, coordination was carried out by direct negotiations between the relevant bureaux in MOF [interview (47) (48)].

The tax bureau provided an example of the independence of a bureau. Tax experts, although high flyers, tended to occupy key posts in this bureau, while they pursued policies based on a longer-term and consistent vision of the taxation system. Mabuchi Masaru (1989: 47) revealed such policies were the reduction of direct tax, increases in indirect tax and tidying up the indirect tax system. The attempt to reform the taxation system in the late 1970s was not well coordinated with the budget bureau which was in charge of the exploding public expenditure [interview (83)].

Amongst these autonomous bureaux the budget bureau occupied a dominant position in MOF. Its chief role was to (assist the finance minister to) prepare the budget. The financial bureau was in charge of the FILP. It worked in cooperation with (if not under the command of) the budget bureau. The budget bureau particularly hoped to retain a 'superficially' balanced budget and a free-hand in allocating public expenditure. This preference led the officials to seek to constrain the expansion of public expenditure as well as to push the excessive expenditure under special accounts and the FILP with other

techniques. Each bureau tended to operate independently and had its own policy preference. Yet the budget bureau held command as for the allocation of public fund.

c. Ministry of International Trade and Industry

The ministry of international trade and industry (MITI) was divided into vertical and horizontal groups of bureaux. The vertical group was responsible for particular types of industries while each division within it looked after a specific industry. They included the basic industries bureau, machinery and information industries bureau, consumer goods industries bureau and the agency of natural resources and energy (ANRE). The ANRE and its internal petroleum department handled prices, refinery, distribution and exploration of oil and its products.¹⁴ The horizontal group was based on functional roles cutting across industries, such as industrial policy, international trade policy and international trade administration bureaux.

The bureaux in MITI were not as autonomous as in MOF, which created flexibility of its organisation and internal coordination. MITI supervised not only suppliers but also the users of crude oil and its products. According to Daniel Okimoto (1989:114), 'No single industry or interest group, no matter how powerful, exercises dominant influence on MITI or dictates the substance of industrial policy'. 'This organizational structure', hence,

‘creates a system of internal checks and balances’ (Okimoto, 1989: 115). In MITI the minister’s secretariat in cooperation with the industrial policy bureau had a significant policy-coordinating role. These two bodies showed the strong centripetal forces in MITI. MITI had three levels for coordination. The laws and ordinances examination committee (*hōrei shinsa iinkai*) did the detailed coordination. It was composed of the deputy directors of the general affairs or coordination divisions from each bureau. As Chalmers Johnson (1982: 80) depicted, ‘All major policies of the ministry are introduced and screened at this level, and no new policy can be initiated without its approval’. The two other levels were those of the directors of the general affairs (coordination) divisions and those of the directors-general. MITI created a consistent voice externally.

During the 1970s MITI saw its role as to protect and promote Japanese industry. It preferred higher to lower economic growth and was concerned about securing oil imports, domestic distribution and the strength of domestic industries. Informal suggestions to the industry, often referred to as ‘administrative guidance’, were its favoured way of participation in the economy. MITI was at the centre of the dispute over the ‘Japan Inc.’ model, which compared Japan to a single corporation, and bureaucratic dominance over the society, especially over industries and private companies (see Johnson, 1982; Samuels, 1987; Okimoto, 1989).

¹⁴ It was MITI’s extra-departmental bureau and thus the director-general was an administrative post.

5. CONCLUSION

This chapter explored the two potential independent variables of this thesis, which composed the counter-hypotheses. They were based on power-resource analysis and bureaucratic dominance. The basic settings of power resources in the core executives in Britain and Japan revealed similarities as well as differences. Overall, the prime ministers in the two countries enjoyed access to various formal power resources in allocating money, controlling the civil service and obtaining information. Government institutions were biased to the benefit of the prime ministers in Britain and Japan. Yet some resources seemed to be utilised more, while others had difficulties in their mobilisation. The major differences between the British and Japanese core executives were the constitutionally significant position of the cabinet in Japan, the highly developed information networks and the existence of the policy unit after its creation in 1974. The British core executive provided more flexible power resources to its premier and notably the Labour prime minister, James Callaghan, had the support of the policy unit.

Bureaucratic dominance could be discerned in three ways. First, civil servants might, according to this hypothesis, overrule the prime minister in both countries. Second, if the Japanese civil service carried more power than its British counterpart, there were likely to be more defeats of the Japanese prime minister. The third way to view bureaucratic

dominance was to distinguish between government departments. Some departments were more powerful than others. MOF and the British Treasury were discerned to be '*the ministry amongst ministries*', being the symbol of bureaucratic dominance. This thesis deals with two powerful (MOF and MITI) and one less powerful (MOFA) government departments in Japan, while one powerful (Treasury), one intermediate (FCO) and two less powerful (DTI and DEn) departments in Britain. Chapters five to eight examine in the policy-making games how the power resources helped or constrained and whether the civil servants affected the exercise of prime-ministerial power.

CHAPTER IV

CONSTRAINING THE PRIME MINISTER

– GOVERNING PARTY AS PRINCIPAL

Prime ministers were constantly engaged in a game to retain their office. The game was referred to as the ‘office-keeping game’ in this thesis. Support from the governing party was vital for the survival of the prime minister in Britain and Japan. Whatever power resources and advantages he/she might have in the core executive and the executive, once the prime minister lost his/her support from the governing party, the game was over. Governing parties or groups within them might also demand a direct voice in the policy-making game. First, the office-keeping game is explained from the principal-agent perspective. Sections two and three reveal the party leadership election/review systems and the policy-making role of the governing parties in Britain and Japan in the 1970s. The parties are the Conservative, Labour, and Liberal Democratic parties. Section four addresses party coherence and internal groups, which basically concern the problem of who constitutes the governing party as principal to its agents in the government.

1. OFFICE-KEEPING GAME: A PRINCIPAL-AGENT PERSPECTIVE

Prime-ministerial power in the policy-making game was chiefly characterised by the office-keeping game the prime minister was obliged to take part in. The relationship between the governing party and the prime minister was the key to the understanding of this game.¹ Prime ministers were prime ministers only as long as they retained the support of their governing parties. The governing party chose its leader to achieve certain goals, which were difficult to achieve by itself for reasons such as time, expertise and the collective action problem of its members. From this point of view the prime minister was the agent of the governing party, while the governing party was the principal of the prime minister.

The governing party could be a source of constraint over the prime minister in two fashions. One was by being an actor itself and the other was by becoming a power resource to other actors. As an actor the governing party was by definition the principal of the prime minister. The principal might wish to sack his agent, if the agent was not performing well or contradicting to the principal's preferences. The principal might

¹ The dependence of the members of the party, notably those belonging to the national assembly, on the prime minister was also significant for this relationship. (1) Appointments and patronage, (2) finance, (3) re-selection as a candidate, (4) the impact of the prime minister's performance on the election result exemplified the points at issue. Yet this chapter focuses on the aspects from the governing party's side.

have an inclination to intervene directly in the agent's activity, in this thesis, in the policy-making game. As a power resource to other actors, contenders to the prime minister, chiefly ministers in government though not necessarily so, might resort to opposition or dissatisfaction in the governing party against the prime minister. Ministers faced a dual principal problem. The prime minister appointed ministers, though ministers were also individually responsible constitutionally and politically to the governing party in Britain and Japan. They might also have their own support or groups they belonged to in the party. Ministers were appointed to their offices not only for their talents and expertise but also for their positions, formal and informal, in the governing party. They could take advantage of this position which constituted part of their resources.

Focusing on the measures the governing party could exploit to control the prime minister, this chapter explores three aspects: (1) the rules and practices of the leadership election/review, (2) decision-making bodies of the party and (3) informal groups within the party. Informal groups were important, since they provided grounds for overcoming the collective action problem within the governing party. Dissident voices might exist in the party though they did not readily become a force to constrain the prime minister. Existing groups and entrepreneurial politicians were the likely route to solve this

problem for the unhappy members of the party. Formal organs of the party could also be one type of the existing groups. Formal organs are discussed as part of the following section, while informal groups are examined in section 3.

2. REVIEWING THE LEADERSHIP

Procedures for the leadership election and review constrained the room for manoeuvre the prime minister could enjoy. A leadership candidate must gather sufficient support from the party, either of solely parliamentarians or party members additionally, according to the rules of the leadership contest. He/she might owe support to some particular group and must preserve their support to retain the job. Alternatively, he/she must secure support from other sources in the party. Some prime ministers might owe much to others and be required to pay back their debts. Some might be less dependent. Some prime ministers might have to face a review frequently whilst others not.

The British Conservative party introduced a system to elect the party leader by its MPs in 1965, although it was not devised to review and check the leader. As R. M. Punnett (1992: 53) recounted, 'The implication was that once the leader had been elected he was

in place until he chose to retire, or until he could be persuaded to submit himself for re-election, or until the 1922 Committee passed a vote of no confidence in him'.² The single tough hurdle for a Conservative leader, compared with the other parties, was the condition that the winner had to gain an overall majority as well as at least a fifteen per cent lead over the second runner in the first ballot. The party meeting had a final say on a straight yes/no basis on the decision of the MPs. It was constituted by the Conservative MPs, peers, adopted prospective candidates for the House of Commons and members of the executive committee of the national union. Although concern was mentioned during internal consideration, discrepancy between the party meeting and the MPs was not expected (Conservative Party Archive, LCC 65; CRD 3/22/9-10). Procedurally the Conservative leader was not required to be reviewed by his/her party. Yet such was only true when the party was likely to stay in power. Nigel Fisher (1977: 3) rightly expressed, 'A Conservative leader can command much greater day-to-day loyalty than a Labour leader; but, once under serious criticism, his fall is more likely and is usually swifter'. Any danger of not winning the following general election would have put the party leader under immense pressure (Critchley, 1973: 402).

The Labour party had a similar system to the Conservatives until 1980.³ As the

² The annual review provision was only introduced in 1974.

³ The Labour party officially created 'the office of the leader of the party' only in 1978. Until then the

Conservatives until the mid 1970s the Labour party did not have a system to challenge the incumbent prime minister as leader of the party until 1980 (Garner and Kelly, 1998: 140). The procedure for the leadership election, when necessary, was a multi-ballot contest. It required the winner to gain an overall majority of the parliamentary Labour party (PLP). The candidate with the least votes was eliminated until this result was achieved. This system did not require the party leader to go through an annual re-election when the party was in office (Punnett, 1992: 80-9). Labour prime ministers and party leaders either died or resigned at their own discretion. As such, both of the British parties did not follow an automatic review procedure for their leaders in the 1970s. There were, nevertheless, differences between the Conservative party and the Labour party in their informal ways of reviewing their party leaders.

In contrast, the procedure for the LDP party-presidency contest provided a grave constraint on the leadership. In fact the political bargaining within the party caused frequent change in the leadership-election rules (Tanaka, 1986; see for the rules, Jiyūminshutō, 1986: 30-77). The tenure of the party leadership changed between two years (1955-1971; 1977 to present) and three years (1971-77). Party presidents had to face re-election every few years, although voting was not required without a contender.

leader was, nominally, merely that of the PLP.

Furthermore, an amendment in 1971 declared that the president who ran for two consecutive terms could be re-elected only by securing the support of two-thirds of the LDP Diet members. The 1980 revision of the procedure in turn prohibited a party president from being re-elected more than three times. The rule provided for the winner to secure a majority of the cast votes. The voters were the LDP Diet members and two representatives from each regional area based on prefectures. In 1977 the procedure was revised to allow party members to vote for the leadership. They gained the right to vote for the 'presidential candidates election', which decided the two contenders for the final 'presidential nominee election' voted by their Diet members.

The British and Japanese parties showed an explicit difference in the party-leadership election procedure. Leaders of the British parties were not required to experience regular re-election when in power, whilst the LDP procedure formally requested its presidents to go through a regular review by the party. Yet, as Ben Pimlott (1994: 57) posited, 'Historically, the business of getting rid of a premier other than at a general election has seldom, if ever, gone like clockwork'. The expectation of the prime minister staying long in office could rightly be said to be lower in Japan. Between 1955 and 1980 the Conservatives had six leaders and the Labour party four, while the LDP

had ten.⁴ The difference indicated a clear disadvantage for Japanese prime ministers.

3. MAKING AND CHECKING GOVERNMENT POLICIES

The power structure of the governing party was composed of organisations inside as well as outside of the national assembly. Some bodies might have the pleasure of being the supreme authority of decision-making for issues such as selecting the leading members of the government and approving the party manifesto. The party leader might share this authority with such organisations. Other bodies might have the power to scrutinise the policies of the government. Moshe Maor (1997: 173) described 'a centralised party' as 'one which features the concentration of effective decision-making authority in the national party organs, with a premium placed on a small number of individuals participating in the decision'. The key was the extent of power distribution within the party. Organisations might have the role of formulating policies with or without binding power against the government, while they might be a deliberative body with or without a veto against the government. The focus in this section is the location of supreme authority and the power of the parliamentary party in policy-making.

⁴ Note, as for prime ministers during this period, Britain had eight while Japan had ten, counting Wilson (1964-1970) and Wilson (1974-76) as one.

The Conservative party gave its leader supremacy over the party. Robert McKenzie (1955: 21) noted, 'The most striking feature of the Conservative party organization is the enormous power which appears to be concentrated in the hands of the Leader' (see also Finer, 1980 Kelly, 1994; Barnes and Cockett, 1994; Blondel, 1996; Garner and Kelly, 1998). The party was composed of three parts: the parliamentary party, the central office and national union of Conservative and Unionist associations.

The national union was the umbrella organisation for the constituency associations of the Conservative party. The annual conference was the highlight of the national union. The motions debated at the conference were usually uncritical of the government and more significantly the passed motions were not binding. Richard Kelly (1989) argued the annual conference should not be understood in isolation from the approximately sixty other 'secondary' conferences, for youth and students, women, trades unionists, local councillors and regions. The 'Conservative conference system', as he depicted it, revealed frank and critical voices to the party leadership, whilst the leadership responded at the main conference in autumn (Garner and Kelly, 1998: 93). Other bodies of the national union such as the various advisory committees played a role in initiating policy proposals, although they were in no respect binding on the party leadership (Barnes and Cockett, 1994: 374-6). The impact of the national union on the party

leadership was made informally.

The 1922 committee was the main body that linked the Conservative backbenchers to government ministers, when the party was in power. Its members incorporated all backbenchers of the party. Its main function was two-way communications; it was symbolised by the fact that no votes were taken. The other role after 1963 was to be in charge of the leadership election. Prominent ministers, including the prime minister, were invited to give talks. Philip Norton (1994b) summarised;

'The 1922 Committee has been an essentially reactive and, in many respects, residual body . . . It has served as a body almost of last resort. It becomes a central and powerful body at times of crisis, comprising as it does MPs on whose confidence the leader of the party and other occupants of the front bench depend'.

Other backbench committees worked in a similar fashion. Norton (1979: 32) distinguished three types of party committees: *subject* committees, *attitude* committees, and *sectional* or *regional* committees. The subject and sectional/regional committees were parts of the formal party structure, which respectively grouped Conservative backbenchers in accordance with particular policies and common constituency backgrounds. Deliberately avoiding the term 'faction', Norton indicated informal groups when he stated attitude committees. In 1970 the Conservative party had seventeen subject committees, such as on agriculture, fisheries and food, finance,

foreign and commonwealth and home affairs with five regional committees (Norton, 1979: 36-8). No votes were taken as in the 1922 committee. The *subject* committees usually discussed 'any new bill or government proposal that falls within their area of competence' (Norton, 1994b: 119). Criticism and frustration were expressed informally to the relevant ministers through the whips, who attended these backbench committees, whilst ministers strove to keep their backbenchers informed (Ball, 1998: 52-3). Ministers in part depended on their backbench reputation for their own position and promotion (Norton, 1994b: 124). These committees implicitly set the boundaries of what was acceptable and what was not (Barnes and Cockett, 1994: 374). Yet backbench committees were never policy-making bodies themselves and possessed no veto.

The Conservative central office (CCO) was the party bureaucracy, headed by the party chairperson, appointed by and accountable to the party leader. Some observers, such as Michael Pinto-Duschinsky (1972: 1-7), argued it did not serve the party leader personally but was an organ to support the party. Yet overall it was under the command of the leader through the chairperson (Garner and Kelly, 1998: 94-5; Webb, 2000: 195). His/her role was to support the cabinet/party leadership and keep them and the party as a whole in touch with each other (Ball, 1994: 178-9). The Conservative research department (CRD) came under the umbrella of the CCO. Its role was to assist in making

party policy. It, however, needed a strong political figure as a head to put any mark on policy (Barnes and Cockett, 1994: 361-2). These bodies were not policy-making organs in their own right but were directly responsible to the leadership. Overall, supreme responsibility of policy-making exclusively belonged to the prime minister as leader of the party rather than to any other formal body.

The structure of the Labour party was more complicated. The key feature was the relationship between the PLP and the extra-parliamentary organisations of the party. The party conference was the supreme body of decision-making in the Labour party. It was the primary expression of intra-party democracy. The party conference elected the national executive committee (NEC), whose role was to be a 'guide, initiator, administrator and policy executor' and thus, it was 'the governing body of the Party' (Minkin, 1980: 4). The NEC provided a major counterweight to the PLP and its leadership in deciding policy as well as on organisational matters (Garner and Kelly, 1998: 132-6). It was a source of authority other than the party leader (Brand, 1989: 159).

From the viewpoint of the extra-parliamentary organisations control over the PLP was a serious issue from the outset (McKenzie, 1955: 12-13). The PLP leadership naturally

pursued autonomy from the extra-parliamentary party, since as elected representatives, they faced their own unique concerns such as securing re-election to parliament and confronting intra-parliamentary conflicts. They also wished to behave not as 'delegates' but as 'representatives' as did the members of other parties in parliament and follow 'the long-established Whig constitutional doctrine that a parliamentary representative should be a man [sic] of independent judgement and conscience' (Minkin, 1980: 5).⁵

According to Minkin (1980: 6), 'the boundaries of authority between these three bodies, the Conference, the N.E.C. and the P.L.P., were always problematic and the source of periodic tension'. The resolutions adopted at the party conference were binding on the PLP, and by exploiting their role of submitting proposals to the conference, the NEC enjoyed its own right to propose policies. Yet the timing and application of the policies were left to the discretion of the PLP leadership (Finer, 1980: 91).

The NEC's sub-committees had a direct policy-making role in the party. The two major sub-committees were the home policy sub-committee and the international sub-committee. Under the former came the industrial policy sub-committee and the financial and economic affairs sub-committee. These committees were supported by the permanent policy staff at the party headquarters, namely the research department and

⁵ Minkin (1980: 292) also pointed out what he called a 'curious neurosis' amongst the Labour party leadership that 'a Labour Government had the special need to prove its capacity for responsible administration of the nation's affairs'.

the international department (Minkin, 1980: 49, 427-8, footnote 58 for chap. 13; Wickham-Jones, 1996: 120-3). The industrial policy sub-committee became the centre of a leftwing operation taking the initiative in the economic strategies of the party and later set up a separate policy-making body called the public sector group to focus on public ownership.

The key element of the Labour party was its link to the trades union. Trades unions were individually affiliated with the party and their members automatically became party members as long as they did not opt out deliberately. As their numbers overwhelmed those of other affiliated organisations, such as the socialist associations and the constituency parties, they effectively dominated the party conference. Following the friction between the Labour government and the trades unions in the late 1960s, the TUC-Labour party liaison committee was set up in 1972 between the PLP, the NEC and the TUC to discuss mainly industrial policies but also other issues such as pensions, transport, land, housing, health service charges and the EEC (Minkin, 1980: 337; Pimlott, 1992: 604; Shaw, 1996: 114-5). The TUC preferred to retain and prioritise the direct link with government ministers through the national economic development council (NEDC) meetings. The NEDC, also known as 'Neddy', was set up in 1962 as a forum to enable direct and regular discussions between government, industry and the

trades unions (Coxall and Robins, 1998: 439). The TUC was unwilling to take part in any body that might undermine this direct channel to the government, while the NEC was protective against the Labour government's intention of restricting the role of the NEC and the party conference (Minkin, 1980: 352-3). The PLP leadership preferred to utilise this liaison committee to secure support from and inform the trades unions, although it was a communication channel rather than a decision-making body.

Committees existed in the PLP as well, although they were not as effective as their Conservative counterparts (Brand, 1989: 159). The liaison committee between the frontbench and backbench members of the party in 1974 had a chairperson elected by the whole PLP, six backbenchers elected by their fellow backbenchers, the leader of the House of Commons, the chief whips of both Houses, four government ministers appointed by the prime minister including one from the House of Lords, the PLP secretary and the general secretary of the party. By 1977 the Tribune group had no members on this committee, and thus the centre-right established its dominance within it (Norton, 1979: 25). The PLP had its own policy committees – subject committees in Norton's term (1979). However, according to Norton (1979: 43-7), because of the committees' fixed membership, too many committees, low attendances, irregular meetings and above all the frequent votes being taken, they became formal and not

effective.

The LDP constitution chiefly provided for organisations at the centre. It distinguished the executive organs represented by the party president from the decision-making organs (LDP constitution of 1955, chaps. 2 and 3). The party convention was proclaimed to be the supreme decision-making body, which was composed of the LDP Diet members and the regional representatives (article 16). The high-level decision-making bodies were the party caucus and the executive council. The party caucus comprised the LDP Diet members, which could take decisions on 'special, important questions concerning Party management and the Diet activities'. Besides, it could take decisions for the party convention in an emergency with the approval of the two-thirds of the attendees, on condition that the resolution received an approval at the following party convention (articles 21 and 22). The executive council had members who were either selected by their fellow members from each House or appointed by the party president. Its role was to deliberate and decide on important issues of party management and activities in the Diet (articles 26 and 27). Various formal organisations existed in the LDP.

Haruhiro Fukui, over thirty years ago, identified two salient characteristics of the LDP

party headquarters and effectively of the party's whole structure. One was the total dominance of Diet members over all of the party organs, and the other was the immense multiplicity and fragmentation of the party structure (Fukui, 1970: 81). Fukui (1970: 95-6) argued, following the party constitution, 'The president is empowered to "take the supreme responsibility" for the party and to "represent and control" it, which should mean that he has the power to reject or override whatever executive council decisions he may regard, for his own reasons, as undesirable'. Yet the LDP constitution itself did not prescribe anything about the relationship between the party's executive branch led by the party president and the decision-making branch represented by the party convention, the party caucus and the executive council. Besides, the constitution did not provide for any relationship between party decisions and government policy. It could be interpreted that party decisions were either not binding or self-evident for a member, including ministers, to follow the party line. The relationships between the organs were confusing.

The role of the policy affairs research council (PARC) faced a similar problem. It played a key role in making party policy. PARC embraced a wide-range of divisions and special investigation committees. The former mainly reflected the jurisdictions of government departments, while the latter covered specific issue areas, such as the Japanese constitution, foreign affairs and taxation. The LDP constitution required party

policies to receive the approval of PARC, yet it did not lay down whether government ministers were obliged to adopt the party policy and whether government policy needed the approval of PARC. More significantly, however, unlike the Labour governments, the LDP governments accepted the part that the LDP organs played in policy-making.

The LDP, as a long-standing governing party, was involved in various stages of government budget compilation, unlike British practice. Department officials were in regular contact with the relevant divisions of PARC. The leading officers of the LDP, namely the secretary-general, chairpersons of the executive council and PARC (and occasionally the vice-president) played a key coordinating role in making government policy. They provided the government with documents showing party preferences for the budget, which was an aggregation of the demands of the LDP rank and file. According to John Campbell (1977: 140-2), their interest was more in specific expenditures, leaving the macro-budgeting decisions to MOF officials. The crucial role of the LDP's leading officers was to reconcile groups in the party and departments and to enable the compilation process to move smoothly. They played an active part in the 'revival negotiations', which followed the announcement of the MOF draft budget (Campbell, 1977: 122-34, 145-8, chap.7).

Budget compilation was not a unique case. The role of the *zoku* Diet members steadily increased. *Zoku* indicated policy experts among the Diet members, particularly in the LDP. Their interests were specifically in certain policy areas and often had their roots in the PARC. *Zoku* Diet members preferred to focus on their immediate interests (Campbell, 1984: 301; Satô and Matsuzaki, 1986: 92; Campbell, 1989: 132-3). They had intimate relations with external interest groups and the relevant government departments. Their interlocking alliances resembled the 'subgovernment' in the United States and constituted a Japanese version of policy communities.

In the early 1970s the executive council was about to start being used by counter-presidential movements, but PARC had not yet been manipulated to its full extent by *zoku* Diet members and opposing groups against the prime minister within the LDP, as happened later. Whether and to what extent the prime minister could put confidants or sympathisers in the three senior party offices, particularly, the secretary-general, was vital to his control of the party (Satô and Matsuzaki, 1986: 67-73).

The British Conservative party did not have any organ that might collide directly with the prime minister/party leader's authority in important decision-making. Although it

was possible to irritate the party leader, he/she had the supreme responsibility for policy-making. The British Labour party and the Japanese LDP both had rather confusing structures of organisations. The party leader and party president shared decision-making and policy-making responsibilities with other organs. The difference was that the Labour party leadership refused to allow the party to dominate its course of action, while the LDP leadership accepted the party's role in policy-making in the government.

4. COHERENCE OF THE PARTY: INTERNAL GROUPS

The existence of informal groups did not in itself indicate a constraint over prime-ministerial power. They needed to link with official organisations and offices of the party or in government, to which formal power resources were attached. Conversely, formal organisations and offices within the party and government themselves were not the precise cause of concern for the prime minister: it was the people and groups, who wished to take advantage of them, standing up against the prime minister. The existence of informal groups was, hence, a potential threat to the prime minister, as they might provide a rival source of authority within the party. As demonstrated in chapter one,

backbench members of the governing party faced the collective action problem, which the prime minister could exploit. The prime minister might well be able to pick and choose which part of the governing party he/she intended to represent, because the individuals who constituted the party could not collectively express their views constantly without some sort of mechanism to overcome the collective action problem.

Informal groups with political/policy entrepreneurs could stand up for their legitimacy. This section provides a snapshot of such informal groups in the three parties during their time in government in the 1970s.

The parties in this thesis exhibited different types of internal groups, which could not necessarily be depicted as factions. Following the works of Richard Rose (1964) and David Hine (1982), Paul Webb (2000: 172-4) discerned four categories of groups: faction, tendency, non-alignment and single-issue alliance. Webb (2000: 174) illustrated;

‘Factions and tendencies are both characterized by more or less coherent attitudinal profiles, but distinguished from each other by differences in organizational development and behavioural cohesion. The non-aligned lack distinctive attitudinal, organizational or behavioural profiles. Single-issue alliances lack ideological breadth compared to factions or tendencies, but may display relatively high levels of organizational development and/or behavioural cohesion on the issues which unite their members’.

During the 1970s the Conservative party experienced more ideological tendencies with a hint of single-issue alliances; the Labour party showed signs of ideological

factionalism; and the LDP exposed typical leadership factionalism.⁶

Richard Rose (1964: 37) portrayed the Conservative party as a party of 'tendency', by which he indicated 'a stable set of attitudes, rather than a stable group of politicians. It may be defined as a body of attitudes expressed in Parliament about a broad range of problems' (see also Finer, 1980: 110; Norton, 1994a: 94). Paul Webb (2000: 187) proclaimed this illustration was 'seriously anachronistic', for the condition of the Conservative party in 1997 revealed clear indications of factionalism. John Barnes (1994: 342-3) also demonstrated that Rose's portrait was inaccurate historically. Yet a party of 'tendency' was appropriate as a label for this party in the early 1970s. It was true for the Conservatives in this period when Jack Brand (1989: 153) stated, 'We must conclude that British parliamentary factions in this century have not been led by major figures'. Factions were unknown to the Conservatives, as defined as 'a clientele, i.e., the relationship of reciprocal obligation and service between a higher-status leader (or patron) and lower-status dependent followers (or clients)' (Zariski, 1978: 20).

Julian Critchley (1973: 404) provided a list of four groups within the Conservative party: (1) the moderates, (2) the apolitical and the eccentric, (3) the traditional right, and

⁶ See Janda (1980: 118-23) for different types of factionalism, based on ideology, issue, or leadership (including spoils distribution and power acquisition), and factionalism could also be divided into strategic and tactical.

(4) the radical or Powellite right. Moderates were the 'Tory paternalists' for Patrick Dunleavy (1993: 127-8), indicating those who believed the government had the responsibility for looking after its citizens and thus accepted the welfare-state consensus. They were, according to Critchley (1973: 404) in the early 1970s, 'those upon whom the Government relies for support, and from whom, in the main, the Government itself is recruited'. The traditional right were authoritarian and inegalitarian. Critchley wrote, 'The traditional right is nostalgic, patriotic, sentimental, and tough on terrorists', although he characterised them as libertarian over individual liberty. The radical right were the 'Market liberals'. 'Powellite' denoted its central figure and icon at the time, Enoch Powell.

There were various informal groups within the Conservative party. The One Nation group stood for the moderates, while the Bow Group started off as a centre-left group, which moved gradually towards centre-right, taking up a monetarist view. Left of the Bow Group was the Pressure for Economic and Social Toryism (PEST) which existed between 1963 and 1975 and was later replaced by the Tory Reform Group. The extremist right-wing Monday Club, which had local branches in the country, argued against non-white immigration and showed sympathy towards Rhodesia and South Africa. According to Finer (1980: 111), in 1974 the Bow Group had 46 MPs as

members, while PEST and the Monday Club had 41 and 16 MPs, respectively.

These groups did not behave consistently in parliament or in the party. The exception was the decision to support a candidate for backbench-committee executives (Norton, 1994b: 118). Frustration was revealed against the government when MPs critical of the prime minister and the government were elected as chairs of the 1922 committee or any of the backbench committees. Although critical MPs were nuisance to the government, however, they never came to become veto points in the party. Critics were merely a fraction in the party. As John Barnes (1994: 345) stressed, 'Usually they [factions in the Conservative party] are competing for its [central mass's] attention, seeking to convince it that their policies are both right and electorally credible'. The groups did not divide the 'central mass' during the Heath period, as they did later.

The Labour party was more familiar with factions by birth. Various streams of trades unions and socialist associations had amalgamated into one party. The division within the Labour party was chiefly between the left and right conventionally on economic and foreign-defence policies. The party had been divided between traditional socialism and Keynesian social democracy throughout the post-war period (Shaw, 1996: chaps. 3 to 5). The two major groups which stood for these causes were the Tribune group and the

Manifesto group. The former claimed seventy-seven MPs in the 1970-74 parliaments, which was equivalent to around one-third of the parliamentary backbenchers, according to Finer (1980: 112). The Manifesto group claimed approximately ninety members in 1974 (Finer, 1980: 114-5). However, they were different from the LDP's factions, in that they were not united under a single leader taking consistent action.

During the 1970s the left advocated a set of policies, which was principally adopted as party policy (*Labour's Programme 1973; Labour's Programme 1976*). The 'alternative economic strategy' was the name given to these policies, which comprised six elements: reflation, public ownership, planning, price controls, industrial democracy and import restrictions (Wickham-Jones, 1996: 53). Statutory incomes policy and possibly incomes policy itself were not accepted as the trades union's favourite policy. The immediate economic objective was, according to Wickham-Jones (1996: 53), full-employment. More broadly control of the economy was the aim of their strategy.⁷ The left was overwhelmed in numbers by the right in the Callaghan cabinet. The inclination of the left was to exploit party organisations and acquire as much support from party activists and the trades unions. The NEC became more left-wing through the late 1960s and 1970s. Figures of its composition, as below, showed the trend. The left, led by Tony

⁷ As can be observed in the programmes mentioned above as well as in the programme to control banking and finance.

Benn, dominated the home policy committee. Furthermore, the left was supported by the highly politicised research department (Finer, 1980: 95).

TABLE 4.1
LEFT-RIGHT BALANCE IN THE NEC OF THE LABOUR PARTY

1964		1974		1978	
Left	Right	Left	Right	Left	Right
8	20	15	14	18	11

(Finer, 1980: 114)

The trades unions were in a complicated position. Their significance in the party was explicitly recognised because they outnumbered individual members by at least ten to one, and provided 85 per cent of the income of the party headquarters (Finer, 1980: 74).

In fact, according to Ben Pimlott and Chris Cook (1982: 7);

‘The union connection is reflected not just in money, organic links and block votes. It is also to be seen in union-derived organizational practices, and in the special moral authority that trade-union activists can often exercise at Labour party branch level’.

Traditionally the trades union accepted the leadership of the professional parliamentary

leadership on non-industrial issues. However, the experience in 1968 over the White

Paper titled *In Place of Strife* disrupted the ‘bond of mutual confidence’ between the

party leaders and the trades union (Minkin, 1980: 321). It breached the trade-union

doctrine of voluntarism in industrial relations (Shaw, 1996: 85). It so angered them that

they decided to take a more active part in policy-making within the party (Minkin,

1980: 298). This disturbance coincided with the leftward move of the major trades

unions. Notably, the Transport and General Workers Union (TGWU), which had one million votes and approximately one-sixth of the whole party conference, and the Amalgamated Union of Engineers with 800 thousand votes respectively elected Jack Jones and Hugh Scanlon, both prominent left wingers, as their leaders. As Ben Pimlott (1982: 217) described, 'The TGWU had for years been the rock upon which official policies were built'. Besides, the National Union of Public Employees, a left wing group, extended its membership from 150 thousand to 400 thousand (Minkin, 1980: 122-5, 342; Finer, 1980: 113; Pimlott, 1992: 574 and 636-7). Although by the mid 1970s Jones and Scanlon became more sympathetic to the Labour government, the Labour party leadership could not take support from the trades unions for granted.

The issue of the British membership in the EEC intensified divisions by the early 1970s.⁸ It not only divided the party between the left and right but also the right wing in itself. Britain joined the EEC during the Heath government, and the Labour party promised that it would allow the population to choose whether Britain would stay in or leave the EEC. Although the Wilson government as a government supported 'staying' with the new conditions it had negotiated with the EEC before the referendum, the Labour party was split. The result of the referendum decisively showed that Britain was

⁸ Pimlott and Cook argued (1982: 8), 'As with the EEC ... the Labour Party's attitude reflected that of the trade-union movement, rather than the other way round'.

staying in the EEC and thus crushed the so-called 'anti-Marketeers'. After the referendum the threat of the 'anti-Marketeers' diminished though instability remained.

The internal groups within the LDP could be distinguished into two types. One was chiefly based on ideology and policy. Between 1965 and 1972 two rival groups from the left and right wings confronted each other in an attempt to direct the party and government policy on China. They were the Asian affairs study group and the Asian-African affairs study group. In 1973 *Seirankai* was formed on the basis of extremist right wing views (Stockwin, 1982: 132). In the mid 1970s a few junior LDP politicians founded a reformist group, which eventually became a party itself in 1976, the New Liberal club (Stockwin, 1982: 81). The other type was the well-known factions, which were fundamentally related to party-presidential elections. LDP's major feature was its extensive factionalism. British political parties were not familiar with the extensiveness of factions amongst their members. Even in the Labour party, which was known for its internal factional confrontations, non-aligned politicians occupied the majority. *Non-alignment* referred to 'the status of politicians who identify with the party as a whole rather than any internal group' (Webb, 2000: 173). The LDP factions gradually incorporated most of its Diet members and later extended their wings into local constituencies.

Relationships between the leaders and the followers in the LDP factions were based on exchanges of resources: the followers voted for their leaders at the presidential election, and in return the leader supported the followers in their election campaigns and promotion, reaching government and party offices and financial resources (Fukui, 1978: 56-64; Satô and Matsuzaki, 1986: 55-67; Neary, 2002: 67-70). Small factions had existed without having presidential candidates. They had mainly kept their influence to gain posts in government and in the party by collectively putting their votes behind a particular candidate. Most of these minor groups disappeared by 1977 (Satô and Matsuzaki, 1986: 74). In 1973 nine factions existed. These major five were the Tanaka, Fukuda, Ôhira, Nakasone and Miki factions. They were named after their respective leaders. The major factions amounted to 326 out of the 408 LDP Diet members, whilst the number of non-aligned members was twenty-six (Iyasu, 1996: 183). The five major factions dominated the LDP. Factional balance within the party conditioned to a large extent the composition of the party bodies including the executive council and PARC (Fukui, 1970: 94 and 141). From the viewpoint of each faction leader, he was required to make coalitions with other factions to win the presidential election. According to Ellis Krauss (1989: 48-9), factions were important for the prime minister in three respects. First, the coalition made between the factions determined whom the prime minister would be. Second, bargaining with faction leaders limited the autonomy of the

premier. Last, factions greatly influenced the selection of cabinet ministers. Factions were well-established in the LDP.

5. CONCLUSION

The governing party could constrain the prime minister in two fashions. One was as the principal of the prime minister. The other was by being the principal of the ministers as well. By so doing, (part of) the governing party could be a crucial power resource for the ministers, who could in turn claim autonomy from the prime minister. Chapter one revealed that the formal power resources did not differ substantially between Britain and Japan. If the British Constitution could cover the differences in party organisations, the legal basis provided for the Japanese prime minister should be able to support him likewise. In contrast, if the hypotheses of this thesis are valid, prime ministers based on party organisations with different characteristics should show differences in the power they exerted in the policy-making game.

The three governing parties organisationally differed in their capacity as principal of the prime minister. The British Conservative party was the least constraining on its leader. It

did not have a leadership review, and policy-making was solely the responsibility of the leader. Ministers willingly provided information for the backbenchers through party committees, which sometimes allowed MPs to specialise in particular policy areas (Norton, 1994b: 122-4). The Labour party did not demand a regular review of its leader, though the relationship between the PLP leadership and the party conference was ambiguous and difficult. The supreme power of policy-making and decision-making rested with the party conference, yet the PLP leadership and its leader had substantial room to manoeuvre. The LDP reviewed its leader regularly; policy-making and decision-making were shared between various bodies. LDP Diet members received more substantial information than did their British counterparts, which was achieved by their direct and regular contact with civil servants.

This chapter also argued that formal rules and official bodies were not necessarily a threat to the prime minister as long as no actor took advantage of them to restrain him/her. Governing parties had inherent difficulties in overcoming the internal collective action problem. Internal groups provided such opportunities. The Conservative party, however, saw internal groups only to a limited extent during the early 1970s. The left-right dispute in the Labour party created internal groups at odds. As Ben Pimlott (1992: 575) discerned, the party conference on its own was not a serious

problem; the 'conference in conjunction with a left-leaning NEC, on the other hand, was much more threatening' to the party leadership. The confrontation was fierce, although the majority did not belong to either group. The LDP contained extremely organised and active factions. The extent to which the prime minister would be constrained by the governing party depended on the combination of the availability of formal rules and organisations on one hand and the existence of those willing to exploit them on the other hand.

CHAPTER V

DELEGATION AND CONTROL – EDWARD HEATH AND THE BRITISH CONSERVATIVE PARTY: OCTOBER 1973-JANUARY 1974

Presidential prime minister and prime-ministerial government - the British prime minister has been awarded more than a few titles, such as the elected monarch and absolute premiership, that conceived him/her as the dominant figure in government. The British prime minister was referred to with various denotations (Crossman, 1963; Benemy, 1965; Hailsham, 1978; Benn, 1985; Foley, 1993; Foley, 2000). Edward Heath (prime minister 1970-1974) enjoyed the advantageous power resources of the government and a coherent power basis in the governing party, the Conservative party. Section one explains the coherent support Heath received from his cabinet colleagues and the strong hold against the occasionally complaining governing party. Section two examines two issues in foreign policy, namely policies towards the Middle East and oil-sharing within the EEC. Section three and four considers domestic policies, over whose courses the crisis forced change. This chapter examines Edward Heath, a 'typical' British prime minister.

1. OFFICE-KEEPING GAME

When Edward Heath became prime minister in 1970, after unexpectedly winning the general election, he acquired a substantially strong position in the Conservative party.

As James Prior (1986: 65), one of the closest cabinet ministers to Heath, noted, ‘The nature of our election victory in 1970 put Ted [Heath] in a powerfully dominant position.

Any leader is bound to take some credit for a victory, but in Ted’s case everyone felt he had personally plucked it from certain defeat’. Heath had been leader of the Opposition party for five years. In 1965 the then prime minister, Sir Alec Douglas-Home, stepped down as leader of the party. Heath beat his two rivals, Reginald Maudling and Enoch Powell, at the first leadership election in the party’s history. Heath won, by obtaining 150 votes against Maudling’s 133 and Powell’s 15. Although a second ballot was required procedurally, Maudling immediately conceded his defeat and withdrew from the election. Had Heath lost the 1970 general election, however, his position in the party would have become immensely fragile. Rumours were circulating about replacing him as party leader at the time (Pinto-Duschinsky, 1972: 6). The result of the 1970 election totally changed this atmosphere.

Coming into power, Heath quickly established his authority in the party. It was partly

because of the victory of the general election but also partly because his major rivals disappeared from front-line politics during his premiership. These senior figures included Iain Macleod, Enoch Powell, Edward Du Cann, Reginald Maudling, Alec Douglas-Home and Quintin Hogg (Lord Hailsham). Macleod, the first chancellor of the exchequer of the Heath government, died only a few weeks after his appointment, and Maudling resigned as home secretary over the Poulson affair in July 1972. Hogg, by becoming lord chancellor, ascended to the House of Lords, and excluded himself from the leadership candidacy. Douglas-Home was the most senior minister in cabinet, though as foreign secretary he could not devote himself to domestic policies and politics (Prior, 1986: 77). On the other hand, Heath was determined not to let either Powell or Du Cann join the government (Campbell, 1993: 519).

The senior figures in cabinet, such as William Whitelaw and Peter Walker, could hardly become potential rivals to Heath for three connected reasons: they were less experienced at the time, Heath had promoted them to their positions and it was likely that Heath would continue to be prime minister for a while. A clear reason existed for them to attach their loyalty to the incumbent prime minister. Lord Carrington had been under the previous leaders more senior and more experienced than Heath. Yet he was in the House of Lords. Accordingly there was hardly any figure as senior in the party and

government as Heath himself to threaten his position (Cosgrave, 1973: 444; Campbell, 1993: 301-2 and 485). The Heath government was united internally and later prided itself on having few leaks and no resignation by a cabinet minister over policy (Kavanagh, 1996: 371-2).

In contrast to unity within cabinet, several serious issues arose that split the party. They were the ‘U-turns’ of economic and industrial policies, Rhodesia and Northern Ireland, immigration and the EEC. The ‘U-turn’ derived from the claim that Heath and his government had completely changed policies from a laissez-faire to an interventionist approach. ‘Selsdon Men’ became the symbol of the allegedly right wing character of Heath’s ministerial group, although the label never reflected the discussions of the Selsdon Party Hotel meeting in 1970 (Heath, 1998: 301-2) [interview (26)]. Heath never denied the post-war Keynesian consensus in Britain from the outset, and he was not ideologically committed to monetarism (Pliatzky, 1982: 98; Mullard, 1993: 102-19; Seldon, 1994: 56; Kavanagh, 1996: 367; Evans and Taylor, 1996: 144). Nigel Fisher (1977: 136) recounted, ‘Throughout his premiership Edward Heath’s strategy for a modernized, more efficient Britain, ready to take her place as a leader of Europe, was unshakeable, but he was always prepared to change his tactics to achieve his objectives’.

In early 1972 unemployment went up to one million and, with the miners' strike it terrified Heath (Cosgrave, 1973: 444; Prior, 1986: 74; Taylor, 1996: 176-7; Kavanagh, 1996: 370-4; Holmes, 1997: 61-74). Prior (1986: 74) described, 'The high unemployment route was counter to everything Ted believed in and had hoped to achieve for Britain'. He morally accepted the obligation of the government to tackle unemployment. He also feared its consequent social disorder (Evans and Taylor, 1996: 199-200) [interview (24)]. It was a crucial factor for bringing in the U-turn policies.¹

The Conservative party also expressed strong concern about unemployment [Interview (26)]. Unemployment was not yet an issue a government could ignore. As explained in chapter two (pages 89 and 90), to tackle unemployment and achieve economic growth equivalent to that in the other EEC countries the Heath government introduced and became committed to an expansionary fiscal policy with a prices-and-incomes policy.

Criticism and frustration in the party were revealed when Edward Du Cann, John Biffen and Nicholas Ridley respectively won the chairs of the 1922 committee, the backbench industry and finance committees (Kavanagh, 1996: 375; Campbell, 1993: 482; Ball, 1996: 327-36). Although it was not clear what Du Cann stood for, in 1970 he became 'a

¹ Hurd (1979: 89-90), a close witness in 10 Downing Street, argued that the political advisers in government were more concerned about inflation than about unemployment. Hurd stressed further that the motivation for an expansionary fiscal policy was not a response to high unemployment but rather the determination to achieve economic growth.

symbol of opposition to the Prime Minister second only to Enoch Powell', while Biffen and Ridley were advocates of economic neo-liberalism (Campbell, 1993: 516). The finance committee became 'a nest for those who oppose the Government's prices and incomes policy' (Critchley, 1973: 409). Philip Norton (1978: 207-12) pointed out that the Heath government was the first government to suffer from so many dissenting votes in parliament. He attributed the reason for the dissent to Heath's leadership style, namely, his unwillingness to listen to the backbenchers of his own party. Despite the agony, however, it was right when Norton (1978: 119) wrote, 'the bulk of the parliamentary party by November [1972] were ready for some action by the Government, and were delighted when action was taken' (see also Pliatzky, 1982: 112).

Heath's position was secure in 1973, as he was regarded as the leader who had led the party to its 'amazing' victory in 1970 and still possessed the authority to win the following election. Organisationally no veto point existed and there was hardly any serious rival group in the party. Formally as well as informally Heath secured command of the Conservative party in 1973.

2. FOREIGN POLICY: ‘NEUTRAL APPROACH’ TO THE MIDDLE EAST CONFLICT AND COOPERATION IN THE EEC

2 (i) ‘Neutral Approach’: Foreign Secretary’s Decision

When conflict in the Middle East erupted in early October 1973, the British government took a significant decision before the announcement of the Arab oil strategies. It was to adopt a ‘neutral’ approach to the conflict. The arms embargo against both sides symbolised the ‘neutral’ approach taken by the British government. The purpose of the arms embargo was not to intervene in the conflict, and thus not to influence its course by supplying arms to one side or the other [interview (6)]. Yet it was widely interpreted as a pro-Arab policy (*The Sunday Times*, 21 October 1973; *The Financial Times*, 19 October 1973; Prodi and Clô, 1975: 106). Sir Alec Douglas-Home, the foreign secretary, made the decision on the basis of the policy advice received from the Arab specialists in the FCO [interview (14) (20)].

According to David Holden of *The Sunday Times*, this so-called ‘pro-Arab’ line taken by the British government reflected three considerations. First, British withdrawal from the East of Suez diminished the hostility amongst the Arab countries against Britain,

which enabled Britain to take a more positive role as the ‘West’s honest broker’; Second, Britain and the United States did not wish to push the Arabs towards the Soviet Union by Israel’s ‘overwhelming success’; and lastly Arab oil was vital to Britain (Holden, 1973: 13). Considering the declining role of Britain in international politics, the main concern of the British government was security of oil imports [interview (90)].

On 14 October the United States decided to re-supply the Israeli armed forces, while OAPEC started their oil strategy on 17 October, which was effectively to reduce their oil supply to the global market. The British government did not cooperate with the action taken by the United States. The main issue was whether to allow the United States to use the RAF base in Cyprus. On 18 October the FCO stated that the British government had not been asked by the US government for landing or refuelling rights in Britain or in British territories (*The Times*, 29 October 1973; *The Economist*, 3 November 1973). Yet as Heath (1998: 508) himself admitted in his autobiography, ‘In common with all our European partners except the Netherlands we refused permission for the United States to fly out equipment from our bases’ (see also Hill and Lord, 1996: 301). It was reported that the British government rejected this request ‘at the highest level’, indicating the involvement of the prime minister himself (*The Sunday Times*, 28 October 1973). The concern of the government could be seen in the prime minister’s

own words, 'The British economy should not be placed at risk by antagonising Arab suppliers' (*The Times*, 6 November 1973).

These decisions were controversial. They upset Israel and made Anglo-American relations uneasy (*The Financial Times*, 30 October, 31 October, 10 November 1973).

Leaders of the Jewish groups came to see Heath and the FCO to express their viewpoints [interview (6) (14) (20)]. In particular, the arms embargo had to go through parliament, which became Douglas-Home's concern (Thorpe, 1997: 433) [interview (14)]. Heath appealed to the 1922 committee for support for government policy just before the vote (*The Financial Times*, 19 October 1973). Seventeen Conservative MPs opposed to the government while 15 Labour MPs stood on the government's side. 14 Conservatives and 31 Labour MPs remained seated in the chamber. Moreover, around 80 MPs abstained in the division (for details, see Norton, 1978: 141). The result in the Commons on 18 October 1973 was that the government won by a majority of 76 votes (*Hansard*, 18 October 1973, Vol. 861, Cols.419-546). The government had managed to win the vote by support of and abstention from the opposition parties. The arms-embargo division generated only a two-line-whip for the Conservatives and the Labour party made it a free vote, while the Liberals were opposed. The policy was decided as Douglas-Home had recommended to the cabinet.

2 (ii) Prime Minister Instructs on EEC Oil-Sharing

Meanwhile oil sharing amongst the EEC member states had arisen as an issue. When the Arabs started their oil strategy, they classified the British with other countries including France as country 'friendly' to their cause and promised to provide them with 'sufficient' oil. Other EEC countries, exposed to the Arab oil strategy, were keen to establish an oil-sharing scheme within the EEC. The British government refused an oil-sharing scheme and a common energy policy within the EEC. First, the EEC included countries singled out by the Arabs as 'hostile', namely the Netherlands. Second, the British did not wish this movement to be taken by the Arabs as an oil-consumers' cartel against the oil-producers. Third, the British government was concerned about the EEC's interest in North Sea energy resources (Heath, 1998: 501-2; *Petroleum Economist*, January 1974: 7; Prodi and Clô, 1975: 107). Although it was not clear whether OPEC, the oil producers' cartel, and OAPEC, the Arab equivalent were likely to hold together, the British government took special care in not provoking any anger amongst the Arab oil-producers.

The issue of oil-sharing was brought up at the foreign ministers' council on 6 November. Support for the Netherlands was a matter of EEC solidarity, while Britain and France

strongly preferred to keep its hand free in dealing with the Arab oil producers. The British and French delegations succeeded at this meeting in gaining a statement favourable to themselves. It stated that the EEC had not yet reached the stage to introduce oil-sharing amongst its member states and emphasised the full application of the United Nations resolution 242 of November 1967. It stated (1) 'The inadmissibility of the acquisition of territory by force', (2) 'The need for Israel to end the territorial occupation which it has maintained since the conflict of 1967', (3) 'Respect for the sovereignty, territorial integrity and independence of every State in the area and their right to live in peace within secure and recognised boundaries' and (4) 'Recognition that in the establishment of a just and lasting peace account must be taken of the legitimate rights of the Palestinians' (*The Financial Times*, 7 November 1973). The Arab oil-producers regarded this statement positively and announced on 18 November 1973 that they would suspend the planned five per cent further cutback in oil exports to the EEC except the Netherlands although it was far from a return to normal supply.

Oil eventually linked to other issues, notably to the regional development fund. The foreign ministers' council held a meeting on 4 and 5 December. The British delegation, led by John Davies, the European minister, was given two directions, allegedly Heath's instructions to the delegation (*The Economist*, 1 December 1973). One was to ignore

any discussion of sharing oil in the EEC. The other was officially to propose that the regional development fund should be £1,250 million in the first three years, which was £250 million more than the European commission's proposal. The EEC regional policy was to support underdeveloped regions within the EEC, from which Britain would be one of the largest beneficiaries. Without the regional development fund the contribution from Britain was likely to exceed far more than the benefit from its membership to the EEC. Heath was determined to gain benefit from this fund as soon as he had completed the entrance negotiations in 1972 (Heath, 1998: 373, 388-9) [interview (15)]. Oil became highly political as negotiations in the EEC proceeded.

The Dutch supported by West Germany started linking the two policies, namely the oil and regional policies (*The Times*, 5 December 1973; *The Financial Times*, 5 November 1973). Many countries in Europe relied on refinery facilities in Amsterdam for the supply of oil products, which made them anxious about the supply to the Dutch (*The Sunday Times*, 4 November, 9 December 1973). In Copenhagen, the first EEC summit to be followed by regular meetings in subsequent years failed to agree in any substance on either of the issues. At the foreign ministers' council meeting on 17 and 18 December the German delegation argued that the regional development fund be £250 million worth in the first three years, which was substantially smaller than the amount pressed

by the British. Douglas-Home counteracted and argued that there could be no discussion on energy policy without the regional development fund. These move against the Dutch and German positions were alleged to be based on Heath's instructions to Douglas-Home (*The Times*, 19 December 1973; *The Financial Times*, 20 December 1973).

The backdrop of the British policy in the EEC was the coincidental domestic energy crises. Lord Hunt, then cabinet secretary, recalled in an interview, 'I think [Heath] felt we were particularly vulnerable. (...) he was determined, you know, to go into that winter with as much assurance as he could have about all the supplies'. Likewise in an interview, Lord Hurd, then political secretary to the prime minister, recounted, 'The last thing we wanted to do was to make it less likely that the British economy would survive by turning off the oil taps or by diverting some of the oil, which we could have otherwise got, to other countries. We understood the dilemma of other countries, but we were in a uniquely desperate situation'. Again, according to Lord Hunt, 'I'm sure the attitude was "we cannot afford to share with other people who haven't got a coal strike on their hands and haven't got the same problem"'. A general election was already under consideration in December 1973, becoming a serious issue in the government. Hunt explained, 'But I think there was a case where domestic consideration was

overwhelming his [Heath's] instincts of wanting to be a good European'. Heath could not afford to send oil to other countries, while forcing his own country to suffer from an energy shortage.

UKREP in Brussels was opposed to the uncooperative position of the British government [interview (16)]. Its adherence to a larger regional development fund eventually led to the linkage of the two unrelated issues. An FCO official recalled that this linkage had not seemed sensible [interview (15)].² Yet Douglas-Home did not stand up for his officials. One reason was because of the complicated role division between the foreign secretary and the Chancellor of the Duchy of Lancaster, who was the European minister located in the Cabinet Office. Douglas-Home did not even attend the council meetings on 4 and 5 December and left them to John Davies. The second reason was possibly his lack of enthusiasm for the EEC. He was not as committed to the EEC as was Heath. Once prime minister himself, Douglas-Home also appreciated Heath's difficulty in facing the discrepancy between domestic and international politics. The foreign secretary followed Heath's EEC policy.

The negotiations on both energy and regional funds were locked in a dead-end. In early

² The FCO was not united in this view. The voices heard from the FCO, namely those responsible for EEC policy, were against the adopted tactics [Interviews (15) (16)]

1974 the discussion was further heightened by disagreements within the EEC as the Washington energy conference approached. The EEC could not reach any common energy policy. An international oil-sharing scheme was set up under the new International Energy Agency (IEA) under OECD and not the EEC. When the regional development fund was finally decided at the Paris Summit in December 1974, Heath was already out of office.

2 (iii) Analysis

Heath's policy preference in foreign affairs was based on Britain's own and almost short-term interests throughout the crisis. Oil security was an absolute requirement for him. For this purpose, Heath did not fear to upset the Anglo-American relationship, which he did not regard as a 'special relationship' as some other British leaders had previously done (Kandiah, 1995: 208; see also Hennessy, 2000: 350-1). Heath was known for his enthusiasm towards European integration. Yet this enthusiasm was not a blind affection but it was rather based on the consideration of Britain's political and economic position in the world (Fisher, 1977: 139). He was not prepared to sacrifice Britain's interest for its European counterparts. Heath had no intention of sharing oil during the domestic energy crises and, far less, the North Sea energy resources.

The policy outcome in the Middle East conflict was to embargo arms supply to the countries in conflict and to decline the request of the US government to use the British airbase in Cyprus. Its consequences were controversial, namely a welcome by the Arabs and a frustrated response from the Israelis and the pro-Israelis. The British government also refused to share oil with the other EEC member states. Although it toned down slightly in late December 1973, the rejection was categorical. This position of the British government caused deterioration in the relationship between Britain and the EEC.

There is no evidence that Heath took an active part in Middle East policy. Although the indication was, according to interviews with insiders, that the prime minister was informed of and authorised the policies, the foreign secretary and the FCO were the key actors in taking these decisions [interview (87) (90)]. During Heath's premiership the Anglo-American relationship had not been as smooth as before and deteriorated during the oil crisis (Hill and Lord, 1996: 301; Hennessy, 2000: 350-1). Christopher Hill and Christopher Lord (1996: 311) argued, 'Home (...) was certainly not willing to endanger the vital hinge of his diplomacy, the relationship with Washington' and suggested the departure from cooperation with the United States was Heath's idea. Yet the decision to take this line of policy was Dougas-Home's. The policy outcome was in accordance

with Heath's own policy preference and accordingly there was no need to intervene in the policy-making game. Heath agreed with the pro-Arab line of the foreign secretary-FCO. There was discontent within the Conservative party, preferences were divided, but the majority supported the government.

In contrast, Heath provided clear instructions to the British delegation which represented the government at the EEC councils of ministers. Heath instructed not to share British oil with its European counterparts. Heath was the prime minister, who took Britain into the EEC successfully and thus showed strong leadership in EEC policy from the very beginning. The FCO, notably the officials involved in EEC policy, were known for their pro-European tendency. Heath himself was famous for a similar attitude. Without Heath's intervention, therefore, the British position would have been more cooperative. Heath intervened in the policy-making game to make his policy preference explicit and ensure no deviation by the officials. Heath's behaviour in the policy-making games of foreign affairs was entirely optimal.

3. FISCAL POLICY: REDUCING PUBLIC EXPENDITURE

3 (i) Expansionary Fiscal Policy and Heath's Leadership

When the oil crisis hit Britain in October 1973, the economy was already showing signs of overheating. Public-expenditure cuts had been made twice before the crisis. Anthony Barber, the chancellor of the exchequer, announced in May 1973 an expenditure cut of £100 million for 1973-74 and £500 million for 1974-75. According to Leo Pliatzky (1982: 114), a senior Treasury official at the time, the increase in public expenditure in 1972-73 was 6.9 per cent while the increase in GDP was 4.4 per cent, and in 1973-4 they were respectively 8.5 per cent and 3.9 per cent. In September 1973 the cabinet considered further public-expenditure cuts. The Treasury strongly urged their necessity. The CPRS were called in to help reconcile the conflicting figures of the Treasury and the spending departments (Blackstone and Plowden, 1988: 88). The cabinet managed to reach in October a rather modest conclusion of cutting £115 million. It was difficult to reduce even this amount of public expenditure at the time.

Assessing the economy was in fact politically sensitive from the autumn of 1973. Even without the oil-price rise, import prices rose by five per cent in September (*The Times*, 7

November 1973). The price-rise of crude oil was further to affect domestic inflation adversely in early November. On 18 October Barber stated the period of super growth was over. Although ministers toned down growth from 5 per cent in the early part of 1973, they still stuck to the forecast of a 3.5 per cent growth for 1974-5. Indeed, Barber and Peter Walker, the other key economic minister as trade and industry secretary, kept expressing optimistic views on the balance of trade as well (*Hansard*, 5 November 1973, Vol.863, Cols.637-8). Treasury officials doubted ministers' forecasts (for instance, *The Times*, 14 November 1973). Differing forecasts on economic growth even divided Heath from Lord Rothschild, director of the CPRS and one of Heath's most trusted economic advisors in government, when Rothschild revealed a more gloomy view of the British economy and caught the attention of the media, instead of Heath's own simultaneous speech (Hennessy, 1990: 233-5; Howe, 1994: 73; Baston and Seldon, 1996: 68-9; Heath, 1998: 316-7) [interview (3) (22) (24)].

Heath had been the driving force of the expansionary fiscal policy. Lord Hurd explained Heath's position in an interview:

'His whole philosophy was that you had to achieve growth without inflation. That is why there was an [prices and] incomes policy. This is quite different from the fashionable orthodoxies of today. But that was his view. He believed that economic growth was the key to the happiness of the society. So he was determined to get it. And so, therefore, he was very reluctant psychologically to accept that his vision was crashing to a halt'.

The crude version of the Keynesian perspective commanded that the still high level of

unemployment did not justify a massive public-expenditure reduction [interview (24)].

3 (ii) **Retreat from the Expansionary Fiscal Policy**

Heath and his government's economic strategy started to crumble gradually. The trade deficit in October 1973 reached £298 million. The government revealed this news on 13 November, deliberately announcing the state of emergency at the same time. The figure did not reflect directly the oil-price rise of the OPEC. Yet with the increasing inflation and the miners' overtime ban in prospect, measures to cool down the economy and retain the confidence of the financial markets became necessary. The Treasury immediately introduced emergency credit-squeezing measures and raised the BOE minimum lending rate to 13 per cent, while lending was curbed by calling on the main banks for another 2 per cent of special deposits (*The Sunday Times*, 18 November 1973; *The Times*, 14 November 1973). Rumours of an autumn budget emerged by mid November. James Prior, lord president of the council and leader of the House of Commons, and later Heath himself denied this prospect (*Hansard*, 15 November 1973, Vol.864, Col.670; *The Times*, 16 November 1973; *The Financial Times*, 16 November 1973; Prior, 1986: 89). Members of the backbench finance committee of the Conservative party attacked government policy (*The Financial Times*, 14 November

1973). On 15 November 1973 Barber was invited to the 1922 committee to explain the economic conditions and government policy. Barber asked for a *carte blanche* for the action to be taken to sustain the economy in the coming months (*The Times*, 16 November 1973). It became evident by mid November that the expansionary fiscal policy was not sustainable under the double crises of oil and coal (Hurd, 1979: 117) [interview (92)]. The growth policy was, nevertheless, not abandoned in November.

Barber's position was split between, on the one hand, his and his department's policy preferences and, on the other hand, the cabinet's or more precisely the prime minister's policy preference. The so-called 'Barber boom', named after Anthony Barber, the chancellor of the exchequer, was facilitated by the 1973 budget and taxation reform. It is now widely known that it was in fact not Barber's favourite policy (Campbell, 1993: 523; Holmes, 1982: 128-9; Cairncross, 1996: 112-23; Hennessy, 2000: 352). Privately he was a supporter of neither the expansionary fiscal policy nor the incomes-and-prices policy. Barber, according to close witnesses, never expressed publicly his doubts about the policies to other ministers [interview (24) (85) (88)].³ In an interview with Martin Holmes (1982: 128-9) Barber explained the reason he did not resign was because of his loyalty to the prime minister and to the Conservative party. Sir Timothy Kitson, Heath's

³ Yet Barber obviously expressed as 'unrealistic' the growth Heath had mentioned in his speech as early as September 1973 [interview (85)].

PPS at the time, recounted in an interview, 'I think there is a myth about the view that Barber and Ted fell out. ... I don't feel that'. Kitson continued, however, 'There were certainly disagreements. I think possibly Ted should have had responsibility to try and support more strongly the original intentions of Barber'. 'Tony was a loyal man. He would expect to play anything as a team, and he would expect the team to kick the ball to him, but they didn't'. There was also strong pressure in the cabinet for huge expenditure (Pliatzky, 1982: 112-4). Sir Keith Joseph's health and social security and Margaret Thatcher's education policies were ironic examples. As Geoffrey Howe (1994: 78) noted, Barber was the 'manager' and not the 'originator' of the economic policies. Treasury officials were deeply concerned about the level of public expenditure, though they could do nothing but implement the expansionary fiscal policy as long as the chancellor was determined to follow the government's fundamental policies.

On 7 December the monthly trade deficit for November was announced. It amounted to £270 million. It was bad in itself but it was also to worsen inflation, which the government was tackling so desperately with its statutory prices-and-incomes policy. Barber admitted that the oil-price increase would impose an unavoidable burden on the standard of living, although John Nott, Treasury minister of state, still insisted that the government would keep the growth policy at the highest possible level (*The Times*, 6

December, 8 December, 1973). The Treasury became determined. Both Patrick Jenkin, Treasury chief secretary, and Treasury officials urged on the chancellor that it was impossible to retain the expansionary fiscal policy [interview (7) (8)]. The political-advisers' group led by Douglas Hurd provided a note in early December, which concluded that the time for substantial growth was over and 'a Treasury package' was needed (Hurd, 1979: 118-9).

Economic conditions deteriorated fast in December. To re-circulate the oil-dollar from Iran to Britain was the final attempt in the 'dash for growth'. Yet Barber and Walker's travel to see the Shah of Iran at the height of the crisis ended in failure [interview (7)]. At a senior ministers' meeting on 12 December Barber reported that the Treasury forecast anticipated the balance-of-payments deficit to be £3 billion for 1974 and that there would be a contraction of 4.5 per cent over the next year, which would make public expenditure 51.7 per cent of the GDP if nothing were done (Heath, 1998: 505-7).

Barber proposed a public expenditure reduction by £1,500 million for 1974-5. On Thursday 13 December Heath announced in parliament the three-day-working week to begin from 31 December. On 16 December the package was finally decided. The expenditure cut was to be £1,250 million. James Prior, Heath's confidant, conducted the negotiations with the spending ministers in cooperation with Treasury officials

[interview (5)]. This task was given to him because of his neutral position being neither a Treasury minister nor a spending minister, being without portfolio, and lastly, his close relationship with Heath [interview (88)]. Heath reportedly issued instructions on specific elements of the policy, such as excluding import controls, surcharges or deposits because of their international implications and leaving alone income tax, VAT and excise duties because of their direct impact on the cost of living (*The Times*, 17 December and 18 December 1973). On 17 December 1973 Barber announced the emergency fiscal measures to the House of Commons.

3 (iii) Analysis

Heath's policy preference was clear. He did not wish to disturb his expansionary fiscal policy for the reasons described. The policy outcome was to retain the original fiscal policy, while implementing monetary measures in November 1973. Only in December did the government finally decide to carry out the massive public-expenditure cuts. This reduction was announced after the three-day-working week policy, which carried enormous administrative work and had a huge impact on daily life including safety. The expenditure cuts were left until the last moment.

Heath clearly had control over fiscal policy. He relied on Sir William Armstrong, head of the civil service, for advice on economic affairs. The decisions were made amongst the ministers, over whom Heath had critical influence. According to Peter Hennessy (2000: 352) '[Heath] was the first Conservative prime minister to chair the Cabinet's Economic Strategy Committee, ES'. By appointing trustworthy ministers he kept fiscal policy under his control. Barber faithfully implemented Heath's policy and there was no need for Heath to intervene directly in the Treasury. The Treasury was reluctant to follow an expansionary fiscal policy and let its opinion be known. However, Heath had long distrusted the Treasury's economic forecasts, which seemed to him to be over-pessimistic (Theakston, 1996: 84; Kandiah, 1995: 196; Kavanagh, 1996: 372) [interview (24)]. Heath agreed to the massive public expenditure cuts only when the oil crisis, coal-miners' overtime ban, grave concern over the electricity supply and the balance-of-payment deficit all merged into one major crisis. As Lord Hurd explained in an interview, 'It was events, which forced that [public expenditure cuts], not political persuasion'. Even the most powerful Treasury could not convince the prime minister. The cuts were 'up to him' [interview (90)]. When his priority to retain the expansionary fiscal policy became unsustainable, he gave concrete instructions on the content of the new budget and put his confidant, James Prior, in position to conduct the negotiations with spending ministers to cut their expenditure. Heath's behaviour was optimal by

controlling the policy-making of fiscal policy through ministerial appointment and coordination at the ministerial level.

2. OIL POLICY: FROM CAUTIOUS WAIT-AND-SEE TO THE THREE-DAY-WORKING WEEK

4 (i) **From Oil Crisis to Energy Crises: Walker's Voluntary Approach**

Britain was unique in the way the oil crisis hit the country. The crisis not only concerned oil, but also came alongside other major energy crises. Initially, the government took a 'wait-and-see' policy when oil was the sole matter of concern. The government overhauled its emergency petrol-rationing procedures on 12 October when the Middle East conflict was provoked, although ministers preferred to take optimistic views and not overreact against the possible oil crisis (*The Financial Times*, 19 October, 25 October, 8 November 1973). The reasons were that (1) they were not certain of the effectiveness of OPEC and OAPEC as cartels, (2) the British government had received oil-supply assurances from the major Arab oil-producers, (3) accordingly, it did not wish to take actions that might be conceived as counter-measures against the oil strategy of

the oil-producers and (4) overreaction of the government might cause anxiety in the

markets (*The Times*, 19 October 1973; *The Sunday Times*, 4 November 1973) [interview

(2)].⁴ Heath was determined to retain his expansionary fiscal policy. Admitting a crisis

would have necessarily led him to alter his economic strategy. Heath emphasised in the

House of Commons, 'It would not be right to upset the flow of industrial production and

cause hardship to individuals until the shortfall in our [oil] supplies, which may not be

very significant, can be estimated more definitely' (*Hansard*, 30 October 1973, Vol.863,

Col.39).

Peter Walker announced in the Commons on 5 November that the oil industry

emergency committee (OIEC) had been reconvened on the outbreak of the Middle East

conflict (*Hansard*, 5 November 1973, Vol.863, Col.611). OIEC was the key body in

dealing with fuel allocation throughout the crisis. It regularly informed ministers and the

DTI of oil supplies and domestic distribution while the oil companies sorted out the

practical distribution of oil products in trouble. The OIEC was a voluntary coordinating

committee of the oil companies (*The Sunday Times*, 16 December 1973; Cohen, 1986:

135) [interview (21)]. The understanding of DTI ministers and officials was that the oil

companies knew the market better. Accordingly, they decided to leave distribution of oil

⁴ See also page 199 above.

products to the oil companies [interview (21) (23) (28) (84)].

The oil companies saw the oil crisis with more gravity. Although legislation and government intervention were not what they wished, the oil companies were less satisfied with the government's 'wait and see' policy. As early as 23 October the oil companies requested a fuel-allocation system guideline from the government.

Shell-Mex and BP announced that they would not accept any new industrial business and could not take on domestic customers who were cut off by independent dealers. In early November the oil companies warned that the oil crisis was more serious than ministers had described. Royal Dutch Shell warned on 8 November of considerable uncertainties over future supply and prices in the world market (*The Times*, 9 November 1973). In early November panic buying of oil products was reported as having started (*The Times*, 8 November 1973). Yet the government did not take any stricter regulation over oil distribution, apart from price control, which was covered by the existing statutory prices-and-incomes policy. Oil supply was the sole issue. The government could afford to adopt a 'wait and see' policy.

The prospect for energy supply changed dramatically on 12 November when 270 thousand mineworkers began their overtime ban, rejecting a pay package from the

national coal board (NCB). The phase three counter-inflationary policy of the Heath government had been announced on 8 October 1973 and the NCB's package followed this new pay code, which came into effect on 7 November. The oil crisis exploded right at this time, which strengthened the miners' position in their pay-rise negotiations. The power engineers' dispute led to cuts in electricity supplies from the same day. The government immediately proclaimed a state of emergency on 13 November. The state of emergency provided technical preparation for emergency measures. Yet undeniably it showed the clear determination of the government to stand firm and to be prepared for further miners' industrial actions [interview (26) (85)].

Walker made a statement in the Commons on 19 November when introducing legislation to allow control over the distribution of petrol and oil. He directed the oil companies and petrol stations to reduce deliveries of the main oil products and petrol-supplies from 20 November by 10 per cent below the previous year.⁵ Appeals were made to the public, asking for a speed limit of 50 mph and not to drive on Sundays, while buying petrol in cans was to be prohibited (*Hansard*, 19 November 1973, Vol.864, Col.948-9). Some of the oil companies had already started their own control of oil supply by reducing deliveries to customers and lowering the octane ratings of motor

⁵ The distribution cut was effectively between 16 and 17 per cent, as 'petrol sales have increased between 6 and 7 per cent since then' (*The Sunday Times*, 9 December 1973; *The Financial Times*, 22 November 1973).

spirit (*The Times*, 17 November 1973). The oil companies called them 'equality of misery'. These measures were still not exercising strict control over the domestic energy consumption.

However, ministers, in particular Peter Walker, ruled out petrol rationing (Walker, 1991: 114-5). In a correspondence to the author, Lord Walker explained, 'although petrol rationing sounds like a fair and firm process, when you examine the reality of doing it it becomes almost an impossibility ... A petrol rationing scheme would have resulted in an enormous black market and a great deal of injustice. I and the oil companies knew they had enough stocks to avoid rationing'.⁶ Coupons for motorists were in fact prepared and sent to post offices, which were the agents to issue the coupons (*Petroleum Times*, 30 November 1973). Senior DTI officials supported an early introduction of the petrol-rationing scheme [interview (23) (25)]. Major oil users like the road hauliers and farmers demanded that a petrol-rationing scheme should be implemented (*The Sunday Times*, 25 November 1973; *The Financial Times*, 26 November 1973). Yet Walker and Tom Boardman, the industry minister, reiterated that it was not yet necessary. There were signs of tension relaxing on the oil front, since the Arab oil-producers announced on 18 November that they would ease the planned cutback of oil supply to the EEC

⁶ Lord Walker argued in the correspondence, 'The oil companies wanted rationing because they could then sell the petrol that would no longer be needed in the United Kingdom overseas where no prices and incomes policy was in place'.

countries except Holland. Heath supported Walker in his reluctance to implement petrol rationing (Campbell, 1993: 572).

Facing a prospect of multiple energy crises, the government as a whole and Heath personally became split schizophrenically between the soft and hard approaches. Lord Waldegrave, then political staff in 10 Downing Street, explained in an interview;

‘The government was slightly schizophrenic as to whether it was saying this was a really really desperate crisis or whether it was trying to say this was an ordinary industrial dispute of a very serious kind in challenge to our prices-and-incomes policy ... Mr Heath himself was quite schizophrenic about it, I think. But on the whole it tended to come down on the side of normality, not heightening the crisis’.

They could not decide whether to stress the crisis and alert the country or to present a calmer view so as not to provoke the miners. Undoubtedly the government did not wish to provoke the miners by overreacting to their industrial action [interview (85) (88)].

The Conservative backbench MPs as well as ministers were determined never again to be defeated by the miners, as they had been in 1972 (Kavanagh, 1996: 353). As Stephen Fay and Hugo Young (1976a: 33) put it, ‘any mention of concessions brought the word “Munich” to many Tory lips’. Leading figures in government and the party, such as Lord Carrington and James Prior and later on, the most senior official in the government, William Armstrong became concerned that the miners were not only engaged in an industrial action but were also in an attempt to destroy the government (Fay and Young,

1976b: 33). Criticism was expressed in the 1922 committee, particularly against Walker's 'soft sell' attitude (*The Sunday Times*, 18 November 1973). Yet the government, notably the DTI and its ministers, decided not to make a major response to the growing energy crises (*The Sunday Times*, 23 December 1973). Lord Walker explained and defended his position in an interview, 'If you take a pessimistic view, markets will overshoot your pessimism'.

4 (ii) Hard Landing: Unhappy Heath

By December 1973 the crucial question in the DTI was whether the power stations would keep going [interview (2)]. On 28 November Heath, Barber, Maurice Macmillan, the employment secretary, Boardman and William Armstrong met the TUC at 10 Downing Street, which ended in failure. The central electricity general board warned that coal stocks at power stations had dwindled so rapidly that further cuts in electricity consumption were unavoidable. The train drivers' 'go-slow' started on 11 December and the railways provided an important transport route for coal to the power stations. The government could not retain its optimistic stance towards the crisis any longer. Policy change came by 7 December and on 11 December a small group of ministers led by Heath himself planned the three-day-working-week policy (*The Sunday Times*, 23

December 1973). The government decided to wait for the decision of the NUM executive later in the week. On 13 December the NUM decided to continue the overtime ban in its campaign for the abolition of the government's phase three counter-inflationary policy. Leaders of the miners and train drivers agreed to coordinate their industrial actions in a militant compact on the same day (*The Times*, 14 December 1973). Heath immediately announced the introduction of the three-day-working week.

Politically other issues became more significant than oil. In early December Walker announced that the government would not make further cuts in petrol supplies. The 10 per cent cut should continue at least until the end of January, even though the oil companies were critical of this decision (*The Times*, 8 December and 13 December 1973). He asked the central electricity generating board to use more oil (though still under consumption restrictions) to preserve coal stocks, which was contrary to the request made previously (*The Times*, 12 December 1973; *The Financial Times*, 5 December 1973). By the end of December pressure from the Arab oil-producers gradually decreased. Walker stated that concern over the oil supply had eased, although shortfall was expected in January. Boardman reiterated that the risks of petrol rationing had diminished. Restrictions on oil imports started to relax. Yet the prospect of an electricity-supply shortage and the enormous balance-of-trade deficit piled greater

adversity on to the government.

The creation of a new government department solely in charge of energy policy had been under consideration, as the crisis developed. Heath denied such a possibility in parliament in mid November (*Hansard*, 13 November 1973, Vol.864, Col.247).

However, the prime minister's discontent with the performance of the DTI intensified through the crisis, although events created his dissatisfaction rather than the DTI and its ministers [interview (85) (88) (90)]. The rationale for establishing a new department was fourfold, besides Heath's discontent with the DTI. First, presentation was crucial.

There was an intense demand by the media for setting up a department of energy, as Walker (1991: 114) argued, and the government had to be seen to be taking action (Radcliffe, 1991: 153). Second, Heath wanted in cabinet voices from the supply-side and demand-side of energy. According to Peter Hennessy (1990: 447), John Hunt, the cabinet secretary, advised Heath that containment of as much policy as possible within the mega-DTI was a serious disadvantage in such an emergency. The cabinet needed to hear both sides of the story to take decisions collectively. Third, Heath wished to move Lord Carrington, his confidant, into the centre of the issue [interview (85) and (89)]. Heath needed someone equal to or heavier than Walker to balance the discussion in cabinet [interview (19)]. Lastly, to appoint Lord Carrington, a hawk, as energy secretary

would be a strong message to the miners [interview (19)].

Walker expressed strong opposition to the creation of a separate department, which delayed the decision for a few weeks. However, when the prospect of energy supply did not improve, Walker agreed and did not resign (Walker: 115-7; Heath, 1998: 505). Yet, as Walker stressed at the time, the timing could hardly be worse, as it happened at the peak of the crisis. New ministers were brought in. Robert Marshall, the second permanent secretary in charge of energy, was removed. On 8 January 1974 the newly formed department of energy was publicly announced.

4 (iii) Analysis

Heath's policy preference in domestic oil policy was to secure the supply and distribution of oil with the least disturbance. The government had difficulties in deciding whether to heighten the crisis when problems on coal and electricity followed the oil crisis. He shared the difficulties, as he was reluctant to intensify the crisis. Heath particularly did not wish to aggravate the confrontation with the miners. His attitude was well-illustrated by Stephen Fay and Hugo Young. When Heath faced a possible general election, 'What he feared was not defeat, but the effects on the nation if his own

party won' and 'So he did not want an election "against" the miners. The possible post-electoral legacy of a class-based Tory victory repelled him' (Fay and Young, 1976a: 33; 1976c: 34). His policy preference did not accompany any clear measures to carry out his wishes in domestic oil policy. Delivery was what mattered.

The policy outcome in domestic oil policy was mainly to leave practical distribution to the oil companies. The state of emergency provided the legal justification for taking emergency action in petrol rationing and fuel allocation, while the government took measures to constrain domestic oil consumption. However, it was far from being strict control. No petrol rationing was implemented. Serious government action was taken, namely the three-day-working-week policy, only after the coal- and electricity-supply conditions aggravated the crisis.

At the outset of the crisis Heath was in agreement with Walker's policy and even when the energy-supply prospect deteriorated, he continued to stand by his minister. Heath himself did not have a day-to-day advisor on energy, except Lord Rothschild, who was alienated from Heath during the crisis. In any case, Rothschild did not provide short-term advice. Heath trusted and delegated tasks to his ministers. He intervened to change his agents, namely his ministers and civil servants, only when he became

extremely dissatisfied with the performance of the DTI. Neither DTI ministers nor officials deliberately deviated from the prime minister's policy preference. Events merely overwhelmed the department. The prime minister's decision was to set up a separate government department, which became the department of energy. DTI ministers and the top civil servant were effectively sacked from the energy front. By so doing, Heath replaced his agents in addressing the series of crises. It was an optimal behaviour for the prime minister to take.

2. CONCLUSION

Heath's behaviour was 'optimal' in all the cases considered above. Typical was his less direct intervention in the policy-making games and delegation to his ministers was his basic form of behaviour. The prime minister did not take a direct part in the Middle East policy, while fiscal and domestic energy policies were overall left to his ministers. Heath hardly, if ever, instructed civil servants directly and prime-ministerial power worked through his ministers. Ministers were aware of Heath's policy preferences in general and regularly informed him of the policy they were pursuing. Heath's style was to leave the ministers and the departments to carry out their business in whatever field

they were engaged in. Asked about Heath's leadership, Donald Maitland, Heath's trusted press secretary and a career diplomat, testified 'Many people working for him would say the same, that they were kept on a fairly loose rein' (in Kandiah, 1995: 215). However, less direct intervention was not equivalent to lack of control. As explained in chapter one, lack of control and complete control are observationally not incompatible. Complete control needs no intervention from the first place. Heath did not need to intervene, since and as long as his ministers performed competently as his agents. When they did not and were likely not to, he provided clear instructions as in the case of EEC policy and changed his agents altogether as in the case of domestic oil policy. The fundamental characteristic of Heath's exercise of power was control without regular intervention. Ministers exerted active leadership within the scope of the prime minister's policy preference. Thus, ministerial leadership in the individual policy-making games was consistent with prime-ministerial power.

Ministers, civil servants and the Conservative party were not all in agreement with Heath's policy preferences. Barber and his Treasury officials were not fully committed to the expansionary fiscal policy, while Walker and Anthony Part, his permanent secretary at the DTI, were totally against a separate department of energy (Radcliffe, 1991: 154). FCO officials were opposed to the intransigent line in the EEC. Part of the

Conservative party criticised and acted against the government in Middle East policy, fiscal policy and domestic oil policy. Nevertheless, Heath's policy preferences were reflected in the policy outcome. Ministers and civil servants might have fought their corner, yet at the end they conformed to Heath's policy preferences. Notably, civil servants including the powerful Treasury had no chance of winning when their ministers were determined to support the prime minister. Within the Conservative party the issues did not unite dissidents and thus hardly made direct impact on government policy.

CHAPTER VI

COMPETING LEADERS – KAKUEI TANAKA AND THE LDP: OCTOBER 1973-JANUARY 1974

Japanese prime ministers were often conceived as ‘reactive’. Yet with Yasuhiro Nakasone (prime minister 1982-1987), Kakuei Tanaka (prime minister 1972-1974) has been described as an exceptional Japanese prime minister, who exercised overt leadership (Muramatsu, 1987; Rockman, 1997: 47). This assessment indicated Tanaka wielded power in a typical textbook manner. Although some important constraints existed, the Japanese prime minister was provided with various power resources in the core executive, as seen in chapters one and three. Section one illustrates the existence of competing leaders in the LDP and their inclusion in the cabinet. Section two investigates the decision to switch to a more pro-Arab policy. Section three examines the drastic change in the Tanaka cabinet’s fiscal policy in late November 1973. To see this change the observation starts from the period before the oil crisis. Section four looks into domestic oil policy, which saw swift submissions of two strongly regulating bills to the Diet in December 1973. Section four discusses the exercise and non-exercise of Tanaka’s power in policy-making. This chapter examines whether and how a Japanese prime minister with a strong personality and power resources could exercise power in the policy-making games.

1. OFFICE-KEEPING GAME

In 1972 Kakuei Tanaka won a fierce competition for the LDP party presidency, although Takeo Fukuda, his defeated rival, had been regarded as the 'heir-apparent' of Eisaku Satô (prime minister 1964-1972) (Tomimori, 1977: 166). Tanaka had rapidly accumulated support in the party and in particular in the Satô faction during the long reign of Satô's premiership. His strategy for the leadership election was to isolate Fukuda and his followers by forming a coalition with other major factions, such as those of Ôhira, Miki and Nakasone. Nakasone did not stand and offered his support for Tanaka before the first round of the leadership contest. Tanaka succeeded in making a deal with the Ôhira and Miki factions that the winner of the first ballot would receive the support of the others at the second round. Kakuei Tanaka, Takeo Fukuda, Masayoshi Ôhira and Takeo Miki respectively received 156, 150, 101 and 69 votes at the first ballot. The LDP presidential election procedure required a second ballot if no winner obtained 50 per cent at this initial round. At the second ballot Tanaka overwhelmed Fukuda by receiving 282 while Fukuda gained only 190.

Since the second Satô government the composition of the cabinet had been directly proportional to the scale of the factions amongst the LDP Diet members, which eventually became a convention of the LDP (Satô and Matsuzaki, 1986: 67 and 70). Tanaka followed

a different rule, favouring those who had supported the winner himself at the party-presidential contest. It was to marginalize the Fukuda faction. The factional composition in the LDP in 1972 was Tanaka faction 93, Fukuda faction 88, Ohira faction 65, Miki faction 49, Nakasone faction 39 and other small factions and non-faction members 87 (calculated from Iyasu, 1996: 183).¹ In contrast the ministerial distribution in the new cabinet was: Tanaka faction 5 (excluding the premier), Ôhira faction 4, Miki faction 2 and Nakasone faction 2. The Fukuda faction was offered 2 relatively insignificant positions in the cabinet, which they refused to take. Only after December 1972 did the Fukuda faction accept the two posts. Tanaka could still contain Fukuda in a peripheral position in government.

The major faction leaders were all installed in cabinet: Ôhira as foreign minister, Miki as director-general of the environment agency and deputy prime minister, Nakasone as minister for international trade and industry and Fukuda as AMA director-general (from December 1972). Fukuda eventually became finance minister from November 1973. Kiichi Aichi was his predecessor. Fukuda and Aichi were both well-versed in economic policy being ex-officials of MOF, yet they had contrasting relationships with Tanaka. Aichi was a senior member of the Tanaka faction, contributing to making Tanaka's economic policy when Tanaka stood for the party-presidential election (Shiota, 1985:

¹ Figures varied between sources. For instance, the figures above included the members of the House of Councillors, yet factional loyalties of the upper-house members were not evident in the early 1970s.

61-2; Nikaido, 1986: 227). In contrast, Fukuda himself was opposed to Tanaka's high growth policy and urged stable economic growth. The Fukuda faction was more sympathetic to Taiwan and hence critical of Tanaka's China policy. Fukuda had a strong factional background independent of the premier in the governing party. Masayoshi Ôhira, the foreign minister, was the leader of a faction with approximately fifteen per cent of the LDP Diet members. Ôhira was Tanaka's key ally in the LDP, notably in the leadership contest. Tanaka showed a strong initiative in negotiations to normalise relations with the People's Republic of China in 1972, yet Ôhira was solely in charge of foreign policy, which Tanaka respected [interview (33)]. Nakasone was also a faction leader, although his position was not equivalent to Fukuda's or Ôhira's in the LDP. The Nakasone faction had merely half the size of the Fukuda faction. More significantly it was not united under Nakasone's leadership, since if Nakasone had not supported Tanaka, the faction was likely to be divided (Fukui, 1978: 54; Tanaka, 1981: 235-6). Nakasone deserved a cabinet ministership but depended far more on Tanaka for his position than did Ôhira and Fukuda.

The LDP was divided, as ever, between factions. What made the Tanaka cabinet distinctive was that it incorporated not only the key leaders who supported him at the leadership contest, but also those who were explicitly at odds with him. Tanaka had to counter major rivals in his own cabinet.

2. FOREIGN POLICY: CLARIFYING THE MIDDLE EAST POLICY

2 (i) Slow Government Responses and the Mounting Crisis

The OPEC price rise and the OAPEC supply cut shocked the Japanese government, when they were announced in mid October 1973 (Yamagata, 22 May, 23 May 1990; Yamagata, 1991: 94-5). In part the reason for the concern was because OAPEC's distinction between 'friendly' and 'hostile' countries to their causes was ambiguous (Yanagida, 1979: 60). The gravity of the crisis became clear when the Japanese government recognised on 20 October that Saudi Arabia, the largest oil-supplier to Japan, had not included Japan as one of its 'friendly' countries (NHK, 1996b: 34-5). On 24 October Saudi Arabia ordered the Arabian Oil Company (AOC) to cut its crude oil production. The AOC was a flagship of the Japanese-owned oil-exploration company. Ownership of Japan's own exploration company was regarded as one of the key instruments to secure oil supply for Japan.² From 25 October the international oil companies started notifying the Japanese domestic oil companies of the supply cut (*Asahi*, 26 October 1973). Japan was not exempt from the Arab oil strategy.

² The aim was to gain control over oil exploration and its supply independent of the international oil companies. A deep suspicion existed against the international oil companies amongst some of the leading business figures and politicians in Japan. A group of business leaders who were concerned with securing energy supply to retain economic growth were referred to as the 'resource faction'. They took a special interest in establishing the AOC. See for the 'resource faction' Caldwell (1981: 68-9).

Masayoshi Ôhira, the foreign minister, met ten Arab ambassadors in Tokyo on 19 October, stating that the Japanese government hoped for an early cease-fire and that it supported the United Nations security council resolution 242. He also suggested that the Japanese government was ready to contribute to tackling the problem of refugees in the Middle East through the Red Cross. Slightly stepping up the pro-Arab tone, Shinsaku Hôgen, MOFA's administrative vice-minister on 26 October, and Susumu Nikaidô, the chief cabinet secretary on 6 November both reiterated Ôhira's statement. These statements confirmed the previously established position of the Japanese government. Ôhira provided the cabinet with an optimistic view of the oil crisis (*Asahi*, 6 November 1973 evening edition). The response of the Japanese government was reserved at this early stage.

MOFA officials had started discussing the issue of clarifying the government's Middle East policy. An inter-bureau group was set up, attended by officials from bureaux including the Middle Eastern and African affairs, economic affairs, treaties, American affairs and the United Nations affairs bureaux. They produced a policy paper in late October, suggesting the Japanese government should reveal its interpretation of the UN resolution 242, which had been avoided ever since the adoption of the resolution [interview (30)].³ Their discussion led to the conclusion that clarification of the

³ According to an ex-MOFA official, the Middle Eastern and African affairs, the treaties and the United Nations bureaux all supported the 'full withdrawal of Israel from the occupied territories' but the definition of 'full withdrawal' could be flexible in accordance with international politics [interview

interpretation would be the key of displaying Japan's commitment to the Arab causes.

However, when MOFA sounded the opinion of the US government, it asked Japan to wait

until Henry Kissinger, the US secretary of state, reached Japan to discuss the issue (NHK,

1996b: 45). Thus, the paper did not appear in public.

The information MOFA received was contradictory. Two announcements from overseas

put pressure on Japanese foreign policy in early November. At the ministerial meeting on

4 and 5 November OAPEC decided that they would cut oil production by twenty-five per

cent by the end of November and that the cut would increase by five per cent every month

from December. The OAPEC announcement affected the EEC foreign ministers' council

meeting on 6 November. It made a statement with a clear pro-Arab tone.⁴ The Japanese

government felt the need to show a more pro-Arab policy to impress the Arab countries,

notably Saudi Arabia. In contrast, the Japanese ambassador in Kuwait, Ryôkô Ishikawa,

reported the oil strategy was damaging Arab countries as well and that it was impossible

for them to continue the strategy for long (NHK, 1996b: 110). He also received supply

'assurances' from the gulf oil producers, such as Abu Dhabi and the United Arab Emirates

(UAE) and a confirmation of non-discrimination against Japan from Kuwait (Ishikawa,

1983: 98-107; NHK, 1996b: 48, 66-72; 'Sengo-shi Kaifû' Shuzai-han, 1996: 335-6).

⁴(43)].

See page 200 of chapter five for this statement.

Domestic confusion mounted. Domestic oil companies made price-rises and supply cuts voluntarily from November. MITI was responsible for oil supply and domestic distribution. The crisis was extending to commodities other than oil products. Fear of a shortage of goods whipped up public hysteria. From early November MITI confronted pressures asking for oil from all over the country, including politicians. The official history of MITI (1991: 43) explained MITI's support for a more pro-Arab Middle East policy. A government effort to secure oil imports was a prerequisite for enforcing restriction of domestic oil consumption, of which MITI was in charge. In fact, MITI was not wholly united in requesting change in Middle East policy. The international energy policy division in the ANRE and the international trade policy bureau, the overseas sections of MITI, were reluctant to commit MITI to a change in Middle East policy. The argument for their objection was based on: (1) concerns over the Japan-US relationship, (2) Japan's dignity not to concede to blackmail, (3) the less likelihood of the Arabs to keep the advantageous position in global politics, and (4) the fact that the international oil companies and not the oil-producing countries controlled the international oil market [interview (46) (51)]. Yasuhiro Nakasone, minister for international trade and industry, was keen to change the Middle East policy (Nakasone, 1996: 274-5; NHK, 1996b: 119-20). He emphasised his views strongly as a cabinet minister and led the discussion in the LDP, especially in the commerce and industry division of PARC. The government came under strong domestic pressure to take measures in foreign and domestic policies.

On 1 November Tanaka and Nakasone met and agreed that the government must show a pro-Arab line of policy (*Asahi*, 2 November 1973). *Keidanren*, the federation of the economic organisations, one of the four leading business groups, became involved in the issue from mid November. The resource faction amongst the business leaders had close relations with Tanaka (Caldwell, 1981: 70). They were part of his support group in the business community (Yanagida, 1979: 76-7). On 14 November leaders of *Keidanren* and members of the resource faction met Tanaka to ask for a change in Middle East policy after they had recognised the seriousness of the crisis (Yanagida, 1979: 78-9). On 16 November the government made a cabinet decision on the ‘emergency measures against the oil crisis’. The crisis at home was reaching a critical stage. The prime minister’s private secretary started pushing MOFA to change its policy [interview (31) (45)]. No votes were taken but a large part of the LDP supported and urged the change in Middle East policy [interview (41)]. However, Tanaka never suggested directly that the foreign minister ought to change the policy. Ôhira was indeed the competent minister in foreign affairs.

2 (ii) **Prime Minister versus the ‘Autonomous’ Foreign Minister**

MOFA wanted to clarify its Middle East policy before Henry Kissinger’s visit to Japan on

14 and 15 November. MOFA sounded out Saudi Arabia's view through three separate routes. Its minimum condition for Japan to become a 'friendly' country was to announce a statement declaring: (1) Israel should withdraw from all the territories occupied and (2) if this withdrawal would not be completed, Japan would reconsider its policy towards Israel (Yanagida, 1979: 69-74 and 81-3; Tamura, 1983: 229-34; NHK, 1996b: 83-90).

According to one journalist, Saudi Arabia suggested that Japan should announce the statement on 15 November, the day Kissinger was to leave Tokyo (Hirano, 1978: 196-7).

This informal claim from Saudi Arabia aggravated the split in the Middle Eastern and African affairs bureau and MOFA as a whole (NHK, 1996b: 95-6). Middle East policy was under the jurisdiction of this bureau in MOFA and the bureau responsible for the issue was usually expected to submit professional policy advice to the department. Yet opinions in the Middle Eastern and African affairs bureau were divided between the director-general and the counsellor on one side and the director of the Middle East division on the other. The former was unwilling to change the policy while the latter was determined to do so. The basic policy of MOFA was unsettled [interview (30) (31)].⁵

Kissinger held three significant meetings in Japan, which had contrasting atmospheres. He met Ōhira on 14 November in a friendly mood, while the meeting with Tanaka on the following day was held in a state of acute tension [interview (29)]. Ōhira did not mention

⁵ According to an ex-MOFA official deeply involved in the issue, MOFA had indeed established a consensus at the most senior level internal conference attended by the foreign minister himself. It was to change the Middle East policy and convey this decision to Kissinger at his arrival [interview (30)].

either the interpretation of the UN resolution 242 or the reconsideration of its policy towards Israel [interview (30) (41)]. Ôhira was reluctant to change the Middle East policy. His position was to maintain the preferential relationship with the United States and to treat Israel fairly (Ôhira, 1978: 130; ‘Sengo-shi Kaifû’ Shuzai-han, 1995: 334) [interview (30) (31) (33) (41) (45) (52)]. He saw the oil crisis not from the viewpoint of quantity but of price. Ôhira was less concerned about securing a certain quantity of oil imports, since his understanding was that even the Arab oil-producers would eventually have to export oil (Ôhira, 1978: 134; Ôhira Kaisôroku, 1983: 349) [interview (33)]. In contrast, Tanaka spoke to Kissinger of the necessity of changing the Middle East policy as soon as possible (Hirano, 1978: 180-1; Yanagida, 1979: 79-80) [interview (30) (45)]. Nakasone met Kissinger to argue for a change in Japan’s Middle East policy. His argument was that the policy change would not harm the Japan-US relations. He urged Kissinger that it was inevitable to concede to the Arabs otherwise Japan’s collapse would lead to that of the Japan-US security treaty and ultimately the whole liberal camp (Nakasone, 1996: 274-5). However the details of the policy were left to Ôhira’s instructions and thus the policy was not revised (NHK, 1996b: 100-1).

The grave atmosphere in the government reached a climax on 18 November when OAPEC treated Japan differently from the EEC countries (except the Netherlands) by cancelling the five per cent increase in the oil cut to the EEC countries but not to Japan.

Moreover, the Saudi Arabian oil minister urged on 19 November that Japan needed to break off relations with Israel to become a ‘friendly’ country to the Arabs. On the same day Sôhei Mizuno, president of the AOC, met Tanaka and insisted on the change in Middle East policy for fear of the company’s production being further cut and, according to some reports, a total oil embargo by Saudi Arabia. Mizuno claimed the deadline was 24 November, the day the OAPEC ministerial conference was to be held (Hirano, 1978: 189; Yanagida, 1979: 84; *The Financial Times*, 21 November 1973). The issues of the interpretation of the UN resolution 242 and the ‘reconsideration of the policy towards Israel’ re-emerged (NHK, 1996b: 118).

MOFA had to make its final decision before 20 November. The Japanese ambassador to Washington was about to meet Kissinger. Hôgen, MOFA’s vice-minister, summoned a meeting of senior officials on 19 November. The Middle Eastern and African affairs bureau was split again. The American affairs bureau tipped the scales towards policy change this time. It admitted that if Japan required the full withdrawal of Israel from the occupied territories it would upset the United States. Thus there would be no difference whether the phrase of ‘reconsideration of the policy towards Israel’ was included or not (NHK, 1996b: 123) [interview (30)]. The vice-minister and the director-general of the minister’s secretariat were aware of domestic socio-economic and political conditions. They were informed of the tense atmosphere at the prime minister’s official residence by

attending meetings with other departments and receiving information from the secretaries in the prime minister's official residence [interview (31) (45)]. MOFA attempted not to specify Israel in the statement by altering the phrase to 'reconsideration of her position towards the Middle East'. Yet Nikaidô and Nakasone insisted on the original form (Hirano, 1978: 190; Nakasone, 1996: 274) [interview (31) (44)]. MOFA officials concluded by announcing the statement, which included the two controversial phrases.

Ôhira became more isolated in the government day by day (Ôhira, 1978: 135). Yet he rejected the policy advice of the officials. He instructed his officials to gain recognition from the United States for the statement (Ôhira, 1978: 134-5; Hirano, 1978: 197). The Japanese ambassador, nevertheless, did not receive the recognition of the US government but merely notified Kissinger of the decision to change the Middle East policy (NHK, 1996b: 126-8).⁶ Once the decision was conveyed outside the government, there was no choice but to announce the new policy. Ôhira did not make any clear policy decision while the policy had changed [interview (41)]. The officials deviated from Ôhira's instruction, responding to pressure from the prime minister's official residence. The chief cabinet secretary announced the crucial statement on 22 November.

2 (iii) Analysis

The policy outcome was a slow though pivotal clarification of the Middle East policy towards a more pro-Arab inclination. It explicitly displayed Japan's support for the Arabs and notably the Palestinian cause, which was announced against the wishes of the US government. The statement adversely affected Japan-US relationships. However, the government had missed several opportunities to announce the policy change before it was finally revealed in late November. The reason for the delay was the opposition of the foreign minister and the hesitation in MOFA. Ôhira was aware of Tanaka's policy preference from an early stage [interview (41)]. Yet Ôhira managed to stick to his own policy preference up to a point until his officials deviated from his instructions. An ex-MOFA official indeed expressed later that the policy taken was for domestic consumption to cool down the pressure from the politicians and mass media with the least diplomatic mischief [interview (52)]. MOFA had officials who wanted to change the policy, while most of the senior officials could no longer neglect the intense pressure from the country and the prime minister's residence.

Tanaka's policy preference on this issue was shaped practically during the crisis. The domestic crisis dramatically worsened in early November. The cause was reported to be Japan's Middle East policy. Tanaka took the position to alter the policy. Nakasone and the

⁶ According to an ex-MOFA official, Hôgen instructed this action to the ambassador [Interview (52)].

resource faction in the business community, including the president of the AOC, pushed Tanaka hard to this position [interview (46) (51)]. Their information indeed overemphasised the part of the Arab oil-producers in securing oil imports and their insecurity. Tanaka received hardly any information from the viewpoint of the global oil market, which the international oil companies still dominated in the early 1970s. Nevertheless, the influence of Nakasone and the resource faction should not be exaggerated [interview (41) (52)]. Suspicion of the international oil companies in general and a mistrust of the Nixon administration prohibited Tanaka and many other political leaders from accepting their information and argument. The two 'Nixon shocks' had, after all, horrified the Japanese government just before the oil crisis.⁷ Tanaka had dedicated himself to oil security before the oil crisis occurred. When he came into office in 1972, he knew securing sufficient energy resources from abroad was vital for his expansionary fiscal policy. Various members from the business community shared his concern, who were later named as the 'resource faction'. With this policy backdrop and major disarray at home Tanaka was prepared to accept a radical solution in foreign policy.

However, the prime minister's behaviour was 'sub-optimal'. Although he preferred a change in Middle East policy, which Ôhira and MOFA were not pursuing, Tanaka did not take any serious part in the policy-making game. Secretaries seconded from MOFA to the

⁷ Without prior consultation with the Japanese government Nixon announced in July 1971 his surprising visit to Beijing and in August 1971 the floating of the US dollar in terms of gold and a ten per cent surcharge on imports to the United States.

prime minister's official residence conveyed Tanaka's policy preference and the pressure felt at the centre to MOFA. Yet Tanaka did not put overt pressure on either Ôhira or senior MOFA officials. Tanaka did not wish to intervene in a policy area of his major ally in the governing party. He therefore detached himself personally from the policy-making game. Eventually Tanaka managed to achieve his goals but he had to overcome a remarkably difficult obstacle, the competent minister. Tanaka wanted to keep his foreign minister and still change the policy.

3. FISCAL POLICY: FROM FISCAL EXPANSION TO CONTRACTION

3 (i) Tanaka's Expansionary Fiscal Policy

When Tanaka and the bulk of the LDP asserted the need to expand the budget in late 1972, MOF, the ministry in charge of fiscal policy, was split. Jirô Yoshikuni, its administrative vice-minister, was thoroughly against the budgetary expansion (NHK, 1996a: 342). In contrast, Hideyuki Aizawa, director-general of the budget bureau, agreed with the prime minister. Osamu Hashiguchi, director-general of the financial bureau, was more sceptical about expansion. Nonetheless, even Hashiguchi stated, 'It was like Don Quixote to struggle against the claims (kinkanban) of the reconstruction of the archipelago [policy],

the mainstream at the time' (quoted in NHK, 1996a: 352 [my translation]). Tanaka sent for MOF's senior officials and gave them direct suggestions about the 1973 budget (NHK, 1996a: 344-6). Tanaka's participation was crucial in characterising the colour of the budget (Campbell, 1977: 260-6; Ando, 1987a: 128).

When the budget compilation was reaching its final stage in December 1972, the LDP

seats in the lower house dropped by seventeen from 288 to 271 in the general election.

The long-term decline of LDP support in elections, especially in municipalities, had

already been evident and the 'defeat' (the LDP often regarded a drop in seats as a 'defeat')

was despite the effort of the LDP to mobilise an enormous amount of money and

supporting organisations. To fight back, Tanaka launched a substantial tax-reduction plan

in spring 1973 (Asahi Shinbun Keizaibu, 1974: 100-1; Shiota, 1985: 56-7; NHK, 1996a:

357-9). Yoshikuni once again showed opposition to Tanaka's expansionary fiscal policy

by pointing out difficulties in securing the revenue, though such resistance made no

difference to Tanaka's plan (Shiota, 1985: 41). On 19 October Tanaka revealed an

increased '¥2 billion tax-reduction' plan just before the mayoral election of Kobe (Asahi

Shinbun Keizaibu, 1974: 102; Shiota, 1985: 56). His target was not only this local

election; it was a public pledge for the upper-house election approaching in July 1974

(Shiota, 1985: 59). The budget bureau was concerned about the amount of tax-reduction,

and discussions arose in the tax bureau as to its validity, though the vice-minister, by then,

Hideyuki Aizawa and the head of the tax bureau, Fumio Takagi, agreed to follow the decision of their political master (Shiota, 1985: 57-8) [interview (37) (82)]. Fiscal policy was directly linked to Tanaka's electoral considerations.

The inflation deteriorated into a speculative boom and became a social problem in 1973 (see Tables A.7-10). Excess liquidity stimulated an increase in the price of property and other commodities (Shiota, 1985: 36). Inflation negatively affected the Tanaka cabinet's public approval rating. A survey conducted by *Asahi Shinbun*, a national paper, showed sixty-two per cent supported the Tanaka cabinet when it was newly elected in August 1972. It dropped to twenty-seven in April 1973. The Chūō Research Services reported that the 26.6 per cent support in April 1973 fell to 18.0 per cent in December 1973. Inflation was unfailingly the top concern for the public (Naikaku Sôridaijin Kanbô Kôhôkan-shitsu, 1975a: 403; 1975b: 344 and 394). The government took measures to tackle inflation. The law of emergency measures against cornering and the speculative stocking of materials and products used in daily life passed the Diet in late June. The Bank of Japan (BOJ) symbolically raised the official discount rate five times from 4.25 per cent to 9.00 per cent (2 April, 30 May, 2 July, 29 August, and 22 December 1973). The government decided to postpone part of its budget execution in August (MOF, 1996: 571-3; 1998a: 310-11). The 'emergency measures for the stability of price' were announced on the same day (MOF, 1991: 441; MITI, 1991: 406-7). Yet these measures

were not enough to cool down the economy.

3 (ii) Ministerial Change from an Ally to an Opponent

Tanaka's policy started to receive criticism from inside the cabinet. The first open criticism arose at a cabinet meeting when Tanaka was in Europe. On 28 September cabinet ministers such as Takeo Fukuda, Takeo Miki and Zentarō Kosaka, EPA's director-general, expressed concern over the bullet-train construction plan, which was part of Tanaka's pet policy, the 'reconstruction of the Japanese archipelago' policy (NHK, 1996a: 366). Yet Tanaka defied these views. On 12 October, the day after Tanaka's return from abroad, he agreed with the minister for construction to promote the construction of more bullet-train lines. Fukuda's proposal of 16 October to slow down railway construction had no impact on Tanaka's policy. The report from the railway construction council on 2 November authorised Tanaka's construction plan. Discord developed throughout November. On 1 November Tanaka was bitterly attacked for his price policy at the price stabilisation policy conference. A week later the LDP TSRC announced a reconsideration of the ¥2 billion tax-reduction plan. On the following day Shōwa-kai, a study group of junior LDP backbenchers, submitted to the prime minister and senior LDP officers a proposal opposing the rise in the controlled consumers' price of rice and a gigantic tax-reduction plan. The LDP tax experts showed concern about this tax policy

(Shiota, 1985: 59-60). Members of the Fukuda faction expressed fiercely critical views against the prime minister's fiscal policy at their general meeting. Tanaka's policy came under intense criticism.

Tanaka and Aichi knew the necessity of addressing inflation. Aichi indicated on 3 November that he wanted to squeeze the annual increase in the coming FY1974 budget to under twenty-two per cent. Tanaka himself asked Hashiguchi if it was possible to restrain the increase in the budget. Hashiguchi was by then promoted to director-general of the budget bureau. His reply was that, if the government followed normal procedure, the expansion rate would be approximately twenty-eight per cent whilst the best effort to control the increase would bring about a twenty-three per cent increase. On 16 November the cabinet decided the 'emergency plan against the oil crisis', which included total demand control. On the same day Tanaka and Aichi decided to postpone implementation of public works for 1974. Following Aichi's instruction, MOF made an internal plan to restrain the annual public-work expenditure increase in FY1974 to under ten per cent. On 20 November Tanaka ordered postponement of the groundbreaking ceremony for the bridge between Honshū and Shikoku (Honshī Renrakukyō), two of the four main islands of Japan, a symbolic part of the 'reconstruction of the Japanese archipelago' policy (NHK, 1996a: 371-2; Hashiguchi, 1977: 249; Andō, 1987a: 174-5).

Nonetheless, Tanaka did not change or give up his two major policies: the ‘reconstruction of the Japanese archipelago’ policy and the ¥2 billion tax-reduction plan. Tanaka rejected a block on raising public charges, expressed at the price stability policy conference on 1 November. The cabinet decided a 1973 supplementary budget, which added ¥988,500,000,000 to the initial budget. It was an additional 6.9 per cent increase compared with the initial 1973 budget. As MOF’s official history (MOF, 1996: 573-6; 1998a: 311-2) explained, this increase was to allocate resources to local governments and social security, the cost of which was directly linked to inflation. Nonetheless, the huge figure of the supplementary budget, just under ¥1 billion, created the impression that the government did not have the intention of drastically curbing total demand. Indeed Aichi and Tanaka were not ready to make such a drastic policy change.⁸

Aichi Kiichi suddenly died on 23 November. His death was on the day after he had received the cabinet decision for the 1973 supplementary budget. Tanaka asked Fukuda to take over the finance ministry. Fukuda had been an advocate of stable economic growth since the 1960s during the Ikeda cabinet. Under the high inflation of 1973 Fukuda’s policy was gathering support inside the LDP (Itô, 1982: 116). The Fukuda faction had started calling on Fukuda to resign from the cabinet and stand as an alternative leader if Tanaka lost the coming upper-house election in 1974. Fukuda had become a major threat

⁸ Tanaka’s perception of the economy was well displayed in an interview on a TV programme. For the abstract see *Asahi*, 23 November 1973.

to Tanaka's position as prime minister and party president. Fukuda attached a condition to accepting the office. He wanted to adopt whatever necessary policies to cool inflation. On the following day Tanaka agreed to comply with Fukuda's condition, confirming he would leave economic affairs to Fukuda and not intervene (Shiota, 1985: 63-6; Fukuda, 1995: 210). On 25 November Fukuda presented his three basic policies to the leading officials of MOF: (1) hold public expenditure unchanged, (2) postpone rises in the fares of the national railway and the consumers' price of rice for another six months, (3) call off the ¥2 billion tax-reduction plan (NHK, 1996a: 376 and 378). The first point meant effectively abolishing the 'reconstruction of the Japanese archipelago' policy. The government had tried to pass the fare-rise of the Japanese National Railways through the earlier special session of the Diet, when inflation was discussed extensively (Asahi Shinbun Keizaibu, 1974: 54-61). They were all key policies for the Tanaka cabinet. However, Tanaka decided to bind Fukuda by office and cabinet collective responsibility at the expense of his own control over fiscal policy.

The total package was left to be decided in mid to late December when the prospect for the next year's economy and tax revenues would become clear (Nagaoka, 1981: 71 and 76). On 12 and 13 December Tanaka, Fukuda and Mikio Mizuta, the chairman of PARC, met to decide the scale and character of the 1974 budget and the ¥2 billion tax-reductions. Tanaka still asked Fukuda to increase public-work expenditure, though both Fukuda and

Mizuta refused this suggestion (*Asahi*, 29 December 1973). Tanaka insisted on carrying out the tax-reduction as planned (*Asahi Shinbun Keizaibu*, 1974: 42-3). On 13 December Fukuda told Tanaka that he would administer the ¥2 billion tax-reduction and therefore Tanaka should leave all the other fiscal-policy matters to him (*Asahi*, 30 December 1973).

On 16 December Fukuda and MOF decided the scale of the 1974 budget and tax-reduction. The outline was to hold public-work expenditure unchanged while implementing the ¥2 billion tax-reduction as in Tanaka's original plan. Fukuda was determined to see through his tough decisions (NHK, 1996a: 381-2; Andô, 1987a: 176-7).

On 17 December Fukuda and Tsuneo Uchida, EPA director-general, held a meeting with the four senior LDP officers, namely the vice president, secretary-general and chairpersons of the executive council and PARC. Fukuda succeeded in obtaining their endorsement for his tight budgetary policy and for postponing the rise in the fares of the national railway and the consumers' price of rice for another six months (*Asahi Shinbun Keizaibu*, 1974: 45-6). Fukuda's policy was a serious change from what the government and the LDP had previously pursued.

A draft budget from MOF was reported to the cabinet on 22 December.⁹ The total

⁹ Writing the budget did not end with the MOF draft as 'revival negotiations' were held at several levels afterwards. According to Campbell (1977: 194), however, 'The 1974 negotiations were among the smoothest for the MOF in the entire period'. On 22 December the cabinet approved a statement called 'On the emergent measures [tômen no kinkyû taisaku ni tsuite]'. It showed the government's policy most precisely (see MOF, 1998b: 49-51).

increase in the budget compared with the previous year was reduced to 19.7 per cent (see Campbell, 1977: 259-60). The fiscal investment and loan programme expanded by only 12.3 per cent. Because of the high inflation, the government increased for the consumer price adjustment the social-security budgets by 36.7 per cent, some of which were introduced from FY 1973. On the other hand public-work expenditures increased by 0 per cent.¹⁰ As one MITI official pronounced, 'The MOFA draft [of the budget] was a 20 per cent increase compared with the previous fiscal year. Taking the price [rises] into consideration, this was net minus' (Fujiwara Diary, 22 December 1973 [my translation]).

3 (iii) Analysis

The policy outcome was a drastic change from fiscal expansion to contraction. The policy up to late November 1973 was expansionary. Inflation became a major political issue invoking strong criticism in the party and the country and thus minor adjustments were made to cool the economy mainly by exploiting monetary policy and postponing public works. Tanaka, nevertheless, maintained his favourite expansionary fiscal policies, which were the 'reconstruction of the Japanese archipelago' policy and the ¥2 billion incomes-tax reduction plan. Aichi's sudden death and Fukuda's replacement sharply changed fiscal policy from 25 November. Although tax-reduction was kept as its original

¹⁰ MOF officials did not consider this policy was possible (Andô, 1987a: 177) [interview (37)]. Hashiguchi (1977: 74) later expressed his reluctance to such drastic changes in public-works expenditure, whether increasing or decreasing. See also Andô (1987a: 182-3).

plan, public works were prohibited from growing, which were vital for the ‘reconstruction of the Japanese archipelago’ policy. The rises in the fares of the national railway and consumers’ price of rice were also deferred.

Tanaka’s participation exhibited a striking contrast in the policy-making games. His behaviour in policy-making shifted from ‘optimal’ to ‘sub-optimal’. Tanaka played a dominant part whilst Aichi was finance minister, and Tanaka’s views were totally reflected in fiscal policy. Tanaka utilised bilateral meetings with relevant ministers and government conferences to persuade the government to adopt his own policies while he directly gave suggestions, if not instructions, to senior MOF officials (Ôkura-shô, 1998a: 410). It was a typically ‘optimal’ behaviour. Aichi was concerned about the economic conditions, yet politically he was in government from the Tanaka faction to support the prime minister (Shiota, 1985: 61-2).¹¹ Aichi had little room for going differently from the broad direction of fiscal policy from his principal, the prime minister.

In contrast, Fukuda succeeded in sidelining Tanaka in the policy-making game. The appointment of Fukuda was thoroughly party-political. By late November critical opinions were increasing in the LDP as well as in the public about Tanaka’s policy. Fukuda became the symbol of a counter-policy to Tanaka’s fiscal policy. Tanaka had the

¹¹ According to MOF officials, Aichi wanted to restrain inflation by monetary policy without curbing total demand through fiscal policy [interview (47) (48)].

choice of letting Fukuda resign from the cabinet to criticise him or to keeping him in cabinet. The threat was heightening (see Uchiyama, 1998: 86-7). The upper house election was approaching in the summer of 1974. The LDP was seriously concerned about a possible defeat. Although no prime minister or LDP president had resigned following a defeat in an upper-house election until 1989, the LDP would have certainly placed the responsibility on Tanaka for the defeat. Tanaka chose to keep (if accepted by) Fukuda in the cabinet and let him share the responsibility for the economy. In return Tanaka had to accept Fukuda's fiscal austerity. Without considering the office-keeping game, Tanaka's behaviour in the policy-making game was 'sub-optimal'. His preferred policies were rejected whilst he did not intervene strongly enough to change his finance minister's policy. The change of the finance ministers transformed fiscal policy and Tanaka's behaviour.

4. OIL POLICY: PUSHING EMERGENCY BILLS THROUGH THE GOVERNMENT

4 (i) **MITI's Response to the Oil Crisis**

The domestic policy to confront the oil crisis effectively started from late October. MITI

swiftly started preparing for a restriction of oil consumption, yet the main direction was to wait and see (Fujiwara Diary, 18 October, 19 October 1973). MITI realised the gravity of the crisis from late October to early November (Asahi Shinbun-sha, 1974: 66). A cut in oil supply was to hit Japan directly. On 25 October major international oil companies such as Exxon, Shell, BP, Mobil and Gulf warned the Japanese oil companies of supply cuts (*Asahi*, 26 October 1973). Nakasone ordered speeding up the legislation for the restriction of oil consumption, which facilitated MITI's preparation activities (Fujiwara Diary, 26 October 1973). A task force was set up in the ANRE in late October (ANRE, 1974: 41-2). The staff of MITI's minister's secretariat led this task force, which was to devise the practical emergency measures. The initial plan was to deal with supply cuts by restricting oil consumption (*Nikkei*, 19 and 30 October 1973).

Nippon Sekiyu, the leading oil company in Japan, started a voluntary shipment restriction from early November. Other domestic oil companies adopted voluntary supply restrictions from early November (Nippon Sekiyu, 1988: 752-3). Esso raised gasoline prices by ¥7000/kg on 1 November. Other oil companies decided collectively to follow Esso, instituting a considerable price-rise from 16 November (Asahi Shinbun-sha, 1974: 36).¹² On 12 November the petroleum association of Japan (PAJ) asked MITI for 'appropriate guidance on constraining consumption' (Sekiyu Renmei, 1985: 236; Nippon Sekiyu, 1988: 753). The oil industry asked MITI to indicate the priority for oil

distribution, since demand was rocketing and the oil companies could not cope with it sufficiently by themselves [interview (35)]. ANRE was reluctant to endorse voluntary supply restrictions, as they would stimulate public disorder (*Asahi*, 2 November 1973; *Asahi Shinbun Keizaibu*, 1974: 26).

From 5 November the Tokyo Electronic Power Company started asking its large consumers for a ten per cent reduction in consumption, which other electricity companies followed. Consumers' organisations started attacking the government and the oil companies. A panic over a shortage of toilet paper occurred in the Kansai area, which became a symbol for the shortage of commodity goods (Yanagida, 1979: 38-9). During November lavatory paper, printing paper, gasoline, light oil, heavy oil of grade A and LPG were all made designated materials and products of the law of emergency measures against cornering and the speculative stocking of materials and products used in daily life. Kerosene had already been covered since September (MITI, 1991: 412). Inflation and shortage panic of oil and other commodities deteriorated (Nippon Sekiyu, 1988: 762-3).

Tanaka and Nakasone met on 8 November and agreed three points: (1) to promote energy-saving by the public, (2) to reduce the oil supply to the major industries from December and (3) to submit an oil-consumption restriction bill to the Diet, which was to be convened in December (MITI, 1991: 52). The petroleum industry law regulated the oil

¹² Later in 1974 the FTC accused this collective decision as price cartel.

industry, yet it was for the supply side and could not restrain consumption of oil products [interview (42) (53)]. Besides, MITI lacked the time to reconsider the entire oil-policy system [interview (32)]. It was understood in MITI that the deadline for producing a fresh bill was by the end of November, as the Diet was to open on 1 December [interview (44)].

4 (ii) Domestic Disorder and Tanaka's Leadership

According to one informed observation Tanaka was reluctant to undertake emergency measures even on 12 November, when, Eimei Yamashita, MITI's administrative vice-minister, and Eiji Yamagata, ANRE director-general explained the gravity of the crisis to him (Fujiwara Diary, 12 November 1973) [interview (38)]. Facing the criticism against himself, as depicted in section three above, Tanaka's position was to argue that inflation was not as serious as the public regarded. However, inflation and social disorder triggered by the (perceived) shortage of various commodities became undeniable by mid November.

Tanaka's action was swift once he had made up his mind. On 15 November the all cabinet-ministers' conference agreed the basic emergency measures. Senior LDP officers joined afterwards to endorse them from the governing party's viewpoint. Tanaka particularly emphasised that the emergency measures did not concern only oil products

but that they were chiefly about price policy. Tanaka argued that the government should rely on cartels or introduce standard prices to restrain price hikes. If profits exceeded standard prices, according to his suggestion, the government should impose a tax on excessive profits or collect a surcharge (Fujiwara Diary, 15 November 1973; Asahi Shinbun-sha, 1974: 68; Asahi Shinbun Keizaibu, 1974: 18-9; MITI, 1991: 53). The target of the emergency measures extended from oil to other products and especially prices.

The cabinet formally decided the emergency measures on 16 November, which included: encouraging a consumption restraint by the public; enforcing administrative guidance to cut industrial usage of oil; submitting an emergency bill [not necessarily singular in Japanese]; reinforcing curbs on total demand and on prices; and securing a variety of energy sources (ANRE, 1974: 20-30). Simultaneously the cabinet created a headquarters for promoting the emergency countermeasures against the oil crisis [hereafter promoting headquarters], which the prime minister headed himself. LDP officers were included as its members and they attended gatherings after the cabinet meetings, while senior officials were also present at the meetings. The LDP affirmed equivalent measures on the same day.

Following Tanaka's instruction the emergency bill was divided into two: one to deal with oil and the other with other commodities (Fujiwara Diary, 16 November 1973). The EPA was in charge of prices in general and thus took over responsibility for the emergency bill for stabilisation of national life (hereafter national life bill). MITI looked after the

petroleum supply and demand optimisation bill (hereafter petroleum bill).

Both of the bills affected various government departments. MITI carried out coordination for the petroleum bill in the government and with the LDP. For the national life bill, Masaharu Gotôda, administrative deputy chief cabinet secretary, intervened in the inter-departmental coordination. Gotôda gathered the directors-general of the ministerial secretariats from the relevant departments to the prime minister's official residence. Such a meeting of directors-general was unusual, though it eventually became a key conciliatory body in the fragmented bureaucracy (*Asahi*, 23 November 1973). The relevant cabinet ministers on oil affairs held meetings on a regular basis above this officials' level, while the promoting headquarters as well as the cabinet became the final coordinating and authorising body.

The focus of discussion became prices. How firm government control ought to be and how it should be reflected in the legal system were the key issues.¹³ MITI's plan was to adopt the standard price system. 'Standard price' was not to be legally binding for sellers but a 'guideline' for prices and it should be secured by a cartel in the industry. MITI's idea was legally to authorise through the petroleum bill the mechanism of administrative guidance it had been operating in the domestic oil industry. MITI wished to exclude such

¹³ Other issues included how to absorb excessive profits if they occurred and whether to introduce an oil-rationing scheme.

cartels from the anti-monopoly law to stabilise prices and thus supply (Nippon Sekiyu, 1988: 760). On 17 November Tanaka suddenly suggested operating the price-control ordinance (PCO) (Fujiwara Diary, 17 November 1973; *Asahi*, 23 November 1973). The PCO was a product of post-war disorder in a controlled economy. It was based on the power of the police and had not been used since. The issue divided opinions at the first meeting of the promoting headquarters on 20 November, although it was eventually dropped (Yamagata, 7 June 1990; Yamagata, 1991: 112). In fact MITI had already discussed this possibility. Because of the difficulty in administering, MITI's internal conclusion was not to revitalise PCO. On the other hand, EPA brought up a proposal to provide the government with power to control (or freeze) prices, production and supply. It was similar to the PCO. The difference was to include the strong control mechanism in the national life bill rather than having a separate statute. The FTC was bitterly against any cartel and accordingly expressed its preference for formal government control. On 20 November senior officials from the relevant departments agreed to include this strong instrument in the national life bill. The bill assumed a character of stricter control.

The outlines of the two bills were put forward to a meeting of the promoting headquarters on 22 November. Although their broad approaches were accepted, opposition from the LDP attendees prevented the outlines from attaining approval. The disagreement was over parts of the national life bill, which included strong control over industry (*Asahi*, 22

evening, 23 November 1973). On the same day the LDP executive council approved the gist of the petroleum bill, though the council defied its conclusion on the national life bill. The joint meeting of the deliberation committee of PARC and its commerce and industry division also expressed concern over the bill. The problem was that the national life bill endowed the government with too much discretionary power of control. The other cause of frustration amongst the LDP Diet members was the way the government operated. From their viewpoint the government, in particular the 'Gotôda group', failed to have sufficient consultation with the LDP and its internal group discussing price policy (*Asahi*, 23 November 1973; *Asahi Shinbun Keizaibu*, 1974: 23; *Kakimizu*, 1974a: 24-5; MITI, 1991: 55).

EPA downgraded the control by successive stages while it clarified the conditions for operationalising the control. In the end the 'freeze' article was excluded from the bill, and the relevant cabinet ministers' meeting decided on 28 November to make use of the PCO as a last resort, which was not supposed to be utilised (*Asahi*, 29 November 1973; *Nikkei*, 29 November 1973). On the same day the articles on price in the petroleum bill were transferred to the national life bill (Fujiwara Diary, 28 November 1973; ANRE, 1974: 44; MITI, 1991: 55). By so doing, the petroleum bill came to deal with the demand and supply of oil, while the national life bill managed prices including those of oil products as well as the demand and supply of other commodities.

The last issue to be resolved was the clarification between the two emergency bills and the anti-monopoly law. After dropping the strong government control measure, the national life bill sought to utilise a cartel to secure the supply of products and maintain the target price (the ‘standard price’). On 28 November cabinet ministers and officials from MOF, MITI, EPA and the cabinet secretariat decided to exclude from the anti-monopoly law the cartels, which supported the ‘standard price’ mechanism (*Asahi*, 29 November, 30 November 1973 evening edition). However, the FTC rejected this plan. The FTC had enforced an on-the-spot inspection of the oil companies and the PAJ on suspicion of a breach of the anti-monopoly law on 27 November. This FTC’s action was regarded as expressing its clear opposition against cartels. Failing to attain FTC’s consent, the ‘exclusion of application’ article was dropped from the bills. Instead, MITI and the FTC exchanged a memorandum for the petroleum bill, and EPA and FTC for the national life bill (MITI, 1991: 55; *Asahi*, 1 December 1973; Tsurumi, 1975: 122). The memoranda effectively confirmed the exclusion of application from the anti-monopoly law on cartels, cooperating with the government over the new bills (see Johnson, 1982: 298). However, this ambiguity left confusion. The oil industry had to suffer from it, since the FTC brought a charge against the oil industry later (Nippon Sekiyu, 1988: 765-9).

The delay of the coordination for the national life bill remained and it received a cabinet

decision a week later than the petroleum bill. Nevertheless, Tanaka and his cabinet successful submitted the two emergency bills to the Diet on 7 December, within only three weeks since the promoting headquarters proclaimed their necessity.

4 (iii) Analysis

The outcome of domestic oil policy was a swift submission to the Diet of two bills giving the government strong regulatory powers over the market and society. The aim of the emergency measures extended from regulation of oil products to other commodities. They particularly focused on the problem of price-hikes. Tanaka's policy preference was clearly reflected in this policy outcome. His initial reluctance for the emergency measures was because of his fear that it might emphasise the inflation, which his expansionary fiscal policy was blamed to be contributing to. Yet the domestic disarray convinced him of the necessity of devising emergency measures, which provided the government with strong regulatory tools. Once decided, the measures had to address the problem of domestic inflation. The domain of regulation had to include other commodities than merely oil products. He wished to see the bills submitted to and pass the Diet as quickly as possible. Tanaka made sure his policy preference was reflected in the policy outcome by actively intervening in the policy-making game.

The part the prime minister played was critical in two ways. First, Tanaka extended the boundary of the new legislation to include other commodities than oil products, putting the emphasis on price restraint. Previously, MITI and ANRE were in charge of the preparation of the emergency measures; their target was solely on oil. Distribution was their major concern, which was why they allowed the domestic oil companies to raise the prices of oil products in mid-November. Tanaka's participation in policy-making altered the whole nature of the emergency measures.

Second, Tanaka fixed the time schedule for preparing the emergency measures. The prime minister instructed MITI to produce the legislation bills as quickly as possible. MITI officials understood that Tanaka wanted to submit the bills at the very beginning of the coming Diet. MITI had no opposition. The measures needed inter-departmental coordination, which required time. MITI, notably the task force in ANRE, led inter-departmental coordination of the petroleum bill. They were allowed to use the prime minister's official residence while the cabinet councillors' office arranged the meetings. With such arrangements and the pressure of time provided by the prime minister, MITI managed to resolve and in some cases overwhelm the differences and opposition amongst the departments [interview (32)].

Tanaka promoted the coordination for the national life bill even more strongly. Masaharu

Gotôda, administrative deputy chief cabinet secretary, was put in charge of inter-departmental coordination for this bill. He called meetings of the directors-general of the ministerial secretariats from the departments concerned. This *ad hoc* committee coordinated the bill at the top level of officials. Initially Tanaka suggested that EPA should be in charge of the national life bill. EPA was responsible for price policy in general, and its function in the government was to conduct inter-departmental coordination, as explained in pages 131 and 132 of chapter three. The prime minister was legally the 'competent minister' of the EPA, as it came under the PMO. Tanaka could have directly commanded the coordination himself through the EPA. Yet he chose to resort to the cabinet secretariat to accelerate the compilation of the national life bill. Tanaka's strong involvement was observed in framing the schedule and arranging the coordination bodies.

5. CONCLUSION

Tanaka exhibited 'optimal' behaviour in fiscal policy up to late November 1973 and in domestic oil policy, whereas his behaviour was 'sub-optimal' in foreign policy and fiscal policy after late November 1973. This chapter partly confirmed that Tanaka was an active interventionist in some of the policy-making games, as his reputation suggested, and it has revealed various routes and channels he resorted to. Yet it also showed that Tanaka

could not take an active part in other policy-making games.

In foreign policy Masayoshi Ôhira, the foreign minister, pursued a different policy from Tanaka's. MOFA was split and thus officials could not assume any lead in this policy-making game. The LDP was much closer to Tanaka's policy preference. Tanaka's private secretary, seconded from MOFA, informed the prime minister's views and pushed MOFA officials to take action. MOFA eventually deviated from its minister's policy and conceded to domestic pressure. However, Tanaka clearly stayed out of Ôhira's jurisdiction. Ôhira was the cornerstone of the alliance that won Tanaka's leadership. He was indispensable for Tanaka's cabinet and for him retaining his premiership. Ôhira enjoyed autonomous responsibility in foreign affairs. Tanaka did not want to intervene and override his key ally.

In fiscal policy, Kiichi Aichi, the finance minister until his death on 23 November, had reservations about Tanaka's expansionary fiscal policy, while Takeo Fukuda, Aichi's successor, declared a policy distinct from the prime minister's. MOF had two forces: one being positive about Tanaka's policy and the other more reluctant. Few directly expressed their concern to the prime minister. The majority of the LDP followed Tanaka's policy initially, although more sceptical voices were heard as the crisis developed and sympathy with Fukuda increased. Tanaka's participation was phenomenal during Aichi's

ministership. A clear exercise of power was observed in the earlier period. Aichi was personally sceptical. Yet he fully supported Tanaka publicly. He was appointed to the ministership from Tanaka's own faction to support him in the government. Preferences in the office-keeping game transcended Aichi's policy preferences. Tanaka directly instructed senior MOF officials, often in detail, to advance an expansionary fiscal policy. This style changed after late November. Tanaka gave his word to Fukuda that he would not intervene in fiscal policy. It was a *quid pro quo* to contain Fukuda in cabinet and make him share responsibility for fiscal policy. It was sub-optimal not to intervene and change the courses of policy when they were clearly inconsistent with Tanaka's own policy preferences. Yet it was optimal for Tanaka to accept his key ministers' policies once the policy-making games were put into a broader political context, namely in the office-keeping game.

Domestic oil policy was intriguing. Yasuhiro Nakasone, minister for trade and industry, and many of MITI's officials were in accordance with Tanaka. They proposed different ideas for the details of the policy, though they all agreed on the necessity of introducing strongly regulative legislation to the Diet. The LDP murmured about the lack of consultation and details of the measures, though it was overall supportive of the government. The lack of any clear conflict of policy preferences between actors made it difficult to assess power relations. Superficial observation might indicate Tanaka was

pushing at an open door. However, close investigation found Tanaka's pivotal role in facilitating the formulation of his preferred policy. Tanaka created a promoting headquarters, which was effectively an enlarged ministerial committee, attended also by senior LDP officers and civil servants. He exhibited his policy preferences clearly and by achieving consensus at this body attendees committed themselves to his policies. The function was similar to the British way of cabinet and cabinet committees, which provided an advantage to the prime minister. Tanaka's key role was to set the time framework for the departments to deliver the two emergency bills. He fully utilised his deputy chief cabinet secretary and the cabinet secretariat to promote coordination between departments. Tanaka also gave direct instructions to civil servants. This case demonstrated a whole range of routes in the core executive and the departments through which the prime minister could intervene and play a vital part in the policy-making game.

Tanaka was known for his strong personality, receiving the nickname of 'bulldozer equipped with a computer'. Strong prime-ministerial intervention was anticipated and indeed half of the cases confirmed this prediction. They revealed the institutional potential of the prime minister in Japan. Nevertheless, in some cases Tanaka, the 'strong' personality, could not intervene. The cause was not that he did not have interest and time or faced resistance from the civil servants. It was because intervention would have been disadvantageous, considering his own political preference and strategy in the

office-keeping game. Tanaka's behaviour, which ostensibly appeared sub-optimal, was in fact optimal in the wider context of politics.

CHAPTER VII

LOOK LEFT, LOOK RIGHT. DIVIDED PARTY AND DIVIDED CABINET – JAMES CALLAGHAN AND THE LABOUR PARTY: APRIL 1976-NOVEMBER 1977

The power of the Labour party leadership, notably the parliamentary Labour party (PLP) leadership, has been a fascinating matter of dispute in British political science. Robert McKenzie (1955; 1964) argued for the similarity of performance between the Labour and Conservative prime ministers despite their parties' organisational differences, while Lewis Minkin (1980, 1991) with others cast doubt on such a straight conclusion, contending that the power of the PLP leadership within the party depended on more contingent factors.

This chapter examines James Callaghan's premiership (1976-1979). Section one describes the deep trouble Callaghan faced in the Labour party. As a British prime minister he enjoyed various power resources with the additional benefit of a policy unit, which Heath lacked. Section two looks into oil-sharing within the EEC. The following section addresses the IMF crisis, which placed enormous pressure on the Labour government.

The following section examines the relationship between the government and the oil companies in developing the North Sea resources. How the office-keeping game affected Callaghan's power-exercise in the policy-making games and whether the formal power

resources saved Callaghan from intra-party pressure are the key issues.

1. OFFICE-KEEPING GAME

The leadership election that eventually chose James Callaghan as leader of the PLP and prime minister came suddenly, when Harold Wilson announced his retirement in March 1976. On the left of the party stood Michael Foot and Tony Benn, while James Callaghan, Roy Jenkins, Denis Healey and Tony Crosland were regarded as candidates from the right. The first ballot saw Foot gaining most votes, 90, followed by Callaghan's 84, Jenkins' 56, Benn's 37, Healey's 30 and Crosland's 17. Finally, the third ballot showed Callaghan winning 176 against Foot's 137. Callaghan's votes derived from the centre and right of the party with some soft-left support (Callaghan, 1987: 394; Morgan, 1997: 474). Callaghan was, in Holmes' expression (1985: 79), 'the leader least objectionable to the parliamentary Labour Party as a whole in that the left preferred him as leader to Healey, Jenkins or Crosland and the right preferred him to Foot or Benn'. Callaghan himself was confident of his victory throughout the campaign (Callaghan, 1987: 392). The diverse allocation of the votes in the ballots, nevertheless, showed the profound division between the right and left in the party.

The cabinet led by Callaghan included all the other leadership contenders. Foot was appointed leader of the House of Commons. Jenkins, Benn and Healey remained in their respective old offices, namely home secretary, energy secretary and the chancellor of the exchequer. The office of foreign secretary became vacant after Callaghan himself moved out. Jenkins was keen to take over the post and was almost certain that Callaghan would offer it to him (Jenkins, 1991: 441-2). In fact, Crosland was appointed to the office. Jenkins being an enthusiastic and leading pro-European, Callaghan calculated the difficulties and uneasiness of appointing Jenkins as foreign secretary (Callaghan, 1987: 399). There were major alterations in the cabinet during the years ahead. Jenkins, being disillusioned, moved out to become president of the European commission in September 1976 and Crosland died to be succeeded by David Owen in February 1977. Despite the loss of two senior centre-right wing figures, the Callaghan cabinet ‘was a solidly centre-right Cabinet in which Tony Benn was effectively isolated and neutralized’ (Morgan, 1997: 480). Barbara Castle, a convinced left-winger, was sacked from the cabinet when Callaghan came into office. Only six out of the twenty-three cabinet ministers could be counted as being from the left wing of the party.

The PLP leadership was desperate for close consultation with the trades union. The former’s understanding was that the discrepancy between the party and the trade union movement was the reason for the Labour party’s defeat in the 1970 general election,

whilst the Labour party was able to win the two general elections in 1974 because of the public expectation that the Labour party would be able to handle the trades unions. Disputes with the trades unions had torn apart the previous Conservative government, which terrified the PLP leadership (Burk and Cairncross, 1992: 13-4). The trades unions had moved to the left up to the early 1970s and supported the left-wing alternative economic strategy. When the Labour party resumed power in 1974, the trades unions led by Jack Jones and Hugh Scanlon saw more value in the survival of the Labour government and the maintenance of the incomes policy, which had been agreed between the Labour government and the trades unions (Wickham-Jones, 1996: 150, 153-4). ‘Social contract’ was the denotation given to this agreement (Pimlott, 1992: 610 and 634-5).

In contrast to the tendency to the right in the cabinet, Callaghan faced fierce divisions in the Labour party between the left and right, although neither was united. Left-wingers tended to occupy the internally significant party committees, which became highly critical of government economic policy. Benn wielded influence in the party not only by being a cabinet minister but by also chairing both the home policy committee as well as the industrial sub-committee of the NEC, although he did not enjoy as wide support as Foot did in the left and in the trade union movement (Wickham-Jones, 1996: 120-3). In cabinet Callaghan was the most experienced member, having held the three major offices in government, namely the chancellor of the exchequer, the home secretary, and the foreign

secretary. Only Michael Foot had been similar in votes in the leadership election.

Accordingly he was in a stronger position than any individual cabinet minister including Healey, Benn, Crosland, and later Owen. However, being a minority government, which eventually had to forge the pact with the Liberal party in March 1977, the division within the party adversely affected the prime minister's patronage and balance of power in the cabinet and the Labour party.

2. FOREIGN POLICY: OIL-SHARING IN THE EEC

2 (i) **Emergence of the Oil-Sharing Scheme in the EEC**

An emergency oil-sharing scheme for the EEC had been an issue after the oil crisis in 1973 and notably after the International Energy Agency (IEA) had set up its own oil-sharing scheme. The overt aim of the EEC scheme was to supplement that of the IEA, as France was not a member of the latter body [interview (64) (66)]. The difference between the IEA and the EEC proposals was that the EEC member states and the European commission showed an interest in sharing North Sea resources offshore Britain, as they did for fishery. Cooperation with and autonomy from the EEC were the issues.

The emergency oil-sharing scheme did not stand on its own in EEC energy policy. It was amongst a range of energy policies proposed by various actors (Arnold, 1978: 278; see also Ray, 1975: 14-6; Deese and Miller, 1981: 186-93; and Cowhey, 1985: 216). Initially the reason the EEC could not reach agreement on the oil-sharing scheme was because of mutual vetoing between Britain and France (Schneider, 1983: 341; *Bulletin of the European Communities*, No.3, 1976, point 2281). Britain insisted on a floor price for oil, namely a minimum safeguard price (MSP). France claimed such a measure would benefit merely the resource-rich countries and instead required greater financing for Euratom nuclear projects (Lucas, 1977: 71; Schneider, 1983: 340). In December 1976 the EEC energy commissioner, Henri Simonet, argued that Britain should drop its insistence on the MSP and suggested that it should invite the EEC member states to take part in the development of the North Sea (*The Financial Times*, 23 December 1976; *The Times*, 23 December 1976). Such an idea as sharing control over North Sea resources caused grave concern in Britain [interview (68) (2) (80)].

The process of setting up an emergency oil-sharing scheme was far from smooth. The energy council reached a formal agreement on the establishment of the oil-sharing machinery on 14 and 15 February 1977. The council agreed on the principle of exporting crude oil and petroleum products from one member state to another during shortages of supply. The scheme was for the short-term, targeting troubled member states. Although

this development was a step forward, the proposal presented by the commission had another aspect for the oil-sharing scheme, which the council failed to agree: the establishment of a specific energy-savings target. This provision indicated that when supply was short all member states would share the burden and therefore that a member state, by reducing its own energy consumption, should supply energy resources to others who would be short of supply. The proposal had two stages; the initial stage would cover the first two months of the crisis by cutting 10 per cent of the EEC's oil consumption and the second stage would be a further cut if the crisis deteriorated. In June 1977 at an energy council meeting, Dickson Mabon, the energy minister, resisted this second phase, since it involved majority decision-making by the council of ministers and the loss of the British veto (*The Financial Times*, 15 June 1977; *The Times*, 15 June 1977).

2 (ii) Benn Rejects the Oil-Supply Guarantee

The emergency oil-sharing scheme was embedded in other issues. The deadlock started to break in March 1977. At an energy council meeting the delegation led by Tony Benn softened its demand for the MSP and showed signs of dropping its rejection of the French-supported Euratom loan to finance the construction of nuclear power stations (*The Financial Times*, 30 March 1977). The British government had revised its priority in the EEC. The rejection of the Euratom loan had been retaliation against French opposition to

the MSP. However, the price of crude oil was well above the price suggested as a potential level for the MSP and was thus not seen as a crucial instrument. Besides, another issue arose: the JET scheme.

The JET scheme, the Joint European TORUS, was a thermo-nuclear fusion project of the EEC, whose site needed deciding. The British government was keen on winning the scheme for Culham in Oxfordshire. Callaghan committed himself to the issue from an early stage (Callaghan, 1987: 327-8). His attitude towards the EEC was of lukewarm support, being more of ‘a firm believer in the Atlantic Alliance’. Knowing Britain would soon become a major oil producer, Callaghan did not want the EEC to constrain Britain’s North Sea oil policies [interview (16) (73)]. He saw the significance of the EEC not as a matter of economic advantage but as a political issue; Britain needed the EEC so as not to be marginalised in world politics (Callaghan, 1987: 305). Britain and the Labour party in particular had been divided by the issue of Europe for years, which a referendum settled in 1975. Notwithstanding there was no real threat to leave the EEC in the party by then, the EEC needed another push to convince the British public. Callaghan (1987: 327) put this point, ‘I was looking for some incontrovertible and tangible proof that Community membership could provide Britain with a benefit that would not otherwise have accrued to us’.

Between the summer and autumn of 1977 the Labour party was going through yet another dispute over Europe. It was triggered by the government's support for a directly elected European parliament, the legislation for which needed to go through the British parliament. In late May the left-wing Tribune group put out a statement requiring Britain to withdraw from the EEC, while the Common Market safeguards committee, an anti-EEC body within the Labour party, published a vigorously anti-EEC pamphlet. The NEC adopted a document severely critical against the EEC. Benn attended the press conference of the Common Market safeguards committee and chaired the subcommittee that prepared the NEC document. Although it was a free vote, six cabinet ministers and twenty-six junior ministers voted against the government's preferred outcome in the second reading of the European assembly elections bill (*The Financial Times*, 3 June, 15 June, 8 July 1977; *The Economist*, 6 August 1977; *The Times*, 3 June, 8 July 1977). David Owen, the foreign secretary, implicitly criticised the anti-EEC movement, yet there was no discipline on Benn by the prime minister (*The Financial Times*, 4 June 1977; *The Times*, 4 June 1977). Because the Labour party was in a minority in the Commons, it had to form a pact with the Liberals in March 1977. Callaghan did not want to lose any of his own party's support when he faced major problems domestically. Although the controversy was much less heated than in 1975, he would have liked to see the dispute pass away without creating a large embarrassment for the party and his government [interview (70)].

Settlement of the emergency oil-sharing scheme was finalised on 25 October 1977, the same day Britain won the JET programme for Culham. Because of the effort to gain the JET scheme, the British government withdrew some of its controversial positions, namely the demand for the MSP and rejection of the Euratom loan. This movement cleared the way for the oil-sharing scheme. The blockade of the oil-sharing scheme disappeared for the sake of the JET scheme. In fact, the agreement on the oil-sharing scheme did not depart much from the British or indeed Benn's position. Oil was, in any case, not a matter of emergency by then (Cheshire *et. al.*, 1977: 51).

This agreement did not satisfy the other EEC member states and the commission. It only alleviated their concerns, although *the Bulletin of the European Communities* (No.10, 1977: 31) proudly declared 'The Community is therefore now provided with the legal instruments which were so sadly lacking during the 1973 crisis and will now be able to bring solidarity between Member States fully into play should a similar crisis occur again'.

The agreed proposal provided 'that the Council may, on a proposal from the Commission, *unanimously* [my emphasis] decide on any other measure to ensure optimum supplies of crude oil and petroleum products for the entire Community' (*OJ*, Vol.20, No.L61, 5 March 1977, 23-5; *Bulletin of the European Communities*, No.12, 1976: 63). Unanimity implied the possibility of a veto. Unanimity made it unable to decide on anything controversial, which might damage the autonomy of even a single participant of the deal

(Wilson, 1989: 269). Unanimity, namely the possibility of a veto retained by the resource-rich countries, could undermine the whole concept of the EEC as a single entity in energy supply and consumption. One of the major objectives set by the EEC was to reduce dependence on imported energy from outside the Community.¹ This target would have made sense only if the condition was fulfilled that a member state, either an energy producer or a holder of excessive energy, would pass its resources to its troubled fellow member state(s). The British delegation ‘was not prepared unconditionally to accept mandatory cuts of more than 10 per cent in normal consumption. Britain reserved the right of veto if she thought that the cuts in such circumstances jeopardized national interests’ (Arnold, 1978: 279; *The Financial Times*, 26 October 1977).²

The commission kept asking Britain to guarantee oil and gas supplies to the other member states in an emergency. A reduction of Britain’s oil stocks was offered in exchange for the supply guarantee (*The Financial Times*, 23 December 1977). In December 1977 EEC energy ministers attempted to set a target for future energy consumption (*The Financial Times*, 14 December 1977). Benn strongly rejected all such proposals that would restrain Britain’s control and possibly concede control to the EEC. His attitude was overtly hostile, though neither the FCO ministers nor its officials directly intervened to tone down Benn’s

¹ For instance, in a communication sent to the council on 29 September 1976 the commission stated the purpose of this communication was ‘to work towards a broad agreement on the two main points: reduced Community dependence on imports and the security of imports’ (*Bulletin of the European Communities*, No.9 1976: 42).

² The British delegation also won a concession that oil for power stations was the only type of oil to be

approach. The Labour government resisted any claim by the EEC to guarantee the normal supply of oil to its EEC counterparts.

2 (iii) Analysis

The policy outcome was ambivalent. An agreement was indeed reached and an oil-sharing scheme which mirrored the IEA scheme was established to share the burden of any disruption of oil supply within the EEC. However, Britain retained its veto and autonomy. It hardly provided measures to make the EEC a single entity for energy and to secure normal oil supply in an emergency for the troubled member states. Britain, represented by the energy secretary, took a reluctant and somewhat antagonistic position, which caused frustration amongst the other member states and the commission.

The FCO was not the lead department in dealing with 'British' oil even though it was discussed in the EEC. DEn and its ministers represented Britain in the EEC ministerial councils. The FCO agreed with Benn by refusing the argument that North Sea oil belonged to the EEC as a whole. Yet pro-EEC officials disliked Benn's hostile attitude to the EEC. Nevertheless, the issue was scarcely raised to ministerial level in the FCO [interview (64)]. FCO ministers were not as pro-EEC as some of their officials [interview (78)]. More importantly, David Owen, the foreign secretary was just promoted to the post

re-allocated in the event of emergency (*The Financial Times*, 26 October 1977).

in February 1977 from a junior ministership in the FCO. There was little to gain from becoming involved in a dispute with a senior controversial cabinet minister as Tony Benn [interview (78)]. Without a clear intention and support from the prime minister, to which Owen was sensitive, he had no incentive to oppose Benn. The FCO was a side player in this issue.

Callaghan did not publicly indicate his policy preference over EEC oil policy, although an aide in 10 Downing Street revealed in an interview that Callaghan wanted to avoid any agreement that would restrain the North Sea oil policy of the British government [interview (73)]. On the other hand, he was hesitant in displaying hostility against cooperation in the EEC, because government policy, following the result of the referendum, defined Britain as remaining in the EEC. His views were lukewarm though cooperative towards the EEC.

The policy outcome was on the whole in accordance with Callaghan's policy preference, yet it still showed an inclination to deviate to a degree to be anti-EEC. Nonetheless, Callaghan did not engage himself in this policy-making game. One reason for this 'indifference' was that the issue did not relate to a major and urgent matter to be dealt with. The oil crisis in 1973 still had an impact on the political economy though the peak was over and the 1978-80 crisis caused by the Iranian revolution was yet to come. There

were various other issues Callaghan had to face in the mid to late 1970s, such as incomes policy, fiscal policy, the Lib-Lab pact and the Scottish and Welsh devolution bill with others (Callaghan, 1987: 462 and 475).

The other reason is he did not wish to intervene in EEC policies, because of the divisions in the Labour party and the cabinet over the EEC. Although Benn's policy was slightly deviating from Callaghan's and annoying for the pro-European members of the party, Callaghan did not want unnecessarily to rock the boat by showing and imposing his own policy preference on Benn. Benn had his own support in the party although Callaghan believed he could control and, if necessary, sack him (Donoughue, 1987: 14). What he wanted to avoid was telling Benn to be less hostile to the EEC and then to have Benn turning around to the party and saying that he was under pressure for his anti-EEC attitudes. Callaghan was careful in keeping the balance within his party [interview (76) (78)]. He could overlook this little deviation, considering his general contentment, lack of time and party-political sensitivity.

3. FISCAL POLICY: IMF CRISIS AND CONTROLLING PUBLIC EXPENDITURE

3 (i) Callaghan Backs his Chancellor

In April 1976 when James Callaghan became prime minister the sterling slide had already started, later known as the IMF crisis (see Table A.11). BOE's two movements *de facto* triggered this slide. On 4 March it intervened in the currency market by selling sterling and on the following day lowered the minimum lending rate (MLR) by 0.25 points to 9 per cent. Whatever the real intentions of the British financial authorities, the market interpreted this movement as a sign by the government not to support sterling at its current rate: namely as a sign to depreciate sterling (Dell, 1991: 205; Harmon, 1997: 116-9 and 132). On 2 April it was revealed that March had seen the largest ever fall of the reserves in a single month, amounting to the total of £598 million. The value of sterling began to drop suddenly and rapidly. The international financial markets started to state its distrust of the Labour government, which was effectively what the fall in sterling from March 1976 indicated (Dell, 1991; Burk and Cairncross, 1992: 32). Whether or not the market's judgement was right, sterling was dropping with extreme speed.

The Callaghan government announced on 7 June 1976 a standby credit of \$5.3 billion

agreed with the central banks of nine countries, with the US Treasury and the Bank for International Settlements (BIS). This standby credit was to expire in three months, which could be extended for only another three months. The conditionality of the standby credit was not publicly expressed, although the British government was expected to achieve a substantial reduction in the PSBR to regain the confidence of the international financial community (Harmon, 1997: 144-153; Dell, 1991: 219-20). There was strong pressure from the US financial authorities. They believed it was time to convince the British to take firm action (Burk and Cairncross, 1992: 37-46; Fay and Young, 1978: 8-9). Opinions existed in the British government to go straight to the IMF but Callaghan explained, 'I think they would demand things that we wouldn't be prepared to yield to them' (Benn 1989: 588; see also Healey, 1989: 427-8). As Kathleen Burk and Alec Cairncross (1992: 45) illustrated;

'The point of the stand-by credit was to buy time, either (as the Cabinet hoped) to allow the measures already taken to work, or (as the Americans hoped) to allow the British to cut public expenditure and mop up excess liquidity'.

Opposition to a substantial expenditure cut rose both from the right and the left in the cabinet. The trades unions threw doubt on the Treasury's argument and sought import controls (Harmon, 1997: 155-6). Because of strong opposition in cabinet and the party, Callaghan decided to play the game long and let ministers express their views without imposing his own preference. However, it was obvious to the Treasury ministers that Callaghan would come down on the chancellor's side at some stage [interview (67)]. As

Edmund Dell (1991: 226) wrote, 'Callaghan was a new Prime Minister, determined to get his way'. The final result of the cabinet discussion was to cut public expenditure by £952 billion and raise national insurance contributions (NICs) by 2 per cent, which would eventually bring down the PSBR to £9 billion.³ The final expenditure cuts were far below what the Treasury considered to be necessary, which disappointed its officials, and therefore the NICs' rise was a complement to the reduced expenditure cuts (Fay and Young, 1978: 17) [interview (71)]. Joel Barnett explained in an interview, 'I thought we were doing as much as would be necessary, and I also knew the political problems of trying to do even more. ... I knew we couldn't go further' (see also Pliatzky, 1982: 150-1).

Unfortunately the trick did not work. Sterling started falling yet again in late summer 1976. During the first week of September the BOE had to withdraw \$515 million from the \$5.3 billion standby loan. The credit withdrawn from the standby credit amounted to \$1.6 billion, which had to be repaid by 9 December (*The Financial Times*, 5 October 1976; Browning, 1986: 81; Fay and Young 1978, 1: 35). On 9 September the BOE ceased intervention altogether on the authority of the chancellor.

³ Healey also proposed setting a money-supply forecast, though not a target.

3 (ii) Unconvinced Prime Minister

Sterling continued its slide throughout September. Application for the IMF loan became unavoidable. Callaghan was not convinced that another major expenditure cut was indeed necessary. According to Kenneth Morgan, the policy unit briefed Callaghan on 5 November arguing, 'Deflation was "an entirely inappropriate response to our current problems"' ('The I.M.F. Negotiations' (PU/229), 5 Nov. 1976 (Callaghan Papers, box 13) cited in Morgan, 1997: 546). Callaghan and certainly his policy unit were initially much closer to Tony Crosland's view. Public expenditure had been cut three times, namely in December 1975, March and July 1976, while the government and the trades unions had just agreed to another round of incomes policy in the summer of 1976. Time and not further major cuts were needed so that the existing policies could work. Callaghan was also politically worried. According to Healey's (1989: 430) observation, 'He [Callaghan] had been badly bruised by the Party Conference, and seemed uncertain whether it was economically right or politically possible to make more cuts in public spending'. Callaghan's speech at the Labour party conference on 28 September was a warning against inflation and that the days of over-borrowing were over. It did not go down well. In contrast, Callaghan's closest sources coincided in their views to the contrary; Callaghan, striving to support the chancellor, always thought a substantial expenditure cut would be inevitable although he was not confident about its extent and nature (Callaghan,

1987: 422-3; Donoughue, 1987: 94-5) [interview (73) (75) (93)]. (Ex-)Treasury ministers, such as Edmund Dell (1991) and Joel Barnett (1982: 101), were less convinced that Callaghan was ready for the cuts from the beginning [interview (67)].

In the Treasury two groups existed: (1) Sir Leo Pliatzky, the second permanent secretary leading the public expenditure side with Sir Douglas Wass, the permanent secretary, who were aware of the political difficulties in reducing the PSBR and (2) Sir Derek Mitchell, the second permanent secretary leading the overseas finance group, who insisted on a larger reduction in public expenditure to regain international confidence. This division had already been evident during the debate in July (Holmes 1985: 88-9; Harmon, 1997: 152). However, it was even more explicit in the autumn of 1976 (Healey, 1989: 430; Burk and Cairncross, 1992: 71). Joel Barnett, the Treasury chief secretary, preferred overkill this time, as ‘Apart from anything else, Denis’s credibility with Cabinet, let alone elsewhere, was pretty low, so this package had better be the last one’ (Barnett, 1982: 100). The Treasury was not speaking with one voice.

Callaghan respected the constitutional role of the Treasury and was determined to support Healey. From his own experience as chancellor he felt a chancellor, isolated in cabinet, deserved support from the prime minister [interview (73) (75) (93)]. Besides, as Callaghan (1987: 435) himself explained, ‘At a pinch we could afford to lose the

Secretary for Energy, or in extremis even the Foreign Secretary, but the Government would not have survived the resignation of the Chancellor'. Yet he was suspicious of the Treasury's policies and figures, since they tended to show, he believed, a gloomy picture and recommended excessively deflationary policies. However, Sir Douglas Wass in an interview recounted; 'To some extent, though only to some extent, ..., I agreed with Crosland that the situation did not call for fundamental reform or major policy change. It called for restoration of stability and called for minor changes. And therefore my objective of the negotiation was to persuade the Fund that we shouldn't have a complete change of policy but an adjustment'. Callaghan did not find the 'Keynesians' in the Treasury as his allies.

The prime minister initially sought to gain backing from the United States and West Germany. Callaghan believed he could resort to their political leaders, considering their previous support for him [interview (19)]. Callaghan wanted to soften IMF's conditions and reach an agreement on the sterling balance, which was to do with the sterling's status as a reserve currency. It is, however, not beyond question whether Callaghan really saw 'the IMF loan was subsidiary to this priority' as Fay and Young (1978: 25) put it. The Treasury side agreed that Callaghan was convinced the sterling balance was the problem (Barnett, 1982: 101; Healey, 1989: 430; Dell, 1991: 252-3) [interview (71)]. Yet, again, Callaghan's advisers took different views. Lord McNally, Callaghan's then political

secretary, stressed 'I was never in any doubt that he saw the IMF loan as the, if not the only, show in town, the most likely one. And that was the one he had to concentrate on'.

According to Lord Donoughue, head of the policy unit at the time, Callaghan believed the sterling-balance problem increased the volatility of sterling and kept it his agenda ever since he was chancellor in the 1960s. Yet he expressed in an interview, '[sterling balance] was an important issue but a side issue'.

In mid-November Callaghan sent Harold Lever to Washington. Lever was a financial expert promoting a sterling-balance solution and urging borrowing through the crisis. Yet Callaghan was not optimistic about Lever's visit. Lord Donoughue recounted in an interview;

'But it was another thing that had to be ticked off in the list, since some people, Lever, Crosland and Keynesian economists said that, if you went to America and talked to them and got a loan [and] so forth, you wouldn't have to do this cut. It was necessary to try that out. ... What the prime minister was doing was he started with a whole range of possible options being proposed by all kinds of people and slowly they were eliminated'.

It was a necessary step to eliminate the possible options and convince the advocates of 'sterling-balance agreements' and of 'borrowing-through', possibly including Callaghan himself, that they were not realistic options. Lever's trip ended in disappointment (Burk and Cairncross, 1992: 82). Neither the Ford administration nor the Schmidt government could deliver the support Callaghan had wished to obtain.

3 (iii) Cabinet Government or Policy Disarray?

The cabinet was divided into four groups: the left, the social democrats, the Treasury team plus others and the 'King's party' (Morgan, 1997: 545-6; see also Harmon, 1997: 175-6, 185-7; Donoughue, 1987: 90). The left was composed of Foot, Benn, Shore, Silkin, Booth and Orme. They were against the expenditure cuts, which they believed were deflationary, and instead favoured the alternative economic strategy. They differed amongst themselves, though mainly supported import controls or import deposits. It was effectively a policy for a siege economy. The social democrats, led by Crosland, included Williams, Hattersley, Mulley, Rodgers and Lever. They insisted massive borrowing was possible on the basis of existing policies. They agreed with the left that a substantial expenditure cut would be deflationary with the already high level of unemployment and it would instead increase expenditure because of the rise in unemployment benefits (see Table A.4). The Treasury group, namely Healey, Dell and Prentice argued a reduction of the PSBR, mainly through public expenditure cuts, was necessary to restore confidence in the financial communities. They opposed import controls, which would provoke retaliation from other countries, and said that the United States and West Germany, who were major voices in the IMF, would not accept such behaviour. The 'King's party' was comprised of those who owed their positions to the prime minister and were expected to follow the direction he would take. They included Lord Elwyn-Jones, Mervyn Rees, Bruce Millan,

John Morris and Fred Peart.

The IMF mission arrived in London on 1 November, though Callaghan did not allow the British Treasury to start negotiations for weeks. This delay was to make a public exhibition of them, as described by Derek Mitchell, 'to reassure the Cabinet and the Parliamentary Labour Party that the Treasury was not in thrall to the IMF' (quoted in Burk and Cairncross, 1992: 70). Callaghan contrived to resolve the differences, especially, between the social democrats and the Treasury group. An informal meeting was held at 10 Downing Street on 18 November, for which Callaghan called in Healey, Crosland, Dell and a few Treasury officials with others. Characteristic about this meeting was that the left was not invited. Yet the two groups could not reach any common ground (Dell, 1991: 256-8; Burk and Cairncross, 1992: 85).

The cabinet eventually authorised the Treasury to start its negotiations with the IMF team on 19 November. The negotiations with the IMF and discussions within the cabinet and the cabinet economic strategy committee proceeded parallel to each other. The IMF team's proposal was to reduce the PSBR by £3 billion in 1977-78 and £4 billion in 1978-79. Leo Pliatzky (1982: 152), the Treasury second permanent secretary in charge of public expenditure, made it plain when he expressed, 'It was never on the cards that Treasury Ministers would put such proposals to Cabinet, let alone succeed in getting

approval for them'.

On 23 November the chancellor instead put forward a plan to cut the PSBR by £1.5 billion from £10.5 billion to £9 billion. £500 million would be raised by the sale of the BP shares. Crosland and Hattersley started arguing for protectionism and an import deposit scheme (Benn, 1989: 653-4; Crosland, 1982: 379). Donoughue calculated that the opposition against the Treasury proposal in cabinet was '15 ministers at a rough count' (cited in Morgan, 1997: 546). The Treasury proposal was not accepted. The meeting ended inconclusively. Callaghan showed no commitment to any side.

Yet the opposition forces did not advance to a united front but instead disintegrated. The social democrats attempted to join forces with the left, which did not materialise (Crosland, 1982: 379; Burk and Cairncross, 1992: 88-9). Meanwhile, the right, initially gathering around Crosland, gradually started dispersing. Rodgers detached himself from the group after Crosland suggested threatening the United States and West Germany by mentioning the withdrawal of the British Army in West Germany. Lever and Williams became wary of the import restrictions sought by Crosland and Hattersley, which was against their belief in the principle of free trade. Crosland's position was disintegrating (Crosland, 1982: 380-1; Harmon, 1997: 203). Callaghan took the advantage of holding a private talk with Crosland when attending the European council at The Hague on 29 and

30 November. Callaghan revealed that he was to support Healey at the next cabinet meeting. On 1 December Crosland changed his position (Crosland, 1982: 381; Harmon, 1997: 204). With Crosland's support Callaghan knew 'I would be able to secure a majority in Cabinet for the Chancellor's approach. I could therefore declare my hand without the necessity of delivering an ultimatum to the Cabinet' (Callaghan, 1987: 439).

On 1 December the IMF managing director, Johannes Witteveen, arrived in London secretly. The discussion between Callaghan–Healey and Witteveen was tense and harsh, almost bringing down the whole negotiation. However, during the meeting Callaghan finally declared for the first time in autumn 1976 his support for his chancellor in reducing the PSBR by £1 billion in 1977-78 (Healey, 1989: 431; Morgan, 1997: 547-8). Sir Douglas Wass, permanent secretary of the Treasury, viewed these meetings with Witteveen to be critical in determining Healey and Callaghan's minds [interview material]. Lord Donoughue recalled;

'[Callaghan] knew he couldn't do nothing, because that would destroy the currency. But ... I felt that for a quite a while he was not clear in his own head ... He never showed his own hand, and I think it was rather typical of him, but I think it was because he was not quite clear. And then late November – early December he suddenly seemed to know'.

On the same day Callaghan met Len Murray, the TUC general secretary, and Jack Jones, a prominent leader of the TGWU. Jones, in particular, expressed deep concern about the effect of the expenditure cuts on the social contract, but encouraged Callaghan to pursue his policies and maintain the Labour government (Callaghan, 1987: 437-9; Harmon,

1997: 202-3).

The cabinet on 2 December was decisive (Callaghan, 1987: 439-40; Harmon, 1997: 204-7; Morgan, 1997: 549). Healey submitted the same proposal as the one on 23 November. Callaghan overtly declared his support for Healey. Foot repeated his severe anxiety while Benn and Shore restated their policies based on import restrictions. Crosland's change of position determined the tide. He stated Treasury policy was, from his viewpoint, economically, socially and politically wrong. However, 'The unity of the Party depended upon sustaining the Prime Minister and the effect on sterling of rejecting the Prime Minister would be to destroy our capacity' (Benn, 1989: 674; see also Crosland, 1982: 381-2). The Treasury policy which the cabinet accepted was far less than the IMF had required. The IMF demanded further cuts, though at the end complied with the British government's proposal (Healey, 1989: 431-2).

3 (iv) Analysis

The outcome of the sterling crisis in 1976 was two massive reductions in public expenditure with a considerable rise in NICs and an introduction of targets for a domestic credit expansion. It was an unpopular policy in cabinet, the Labour party and the trades unions, even though the public expenditure cuts were far less than the IMF demanded.

Callaghan was ready for the expenditure cuts in the summer. He was against an unacceptable level, which the financial side of the Treasury suggested, though his understanding was to see through the necessary cuts at an earlier rather than a later stage.

The problem was the second cut in the autumn and winter of 1976. At the beginning when it became inevitable to go to the IMF, it is likely that Callaghan was not certain about the necessity of the expenditure cuts. Bitter was the resistance in cabinet and the Labour party from all sides and in the trades unions. However, when it became obvious that the expenditure cuts were a pre-requisite for the IMF loan and that Healey was convinced of its necessity, Callaghan's decision was to support Healey. With his personal feelings that prime ministers ought to support their chancellors, his judgement was that a cabinet would not survive a crisis with a sharp divergence between Healey and himself. As Lord McNally aptly pointed out in an interview;

‘There wasn’t going to be a resolution to the IMF crisis with Healey emerging triumphant, Callaghan defeated, or vice versa. They had to both emerge together. And that was quite a binding force in getting the policy through’.

To keep the chancellor and the IMF on board the expenditure cut needed to be substantial enough, while it could not be too large, as it might provoke total rejection in cabinet, the party and the trades unions (Donoughue, 1987: 97). Callaghan’s policy preference was shaped politically.

Even after Callaghan had made up his mind, he did not push his preference through the

cabinet. Apart from the fact that he himself was not certain about the amount and nature of the expenditure cuts, the majority of the cabinet was against a substantial reduction. He allowed all sides to participate and express their views. By so doing he exposed the chancellor in the cabinet and let him be bruised and fight against his opponents. This tactic was to put pressure on the Treasury to avoid draconian expenditure cuts [interview (73)]. On the other hand, he sought to obtain support from the US and German political leaders, who were more sympathetic than their financial authorities, to soften the conditions of the IMF loan and arrange a sterling-balance agreement. He waited until all of the other options disbanded. Only at the last moment did Callaghan show his support for Healey.

Callaghan's behaviour was sub-optimal for the policy-making game. First, Callaghan's initial preference was not to go through a further substantial reduction of public expenditure, which was contrary to Treasury policy. He succeeded in making the cuts smaller, though he could not impose his own policy preference. Second, although becoming convinced of the need for a massive expenditure cut, Callaghan still could not lead the cabinet to accept one in an overt fashion. He had to wait until all of the other options collapsed and oppositions disbanded. Callaghan's tactics and skills in keeping the cabinet and the Labour party from falling apart were outstanding. As Peter Hennessy (2000: 385) wrote, “1931” was a powerful code for the Callaghan cabinet’, when the

Labour party government had experienced the traumatic split. The cabinet, the PLP and the trades union did not reject the expenditure cuts, while the British government managed to gain the approval of the IMF with a far smaller amount of expenditure cuts than the IMF required. Callaghan's behaviour could be understood as optimal only taking into consideration the office-keeping game. As one minister recalled, 'survival' was the key goal of Callaghan's behaviour [interview (67)].

4. OIL POLICY: NORTH SEA OIL EXPLORATION POLICY

4 (i) **Tony Benn as Chief Negotiator**

James Callaghan altered the composition of the negotiating team on North Sea oil participation, when he came into office. The team, the North Sea re-negotiation committee, comprised ministers and officials mainly from the DEn and the Treasury (Corti and Frazer, 1983: 100; Benn, 1989: 417-8). On 4 May 1976 Callaghan changed the ministerial chief negotiator from Harold Lever, the Chancellor of the Duchy of Lancaster, to Tony Benn, the energy secretary. The prime minister emphasised there was no change in policy (*The Financial Times*, 5 May 1976; *The Times*, 5 May 1976). Callaghan also sent Dickson Mabon, a Scot, as minister of state for energy under Benn, with special

responsibility for the development of energy resources in the North Sea (*The Times*, 15 April 1976). He had been chairman of the centre-right wing Manifesto group of the Labour party. Mabon directly reported to the energy committee of the cabinet, attending it in his own right with Benn [interview (80) (93)]. The prime minister had put Mabon as Benn's deputy to restrain and monitor him [Interview (68) (73) (80)].

Harold Lever and Edmund Dell, paymaster general in the Treasury, had been the two main figures in framing North Sea exploration policies during the Wilson government.

The basic framework of North Sea exploration policy had already been established when Benn became chief negotiator. The white paper issued in July 1974 revealed strict regulatory measures over the oil companies operating in the North Sea. It stated the two major goals of the government were (1) 'to secure a fairer share of profits for the nation' and (2) 'to assert greater public control' (United Kingdom, Parliament, 1974: 4-5). Three practical measures were taken to achieve the objectives: (1) the passage of the petroleum and submarine pipelines bill, (2) the participation negotiations between the government and the oil companies and (3) the passage of the oil taxation bill. The implicit objective was to secure access to oil during a crisis and to control export to the other EEC countries (Benn, 1989: 417-8; *The Financial Times*, 7 December 1976). The oil companies stoutly opposed these policies and their suspicion centred on the term 'participation'. In negotiations with the OPEC countries the term indicated a form of quasi-nationalisation.

It generated grave concern amongst the oil companies (Nelsen, 1991: 49; Corti and Frazer, 1983: 96 and 125; Dell Papers, Bodleian Library, MS. Eng. C. 4831: 102, entry for 11 February 1975).

In distinct contrast to this white paper advocating stronger control over the oil industry, the initial government negotiating team contrived to alleviate anxiety amongst the oil companies. Eric Varley, the then energy secretary, had issued in 1974 the 'Varley assurances' or 'Varley guidelines'. He promised that the government would not order depletion cuts before 1982 on fields discovered before 1976. In parallel Lever stated in January 1975 that the government did not intend to increase its revenue through participation and would seek agreements that were financially neutral from the oil companies' perspective. It was an attempt to remove concerns about expropriation (Arnold, 1978: 153; Nelson, 1991: 52-3; Corti and Frazer, 1983: 121). This latter 'financially no better and no worse' principle indicated that the government would not enforce nationalisation without compensation. Compensation would have worsened the PSBR and the balance of payments, which were already in a horrific condition. Dell's understanding was, '[But] given that we are in this position I personally would be reasonably content with the tax alone because I am sure we can have the necessary control even without carried interest. But I would prefer to have carried interest, and it would be politically valuable to have it and I think it would give us far more detailed

knowledge of the oil company operation than we are likely to have without it'. Yet Dell was not prepared to buy carried interest 'at too high a price' (Dell Papers, Bodleian Library, MS. Eng. C. 4828: 64 and 125, entry for 7 June 1974 and 25 June 1974). He was ready, for instance, 'to see participation in the Shell/Esso fields, like Brent, deferred to some time in the future' (Dell Papers, Bodleian Library, MS. Eng. C. 4832: 1-2, entry for 18 February 1975). Effectively, the Lever/Dell/Varley line was through taxation and royalties 'to secure a fairer share of profits for the nation'. Participation for 'public control' was bound to be limited and nominal. Dell proudly claimed that Benn's arrival at the DEn was 'tolerable' only because of the scheme set by themselves (Dell, 1991: 144).

The oil companies became less concerned about the government's policy and the possibility of expropriation. However, some companies, notably Esso, became considerably hostile to the negotiation with the British government. Corti and Frazer (1983: 150-1) argued this change was because of the arrival of Benn to the scene; 'More specifically it seems that Shell and Esso perceived him as a man seeking to achieve control over the commanding heights of the oil business and who, given half a chance, would be attempting confiscation of oil property' (Corti and Frazer, 1983: 151). They saw a clear change in government policy with this appointment.

4 (ii) Tightening Government Control

Besides confiscation, the oil companies' concern was that participation would entail loss of oil and give confidential information to BNOC. As these oil companies had downstream activities, namely, refinery and domestic distribution networks in Britain, they needed the oil from the North Sea themselves. It would have been harmful if the oil were provided to their rival downstream operators. Senior executives from Shell explained that this concern prevented them from agreeing to the principle of participation (*The Financial Times*, 14 May 1976; *The Times*, 14 May 1976). The oil companies viewed BNOC with growing hostility. The complex if not contradictory roles of BNOC caused confusion. It possessed the roles of both judge and competitor in the North Sea industry; it monitored profits, prices, costs and exploration, acting as the agent of the government and providing it with expertise in oil business, while it operated as a commercial company (Arnold, 1978: 155-61; Lucas, 1982: 102; Nelson, 1991: 81-2). The government had always emphasised it wanted the oil companies to take part in the participation re-negotiation voluntarily. Nonetheless, some companies, in particular Esso, made it plain, 'If it's voluntary, we won't have anything to do with it. If it's mandatory, then of course I'll do it tomorrow' (Benn, 1989: 474; see also Arnold, 1978: 142-3; Nelson, 1991: 53).

Benn toughened the government's position from spring 1976. He linked the participation re-negotiation for existing licences to the approaching fifth round of the licence allocation. Lever had stressed this point earlier in February, yet Benn's attitude was more determined (*The Financial Times*, 14 October 1976). It was almost like asking for 'sergeant major's volunteers'. BP was the first of the three to reach an agreement, following a two-day meeting on 27 and 28 June between the government and BP. The agreement did not provide for a premium price, which BP asked for, but instead a buy-back scheme was agreed. It meant BP could buy back the same oil at the same market price by which it sold it to BNOC. It was confirmed that BNOC would not enter the downstream business before 1980, about which BP was also concerned, although it would keep the rights to carry out joint operations in the downstream business (Benn, 1989: 585-6; *The Financial Times*, 24 June, 2 July 1976; *The Times*, 24 June, 2 July 1976). The crucial moment was when BP felt confident that the government did not have the intention of nationalising the North Sea operation without compensation [interview (91)].⁴ A memorandum of principles was signed on 1 July 1977.

Resistance from Shell and Exxon was much fiercer than expected, especially from Exxon. Shell and Exxon were anxious about such issues as BNOC gaining the option to purchase 51 per cent of the North Sea oil they produced and the criteria of a crisis that would

⁴ BP also insisted the government sell off the BP shares it possessed through the BOE. It made the government share in BP 68 per cent.

override the agreement on buyback arrangements (*The Financial Time*, 14 September 1976; *The Economist*, 20 November, 14 September 1976). The latter issue was solved by a deal claiming that, as long as the companies met the oil demands of the British economy, the buy-back scheme was secured (*The Economist*, 8 January 1977; *The Financial Times*, 4 February 1977; *The Times*, 22 November 1977). Signing the memoranda of principles on 5 January 1977 was just in time for Shell and Exxon to claim their cooperation with the British government to avoid discrimination in the fifth round of licence allocation. Amoco, the last of the major three, failed to reach agreement with the British government and BNOC. Consequently, the government did not initially provide any licence for Amoco in the fifth round. Shell and Exxon were to provide information on production levels, refinery throughput and output, pricing policies and investment plans. It could be seen as a planning agreement although Exxon denied this argument (*The Financial Times*, 6 January, 22 November 1977). This arrangement also guaranteed that the North Sea oil developed by Shell and Exxon would be used in Britain for downstream activities. The final participation deal was signed on 21 November 1977.

The agreements on majority state-participation in the North Sea operation did not have a severe impact on the international oil companies [interview (91)]. The buy-back scheme made the arrangements almost nominal. Benn (1991: 158) accurately understood the picture, when he signed the deal with BP. He noted in his diary; 'I have the gravest doubts

whether it has any real meaning ...; the fact that the oil companies, even BP, have gone along with it convinces me that it doesn't mean very much. But it has given birth to a national oil corporation which in time could be used in substantial ways'. The public control Benn intended to impose on the oil companies operating in the North Sea was far from that proposed by the Labour Party in the 1960s [interview (74)]. Moreover, BNOC secured neither low prices nor oil supply in an emergency, which became obvious in 1979 when BNOC refused to cooperate with the government (Cohen, 1986: 136-8). The concern amongst ministers and officials including Benn was that excessive control and humiliation would put off the companies' investment in the North Sea. The real significance of these agreements was that the negotiation established BNOC's position and brought it substantial information, business expertise and publicly owned oil in North Sea development. Regulations were gradually tightened. Benn and the DEn officials were happy to test how tough the government could get with the international oil companies [interview (25) (68)]. *The Financial Times* (7 December 1976) aptly described the policy as the 'creeping' nature of government controls. Benn's recollection of the prime minister's attitude was of Callaghan being 'supportive' to him [interview material].

4 (iii) Analysis

The outcome in North Sea oil exploration policy was increasing government control over

the oil companies. It did not involve strong controls over depletion, prices and investment, for instance, of its location, timing and content, as the Labour Party research group had promoted in the 1960s. The policy gradually evolved from the re-negotiation over participation in the existing licences to the fifth and sixth rounds of licence allocation with other regulations put into place. The government obtained the option arrangement for existing licences, which was to secure oil supply in an emergency, while it gained a 51 per cent share of the resources through BNOC in the following rounds of licences with other benefits.

The prime minister's policy preference, according to interviews with ministers, was to eliminate the oil deficit and thus not to slow down exploration until 2 million B/D of oil production, the level of self-sufficiency, was achieved. It is likely that he also shared a critical view of the international oil companies with his energy secretary, in that 'he didn't want the oil companies to think that they would have the easy ride that they had in other countries, where they exploited and abused their position. He mistrusted them' [interview (70) (80) (93)]. He did not want development and investment in the North Sea to slow down, though he was prepared to see a tightening up of the government position towards the oil companies [interview (68) (70) (73)].

Callaghan's participation was through the appointments of ministers: Tony Benn as

energy secretary and chief negotiator, Dickson Mabon as energy minister, and John Smith and later Jack Cunningham as parliamentary under-secretaries of state. Cunningham was previously Callaghan's PPS. Callaghan did not take part in any of the details of the policy, yet he secured his policy preferences through ministerial appointments and arranging cabinet committee membership. Benn shifted the policy to be more assertive from a modest tax-based policy led by Lever and Dell, who belonged to the right in the party. The message of his appointment was that the government was tightening up its negotiating position [interview (68)]. However, it had the problem that Benn might push the policy into a far more regulative direction than Callaghan wanted.

There were several reasons for this appointment. First, when becoming prime minister, Callaghan had the chance to drop Benn out of the cabinet. But he preferred to include him in rather than out, to keep Benn and the left happy [interview (70) (75)]. Second, Callaghan was confident he could restrain Benn himself through direct warnings and cabinet/cabinet committee meetings [interview (70)]. He put Mabon to conduct the actual negotiations with oil companies and gave him a seat on the cabinet energy committee. Lever was also still on the scene. One DEn official, who had long experience in Whitehall, recalled 'In that time I have never known more hawk-like watching of a minister I served by No.10' [interview (68)]. Callaghan had two ministers on the right to watch Benn. The prime minister never loosened the monitoring of his energy secretary, which provided him

with sufficient information to assess his minister's policies. Third, by putting Benn in charge of the negotiation, his calculation was to kill criticism from the left of the party [interview (73)]. Finally, above all, Callaghan's intention was to see the government's negotiating position tightened up. To some extent, Callaghan and Benn shared their policy preferences. The policy outcome achieved by Benn with his team did not deviate from Callaghan's own policy preference and accordingly there was no need for Callaghan to intervene. Callaghan's behaviour was optimal in the policy-making game.

5. CONCLUSION

Callaghan's behaviour in the policy-making games was optimal in foreign policy with a reservation and in domestic oil policy, while sub-optimality was observed in fiscal policy. Callaghan's style was to let the ministers and officials do their jobs and not intervene unnecessarily [interview (73)]. According to Bernard Donoughue (1987: 12), 'Mr Callaghan liked to take one subject - aerospace, nuclear power, the European monetary system - and concentrate on that for weeks at a time. He did not welcome being sidetracked on any other policy subject'. He knew he should and could as prime minister 'pick and choose' the policy areas in which to intervene (Hennessy, 2000: 381-2).

Non-intervention in the EEC oil-sharing policy was however slightly more complicated than a matter of style. The overall characteristic of the relationship between Callaghan and Benn was that of shadow boxing. The energy secretary recognised that he could not win on the EEC oil issue [interview (68)]. One DEn official [interview (68)] recounted in an interview;

My best recollection of this is that [Benn] knew what he could win, and what he couldn't. And he knew he couldn't win this one. ... In other words, he wouldn't have made it a big issue of it for one very simple reason. He knew he wasn't going to win.

Although Benn was adamantly anti-EEC, he was in a weak position over European policy after the 1975 referendum. Government policy was fixed. There was almost no way Britain could totally refuse an oil-sharing scheme as long as it intended to stay in the EEC [interview (68)]. Because of the principle of collective responsibility, a pursuit of a withdrawal would have been incompatible with the government's position and Benn would have had to resign, which he was not willing to do. Benn manifested his categorical rejection of an EEC common energy policy. He managed to keep the veto over further domestic consumption cuts and refused to guarantee normal oil supply to the European counterparts. By not intervening, Callaghan allowed Benn to behave as he did, considering less controversy was the better course for the stability of the government and the party.

In contrast, Callaghan mobilised many of the resources available to a British prime minister in domestic oil policy. Callaghan decided to keep Benn, the controversial

minister, in cabinet, considering the adverse effect on his own position in the governing party if he did otherwise. Yet Callaghan surrounded Benn with moderate right-wing ministers in the DEn. Mabon, the energy minister, carried out the practical negotiations with the oil companies by Callaghan's instruction, and Harold Lever, a right-winger and former chief negotiator, was still taking part in the negotiations. Callaghan allowed Mabon to attend cabinet committees about the North Sea participation negotiations in his own right. By so doing, Benn could not monopolise the channel between the cabinet/cabinet-committee level and his department.

Benn would have liked to see stronger government control in the North Sea development operation. In a national opinion polls survey in February 1974, 58 per cent of Labour supporters and 28 per cent of Conservative supporters supported nationalising the North Sea oil and gas. Overall, 41 per cent endorsed the idea (Butler and Kavanagh, 1974: 141). Yet the concern was that the oil companies might leave the North Sea altogether if control was too draconian. The limit imposed by the bargaining position of the oil companies moderated Benn's policies, which fitted Callaghan's own policy preference. Over EEC policy, had Callaghan explicitly manipulated to contain Benn, their relationship might have exploded into a wider political controversy, while in domestic oil policy Callaghan could safely put in the arrangements to restrain and keep an eye on him. Although facing the same 'Benn', Callaghan's behaviour differed between the two policy-making games.

It was created by the two games' different implication for a wider political context, namely the impact on the office-keeping game.

Callaghan's manner of participation in the fiscal policy was active. He maintained close bilateral relations with Healey, while arranging numerous formal and informal ministerial meetings, including the cabinet itself. Callaghan's own policy preference differed from the Treasury policy initially. Callaghan shifted his policy preference towards his chancellor's to keep both the chancellor and the IMF on board. Despite providing information and advice on the issue, the policy unit did not fill the gap of information and advice Callaghan needed to propose an alternative. The international political economy and the constitutional standing of the chancellor forced Callaghan to change his policy preference.

The use Callaghan made of the cabinet/cabinet committee system was a double-edged sword, in that the opponents of the chancellor's policy, which Callaghan eventually wished to support, might have won the discussion in the meetings. The cabinet/cabinet committee system could work disadvantageously to the prime minister. Callaghan's strategy was to wait for the other policies to vanish by themselves. When the cabinet represented a wide range of the Labour party, reaching an agreement involved more difficulty. However, once the cabinet secured an agreement, it was possible for Callaghan

to use the principle of collective responsibility to carry the whole cabinet and hence the whole party with him. The cabinet/cabinet committee system could be used to persuade and put pressure on individual ministers to conform to the majority and the prime minister's view.

Callaghan exploited various power resources in the core executive, to which he was entitled as prime minister. Nevertheless, the office-keeping game constrained his power as prime minister in the policy-making games. Difficulties in the office-keeping game had impact on his behaviour in the policy-making games. It affected his manner of encountering the political troubles and controlling his agents. Callaghan's behaviour in the policy-making games was best understandable in the light of this wider context of the office-keeping game.

CHAPTER VIII

PARTY AT WAR, PEACE IN CABINET – MASAYOSHI ÔHIRA AND THE LDP: DECEMBER 1978-MAY 1980

Masayoshi Ôhira (prime minister 1978-1980) was a prime minister who suffered from fierce factional conflict within the LDP. One assessment of his government went, ‘Under such internationally and domestically inferior conditions it was unavoidable that the Ôhira cabinet achieved very little’ (Uchida, 1981: 429 [my translation]; see also Kitaoka, 1995: chap.3). It may well be an appropriate judgment for the achievement of the cabinet, although this remark did not reveal what power Ôhira exercised in the policy-making games. The factional conflict imposed a severe strain on Ôhira, though whether and how it constrained Ôhira’s power in the executive was not evident. Section one illustrates the intense confrontation within the LDP. Section two examines a dilemma the Japanese government faced between the United States, Japan’s key ally, and Iran, a major oil-producer. Section two shows Ôhira’s style of exercising power to promote fiscal consolidation, while section three looks into a publicly less marked issue on domestically raising the prices of oil products facing inflation.

1. OFFICE-KEEPING GAME

Ôhira became prime minister in an extensively confrontational manner in 1978. It was the first time in LDP history that the party president/prime minister was replaced by someone who had brought him down (Kitaoka, 1995: 186-7). The previous Fukuda cabinet was brought into being mainly by a coalition between the Fukuda and Ôhira factions. The coalition had dismantled the former Miki cabinet in 1976. The delicate balance crumbled when the two-year term of the LDP presidency ended in 1978. Fukuda needed to be re-elected and Ôhira stood as his rival.

Apart from Fukuda and Ôhira, Yasuhiro Nakasone and Toshio Kômoto were also party-presidential candidates in 1978. The result of the primary election, which was based on votes cast by party members and affiliates, was; 748 points for Ôhira, 638 points for Fukuda, 93 points for Nakasone and 46 points for Kômoto. Fukuda conceded his defeat immediately after the primary election. Ôhira was elected as party president on 1 December and the Ôhira cabinet came into power on 7 December. The divisions in the LDP remained after the party-presidential election.

Ôhira, as party president, was in a relatively strong position. His two predecessors had gained their offices through negotiations with other (faction) leaders in the party. In

contrast, Ôhira assumed the presidency by a clear victory in an election. A general election was also expected in the following year and the LDP was expected to increase its seats in the lower house. A scandal involving former prime minister, Kakuei Tanaka, discredited the LDP in the 1976 general election. By 1978 the LDP was on its way to electoral recovery (see Kawauchi, 1982: 158-9). Although opposition arose from the counter mainstream factions, Ôhira appointed Kunikichi Saitô as the party's LDP secretary-general. Saitô was a senior member of his own faction. The secretary-general was the key for controlling the party and organising election campaigns. Ôhira distributed the other two senior party posts to the Fukuda and Miki factions. Tadao Kurahashi, a senior member of the Fukuda faction, became the head of the executive council, while Kômoto took over as chairperson of PARC. Kômoto was known for his expertise in economic policy. Accordingly, the secretary-general was in line with Ôhira, whereas the chairs of the key LDP committees had grounds and political reasons to stand up against Ôhira.

Ôhira's relative advantage in the party vanished when the LDP 'lost' the general election in October 1979. The LDP aimed to restore a stable majority in the lower house, which it had lost at the disastrous 1976 general election. 'Stable majority' indicated that one party should possess enough seats not only to hold a simple majority in the house but also to have a majority in all of the committees and control their chairs. The LDP had previously

fallen below simple majority by seven seats winning 249 seats, before recruiting the independent Diet members for the LDP. The LDP in 1979 suffered a further setback to gain only 248 seats.

The previously implicit discord exploded into a major confrontation between the Ôhira-Tanaka group and the Fukuda-Miki-Nakasone group. The latter anti-presidential group insisted on Ôhira's resignation, which Ôhira refused. The incident ended in seeing two LDP prime-ministerial candidates, Ôhira and Fukuda, in the Diet. Ôhira managed to beat Fukuda by 135 to 125 at the first ballot and 138 to 121 in the final round. It took more than a month to start the new cabinet and select the party officers. Changes in senior party officers were inevitable. Yoshio Sakuruchi, a senior member of the Nakasone faction, was assigned to the secretary-general. The chairpersons of the executive council and PARC were split between the president's camp and the anti-president's; the former office went to Zenkô Suzuki, a senior member of the Ôhira faction, while Shintarô Abe, a leading figure of the younger generation from the Fukuda faction, occupied the former office. Ôhira managed not to appoint Nakasone himself and members from the strong Tanaka faction (*The Japan Times*, 17 November 1979). The party was bitterly divided.

Despite the change in factional balance after the general election, the factional composition of the cabinet was unchanged. The Ôhira and Tanaka factions increased their

members while the Fukuda faction was reduced. Yet factions gained the same share in cabinet as before: four posts each to the Ôhira, Tanaka and Fukuda factions, three to the Nakasone faction, two to the Miki faction and three to others. In Ôhira's first cabinet he appointed a member of his own faction as finance minister, while the foreign minister and the minister for trade and industry were given to senior members of other factions, although they were not faction leaders themselves. Ippei Kaneko, the finance minister, was an ex-MOF official, well-versed in economic policy (Kuribayashi, 1987: 120-3). Sunao Sonoda became foreign minister from the Fukuda faction and Masumi Esaki was made minister for trade and industry – deputy prime minister in effect. The reshuffle after the general election in 1979 allowed Ôhira to choose ministers close to him. The foreign minister, Saburô Ôkita, was not a Diet member but a well-known economist. Ôkita totally relied on Ôhira for his position. Yoshitake Sasaki, one of Ôhira's confidants, took over as minister for trade and industry. The party was split and key party posts were divided between the two camps. Yet the fierce in-fighting of the LDP freed the prime minister from appointing his major opponents to the key posts in cabinet.

2. FOREIGN POLICY: BALANCING IRAN AND THE UNITED STATES

2 (i) **Overshadowed by the Iranian Revolution**

The Iranian regime destabilised after the Iranian revolution in 1979 was put into further disarray when the Bazalgan government resigned in November 1979. The occupation of the US embassy in Teheran by extremist students triggered its resignation and provoked an exchange of economic sanctions between the United States and Iran. On 20 November the US government referred to the possibility of military action for the first time unless the hostages were released unharmed (*The Japan Times*, 22 November 1979).

The reaction of the Japanese government was rather reserved. On 15 November Yoshitake Sasaki, the minister for international trade and industry, and Saburô Ôkita, the foreign minister, agreed not to increase oil imports from Iran and to avoid purchasing 'high price' oil. Yet US oil companies were expected to reduce oil supply to Japan. They needed to supply oil from other sources to the United States, as Iran banned oil exports to the United States. Shingo Moriyama, director-general of the ANRE, stressed Japan had to buy oil from the spot market to compensate for this shortfall (*Nikkei*, 16 November 1979; *The Japan Times*, 20 November 1979; see also Morse, 1981: 42). The Japanese government

did not officially criticise Iran over the occupation of the US embassy.

In late November when preparing for a policy speech in the Diet, Ôhira suggested that the government should make clear its condemnation of Iran for breaching international law.

MOFA officials, nonetheless, claimed it was better to deal with it as a matter of humanity and not to become excessively involved. MOFA, the guardian of the US-Japan relationship, had been negotiating with the US government over the so-called ‘trade war’ between the two economies, which had provoked growing unease (*The Japan Times*, 18 December 1979; *Asahi*, 15 March 1980; Neary, 2002: 165). Yet oil supply from Iran and its fragile relationship with Japan deepened even MOFA’s anxiety [interview (52)].

Although ultimately Ôhira was prepared to support the United States, the balance between Iran and the United States was extremely delicate [interview (41)]. Ôhira accepted MOFA’s policy advice (Ôhira Kaisôroku, 1983: 575).

The decision to avoid purchasing high-price oil was not strictly followed. By 22 November it was reported that some Japanese companies had agreed with the National Iranian Oil Company (NIOC) and bought 15 to 20 million barrels at \$40/b in November and December. This oil was part of the crude oil that was to be exported to the United States should economic sanctions not be applied (*Nikkei*, 20 November, 21 November, 25

November 1979).¹ Purchasing boycotted Iranian oil at a high price infuriated the US government. On 10 December the US secretary of state, Cyrus Vance, strongly criticised Japan's attitude towards Iran, describing it as 'insensitive'. Various US senators and congress members condemned Japan. A resolution was submitted to the Senate, disapproving of Japanese policy towards Iran.

Ôkita immediately responded with the 'viewpoint of MOFA'. It was a statement that condemned the Iranian students occupying the US embassy in Teheran not only from a humanitarian viewpoint but also as a breach of international law, which ensured the safety of foreign diplomats. Ôhira provided full support for his foreign minister the following day, which he reiterated in his policy speech in the Diet on 25 January. Ôhira instructed Ôkita and Sasaki to coordinate a policy, responding to the request from the United States (*The Japan Times*, 13 December, 14 December 1979). The new policy was to limit oil imports from Iran to 620 thousand B/D, which was the amount purchased before 4 November, the day the US embassy was occupied. MITI announced to postpone increasing the oil stockpile and instead partly withdraw oil from it (*Nikkei*, 14 December, 15 December 1979). The ANRE demanded the companies involved to resell to third countries the controversial Iranian crude oil, which they had to at a lower price than they had bought it (*The Japan Times*, 14 December 1979).

¹ This offer for the Iranian oil on the spot market was tied to the extension of a longer-term DD contract for the following year (*The Japan Times*, 17 November, 10 December 1979; Caldwell, 1981: 76). Admittedly MITI officials on the front line informally endorsed this acquisition.

Yet Japan's 'friendly' policy towards Iran was unaltered. The US government repeatedly asked Japan and the European countries for cooperation in conducting financial sanctions against Iran. In December 1979 two special envoys of the US president, Robert Carswell, deputy secretary of the US Treasury in December 1979, and Philip Habib, former US undersecretary of state in January 1980 arrived in Tokyo to discuss the issue. However, the Japanese government did not respond positively (*Nikkei*, 18 December, 19 December 1979, 18 January, 18 January 1980 evening edition; *Asahi*, 17 January, 18 January 1980; *Fainansu*, Vol.15, No.12: 101-2). It agreed only to restrictions on fresh loans to Iran (*The Japan Times*, 14 December 1979; *Nikkei*, 13 December evening edition, 15 December 1979). Iran warned on 15 January that it would suspend oil exports to Japan if Japan adopted economic sanctions against Iran (*The Japan Times*, 17 January 1980). By not intervening, Ôhira effectively endorsed the policies of MITI, MOF and MOFA.

MITI and MOFA did want to undermine the Iran-Japan petrochemical company (IJPC) project by joining the economic sanctions. This gigantic petrochemical complex under construction was the symbol of economic cooperation between Japan and Iran. The Mitsui group, which had been the partner on the Japanese side, had been perplexed over social disorder in Iran when the revolution had started and thus decided to withdraw from the project (*The Japan Times*, 26 January 1979). Besides, its feasibility had been at the peril of collapse as the cost had increased far more than anticipated. MITI was more

enthusiastic, so were the leading business groups (Caldwell, 1981: 72). The Mitsui group had eventually decided to ask for government aid to make the IJPC a ‘national project’ (IJPC, 1993: 125-31). With the support of Rokusuke Tanaka, the chief cabinet secretary, MITI managed to obtain an agreement in government to gain funds from the overseas economic and cooperation fund (OECF), a mark of a ‘national project’. Apart from securing oil supply from Iran, MITI had its own agenda. Should a major overseas project as the IJPC failed for irresistible reasons such as a (civil) war or a revolution in the country concerned, MITI was effectively obliged to pay out export insurance, which would crush the whole insurance system (*Asahi*, 25 January 1980). The Japanese ambassador to Iran helped this initiative by reporting, initially, that revolutionary Iran was stable and, later, that it was willing to carry the project to completion (for instance, *Asahi*, 14 April 1979; *The Japan Times*, 11 December 1979). Although Ôhira fully understood the need to retain a friendly relationship with Iran, he was not particularly keen to provide a private project with a ‘national’ character. Yet Rokusuke Tanaka attended the cabinet committee, which agreed on the financial support. The Ôhira cabinet had formally authorised support for the IJPC project on 12 October. As Martha Caldwell (1981: 73) described, ‘As events developed, the Mitsui project became, in a sense, Iran’s Japanese hostage’.

2 (ii) Standing Shoulder to Shoulder with the United States

The Japanese government markedly changed its balance between United States and Iran in April 1980. Until then the attitude of the United States government also fluctuated between the hard and soft-line approaches to Iran. In December 1979 President Carter decided to request the UN security council to impose economic sanctions against Iran. Yet in the following January he started sending appeasing messages and in February the United States postponed the imposition of economic sanctions. The softening mood between the United States and Iran was ruined when negotiations led by the UN secretary general to release the hostages and the Iranian president's efforts to transfer the hostages from control by the extremist students to the revolutionary council failed. In deep disappointment the US government declared a break in diplomatic relations with Iran on 7 April 1980.

Cyrus Vance formally called for a solid front against Iran on 9 April. The United States asked its allies to carry out diplomatic responses and economic sanctions (*Asahi*, 10 April 1980; *Nikkei*, 10 April 1980; *The Japan Times*, 11 April 1980). According to Shinji Fukukawa (1994: 447), Ôhira's private secretary seconded from MITI, the United States kept requesting for ceasing the purchase of Iranian oil and for restricting exports to Iran. The EEC called for Japan's participation in joint diplomatic action to demand the release

of the hostages (*Asahi*, 11 April, 12 April 1980; *Nikkei*, 11 April 1980 evening edition; *The Japan Times*, 12 April 1980; Caldwell, 1981: 78).

Ôhira held successive meetings with cabinet ministers. On 8 April he discussed the crisis with Saburô Ôkita, his foreign minister, and Masayoshi Itô, the chief cabinet secretary, while On 10 April he gathered an emergency meeting of the relevant cabinet ministers. Besides Ôkita and Itô, those attended the meeting were Noboru Takeshita, the finance minister, Yoshitake Sasaki, the minister for international trade and industry minister, and Keijirô Shôji, EPA's director-general (*The Japan Times*, 11 April 1980; *Asahi*, 8 April, 11 April 1980). Witnessing the seriousness, Ôhira's judgement was explicit cooperation with the US government (Ôhira Kaisôroku, 1983: 580). On 11 April the cabinet ministers' meeting decided to join action with the EEC (*Fainansu*, 1980, Vol.16, No.6: 93). Ôkita further declared the position of the Japanese government in a statement, which read; 'The problem of oil is vital for Japan. But if there are other issues of greater importance than the oil problem, then we have to think of taking steps to answer this cause'. A senior MOFA official confirmed that the term 'more important reasons' indicated the Japan-US relationship. The government made public that it would accept a total ban on oil imports from Iran. Ôhira fully backed Ôkita's statement the following day (quotation from *The Japan Times*, 12 April 1980; see Ôkita, 1992: 119-20; *Nikkei*, 12 April 1980; *Asahi*, 12 April, 13 April 1980).

Iran stopped loading ships with crude oil for Japanese companies on 21 April 1980 (*Nikkei*, 22 April 1980). The direct reason for this suspension was the disagreement between the Japanese companies and Iran on the contracts and prices. MITI's petroleum department and MOFA's economic affairs bureau agreed to advise the Japanese companies not to buy high-price oil [interview (58) (61)]. The decision was justified from pure economic reasons. Nevertheless, the political impact was undeniable (*Nikkei*, 21 April evening edition, 22 April 1980 evening edition). Sasaki reported this decision to Ôhira beforehand and had gained his approval (Ôhira Kaisôroku, 1983: 580).² During this sensitive period when economic sanctions against Iran were discussed between Japan and the EEC countries the US government launched, to the utter surprise of the ally countries, a rescue operation. It ended in failure. The US secretary of state resigned on 27 April, protesting against the operation. This time the concern was over the United States being isolated and pushed to extreme actions. The summit meeting in Washington on 1 May between Ôhira and Carter was a moment to emphasise Japan's support for the United States and their solidarity. Ôhira was determined to stand by the United States at a critical time. The Japanese government decided to implement economic sanctions at the relevant cabinet ministers' meeting on 22 May, followed by the cabinet's formal decision on 23 May. The IJPC project was, nevertheless, excluded from the sanctions.

² A key civil servant recalled no prior political endorsement [interview (58)]. However, it is hardly conceivable to decide without a political endorsement on an issue that would effectively cease oil import from Iran.

2 (iii) Analysis

The policy outcome was a clear declaration of support for the US policy towards Iran.

Although economic sanctions were restricted, the Japanese government effectively accepted an oil-supply ban from Iran at the end. Yet the decision was not made instantly.

It was five months after the extremist students occupied the US embassy in Teheran.

Japan strove to reconcile the two conflicting interests of supporting the US government and securing oil from Iran. The Japanese government retained its reluctance to impose strict economic sanctions against Iran. The American oil companies reduced its oil supply to Japan, because of its intention to pass it to the United States, which ceased to import Iranian oil from November 1979. MITI asserted to the companies that they should not buy oil above a certain price, though MITI had to encourage them to purchase the extra oil available on the markets, which offended the Americans extensively.

Ôhira with most of his ministers and officials had two preferences in this field of foreign policy: to secure oil and to keep the amicable relationship with the United States. In the 1970s notably after the Iranian revolution maintaining a friendly and open relationship with Iran was vital to the Japanese economy. Yet Masayoshi Ôhira was a prime minister, who regarded the US-Japan relationship as the keystone of the Japanese foreign policy (Satô, 1994: 354-6). Ôhira's basic policy preference was to maintain the alliance with the

United States.

Ôhira's participation was reserved though crucial. He received reports directly from his ministers as well as from senior MOFA officials. Ôhira gave instructions to the ministers concerned to address the issues and presided over various *ad hoc* ministerial meetings. The frustration and demands of the US government often led Ôhira to request coordination between the government departments. He did not always display his policy preferences explicitly, yet he was not reluctant to do so, either. The position of the US government was the key element of deciding the policy of the Japanese government. Yet the United States fluctuated in its policy until April 1980. When the US government became decisive, Ôhira created a consensus in the government as 'inevitable'. The pro-United States approach was based on Ôhira's own policy preference.

Characteristic of Ôhira's behaviour was that he never overrode his ministers or officials. In this case key statements on foreign policy always came from Saburô Ôkita, the foreign secretary. Ôhira's style was to endorse him. On the other hand, at the outset of the crisis he suggested criticising Iran for its handling of the occupation of the US embassy. When MOFA did not agree to this suggestion, he did not push for it. Support for the IJPC was not necessarily Ôhira's favoured policy, though he accepted MITI's determination. Balancing between Iran and the United States was necessary throughout the crisis and

Ôhira was aware of the fine art of balancing. Rokusuke Tanaka, then chief cabinet secretary, attempted to inject his preference, in which he succeeded. Yet he was sidelined after the reshuffle in late 1979. Ôhira's style was not to lead from the front line. Ôhira respected the roles played by his ministers and government departments and waited until a consensus arose. Decisive action was required only at certain moments. Ôhira exercised power in a loose manner, yet this power delivered the direction of government policy at pivotal moments.

3. FISCAL POLICY: FISCAL CONSOLIDATION AND THE GENERAL CONSUMPTION TAX

3 (i) Emergence of the General Consumption Tax

When Ôhira came into office in early December 1978, he was determined to eliminate the deficit bond. The issue for Ôhira was to find a method to achieve this goal. Ôhira was the finance minister who had issued the deficit-covering bond in 1975, for which he felt strong responsibility. Dissolution of the deficit-covering bond and fiscal consolidation was also MOF's goal as an organisation, as explained in chapter three. Existing spending policies were never thoroughly reviewed. Arguments to contain administrative costs were

on the agenda, though hardly any major policy was scrapped or even reconsidered. MOF officials viewed it impossible to constrain public expenditure without a strong political commitment after the long period of high economic growth [interview (59)]. Ôhira had personally expressed difficulties in the past over the possibility of expenditure cuts especially through administrative reform (Ôhira, 1978: 147-50; Muramatsu, 1994: 202).

Introducing a new taxation system was seen as the way to deal with the matter.

On 25 December 1978 the sub-committee of the LDP tax system research council (TSRC) endorsed the introduction of the general consumption tax (GCT) from January 1980, although strong opposition and concern existed in the LDP. On 26 December the LDP TSRC revised this decision in its report on introducing the GCT during FY1980, a slight concession to the opposition. The leading members of the LDP TSRC in cooperation with MOF officials showed a strong initiative in carrying this issue through (Kuribayashi, 1987: 155-6; Kishiro, 1985: 44-5). The three leading LDP officers kept in close touch consulting Ôhira over handling the schedule for the introduction of the GCT. The LDP executive council broadly approved the decision later in the day (*Asahi*, 27 December 1978, 1 January 1979; *The Japan Times*, 26 December, 27 December 1978). On 27 December the government tax system research council (GTSRC) proposed its introduction from FY1980, implying April 1980. Ôhira publicly stated he wanted to introduce the GCT during FY1980 as early as possible (Ôhira Kaisôroku, 1983: 496;

Shiota, 1985: 183). The cabinet authorised the policy on 5 January 1979. The decision-making was conducted in a top-down style (Mizuno, 2000: 206).

Initially MOF had planned to submit a bill on the GCT to the Diet in the spring of 1979 (*Asahi*, 19 January 1979; *The Japan Times*, 26 January 1979; *Fainansu*, 1979, Vol.15, No.1: 99). MOF officials claimed the details of the legislation and coordination with other government departments delayed the submission (*Asahi*, 6 February 1979). Yet it could not be denied that the approaching unified local elections in April affected this postponement. In February groups such as of retailers, small-medium size businesses and consumers started to set up anti-GCT associations and held meetings (*Asahi*, 9 February, 16 February, 24 February, 19 March 1979). The deliberations on the FY1980 budget were reaching an important stage in the Diet. Lacking a stable majority in the Diet, the LDP did not hold the majority on some of the committees including the key standing budget committee. The Ôhira cabinet faced a choice between forming a quasi-coalition with some of the opposition parties, namely Komeitô and the Democratic Socialist Party, and refusing cooperation with them by overcoming the decision at the committee stage with a vote at the plenary session (Shiota, 1985: 197-8; *The Japan Times*, 3 March 1979). The GCT would have been another controversial proposal, which would disturb the Diet procedure [interview (47)]. The government did not rush to propose the GCT to the Diet in spring 1979.

3 (ii) A Determined Prime Minister

The local election results in spring 1979 strengthened Ôhira's confidence and his position in the LDP. The LDP won 24 prefecture-governors' elections while losing one, and gained 209 mayoral seats amongst 249. The victories included winning back two major governors in Tokyo and Osaka. The progressive camp's occupation of many posts in local government, especially in the municipalities, had been the symbol of change and their success. The LDP's victory in the united local elections in spring 1979 was a strong sign of its recovery. Ôhira's confidence and the possibility of the LDP increasing its seats in the coming general election grew. Ôhira successfully handled the top-level conference with the US president Jimmy Carter in May and the G7 Tokyo Summit in June. Although the results of the Tokyo Summit put a burden on the government of accepting the quotas for oil imports up to 1985, an agreement was reached and above all Japan successfully hosted one of the most significant international conferences for the first time (Ôhira Kaisôroku, 1983: 522; Kawauchi, 1982: 158-9; Shiota, 1985: 199). Dissolution of the Diet gradually arose as an issue and the GCT re-emerged on the agenda.

Fierce opposition against the GCT developed. Members of the upper house composed a group calling for deliberate consideration on introducing the new tax system indicating its postponement. Over half of the LDP upper-house members signed for this group (*Asahi*,

12 April 1979; *The Japan Times*, 12 April 1979). However, Ôhira was determined to introduce the new tax system. On 24 July he stressed if the country could not depend on the national bond any longer, the choice would have to be between an increase in income tax and the introduction of the GCT (*Nikkei*, 25 July 1979). On 30 July Ôhira mentioned the possibility of adopting both measures to increase revenues (*Nikkei*, 30 July 1979 evening edition). These comments were tactical moves to promote the GCT against the opposition [interview (41)].

Some of the umbrella business groups started to reveal their acceptance of tax increases and the GCT, whereas others remained strongly hostile. In August *Keizai Doyûkai* stated it was unavoidable, but required the adoption of an EEC style value added tax (*Asahi*, 18 August 1979). *Nikkeiren* was apathetic, except its honorary president, Takeshi Sakurada. Sakurada changed his view from negative to supportive of the new tax in late July (*Asahi*, 20 July, 31 July 1979). *Keidanren* required cuts in administrative expenditure before asking for tax rises (*Asahi*, 3 August 1979). The strongest disapproval derived from *Nishô*, the business organisation that embraced small and medium size companies (*Asahi*, 23 August 1979). On 4 September the federation of bankers association of Japan accepted a tax increase based on various tax sources (*Nikkei*, 5 September 1979). When they recognised Ôhira's determination, they preferred the CGT to a rise in corporation tax. The business organisations also became concerned about the Japanese economy. They

expected public expenditure to contribute to its expansion rather than to be cut back (*Nikkei*, 22 August 1979).

Opposition against the GCT in the LDP increased, as the dissolution of the Diet became highly likely. It was reported that more than 200 amongst the 373 LDP Diet members were against the GCT (*Asahi*, 3 August, 8 August 1979). It even included members from the Ôhira faction. The disagreement between Ôhira and Kômoto, chairman of PARC, symbolised the division between Ôhira and many of the LDP Diet members. Kômoto argued for extinguishing the deficit bond if the economy expanded by six per cent annum on average as it was forecasted in EPA's new seven-year economic and social plan to 1985. Economic growth would enable the government to receive automatic increases in tax revenues. Ôhira was sceptical of achieving this six per cent growth (*Nikkei*, 29 July 1979; Ôhira Kaisôroku, 1983: 529).

On 2 August Ôhira and Kômoto attempted to harmonise their opinions by postponing decisions on tax increases until after the general election (*The Japan Times*, 3 August 1979). Yet Ôhira kept underlining the necessity of increasing taxes and introducing the GCT. Kômoto criticised Ôhira's inner supporters to focus on tax increase as an issue of the general election (*Nikkei*, 27 August 1979 evening edition). On 31 August criticism in the LDP executive council forced Saitô, the LDP secretary-general and a senior Ôhira

supporter, to promise he would caution Kaneko, the finance minister, not to make unnecessary remarks on tax increases (*Nikkei*, 1 September 1979). Saitô also told MOF officials to cease the campaign for tax increases (Andô, 1987b: 162). Kaneko gave a similar instruction to Minoru Nagaoka, MOF's administrative vice-minister, in the summer of 1979 although the campaign never fully stopped (Shiota, 1985: 191-2) [interview (37) (59)].

The LDP executive council decided its election manifesto on 4 September, which did not mention the GCT. It claimed that fiscal consolidation would be achieved by thorough expenditure cuts and a natural increase of revenues from economic recovery. It vaguely stated 'even if the target is still not accomplished new burdens [on the society] will be considered'. One of PARC's vice-chairman expressed that the statements previously adopted by the LDP were abolished and that the latest manifesto was the party policy (*Nikkei*, 5 September 1979).

Yet the GCT was not given up. Using the same words as in the LDP election manifesto, Ôhira's policy statement on 3 September in the Diet reiterated the importance of freeing public finance from the deficit-covering bond. He referred to as a last resort the possibility of the necessary increase of taxes to overcome dependence on deficit bonds and to stop

issuing them by 1984.³ Replying to a question in the Diet about his speech, Ôhira stressed the government would have to consider either raising existing tax rates or introducing the GCT in FY1980 to tackle the budget deficit (*The Japan Times*, 6 September 1980). Ôhira's remarks clearly indicated that the LDP led by him would introduce the GCT when it returned to power after the general election [interview (41)].

Ôhira and his supporters expected the LDP to increase its seats and secure a stable majority, namely 271 seats in the lower house (Kawauchi, 1982: 165). Even the cautious LDP general-secretary, Saitô, confidently stated that the LDP would win 262 to 263 seats (*The Japan Times*, 13 September, 18 September 1979). A few days before the election Ôhira revealed his forecast that the likely number of seats to be won would far exceed that in 1976 (*The Japan Times*, 5 October 1979). This positive anticipation helped Ôhira propose a tax increase to the electorate.

However, scandals involving public corporations and civil servants crushed that hope. The day before the dissolution of the Diet, a major scandal was revealed involving the Japan railway construction. On 2 October a scandal linked to KDD, a semi-public corporation for international telephones became public. Scandals further extended to MOF officials and LDP Diet members (*The Japan Times*, 23 September 1979). Public

³ From 1985 the deficit bonds issued in 1975 would start being redeemed at maturity. Thus, MOF reiterated its desire to stop issuing deficit bonds by 1984.

funds were abused, benefiting employees and civil servants personally. Criticisms of tax increases and corruption were bundled into one. Hostility against the GCT exploded amongst the LDP candidates, including senior members (*The Japan Times*, 16 September 1979; Kawauchi, 1982: 161-2; Ôhira Kaisôroku, 1983: 530-1). Neither the party leadership nor the cabinet took action to prevent their candidates from rejecting the GCT (*Nikkei*, 11 September, 13 September, 22 September 1979; *Fainansu*, 1979, Vol.15, No.8: 90-1).

Ôhira withdrew his support for an early introduction of the GCT on 26 September. He conceded that fiscal consolidation was to be achieved by methods excluding tax increases and in particular the GCT (*Nikkei*, 27 September 1979). Ôhira ‘lost’ the general election. LDP could not even hold its existing number of seats. On 21 December 1979 both the upper and lower houses adopted resolutions, which proclaimed that fiscal consolidation would not be achieved by ‘a general consumption tax (provisional name)’. Ôhira’s attempt to introduce the GCT was rejected.

3 (iii) Analysis

The policy outcome was a near introduction of the GCT. The LDP adopted the GCT as its official policy in late 1978, which was endorsed by the cabinet. Preparation for the GCT

advanced in MOF. Yet LDP's defensive position during the election campaign combined with its fierce internal opposition against the GCT and eventual defeat at the polls dismissed this possibility.

Ôhira's policy preference was to dissolve the deficit-covering bond and achieve fiscal consolidation. Observers explained this attitude from his 'guilt' as the finance minister who had issued the special bond in 1975 (Shiota, 1985: 113). Ôhira's private secretaries recognised Ôhira's strong anxiety (Fukukawa, 1994: 448, Kogayu and Tomizawa, 1994: 456; see also Ôhira Kaisôroku, 1983: 527-8). When Ôhira had been finance minister, he had been a bitter opponent of issuing the deficit bond (Shiota, 1985: 106-7). As an ex-MOF official himself, he shared with MOF officials the strong concern of restoring 'fiscal balance'.

Ôhira never considered other measures as practical options, such as curbing public expenditure by administrative reform or even by drastically changing policies, for instance, cutting public works or social security. Other options were to raise existing taxes, such as corporate and/or income taxes. Ôhira saw the difficulties in adopting any of these options. By accepting MOF's policy advice, the GCT became the trump card for fiscal consolidation. Ôhira was determined to address this problem and the civil servants provided him with a practical solution. Ôhira and MOF formed a coalition, taking

advantage of each other's resources. Ôhira wanted a practical solution to his concern, while MOF wanted to introduce the GCT to increase and stabilise the revenues after the era of high economic growth had ended in Japan.

Mabuchi Masaru (1989: 47-53) argued the GCT programme was considered from a tax experts' viewpoint to balance direct and indirect taxes, and that the tax bureau aimed for revenue neutrality between the tax increases created by the GCT and reductions in income tax. Yet the GCT was clearly recognised as a solution for tackling the finance deficit in the late 1970s and it was planned to be a net tax increase (Mizuno, 2000: 207) [interview (37) (59)]. It was thus more reasonable to understand that the tax bureau had been considering the GCT programme internally from a viewpoint of tax experts, when Ôhira and MOF as a whole faced the massive financial deficit to deal with (see Muramatsu, 1994: 209-10). Considering the traumatic end to this episode, it might be arguable that the civil servants imposed their own policy preference on Ôhira without informing him of the political cost expected. Yet as Ôhira never regarded serious expenditure cuts as an option, the solution to fiscal consolidation had to come from a tax increase. Ôhira's misfortune was prepared when he had committed himself not to the GCT but to the tax increase itself.

Ôhira's behaviour was sub-optimal for the policy-making game. Resistance from his

fellow LDP Diet members intensified Ôhira's defensive position. Yet this opposition was not the unique cause of Ôhira's defeat. Even with the party's strong reluctance Ôhira succeeded in making the GCT a party policy. Neither the party manifesto nor the decisions of the LDP executive council and PARC, which undermined the GCT proposal, restrained Ôhira's behaviour. Ôhira's retreat was precisely a political decision, after he considered his and the party's fortune in the approaching general election. This combination closed the possibility of achieving the fiscal consolidation by introducing the GCT.

4. OIL POLICY: CEILING-PRICE AND ALLOWING A PRICE-RISE OF OIL

4 (i) Passing Global Price-Rises to the Domestic Market

The inauguration of the Ôhira cabinet and the outbreak of the second oil crisis were concurrent in December 1978. Oil exports from Iran were resumed from March 1979, though the quantity was far smaller than previously. The effect of the series of oil crises deprived the international oil companies of their stable oil sources. Companies, such as BP and Shell, were most-hard hit as their dependence on Iran was larger than others. Yet

not only BP and Shell but also Exxon and Mobil informed their downstream companies of supply cuts. Their decision to cut supply severely affected the third parties, which were not directly affiliated with the major international oil companies. The non-affiliated customers rushed to the spot market. The spot-market oil price literally exploded (see Table A.12) (Nippon Sekiyu, 1988: 815-6; Morse, 1982: 261). The average spot-market price of the Arabian Light crude oil was \$13.8/b (per barrel) in the fourth quarter of 1978. It became \$19.65/b in the first quarter of 1979, a 42.24 per cent increase, and reached \$27.95/b in the second quarter, a 102.54 per cent increase. The extent of the increase was confirmed by the fact that it only rose from \$10.45/b to \$13.8/b in four years from the fourth quarter of 1974 to 1978, a mere 32 per cent increase (Energy Statistics Sourcebook, 1994: 413).

Domestic price-rises in oil products followed the international trend in Japan. Besides, the yen's marked depreciation against the dollar worsened the price hike of crude oil imports (see Tables A.7 and A.13). Esso Standard announced on 12 January it was to raise the price of gasoline by ¥9,500/kg from 1 February 1979. The twelve major companies all declared price-rises in all types of products to start between late February and March (*Sekiyu Seisaku*, 25 February 1979: 18-20). It was the first major price-rise in 1979. The PAJ submitted a memorandum to the government and the LDP, expressing opposition to the decided tax increase on oil products starting from June 1979 and requesting

government cooperation for price-rises of oil products and no political intervention in the oil market, in particular, of kerosene and naphtha (*Sekiyu Seisaku*, 15 February 1979: 4).

ANRE's petroleum department showed hardly any objection to the price-rises. MITI guided the companies to raise the prices of oil products in early 1979 (*Shūkan Tōyō Keizai*, 24 February 1979: 26). In late March ANRE instructed wholesale dealers and retailers to avoid follow-up price hikes of oil products and demanded that the wholesale dealers should report price-rises in advance. ANRE expressed that it would intervene if necessary in the price-rises and their timing on the basis of bilateral relationships between MITI and the individual companies. The anti-monopoly law prohibited the oil companies from collectively discussing prices, which became a legal battlefield for the oil companies after the first oil crisis. MITI's policy was referred to as the 'ceiling-price' policy (*Sekiyu Renmei*, 1985: 298; *Nippon Sekiyu*, 1988: 825; *Asahi*, 30 March 1979). Securing a quantity of oil imports was the primary concern at the beginning of the crisis. Price matters were to be solved through the market. Suppressing domestic prices was thought to cause shortage of oil imports to Japan, since international oil companies would avoid providing oil for a country, where they could not recover the cost, let alone make a profit. During this period ANRE prepared tickets for oil-rationing for fear of oil shortages, based on the petroleum supply and demand optimisation law. The petroleum department, however, strove to keep a low profile, taking no drastic action either to contain prices or

to protect domestic oil companies. According to the directors of the petroleum department, they merely monitored and checked the price-rises the companies proposed to ANRE during the crisis. There was a consensus in the department from the experience of the first oil crisis that the government could not compulsorily contain prices [interview (94) (61)].

4 (ii) Accepting Price-Rises and Fighting Inflation: Ôhira's Endorsement

Price-rises in crude oil and domestic oil products were one of the major factors leading to rising inflation. The wholesale price index (WPI) for petroleum, coal and related products increased by 22.4 per cent in 1979 and 67.2 per cent in 1980, after two years of drop in 1977 and 1978 (see Table A.7). The oil industry's concern was whether they could transfer international price-rises to the domestic market. The Japanese market might not accept price-rises in oil products, and government policy could suppress those rises (*Sekiyu Bunka*, 1979 February: 22; *Asahi*, 28 March 1979). On 2 February Ôhira provided instructions to the ministers responsible for economic affairs at a cabinet meeting to take measures against price-hikes in oil and property. At this meeting Tokusaburô K'ôsaka, EPA's director-general, argued price-rises in oil products were not acceptable as yet, since the OPEC price-rises were only to affect domestic prices after two to three months (*The Japan Times*, 3 February 1979).

Inflation was becoming a major issue during the Ôhira premiership. The WPI (annum) showed a first turnaround upward in March 1979 since November 1977, although the consumer price index (CPI) did not immediately follow this trend (see Tables A.7-10). The Japanese economy was on its way to recovery from its downfall after the first oil crisis. The WPI increased by 7.3 per cent in 1979 and 17.8 per cent in 1980. Eight measures to inspect price-rises including those of oil products were decided on 26 February.⁴ BOJ publicly made known its anxiety about inflation from late February 1979. It changed its policy from lowering to raising interest rates. The first rise in 1979 came in 17 April by 0.75 point from 3.5 per cent to 4.25 per cent. The second rise appeared in 24 July by one point from 4.25 per cent to 5.25 per cent. Inflation gradually took over from the recovery of the economy as the government's focus (Nagaoka, 1981: 66-7; Nihon Ginkô, 1986: 498-500). Inflation became more serious in the autumn to winter of 1979. In both of his policy statements on 3 September and 27 November Ôhira drew attention to rising wholesale prices and emphasised the government's intention to stabilise inflation. However, Ôhira did not agree on containing prices artificially. Ôhira referred only to dealing with anti-social speculative hoarding (*The Japan Times*, 4 September, 28 November 1979). He never intervened in detailed issues, as Tanaka did. The ANRE and its petroleum department looked after policy [interview (94)].

⁴ Two further comprehensive measures against price-rises were taken in November 1979 and March 1980 during the Ôhira government.

Ôhira's position was clear on issues of price-rises in oil products. On 6 and 10 July he stressed his point to groups of business leaders plainly: price-rises in international markets should be reflected domestically and the government should not intervene (*Asahi*, 6 July 1979 evening edition, 11 July 1979). Shinji Fukukawa, Ôhira's secretary seconded from MITI, bore witness from his own observation of Ôhira's perception that such price-rises would lead to energy conservation (Fukukawa, 1994: 445). Ôhira was aware of the fact that even though the government artificially constrained prices, they had to be increased at some stage and that containment would necessarily cause distorted effects. Compared with other political leaders of his time in Japan, respect for the 'market' and distaste for direct intervention in the market were Ôhira's credo [interview (41) (61) (63)]. The only exception was kerosene. MITI received Ôhira's policy preference through his secretary and also directly through senior officials [interview (63)]. Kerosene was a political commodity. As it affected the daily lives of a vast population by being the main source of domestic heating, the government and all political parties agreed to restrain its price. Kerosene was exempted from the normal price-rises by the oil companies, except the off-season one during the summer (*Sekiyu Bunka*, December 1979: 22). The petroleum department kept the kerosene price lower than other oil products for political reasons.⁵

⁵ Esaki, minister for international trade and industry, announced the abolition of price containment policy for kerosene for home heating on 15 May 1979, which created strong criticism from the opposition parties and consumer organisations (*Asahi*, 18 May, 25 May, 11 August and 23 August 1979; *The Japan Times*, 17 May 1979). Yet this change was possible only during the off-season period, and the containment policy resumed from winter 1979 (*Sekiyu Bunka*, 1979, December: 23).

The ceiling-price policy was carried out at eight different stages during the Ôhira government. Two issues gravely affected the domestic oil companies.⁶ First, the ceiling-price policy effectively maintained the price differences between oil products, typically seen in high gasoline and low kerosene prices. Retention of the price differences created a significant division between the oil companies. Those independent of the major international oil companies were at a disadvantage, as the crude oil they imported produced less of the domestically more profitable gasoline and more of the less profitable heavy oil. In particular, the so-called 'Aramco differential' hard hit some of the oil companies. Aramco was the consortium engaged in exploring and producing oil in Saudi Arabia. As Saudi Arabia kept its price lower than other oil-producers to stabilise the international oil market, those in business with Aramco benefited from the difference thus created (Nippon Sekiyu, 1988: 828-9; *Sekiyu Bunka*, July 1979: 15).⁷ Second, the ANRE's policy allowed domestic price-rises only a few months after the cost had increased by price-rises in the international oil market and/or by the fluctuating exchange rate (Nippon Sekiyu, 1988: 825-6; Idemitsu Kôsan, 1991: 234 and 236). These policies adversely affected the domestic oil companies.

MITI traditionally protected the independent oil companies as part of the 'national

⁶ I thank Shigeru Sudô for drawing my attention to these points.

⁷ To take examples for the official crude oil prices, the prices from Saudi Arabia (Light), Iran (Light), and Nigeria (Light) were on 1 January \$13.34/b, \$13.45/b and \$14.82/b, respectively. These figures went up to \$18.00/b, \$22.00/b and \$23.49/b on 1 July.

interest' to secure autonomy from the major international oil companies. Yet in 1979-80 MITI did not actively intervene in the market to protect the independent oil companies. It even expressed its preference of seeing a realignment of the domestic oil industry, shifting its focus from whether the companies were tied with international oil companies to whether they could secure crude oil imports (*Asahi*, 15 March 1980). 'Good cats are those who get the rats' became an icon, although exaggerated, of MITI's oil policy. Throughout this shift of policy, there was no indication of Ôhira's direct participation.

4 (iii) Analysis

The policy outcome was to allow the price-rises in the international oil market to be passed down to the domestic oil market. Inflation was a serious issue during the period, though no substantial containment was implemented for price-rises of oil products. ANRE and its petroleum department carried out a policy, referred to as the 'ceiling-price' policy. ANRE maintained loose control over the extent and timing of the price-rises. MITI had learnt from the experience during and after the first oil crisis that an artificial containment policy for oil prices had not worked. Prices eventually rose while the policy ruined the domestic oil market and encouraged oil consumption. Price-rises in accordance with the international oil market were further essential to secure oil imports. Nevertheless, the policy was not a shift to a free-market policy. Prices were artificially restrained for a

certain period and differentiated between products. The oil companies were relieved to be able to pass down the costs to the domestic market although they bitterly disliked these measures.

Ôhira's policy preference was to maintain strict control over follow-up price hikes and to keep inflation low. However, he was opposed to direct government intervention in the market-price mechanism. Ôhira did not directly intervene in the issue of domestic oil prices. Except for kerosene, he never suggested that oil prices should be constrained for macro-economic purposes. The policy was decided and implemented thoroughly by the ANRE and its petroleum department, which functioned through the usual route in the policy community of oil.

Two recollections of the leading staffs in the petroleum department typically revealed Ôhira's power in domestic oil policy. One official explained, 'There were no instructions received from the prime minister's official residence at all', while his successor recalled that it was the clear leadership of Ôhira not to adopt a policy to contain prices haphazardly [interview (61) (94)]. Non-involvement effectively indicated Ôhira's endorsement of ANRE's policy. Secretaries and senior officials of MITI were aware of Ôhira's policy preference through daily contact. Ôhira did not need to intervene in any specific decision in domestic oil policy, while his policy preferences were reflected in the

policy outcome. Power was never overtly ‘exercised’. Ôhira respected the officials and their initiative. Officials understood his policy preference. Ôhira secured the policy outcomes he wanted without direct intervention.

5. CONCLUSION

Ôhira’s behaviour was optimal in foreign policy and in domestic oil policy. Both cases required the government to balance between two contradictory interests. In foreign policy the government did not wish to offend either the United States or Iran. There was no point in Ôhira intervening in the issue while he also wanted a careful handling of the matter. Yet when the critical moment arrived to side with the United States, Ôhira displayed a clear sense of direction. Over domestic oil policy Ôhira basically supported the conditioned price-rises of oil products in accordance with the international oil market. The EPA provided the input to restrict the price-rises to control domestic inflation. With the support of the prime minister MITI had the discretion to execute the policy. In contrast, Ôhira displayed sub-optimal behaviour in fiscal policy. Even though he preferred to promote the introduction of the GCT, he was forced to deny it in the autumn of 1979. The joint impact of the opposition within the LDP and the defensive position of himself and the LDP during the general election campaign affected his policy behaviour. Politically he could

not sustain his policy position and thus had to alter it.

Ôhira resorted to various routes in the core executive as well as being in direct contact with department officials. Ôhira instructed the foreign minister and minister for international trade and industry to coordinate the policy on Iranian oil. He held bilateral meetings with ministers and chaired ministerial and mixed committees. After sidelining Rokusuke Tanaka, Ôhira relied on Masayoshi Itô, Tanaka's successor as chief cabinet secretary, to liaise with the foreign minister, who lacked political support in the LDP by being a non-parliamentarian.

Most of the ministers concerned were supportive of Ôhira in the office-keeping game. When the issue in foreign policy became relevant to Ôhira, the foreign minister had changed from Sonoda to Ôkita and the minister for international trade and industry from Esaki to Sasaki. Ôkita was not a Diet member and was thus totally dependent on Ôhira for his office, which was the reason why Ôhira let Itô provide the backing for Ôkita. Sasaki was Ôhira's confidant in his own faction. As Esaki was a senior member of the Tanaka faction, Ôhira's relationship with him might have created trouble in domestic oil policy. Yet short of policy discrepancy between them, this possibility did not materialise.

In contrast, Ippei Kaneko, the finance minister, was reluctant to accept an early

introduction of the GCT. His remarks fluctuated between cautious and positive implications (*Asahi*, 9 December, 12 December 1978, 19 January 1979; *Fainansu*, Vol.14, No.11: 93-5) [interview (47)]. According to Kôichi Katô, the parliamentary deputy chief cabinet secretary of the Ôhira cabinet, Kaneko expressed concerns over the negative impact of tax increases on the prospect of the general election. Ôhira immediately countered with his concern and stressed, ‘Be confident. We will win the [general] election’ (Kawauchi, 1982: 160 [my translation]). Kaneko was a member of the Ôhira faction and thus his support for Ôhira was a prerequisite for his position. Kaneko never seriously refuted Ôhira’s policy and publicly promoted the GCT. Ôhira was forced publicly to deny the GCT, yet he did not face trouble in dictating his policy to his finance minister.

Civil servants showed an active part in making policy in the cases of this chapter; MITI was strongly committed to the IJPC, while MOF promoted the GCT vigorously. The petroleum department of the ANRE originated the ceiling-price policy. Chapter one introduced Keith Dowding’s definition of social power, which was ‘the ability of an actor deliberately to change the incentive structure of another actor or actors to bring about, or help bringing about outcomes’. MOF officials exercised social power over Ôhira, when they sold the GCT to him. Nevertheless, it did not mean MOF imposed the GCT on Ôhira or caused Ôhira’s sub-optimal behaviour in the policy-making game. Ôhira’s own policy

preference in fiscal policy was to achieve fiscal consolidation. MOF provided the practical means for achieving this aim. Meanwhile, Ôhira was not necessarily sympathetic to the IJPC as a national project. Yet the issue did not seriously contradict Ôhira's policy preferences in foreign policy, which were, after all, to secure Iranian oil and maintain the close relationship with the United States. Ôhira and the civil servants were mutually dependent on one another. Ôhira trusted the civil servants to propose policies while the civil servants needed their political leader's support to promote them.

Bureaucratic dominance becomes a problem when civil servants deliberately conceal information from the ministers to affect their calculations. Ministers needed other policy sources when their preferences contradicted the officials'. Civil servants in Japan were assertive in pursuing their own policy preferences. Yet Ôhira was not pushed into a corner without knowing. The policy outcome was consistent with Ôhira's own policy preference.

Characteristic was the manner, in which Ôhira participated in policy-making. He respected the way the civil servants worked. Ôhira did not override their views. He showed his preferences to his ministers, secretaries and senior officials and waited until they prevailed in the government machine. The shortcoming was that it took time to reach a decision. Despite the lack of Ôhira's active participation in domestic oil policy except over the price of kerosene, his policy preference was reflected in the policy outcome. It

was to accept the cost-push price-rises while restricting the follow-up price hikes to check inflation. Ôhira had a different style from Tanaka's. His style was closer to his British counterparts. Non-involvement was, nonetheless, not equivalent to no-power. Power could be exercised without actively participating.

CHAPTER IX

CONCLUSION – PRIME MINISTER, CABINET MINISTERS AND THE GOVERNING PARTY

This thesis explored the question of what factor fundamentally characterised the exercise of prime-ministerial power in the executive branch in a parliamentary cabinet system. Comparison between the British and Japanese prime ministers provided a vital approach to this question. Power-resource analysis and a system's level analysis of the governing party(ies) have prevailed in prime-ministerial studies. Yet they both could not explain the differing reputations of the British and Japanese prime ministers, which shared fundamental formal power resources. Instead, this thesis contended that the power exercised by the prime ministers was primarily promoted and circumscribed by their relationships with their governing parties and their strategic decisions to appoint ministers. Section one of this closing chapter tests the five hypotheses and counter-hypotheses provided in chapter one against the evidence produced throughout the thesis. Section two discusses issues on which route and power resources the prime ministers resorted to in the policy-making games. Section three demonstrates to what extent the argument of this thesis holds when the conditions attached to it are removed. The external validity of the argument is examined from four angles. Finally, section four

posits the usefulness of an institutional perspective for understanding the office of prime minister.

1. FINDINGS AND TESTING OF HYPOTHESES AND COUNTER-HYPOTHESES

This thesis analytically distinguished between games in which the prime ministers took part: office-keeping and policy-making. It is hard to understand the prime minister's power in the policy-making game without taking into account his/her political preferences in the office-keeping game. Richard E. Neustadt noted, 'All the President's policies are political. And the same is for a Prime Minister' (quoted in Rose, 2001: 14).

Yet by making this distinction explicit, this thesis analysed how and to what extent one game affected the other. The initial assumption of this thesis was that the prime minister possessed a policy preference and wished it to be reflected in the policy outcome. If it were not, he/she would make use of the available power resources to secure it. Chapters one and three showed that the prime ministers in both Britain and Japan possessed such power resources. As a consequence, it was natural to assume the prime minister's policy preferences were reflected in the policy outcomes of the policy-making games. The

behaviour to secure the reflection of his/her policy preferences in the policy outcomes was referred to as 'optimal' behaviour, whereas contrary behaviour was called 'sub-optimal'. By distinguishing the policy-making game from the office-keeping game, it became possible to characterise the prime minister's behaviour as either 'optimal' or 'sub-optimal'. The question addressed by the thesis thus became whether or not prime ministers in Britain and Japan behaved optimally in the policy-making games, and if not why did they behave optimally in some games whilst not in others.

To answer the questions, five hypotheses and counter-hypotheses were provided for testing. (1) The impact of the governing party had two aspects, which could constrain the prime minister's power. The governing party could be a power resource for contenders against the prime minister. Contenders had their own support in the governing party and by relying on this support they could enjoy independence of the prime minister. The other aspect was the governing party being an actor itself. The governing party could control the prime minister by its various internal rules. These were the hypotheses of this thesis.

Counter-hypotheses were also prepared. (2) Bureaucratic dominance had three interpretations; government bureaucracy as such might dominate any prime-ministerial

power in both countries, while the impact of the civil service might differ between Britain and Japan. The third interpretation was that each government department could have a different impact on the prime minister's power.

(3) Power resources the prime ministers enjoyed were broadly similar in Britain and Japan. Yet there were various differences as well and they could cause the differences of power between the prime ministers.

(4) Ministerial government was basically a constitutional and legal understanding of the British and Japanese governments. Secretaries of state in Britain and the cabinet in Japan were those who held executive power and thus in the executive branch prime ministers could only work through them and the cabinet as a coordinating body.

(5) The personalities of the prime ministers attracted much attention. The exercise of prime-ministerial power could all depend on personalities involved. This section examines the validity of each of these hypotheses and counter-hypotheses.

1 (i) Did Cabinet Ministers and Governing Parties Matter?

Governing parties as actors did not wield power over the prime minister in any manifest and major fashion. The Conservative party in power least constrained the prime minister in the policy-making games, as shown in chapter five. Backbench MPs voiced their concern and frustration through the formal backbench committees, and the senior party officers acted as voices for party members (see pages 194-5 and 220). They provided background information to the prime minister, yet did not alter the prime minister's policy-preferences or constrain his behaviour. The Labour party had a complicated relationship between the parliamentary and the extra-parliamentary bodies, notably the NEC and its sub-committees. The extra-parliamentary organs made known their views even when contradictory to the prime minister's and put pressure on him to change the course of government policies (see pages 278, 287 and 294). Yet formal bodies of the party did not directly push the prime minister to take sub-optimal behaviour. LDP studies in the past two decades particularly stressed the significance of PARC, the party's policy-making body, and its sub-committees (for instance, Satô and Matsuzaki, 1986: 84-94; Murakawa, 1986: 94-106). Yet the case studies in chapter six and eight revealed hardly any of their impact on the prime ministers' policy preferences or behaviour. Even Ôhira in fiscal policy did not give up the CGT until intra-party pressure

merged with the hostile response from the public during the election campaign (see pages 338-9). This joint pressure, not merely intra-party pressure, altered Ôhira's behaviour.

Informal groups within parties did not perform a direct role in policy-making. Notably the strong LDP factions did not display any direct involvement in policy issues. As Ellis Krauss (1989: 48) noted, 'Because factions are based on personal loyalty and political self-interest, distinctions among the factions usually are not significant in deciding policy matters (although there have been some exceptions)'. Rather, 'There is, however, a large amount of evidence that they can crystallize intraparty opposition to particular policies and decisions' (Fukui, 1977a: 36). This conclusion about the governing parties as actors is not to claim that the internal organisations played no part in policy-making, but rather it illustrates their less direct significance for prime-ministerial power in the policy-making games.

The serious impact of the governing party was predominantly on the relationship between the prime minister and the ministers in government. Tanaka's foreign policy and his later fiscal policy, Callaghan's fiscal policy, and Ôhira's fiscal policy were cases where the prime ministers' behaviour was sub-optimal. The discrepancy in policy

preferences between the prime ministers and their ministers caused sub-optimality in Tanaka and Callaghan's behaviour. Tanaka's foreign minister, Ôhira, was his key ally in attaining office, while Fukuda was appointed as finance minister to contain his criticism of government policy in a *quid pro quo* for abandoning Tanaka's favoured policy (see pages 243-4 and 253-4).¹

Callaghan could not afford to lose Healey as chancellor of the exchequer, facing severe economic conditions and hostile forces including the international financial markets, his own Labour party and the media, when the Labour government was effectively a minority government. Moreover, Callaghan could not impose his revised policy preferences on the cabinet, and instead presided over as many as twenty-six ministerial meetings for the IMF crisis (Hennessy, 2000: 385). The division in cabinet could have easily split the party, which could, in turn, have destroyed his government, his position as prime minister, and possibly the party itself. The division in cabinet reflected division in the party based on policy and ideology, which explicitly constrained the prime minister's power in the policy-making game. Sub-optimal behaviour from a narrow perspective turned into optimal behaviour once a broader dimension of politics was

¹ Laver and Shepsle (1994: 10), summarising the arguments of the contributions of their edited book, stated, 'portfolio allocation does make a difference between, but not within, parties'. The change of Tanaka's finance ministers clearly led to a major revision of fiscal policy. This result was more consistent with the original argument of Laver and Shepsle (1990; see also 1996: chap.12).

introduced.

In cases where the prime minister's policy preferences were reflected in the policy outcomes, it was intriguing to discover differences in policy preferences between the prime ministers and the ministers. Heath's fiscal policy, Tanaka's earlier fiscal policy, and Callaghan's foreign and domestic oil policies were examples. Tony Benn, the energy secretary, was fighting a 'phoney war' against Callaghan. Benn had support independent of the prime minister in the Labour party, though he carefully followed the prime minister's policy preferences. Benn knew Callaghan could sack him, had Benn overstepped the line Callaghan allowed (see pages 309-10).² The international oil companies restrained Benn's policy to match Callaghan's own policy preference, while Callaghan accepted and did not discipline Benn for presenting a hostile attitude against the EEC (see page 278). Callaghan was keen not to strengthen Benn's position in the party by penalising him on this issue (see page 283). Party divisions over EEC marginally affected Callaghan's behaviour.

Heath's chancellor, Anthony Barber, and Tanaka's finance minister, Kiichi Aichi, were close to their respective prime ministers in the governing party, and their positions were

² King (1994a: 220) listed Healey as one of the 'big beasts of the jungle'. Benn was listed as a big beast though with a bracket as of lighter weight.

secured by their support for their leaders. Although Ôhira in fiscal policy did not achieve his original policy preference in the policy outcome, he totally controlled Ippei Kaneko, his finance minister, who was reluctant to adopt Ôhira's policy. With Barber and Aichi, Kaneko was destined to support his prime minister's policy, contemplating his position in the LDP as a member of the Ôhira faction (see pages 210-11, 253, 266, 267, 349 and 350). Heath, Tanaka, and Ôhira could all safely impose their favoured policy on their reluctant ministers, who shared their political preferences in the office-keeping game.

Discussion on party organisations cannot avoid Robert McKenzie's hypothesis on British political parties. McKenzie (1955; 1964) argued that, despite the differences in party organisations between the Conservative and Labour parties, the British Constitution, namely the cabinet government and the parliamentary system, overwhelmingly characterised the role and power of the party leadership in government.

McKenzie (1955: 298) noted;

'There are of course variations in the degree of authority assumed by particular individuals on becoming Prime Minister, but there is no significant difference in this respect between *Labour* Prime Ministers and *Conservative* Prime Ministers; the variations depend on the personality, temperament and ability of the individual concerned rather than on his party affiliation'.

This line of argument led to the expectation that British prime ministers from either party would exert power similarly in policy-making. Lewis Minkin (1980, 1991)

amongst others was the major opponent of this argument. Minkin held that the reason the Labour party leadership could resemble in performance its Conservative counterpart was contingent rather than permanent. The critical element was the support provided by the trades unions affiliated to the party.³ As long as the party leadership could secure support from the trades unions, the leadership was safe. Otherwise it was in trouble.

This thesis confirms that prime-ministerial power based on the Conservative and the Labour parties differed. They both respected their ministers' roles, though Heath did not hesitate to show and impose his policy preferences while Callaghan was often reluctant to do so (see pages 200-2, 213-4, 223-4, 283, and 296-7). The British Constitution helped Callaghan overcome the limits by providing leverage to restrain his ministers, as in fiscal policy and domestic oil policy (see pages 298-9 and 309-12). Yet it did not solve Callaghan's delicate relationship with his ministers independently supported by groups in the Labour party.

Observing the British prime ministership, George W. Jones (1965: 185) aptly stressed, 'A Prime Minister, who can carry his colleagues with him [sic] can be in a very powerful position, but he is only as strong as they let him be'. Whether the prime

³ In fact, McKenzie (1964: 594-631) was aware of this point in a later edition.

minister could satisfactorily exploit the power resources and exercise power depended on his structured relationships with the governing party and ministerial colleagues supported in the governing party. Jean Blondel and Ferdinand Müller-Rommel (1993: 11) stated, ‘a number of internal party characteristics are likely to modify in a number of ways the impact of the distinction between single-party and coalition cabinets’. Yet the findings of this thesis suggested that this very ‘internal party characteristic’, namely the power structure of the governing parties and its reflection in cabinet ministers, were more likely to be the key variable to explain differences between single-party and coalition cabinets.

Emphasis on the governing party of this thesis was not equivalent to arguing Winston Churchill and John Major had more similarity than Churchill and Clement Attlee (see Rose, 2000: 56). First, the thesis did not compare the whole premiership of individuals, but focused on specific power exercises in policy-making. Second, the power structure and power relations in the same Conservative party differed between 1955 and 1995. What mattered was not the denotation but the power structure and power relations in the governing party.

As Richard Rose (2000: 49) illustrated; ‘The priority roles of a prime minister combine

politics *and* policy. And politics must come first; otherwise, he or she risks losing the confidence of the governing party and of the electorate' (see also King, 1991: 25).

Prime-ministerial power in the policy-making game could be understood only in light of the office-keeping game.

1 (ii) Did Power Resources Differ Critically?

The four prime ministers differed in the power resources they could resort to in the policy-making games. The British and Japanese core executives differed in three aspects: the constitutionally significant position of the cabinet in Japan, the information network centred on the British prime minister, and the policy unit, the benefit of which the British prime minister enjoyed only after 1974 (see page 156).

The information network in Britain was extremely well-developed. It helped retain the collective and collegial character of the British government, while providing an exceptional advantage to the prime minister. When Callaghan faced a potentially-hostile cabinet minister or groups of ministers, he resorted to various power resources, such as cabinet committees by controlling their membership and proceedings, the policy unit, and the networks based in the Cabinet Office to monitor his ministers. British prime

ministers were better equipped than the Japanese. Indeed, Callaghan was the 'luckiest', having the policy unit at hand.

A key difference in the formal power resources between Britain and Japan was the role of the cabinet as a collective body. As illustrated in chapter one, the Constitution and the cabinet law in Japan prescribed the prime minister's role as embedded in the cabinet.

The prime minister could declare basic policies and thus set the tone of the government, exercise control and supervision over various administrative branches, and suspend measures and orders, but only with the endorsement of the cabinet, which required unanimity for its agreement (see pages 20-3 and 129). As a consequence, division in the cabinet or even a veto by one cabinet minister on a given policy could arguably restrict the power of the prime minister based on these power resources. The alternative was to sack the ministers who were against him. In contrast, the formal power resources provided the British prime minister with more room for manoeuvre in cabinet; he could exploit his/her role in chairing cabinet and cabinet-committee meetings.

In the cases in this thesis, however, the cabinet in Japan did not act as a collective body competing against the prime minister. Cabinet in Japan did not have serious discussions on policy issues at its meetings. If disagreements arose between actors, the issue never

reached cabinet. Accordingly discussions were more contained and often bilateral. Rudi Andeweg (1993: 25-38), in a Western European comparison, provided a typology of cabinet decision-making, illustrating differences based on the extent of collectiveness and collegiality. Japan was more fragmented than collective and more oligarchic than collegial.⁴ Contrary to the Japanese cases, when serious divisions arose in cabinet, as in Callaghan's IMF crisis, the British prime minister faced a serious threat from the cabinet as a collective entity (see pages 311-2). Prime ministers in Britain could exploit the functioning of the cabinet and cabinet committees, though their significance could also benefit the opponents of the prime ministers.

In fact, the available power resources were not the key to explaining the differences in whether prime-ministerial power was optimally exercised in the policy-making games. Heath did not exploit many of the power resources, while he still safely followed optimal behaviour in the policy-making games. In contrast, even with the advantage of power resources, Callaghan could not follow optimal behaviour in fiscal policy, for which the policy unit chiefly provided advice. Callaghan valued its existence mainly as another source of views, sympathising with and appreciating his political position. As noted by Lee *et. al.* (1998: 119-20), 'They supplement the prime minister's sources of

⁴ Andeweg (1993: 33-8) raised Britain as an example in four of the twelve categories.

information and ideas, but they do not supplant what exists, including ministers and their departments'. Tanaka and Ôhira also possessed their special staff respectively, though they showed optimal and sub-optimal behaviour without any relationship to their special staff. This result contradicted some observers, who stressed the limitations of the Japanese prime minister's formal power resources (for instance, Hosoya, 1977: 11-2; Shinoda, 1994: 31-2; Shinoda, 2000: 80-1 and 90).⁵

Power resources were significant in setting the basic relationships between actors. Some prime ministers enjoyed more power resources than others. Yet possession of power resources was not equivalent to more power. Power-resource analysis, rather than providing answers to the exercise of prime-ministerial power, begged an important question, namely why some power resources were exploited whilst why others were not. Ellis Krauss (1989: 46) was right, when he noted, 'The major limitations on the otherwise legally powerful office of prime minister [in Japan] are political, not constitutional'.

⁵ Shinoda (2000: chap.4) argued that, amongst many other variables, support from the governing party(ies) was also important for the prime minister's power. To Shinoda (2000: 90), they supplemented the 'limited legal authority' of the Japanese prime ministers. This thesis contended that without the support of the governing party it was difficult for the prime minister even to mobilise the available power resources.

1 (iii) Did Civil Servants Dominate the Prime Minister?

Chapter three and the case studies revealed that civil servants had their own policy preferences, chiefly based on their departmental views and interests.⁶ Civil servants played a major part in providing information and policy advice to ministers and left their clear marks on the policy outcomes. The Heath government's pro-Arab policy was based on the advice from the FCO (see page 196); MITI proposed the details and basic framework of the oil policy of the Tanaka cabinet (see pages 255 and 258-62); reductions of the PSBR and public expenditure cuts were Treasury policy (see pages 288 and 293); the proposal of the GCT arose from MOF, and the ceiling-price policy developed within MITI (see pages 338 and 341). Civil servants conducted most of the work on policy formulation. Nevertheless, this thesis has reiterated power did not necessarily involve overt and visible action. The amount of activity was not equivalent to power (see Muramatsu, 1981: 150-2).

The issue at stake was whether the civil servants manipulated the information available to the prime minister and led him to a certain policy preference and/or behaviour. When prime ministers and ministers adopted the policy advice proposed by civil servants, it

⁶ See Egeberg (1995) for the necessity of distinguishing between the *official* and *private* capacities of civil servants.

was possible that civil servants had disguised the costs or available options for their political masters, who might have not had the time, energy, other information sources or expertise to assess such advice. The proposal for the GCT eventually ended in a fatal intra-party conflict leading to Ôhira's death in June 1980. MITI never fully revealed the cost of advancing the IJPC project in Iran during the Ôhira cabinet, and never considered a free-market solution to the oil crisis in 1973. The Treasury's economic forecast often presented a gloomy perspective, while ministers often believed the Treasury pushed the government into an unavoidable position to reduce public expenditure.

Despite these observations, the cases did not verify bureaucratic dominance over the prime minister. The GCT was indeed put forward by MOF, yet Ôhira had already made up his mind to achieve fiscal consolidation, which would accompany either public expenditure cuts or tax increases. Ôhira's long-held view was that public expenditure cuts were difficult to achieve by public administration reform. A tax increase was the only option left for Ôhira (see pages 337-8). MOF filled in the gap of 'which' tax was increased. In Britain the Treasury forecast was not deliberately manipulated, but it was unreliable. The Treasury did not impose a reduction in the PSBR and public expenditure on Callaghan and his government. Partly the weight of the chancellor, partly events, and

partly the IMF with the international financial markets, affected Callaghan's policy preferences (pages 288-9, 294 and 296). The Treasury did not invite the IMF to push the government into troubled waters. In the early 1970s not only MITI but also the Japanese government and the Japanese economy were well-known for favouring regulation. The panic in the country, including politicians and business leaders, demanded that the government take direct action against the domestic crisis (see pages 255-7).

The IJPC project was a significant indicator of the relationship between Ôhira and the civil servants. Ministers and civil servants wished to maintain economic relations with Iran. The IJPC project was seen as a way for the Japanese to contribute to Iran economically and politically. Yet the feasibility of the project and stability of Iran were in doubt. MITI had an organisational interest to avoid the IJPC project from failing, which would lead MITI to pay approximately 90 per cent of the loss of the Mitsui group (IJPC, 1993: 210). MITI needed to protect its ill-equipped export-insurance system. The IJPC was a covert issue and never directly contradicted Ôhira's policy preference. Although Ôhira was not fully supportive of the IJPC project as a national project, he agreed to the approach to retain the tie with Iran (see pages 322 and 327-8). The IJPC project and the GCT proposal illustrated the active roles the civil servants played in initiating policies. Ôhira respected and positively recognised the efforts of civil servants

in taking the initiative of proposing policies. Ôhira made known his policy preferences and let the others work with this sense of direction, yet he did not override the plans of the civil servants. Ôhira waited until the civil servants could accept his policy preferences, while he issued decisive instructions to his government at key moments, as in support for the United States in foreign policy and the retreat from the GCT in fiscal policy. The problem of this style was that his response tended to be late and sometimes ambiguous publicly.

The key was that, when the policy preferences of the prime ministers and the civil servants collided, the prime ministers' policy preferences prevailed. Heath's EEC policy on oil-sharing, his earlier fiscal policy, the creation of the DEn, Tanaka's earlier fiscal policy, and Callaghan's fiscal policy were such examples (see pages 203-6, 211, 244-6 and 293). When the policy preference of the political master was coherent and consistent, there was not much room for discretion or deviation by the civil servants.

More problematic was monitoring them regularly and assessing the costs of the policies the civil servants were pursuing in a longer term. Agency control remained a problem for prime ministers as for any principal. Yet bureaucratic dominance was not the cause of the differences between the prime ministers' optimal and sub-optimal behaviour.

1 (iv) Did Ministerial Government Circumscribe Prime-Ministerial Power?

Ministers were the heads of the government departments with the staff, legal responsibility and time. They occupied key positions in the chain of principal-agent relationships in the policy-making game. Nevertheless, ministers did not necessarily enjoy autonomy from external actors including the prime minister and the governing party. Moreover they did not always win battles against the prime minister, when their policy preferences came into collision. Philip Norton (2000: 116-7) missed the point when he adopted the metaphor, the 'baronial model', to understand senior ministers. They were not 'barons' because of their official position in government, but, as originally Richard Rose (1976: 154-5) illustrated, because of their holding 'of a piece of territory' within the party.⁷ In the case studies ministers stood up against the prime minister and let their voices be heard, mainly when they had a political basis in the governing party.

It seemed, however, that British cabinet ministers carried more weight in the policy-making games than their Japanese counterpart. The Japanese cases did not reveal

⁷ In a Western European comparison, Thiébault (1993: 89) distinguished countries between where ministers were autonomous for administrative or political reasons, and where they were not. Thiébault put Britain in the latter category.

much impact of the legal significance of the 'competent minister'. British ministers were left to take the lead in policy, as in all the British cases. British prime ministers did not bypass their ministers and become directly engaged with departmental officials. Japanese prime ministers often dealt directly with civil servants in the departments (see pages 245, 248, 257, and 319). Denis Healey, as chancellor of the exchequer, exercised power over the prime minister, partly based on the constitutional position of the chancellorship. Strengthened by political and economic difficulties, Healey with his strong character and intelligence persuaded Callaghan to revise his policy preference and accept a further public expenditure reduction. One advantage of the chancellorship and the Treasury was that they almost automatically gained as minister someone who was a strong character, intelligent and politically significant in the governing party (Heclo and Wildavsky, 1981: 163). In the other cases, ministers constrained prime-ministerial power not on the basis of their formal positions as ministers but because of their political support in the governing party. Ministership was not an independent but an intermediate variable for prime-ministerial power in the policy-making games.

1 (v) Did Personality Explain Prime-Ministerial Power?

If personality was the key to explaining prime-ministerial power and the optimal/sub-optimal distinction of a prime minister's behaviour in the policy-making games, each prime minister is expected to exhibit consistent behaviour in the three case studies (King, 1985b: 101-7; Rose, 2000: 55; Rose, 2001: 60). Heath was the only prime minister to end up with such a consistent result. He delegated tasks to his ministers, and intervened only when necessary to display his policy preferences clearly. Callaghan exhibited a consensual style, notably during the IMF crisis. He respected his ministers' roles and did not intervene in their territories. Yet the question about his style remained: was Callaghan's style based on his personality or did the political condition create his style. It may well have been Callaghan's style to leave the ministers to get on with their jobs. Yet style did not explain the differences in Callaghan's exercise of power (see pages 309-12).

Tanaka and Ôhira had contrasting personalities. Tanaka was seen as an active interventionist, while Ôhira was regarded as a consensus-making delegator. Ôhira delegated tasks to his ministers and respected the roles of his ministers, civil servants and LDP politicians. He did not obtrusively intervene in foreign policy, left practical

discussions and decisions to other bodies in fiscal policy, and hardly participated in domestic oil policy (see pages 327-9, 347-8, and 351-2). Ôhira's personality and style could be observed in the way he dealt with other actors and the timing of his interventions. However, it did not explain the distinction between optimality and sub-optimality of his behaviour. Besides, Tanaka clearly intervened in some cases, yet not in others. It was not clear whether style was the independent variable or whether it was the dependent variable of the power structure and power relations around the prime minister.

2. ROUTES TO EXERTING PRIME-MINISTERIAL POWER

2 (i) British and Japanese Practices: 1973-1980

Prime ministers could exert power through various routes to have their policy preferences reflected in the policy outcomes. Previous prime-ministerial studies often displayed the various power resources prime ministers could resort to. With the Japanese premiership, the lack of some power resources was noted as emphasising its weakness. However, previous studies did not necessarily specify the routes that prime

ministers actually utilised. This section reviews which power resources and hence which routes the prime ministers made use of when they exercised their power.

Heath used various ministerial as well as mixed committee meetings to inform members of his government of the developing crises. Yet the most significant route he relied on to exert power was through bilateral meetings and small gatherings with the ministers concerned. The premise of this route was to have reliable ministers in relevant positions.

He used James Prior, his confidant and officially lord president of the council and leader of the House of Commons, to coordinate measures in the energy crises by letting him chair the CCU. Prior also conduct negotiations with the spending ministers to cut public expenditure (see pages 212-4). Heath used his power resource to create a new government department, the DEn, and appointed Lord Carrington, another senior confidant, as its secretary of state (see page 223). Appointments of ministers were the key power resource he exploited.

Tanaka exercised power in an even more straightforward fashion than his British counterparts. He initially appointed Kôshirô Ueki and Aichi Kiichi, members of his own faction to the office of finance minister to influence MOF directly. He gave instructions directly to senior and middle rank officials in MOF and MITI. He set up a body

including ministers, senior officials and senior party officers, which could be described as an extended cabinet committee. Tanaka changed the agenda to extend measures to deal with price hikes and shortages of other commodities than oil products. He instructed the administrative deputy chief cabinet secretary to conduct inter-departmental coordination at senior officials' level, while mobilising the cabinet secretariat to support inter-departmental coordination led by MITI. Bilateral meetings with ministers were used to reach agreement on the direction of the given policy. Tanaka extensively used his private secretaries' network to communicate his position to government departments, from which the secretaries were originally seconded. Tanaka exploited most of the routes that were available to him (see page 268).

Callaghan widely made use of the cabinet and ministerial committees, including informal meetings. His goal was to achieve agreement in a divided cabinet and to contain a controversial cabinet minister by the principle of collective responsibility. Bilateral meetings were informative and important for cultivating relationships with individual ministers and notably with the chancellor. He also had Harold Lever, officially the Chancellor of the Duchy of Lancaster, as his financial adviser, who participated in negotiations with international oil companies to balance the energy secretary. Callaghan took advantage of junior ministerial appointments, when he

surrounded Benn with right-wingers and his own confidants, such as Mabon, Smith and Cunningham (see pages 298-9 and 306-7). He made full use of the power resources available to a British prime minister.

Ôhira did not provide straightforward instructions to the civil servants, though he also had direct relations with departmental officials. By letting them know his policy preferences and endorsing some rather than other advice, he had a critical impact on the effective direction of policies. Ôhira used *ad hoc* ministerial committees to build consensus on issues, as in foreign policy (see page 324). He used government advisory committees, like the GTSRC, and party organisations, such as the LDP TSRC, to promote the GCT (see page 329). Ôhira heavily resorted to Masayoshi Itô, his chief cabinet secretary, to carry out inter-departmental coordination, and to support and exchange information with the foreign minister, who was a non-Diet member (see page 349).

2 (ii) Distinguishing the Core Executive from Government Departments

The distinction between the core executive and the departments was suggestive in exhibiting the routes that prime ministers exploited to exert power. The Cabinet Office

in Britain routinely followed policies that were important to the government as a whole,

which improved prime-ministerial monitoring over ministers and their departments.

Cabinet, cabinet committees and ministerial committees were more substantial than

merely ritual, as was often the case in Japan. Jordan and Richardson (1987: 152) noted,

‘Our main point about the Cabinet committee system is that it is an extra

prime-ministerial power – perhaps *the* prime-ministerial power’ (see also Burch, 1993:

115; Hodder-Williams, 1995: 234). The British prime ministers had the advantage of

having ‘sinecure’ ministers to conduct special tasks at their request. They enjoyed more

effective leverage in the core executive. Japanese prime ministers also used most of the

routes pointed out in chapter one, although probably in a less extensive fashion. The

difference with the British core executive was that in Japan it was more formal and rigid,

and thus was *ad hoc* and contingent, when it functioned.

Both British and Japanese prime ministers did not have full control over money

allocation in the government. In Japan the first major blueprint for administrative

reform in the 1960s recommended transferring the budget-making responsibility from

MOF to a body directly under the command of the prime minister (Ôkôchi, 1976: 101).

The aim was to increase the central coordinating ability of the government and the

prime minister. Yet prime ministers often had control over the Treasury and MOF in the

cases, despite the lack of legal backing.⁸ The exception was Tanaka's later fiscal policy, in which Fukuda, the finance minister, prevailed over Tanaka (see pages 252-4). The limitation of the prime minister in this case was not organisational but political.

Japanese prime ministers had the route directly to intervene in government departments.

Martin J. Smith *et. al.* (2000: 163) observed that bilateral agreements with ministers were the most effective form of prime minister's intervention. Yet in Japan the prime ministers not only made bilateral agreements with ministers but also had regular and direct contacts with senior civil servants (see Shinoda, 2000: 94-5).⁹ Through strong departmentalism the basic policy line was reached in individual departments or in bilateral agreements between departments. It was vital to exercise power in the main department for the given issue. Japanese prime ministers had inferior power resources in the core executive, yet it was misleading to argue this inferiority vitally damaged the potential of prime-ministerial power in Japan.

As noted in section 1 (iv) above, the importance of the minister seemed to differ between Britain and Japan. Ministers were key actors in Britain, while in Japan they

⁸ Save the British prime minister was the first Lord of the Treasury.

⁹ Jones (1985: 74-5; 1987: 48-9) noted the British prime minister could invite permanent secretaries of departments to 10 Downing Street. This practice seems to have been taking place, yet this thesis could not confirm a significant case of this direct contact.

seemed more marginal, when they did not have political weight. British prime ministers, if politically possible, could rely on their ministers to control the civil servants on their behalf and thus to function as the prime ministers' effective agents. On the contrary, Japanese ministers often did not have the weight and will to impose their views on civil servants. Observers pointed out reasons for the weakness of ministers in Japan. First, suitable people, having the talent, knowledge and capability, were not selected for the posts; second, cabinet reshuffles took place every year, which prevented ministers from getting used to their jobs and departments (Richardson, 1997: 102-3). As a consequence, they were less reliable as prime ministers' agents to control the civil servants. However, because Japanese prime ministers could directly contact senior departmental officials, weak ministership did not critically weaken the position of the prime ministers. Rather, when ministers did not carry political weight, the lack of a constitutionally strong minister made the prime minister's intervention in a given department paradoxically easier in Japan.

2 (iii) Policy Areas and Routes of Prime-Ministerial Power

The last issue was the impact of the types of policy areas on the manner and route of prime-ministerial power. 'Segmented decision model' was the name given where

different actors played different parts (Dunleavy, 1988: 357-9; Dunleavy and Rhodes, 1990: 13-5; Rhodes, 1994: 23; Rhodes, 1995: 22-4; see also Rose 1980). The four prime ministers, without exception, were deeply involved in fiscal policy. Bilateral relationships with the chancellor and the finance minister/MOF were key elements. The prime ministers played significant roles in foreign policy, except Tanaka's, though they tended to participate at critical moments rather than constantly intervening. The observation that fiscal and foreign policies were the two major policy areas for British and Japanese prime ministers was consistent with the arguments of the 'segmented decision model'.¹⁰ Their difference from this thesis was that they all stressed more involvement of the prime minister in foreign affairs rather than in economic matters, which was contrary to the result of this thesis.

Tanaka was the only prime minister amongst the four actively to have intervened in domestic oil policy (see pages 263-5 and 267-8). The other three left the issues to their ministers and civil servants. Heath and Callaghan resorted to the power resource of appointment (see pages 223-4 and 306-7). Callaghan also arranged the cabinet committee in a certain way to restrain his energy secretary (see pages 298-9). Otherwise, Heath, Ôhira and Callaghan did not contribute to the contents. Nevertheless,

¹⁰ See also Rose (1980: 33-42); Hayao (1993: 19-26); for a Western European comparison with a similar result, Müller *et. al.* (1993: 226-7).

non-participation was not equal to no-exercise of power, since Callaghan and Ôhira's policy preferences were always reflected in the policy outcomes of domestic oil policy, and Heath changed his agents when his was not. Non-participation of the prime minister in the policy-making game was, in fact, consistent with both optimal and sub-optimal behaviour. Prime ministers gave more attention to some policy areas than others.

This thesis has demonstrated with fourteen case studies the prime ministers' power in policy-making within the executive. Japanese prime ministers faced more difficulties than did the British in exercising power, since they took more sub-optimal behaviour in the policy-making games. Yet they also exercised power in similar ways to their British counterparts. The differences of prime-ministerial power in Britain and Japan were not as crystal-clear as their reputations stood. This thesis uncovered that prime-ministerial power was primarily promoted and/or constrained by the relationship between the prime minister and the governing party, and their strategic decisions over appointing ministers. The governing party mattered predominantly by being a power resource for contenders against the prime minister, who were mostly cabinet ministers and occasionally senior party officers.

3. EXTERNAL VALIDITY: BOUNDARIES OF THE THESIS

Various conditions were attached when framing the discussion and selecting the cases of this thesis. The concluding analysis provided above was valid under these conditions. This section discusses the external validity of this thesis, namely the extent to which this argument holds in a wider context. For comparative case method the issue of external validity is 'whether the cases selected do reflect adequately the dimensions of different variables assumed by the researcher' (Peters, 1998: 48). This section discusses four facets of external validity. They suggest further variables and areas in which prime-ministerial power in Britain and Japan should be examined.

3 (i) Differences in Parliamentary Procedures

Differences in parliamentary procedures were not discussed in this thesis, since the aim was to explore prime-ministerial power in policy-making in the executive branch. The nature of the bicameral systems in Britain and Japan differed, and their procedures provided more advantage to British prime ministers than to the Japanese. Had the parliamentary process been included in the discussion, Japanese prime ministers were

likely to be more restrained than demonstrated above.¹¹

In Britain the prime minister had much impact on the legislative process, by appointing and discussing events with the leaders of the two Houses and the chief whips (Jones, 1973: 371). The government as the majority party in parliament controlled most of the 'time' for deliberation, and government business had precedence in parliament. Besides, the government had in place the guillotine, formally an 'allocation of time motion'. The 'usual channels' to discuss parliamentary business were between the leaders of the Houses and the chief whips, and their opposition counterparts (Brazier, 1999: 210). These officers depended on the prime minister for their appointment. The leaders of the Houses were in cabinet, while the chief whip (for the Commons), if not in cabinet, regularly attended cabinet meetings, especially when parliamentary affairs were discussed. Through key figures of the governing party the British prime minister possessed the same power resources as against cabinet ministers to control parliamentary proceedings, which provided a marked advantage to the government.

In contrast, the Japanese Diet was more autonomous in its procedures. Japan had a committee system in the Diet and a relatively balanced bicameral system, although the

¹¹ I owe this point to Professor Naoto Nonaka.

lower house was constitutionally superior to the upper house. Each session was much shorter than in Britain, which gave an advantage to the opposition's tactics (Calder, 1988: 203-5; Neary, 2002: 137). The proceeding of the bills was decided at the Diet's home management committee, while this committee's directors and the legislative affairs committees of individual political parties conducted informal negotiations between themselves. Since the 1960s and notably after the 1970s, when the LDP lost control of the 'stable' majority in both Houses (see pages 315-6), a norm of consensus emerged, to which Ellis Krauss (1984: 262) referred as the 'informal norm of "concurrent majority"'. It strengthened the hands of the opposition parties, since it restrained the LDP from taking action with 'snap votes'. Although conditions changed, this norm seemed to continue, as some basic agreement was necessary to achieve smooth proceedings in the Diet. The Diet had its own rules.

The prime minister appointed the chief party officers to deal with parliamentary affairs and negotiate with the opposition parties. They included the secretary-general and the chairs of the Diet's home management committee and LDP's legislative affairs committee. The prime minister may well have been, as Kenji Hayao (1993: 138) argued, 'the one who usually determines which major bills to put forward, when, and how hard to push them'. However, the Diet's shorter-term sessions with multiple stages and its

practice of running the parliamentary process through consensus made it far more difficult for the prime minister to impose his will (Hayao, 1993: 132-8). The Japanese prime minister had to rely more on the governing party to bring the opposition parties on board in parliamentary proceedings. This dependence was likely to affect the policy-making game adversely against the prime minister. Scheduling and predicting the proceedings of the parliament gave a further power resource to some of the Diet members, who were involved in negotiating and deciding Diet proceedings.¹² The prime minister's power was likely to differ in accordance with whether or not he controlled this group dealing with the parliamentary proceedings.

3 (ii) Policy Areas Selected

As explained in chapter two, studies of prime-ministerial power in policy-making games required a qualitative analysis of each case, which limited the number of cases to be examined (see pages 72-3). As a consequence selecting cases with some criteria was inevitable. More than thirty years ago Theodore Lowi (1972: 299) remarked, '*policies determine politics*' (original emphasis). Distinguishing public policies into three

¹² Satô and Matsuzaki (1986: 130-5) noted the increasing significance of the chairpersons of the Diet's home management committee and the LDP's legislative affairs committee, whose chief concern was smooth procedure in the Diet. Besides, they revealed the Tanaka faction's key role in these two offices up to the mid 1980s.

categories, Lowi (1964: 689-90) argued, 'Each area tends to develop its own characteristic political structure, political process, elites, and group relations'. David Marsh and R. A. W. Rhodes (1992: 251) distinguished between policy communities and issue networks: the former was characterised, amongst many other features, by its limited and exclusive membership and accompanying positive-sum games, while the latter had large membership and the permanent existence of conflict with zero-sum games. Others divided policy processes into two arenas, namely those involving ideology and those involving chiefly allocation and redistribution (Muramatsu, 1981: 290). Prime-ministerial power might differ in different types of policy areas, which involved different types of policy networks.

This thesis addressed the theme of the policy community of oil. This policy community comprised government departments, such as MITI, DTI, and DEn, the oil companies and occasionally the retailers and consumer organisations. Oil policy has been a major context for studies examining statist arguments (for instance, Krasner, 1978; Johnson, 1982; Samuels, 1987; Ikenberry, 1988b; Weatherfold and Fukui, 1989). Their focus was to examine the relationship between the state apparatus and civil society. Most of its proponents and opponents in Japanese political studies regarded, implicitly if not explicitly, certain government departments, notably MITI, as the 'state'. They did not

draw much theoretical attention to the prime minister and cabinet. This thesis brought the core executive, including the prime minister, into this picture. This thesis found that government departments, dubbed the 'state', in fact never ignored or overruled the prime minister. Although prime ministers and the core executive did not necessarily become actively involved, the prime ministers' policy preferences were effectively reflected in the policy outcomes. Problematic was when the prime ministers' policy preferences were not clearly expressed and when they did not overtly collide with the department's view, as in the IJPC project.

However, other policy networks were likely to differ in their nature. Oil might differ from agriculture, medicine, construction, social security, technology, or education.¹³ This thesis claims its validity applies to other policy networks in two respects. First, prime ministers' policy preferences are likely to be respected in the policy outcomes as long as they are exhibited clearly; second, explicit participation is not necessarily required for the prime ministers' power to be exercised. It is worth exploring prime-ministerial power in other policy areas with different policy communities.

¹³ The oil industry did not have a close relationship with LDP politicians. The policy community was predominantly that between MITI and the industry. Once other policy networks with strong political involvement were investigated, the picture might look differently (see Campbell, 1989: 130-3; Hayao, 1993: 148-55).

3 (iii) Specified Time Periods

This thesis focused on the period between 1973 and 1980. Institutions and circumstances have changed in the last two decades.¹⁴ This section briefly looks at three issues, which could affect the argument of this thesis. They are changes in: (1) power resources, (2) party organisations, and (3) the circumstances of politics.¹⁵

After 1980 Japan saw two major public administration reforms. The Nakasone government created the management and coordination agency chiefly by merging two existing government bodies, and it enlarged the cabinet secretariat by splitting the former cabinet councillors' office into sections on internal affairs and on external affairs.

In 1998 the Hashimoto government launched a major reform to realign government departments. It set up a Cabinet Office and strengthened the cabinet secretariat by increasing the numbers of staff and raising the status of its senior officials. Other changes of organisations and offices were also intended to strengthen the core executive

¹⁴ Institutional change has attracted substantial attention in institutionalist works. Yet, as the aim of this thesis was to argue for the critical impact of institutions, namely the organisational characteristics of the governing party and the power-resource arrangements in the executive branch, this thesis took the institutions at certain moments as given, rather than explore how they evolved and what caused the changes.

¹⁵ Changes in electoral systems in Japan might as well be discussed. In particular, in 1982 proportional representation was introduced to part of the upper-house electoral system and in 1994 the electoral system for the lower house changed from a single non-transferable vote in multi-member constituencies to systems of partly proportional representation and partly 'first-pass-the-post'. Electoral systems affect the nature of the coherence of the governing party. A discussion on this impact must be provided separately.

under the leadership of the prime minister. As Ian Neary (2002: 129) aptly stressed, however, 'The reforms ... only deal with the sources of weakness of the prime minister as the head of the executive branch of government. They do not affect at all his weakness as leader of the LDP'. The short-term nature of the prime ministership in Japan has recently worsened, as prime ministers had to take responsibility for losing the upper-house elections as well as the lower-house elections since 1989. Neary (2002: 110) argued 'Changing the LDP's rules to permit a four-year or unlimited term in office would do more than any one thing to strengthen the power of the prime minister'. Yet the focus of reform has been on the side of the executive branch.

In Britain the Thatcher government abolished both the CSD and the CPRS. In contrast, the staff in 10 Downing Street were reinforced. Special advisers on efficiency, foreign affairs and economic policy were appointed; the office of chief of staff was established as a political aide to the prime minister, later under Blair being in overall charge of the prime minister's office. The policy unit developed and became close to providing prime ministers with advanced warning, monitoring departments and actively proposing policies in line with the prime minister's own preferences.¹⁶ Both the Japanese and British prime ministers were previously in a reactive position in agenda setting, since

¹⁶ Jones (1987a: 57-61). See Jones (1998: 6-7) and Kavanagh and Seldon (1999: chap.10) for developments during the early Blair government.

formally they had to rely on ministers and their departments to propose policy. Instead of strengthening the cabinet as a collective body, the political and personal dimension enhanced the prime minister's personal staff in Britain.

Second, party organisations changed. There were two dynamics. One was on the leadership contest. By including party members in the selection process, a possibility of conflict emerged between the choices of the party members and of the parliamentarians, who both had different interests. The LDP included its party members and affiliates since 1978 in the leadership election in different manners, while the Conservative and Labour parties have extended the basis of the electorate for the leadership contest in the last two decades. Leaders chosen with a manifest conflict between these two groups, as with the Conservative Ian Duncan Smith (although not prime minister) and Junichirō Koizumi, were more likely to suffer from lack of support from their parliamentary parties and thus the instability in the governing party.

The other dynamics were between giving the party leadership more freedom to manoeuvre and giving party members including parliamentarians more opportunities to participate and thus control the party leadership. The LDP was an extraordinary case. It even partly took over the coordination function between government departments since

the late 1970s. Senior Diet members of the LDP were in the position to do so. They had experienced the positions of the relevant cabinet ministers, leaders of the *zoku* Diet members and key figures of the executive council and PARC (Satô and Matsuzaki, 1986: 97). The coordination function was diversified in the LDP. As a consequence, the balance between the prime minister/cabinet and the governing party has changed to the benefit of the latter in the last two decades. Why and how this phenomenon occurred must be examined separately.

Third, the circumstances around the prime minister changed; policy agendas involved more international dimensions than before, while the mass media notably television gave increasingly more focus to the prime minister personally.¹⁷ At international conferences, where the prime minister represented the government, he/she automatically became involved in issues with international and global implications. The prime minister was the chief negotiator facing other heads of states/governments, and, therefore, he/she personally became committed to the outcomes of the conferences and was expected to (King, 1991: 37; Jones, 1991: 171; Lee, 1995: 206-19). As a consequence, the prime minister became more exposed and had to increase the amount of his/her activity. This position as chief representative and chief negotiator was likely

¹⁷ Wright and Hayward (2000: 32) provided a list of eleven factors that increased and complicated coordination requirements and objectives.

to provide another power resource against other actors, notably the minister in charge of the given policy area. Yet it was not without ambiguity whether and to what extent this increasing international dimension was to benefit the prime minister's power against other actors.

The advancement of the mass media and notably television coverage has in the last two decades extensively personalised politics. There is dispute as to what extent the popularity of the party leader determined support for the party at the ballot box. The amount of coverage indeed showed the focus on prime ministers and the opposition leaders, which Michael Foley (1993: 124; 2000: 205) called 'leadership stretch'.¹⁸ Ellis Krauss and Benjamin Nyblade (n.d.) recently demonstrated the increasing importance of the prime minister's personal image on the electoral fortunes of the governing party in Japan.¹⁹ Michael Foley (1993: 263) argued that the personalisation of the prime minister with other aspects was a sign of 'the growing emergence of a British presidency'. Although as a metaphor the term 'British presidency' conveyed a description of the change in and around the premiership, it was less convincing as a concept while 'personalisation' seemed to be sufficient for what he argued. Personalisation of the premiership could both benefit and harm the prime minister in

¹⁸ However, Rose (1980: 10) showed the little impact the (un)popularity of party leaders had on the election results.

¹⁹ I thank Ellis Krauss and Ben Nyblade for allowing me to use their unpublished paper.

office. The media attention publicly made the prime minister a figure distinctive from his cabinet colleagues, and a sympathetic coverage enhanced his position against other actors by displaying the prime minister as the 'goody'. On the other hand, media attention functioned as a constant assessment process, which could destabilise the government. In short, media attention reinforced the support and criticism the prime minister faced in public. From the prime minister's viewpoint, he/she strove to present an image of 'personally' exercising 'leadership', which the mass media preferred and demanded that politicians take. Power exercise without any overt action, namely anticipating reactions of ministers and civil servants, was often confirmed in the cases of this thesis. Yet the increasing role of the mass media was likely to call for a more visible exercise of power.

3 (iv) Policy Impact

Policy processes were often distinguished into stages. This thesis had a precise focus on the agenda-setting, policy-formulation, and (executive) decision-making stages. The difficulty this thesis encountered was the necessity of cutting short the time span of each case to conduct a sufficient number of cases. It was a trade-off between fewer longer-term and more shorter-term case studies, the latter of which this thesis opted for.

Hence, implementation was out of the range of this thesis. Yet the significance of the implementation stage was undeniable. Policies, which ministers had decided, might not be implemented, might be metamorphosed into something different, or might miss key opportunities. In Britain devolution to the Scottish parliament and the Welsh assembly accentuated this aspect (Wright and Hayward, 2000: 32). Bureaucratic dominance or bureaucratic fragmentation might be more important in this stage than at the earlier stages addressed in this thesis.

The stage of implementation could be understood with the same framework of the principal-agent relationships. Principals lacked perfect information, expertise and energy to monitor the performance of their agents. The implementation process is a world of public or semi-public bureaucracy. Principal-agent theory would be useful to comprehend the chain of principal-agent relationships down from the central government departments to the delivery agencies or private actors in the market, while the nature of the chain and relationships would affect the impact of the prime minister's power.

4. INSTITUTIONALIST APPROACH TO PRIME-MINISTERIAL POWER

The prime minister with the cabinet sits 'at the crossroads between representation and administration' (Blondel and Cotta, 1996: 3). To understand the prime minister's power in the government, his/her position in the governing party must be fully recognised.

Indeed, a prime minister should be understood as an institutional actor.²⁰ Recent studies (Shinoda, 2000; Mulgan: 2002) argued that Japanese prime ministers confronted dual opponents, namely the civil servants and the LDP. This thesis, instead, demonstrated that their relationships with the governing party primarily determined those with the civil servants. Civil servants were not by nature opponents of prime ministers. Whether civil servants followed the prime ministers' policy preferences depended on the extent of support the prime ministers received from their governing parties.

Institutions do not, nevertheless, decisively determine the actor's behaviour or preference. As Elinor Ostrom (1991: 239) noted 'Rather, some actions are ruled in (permitted), and others are ruled out (forbidden). Choices made by rule-following individuals are from within the set of permitted actions. ... Choices from among those

²⁰ See Neary (1996: 12) for the political implications of personal and impersonal factors in explaining leadership in Japan.

actions that are ruled in cannot be made on the basis of institutional rules' (see also Ikenberry, 1986a: 66).²¹ Room is left for strategic choices, such as portfolio allocation, namely whether to appoint someone and as what.

On the other hand, institutions are not only formal, although this thesis focused on (semi-)formal rules and bodies. Informal institutions, which include established practices and role expectations, are important for explaining the details as to which issues prime ministers focus their attention on, how his/her preferences are shaped, what manner he/she takes to participate in policy-making, and how he/she treats other actors.

The difficulty of adopting informal institutions as a key variable is the danger of tautology. Because informal institutions are by definition informal, they need to be induced from empirical observation. When it comes to verifying their functions, they are often in peril of being tested against the very empirical data they derive from. It is no surprise they match each other. It is important to avoid this false procedure. Yet the shortage of information and lack of cases on prime ministers and the core executive make it difficult to follow an appropriate route of research. Despite this drawback the impact of institutions, both formal and informal, on the prime minister's power in policy-making cannot be exaggerated.

²¹ Crawford and Ostrom (1995: 584) added a third verb, 'obliged', to 'permitted' and 'forbidden'. See this article for an analytically exhaustive discussion on institutions.

The prime ministership is too embedded in institutions to understand by the personality of its holder. The prime minister's personality is likely to attract more public attention than previously. Personality indeed answers certain questions. However, it is too messy and ambiguous a concept to rely on. It is hardly promising to look into medical files of political leaders and dispute over their interpretation (For instance, George and George, 1998: 121-31). The approach is often bound to lead to the question 'So what?' (Jones, 1990b: 232). Besides, normatively and practically, it is neither much help nor comfort to know what was right or wrong with the prime minister's personality to assess his/her power and achievements. A democracy cannot wait for a benevolent leader to emerge. Rather than wait for one and damn the current political leaders, their recruitment processes and surrounding power structures ought to be contemplated. As Dennis Kavanagh and Anthony Seldon (2000: 76) wrote, 'there is little point in drawing up a system which requires a superman [sic] as prime minister'. An institutional approach can avoid opening 'the Pandora's box of the individual's psyche' (Moe, 1993: 353). After all, prime ministers can only be what they are allowed to be.

APPENDIX A: TABLES A.1-A.13

TABLE A.1
OIL CONSUMPTION 1965-1980 (selected countries) (million tonnes)

	1965	1966	1967	1968	1969	1970	1971	1972
USA	548.9	575.7	595.8	635.5	667.8	694.6	719.3	775.8
Canada	55.0	58.0	61.7	66.1	69.1	73.0	75.8	79.3
France	53.9	57.7	66.2	71.8	83.0	94.3	102.8	114.1
Italy	52.3	57.7	63.7	70.3	77.3	87.3	93.8	98.2
UK	74.2	79.5	85.3	90.4	97.3	103.6	104.3	110.5
W. Germany	79.5	89.2	92.1	103.8	117.1	128.6	133.5	140.9
Japan	87.9	100.0	122.9	142.7	169.0	199.1	219.7	234.4

	1973	1974	1975	1976	1977	1978	1979	1980
USA	818.0	782.6	765.9	822.4	865.9	888.8	868.0	794.1
Canada	83.7	84.8	83.1	85.9	85.6	86.9	90.1	87.6
France	127.3	121.0	110.4	119.5	114.6	119.0	118.3	109.9
Italy	103.6	100.8	94.5	98.8	96.1	99.8	103.2	97.9
UK	113.2	105.3	92.0	91.4	92.0	94.0	94.5	80.8
W. Germany	149.7	134.3	128.9	138.9	137.1	142.7	147.0	131.1
Japan	269.1	258.9	244.0	253.5	260.4	262.7	265.1	237.7

source: Jenkins, 1989: 142.

TABLE A.2
CRUDE-OIL SUPPLIERS TO JAPAN (%) 1973-1979

	1973	1974	1975	1976	1977	1978	1979
8 Major Oil Companies	74.10	72.10	70.00	70.10	68.10	65.80	51.90
Independents (US)	7.90	7.20	6.50	6.20	4.70	3.60	2.20
Independents (others)	0.50	0.80	1.20	0.00	0.00	0.00	0.20
Oil-Producing Countries	9.20	10.40	14.30	16.00	19.90	21.00	37.20
Japanese Exploitation Companies	8.30	9.50	8.00	7.70	7.30	9.60	8.50
total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

source: Sekiyu Renmei, 1981: 8-9.

TABLE A.3
PETROLEUM STOCKS IN SELECTED OECD MEMBER COUNTRIES 1973-1980
(million barrels)

	1973	1974	1975	1976	1977	1978	1979	1980
USA	1008	1074	1133	1112	1312	1278	1341	1392
Canada	140	145	174	153	167	144	150	164
France	201	249	225	234	239	201	226	243
Italy	152	167	143	143	161	154	163	170
UK	156	161	165	165	148	157	169	168
W. Germany	181	213	187	208	225	238	272	319
Japan	303	370	375	380	409	413	460	495
OECD	2588	2880	2903	2918	3224	3122	3379	3587

source: Jenkins, 1989: 112.

TABLE A.4
UNEMPLOYMENT IN UK (thousand)/% OF TOTAL LABOUR FORCE (adjusted) (year)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
1st Quarter	640	693	934	729	607	762	1233	1324	1384	1324
2nd Quarter	585	709	840	603	552	813	1194	1254	1271	1184
3rd Quarter	566	730	770	531	574	943	1236	1327	1286	1181
4th Quarter	618	845	760	502	631	1091	1255	1347	1256	1220
Year	602	744	826	591	591	902	1229	1313	1299	1227
% (Year)	2.6	2.8	3.1	2.1	2.1	3.3	4.5	4.8	4.7	4.3

source: OECD, 1990: 696-7.

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TABLE A.5
BALANCE OF PAYMENTS IN UK: CURRENT BALANCE (£ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
1st Quarter	258	67	12	-393	-882	-658	-129	-669	-458	-928
2nd Quarter	175	345	246	-40	-871	-369	-361	-507	291	-194
3rd Quarter	113	389	-109	-239	-716	-485	-173	650	549	585
4th Quarter	249	288	42	-346	-848	-70	-257	390	584	-124
Year	795	1089	191	-1018	-3517	-1582	-920	-136	966	-661

source: OECD, 1990: 715.

TABLE A.6
RPI (all items)/CHANGE OVER 12 MONTHS (%) 1970-1978 (monthly)/UK

	JAN	FEB	MAR	APR	MAY	JUN	JUL
1970	5.0	4.9	5.1	5.6	6.1	5.9	6.7
1971	8.5	8.5	8.8	9.4	9.8	10.3	10.1
1972	8.2	8.1	7.6	6.3	6.1	6.1	5.8
1973	7.7	7.9	8.2	9.2	9.5	9.3	9.4
1974	12.0	13.2	13.5	15.2	16.0	16.5	17.1
1975	19.9	19.9	21.2	21.7	25.0	26.1	26.3
1976	23.4	22.9	21.2	18.9	15.4	13.8	12.9
1977	16.6	16.2	16.7	17.5	17.1	17.7	17.6
1978	9.9	9.5	9.1	7.9	7.7	7.4	7.8

	AUG	SEP	OCT	NOV	DEC	YEAR
1970	6.8	7.0	7.4	7.9	7.9	6.4
1971	10.3	9.9	9.4	9.2	9.0	9.4
1972	6.6	7.0	7.9	7.6	7.7	7.1
1973	8.9	9.3	9.9	10.3	10.6	9.2
1974	16.9	17.1	17.1	18.3	19.1	16.0
1975	26.9	26.6	25.9	25.2	24.9	24.2
1976	13.8	14.3	14.7	15.0	15.1	16.6
1977	16.5	15.6	14.1	13.0	12.1	15.8
1978	8.0	7.8	7.8	8.1	8.4	8.3

source:

<http://www.statistics.gov.uk/STATBASE/tsdataset.asp?vlink=229&More=N&All=Y>,
seen on 2 May 2003.

TABLE A.7
WPI(all commodities/petrol,coal&related products)/CY CHANGE (%) 1971-1980/JPN

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
a	-0.8	0.8	15.9	31.3	3.0	5.0	1.9	-2.5	7.3	17.8
b	11.9	-0.8	7.7	128.8	21.5	9.1	-0.1	-13.0	22.4	67.2

source: Nambara, 1987.

note: a = All Commodities; b = Petroleum, Coal & Related Products.

TABLE A.8
WPI (all commodities)/CHANGE OVER 12 MONTHS (%)
1973-1974, 1978-1980 (monthly)/JPN

	JAN	FEB	MAR	APR	MAY	JUN
1973	7.6	9.2	11.0	11.4	12.3	13.6
1974	34.0	37.0	35.4	35.7	35.3	35.3
1978	-1.5	-1.7	-1.8	-2.1	-2.0	-2.1
1979	-1.6	-0.9	0.1	2.2	3.5	5.2
1980	19.1	21.4	22.8	24.0	21.9	20.3

	JUL	AUG	SEP	OCT	NOV	DEC
1973	15.7	17.4	18.7	20.3	22.3	29.0
1974	34.2	32.8	30.6	28.7	25.1	17.0
1978	-2.5	-3.6	-3.7	-4.0	-3.2	-2.3
1979	8.3	10.9	12.6	14.5	16.1	17.5
1980	18.5	17.5	15.5	13.4	11.7	9.6

source: Nambara, 1987.

TABLE A.9
CPI/CY CHANGE (%) 1971-1980/JPN

1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
6.3	4.9	11.7	23.2	11.7	9.4	8.1	4.2	3.7	7.7

source: <http://www.stat.go.jp/data/cpi/200107/zuhyou/a001hh.xls>, seen on 25 April 2003.

TABLE A.10
CPI (general index)/CHANGE OVER 12 MONTHS (%)
1973-1974, 1978-1980 (monthly)/JPN

	JAN	FEB	MAR	APR	MAY	JUN
1973	6.7	7.0	8.7	9.4	10.8	11.0
1974	21.9	24.9	22.8	23.7	22.0	22.3
1978	4.5	4.5	4.8	4.2	3.9	3.9
1979	3.6	2.8	2.7	2.9	3.2	3.8
1980	6.4	7.7	7.7	8.1	8.0	8.2

	JUL	AUG	SEP	OCT	NOV	DEC
1973	11.7	11.9	14.2	13.9	15.2	18.3
1974	22.8	23.9	22.5	24.8	24.5	21.0
1978	4.6	4.6	4.1	3.7	3.8	3.9
1979	4.3	3.1	3.2	4.2	5.0	5.6
1980	7.5	8.4	8.7	7.5	8.0	6.9

source: <http://www.stat.go.jp/data/cpi/200107/zuhyou/a001hh.xls>,
seen on 25 April 2003.

TABLE A.11
£-\$ EXCHANGE RATE: SPOT (pence)

	JAN	FEB	MAR	APR	MAY	JUN
1975	237.78	242.68	240.90	235.31	231.14	219.80
1976	202.91	202.71	191.57	184.40	176.40	178.13
1977	171.42	170.92	172.01	171.93	171.76	172.02

	JUL	AUG	SEP	OCT	NOV	DEC	Year
1975	214.72	211.10	204.09	207.57	201.68	202.35	202.35
1976	178.43	177.46	167.75	160.60	164.84	170.24	170.24
1977	173.74	174.29	174.65	183.20	181.50	190.60	190.60

source: OECD, 1990: 713.

TABLE A.12
ARABIAN LIGHT CRUDE OIL AVERAGE SPOT MARKET PRICE (\$)

	1973	1974	1975	1976	1977	1978	1979	1980
1st Quarter	2.10	9.90	10.45	11.50	12.20	12.70	19.65	36.10
2nd Quarter	2.30	10.50	10.40	11.50	12.10	12.70	27.95	35.40
3rd Quarter	2.60	10.00	10.45	11.60	12.70	12.80	33.60	32.85
4th Quarter	4.50	10.45	11.50	11.90	12.70	13.80	38.35	38.40
Annual Ave	2.88	10.21	10.70	11.63	12.42	13.00	29.89	35.69

source: Energy Statistics Sourcebook, 1994: 413.

TABLE A.13
¥-\$ EXCHANGE RATE 1973-1980

	JAN	FEB	MAR	APR	MAY	JUN
1973	301.15	270.00	265.83	265.50	264.95	265.30
1974	299.00	287.60	276.00	279.75	281.90	284.10
1975	297.85	286.60	293.80	293.30	291.35	296.35
1976	303.70	302.25	299.70	299.40	299.95	297.40
1977	288.25	283.25	277.30	277.50	277.30	266.50
1978	241.74	238.83	223.40	223.90	223.15	204.50
1979	201.40	202.35	209.30	219.15	219.70	217.00
1980	238.80	249.80	249.70	238.30	224.40	218.15

	JUL	AUG	SEP	OCT	NOV	DEC
1973	263.45	265.30	265.70	266.68	279.00	280.00
1974	297.80	302.70	298.50	299.85	300.10	300.95
1975	297.35	297.90	302.70	301.80	303.00	305.15
1976	293.40	288.76	287.30	293.70	296.45	293.00
1977	266.30	267.43	264.50	250.65	244.20	240.00
1978	190.80	190.00	189.15	176.05	197.80	195.10
1979	216.90	220.05	223.45	237.80	249.50	239.90
1980	226.85	219.20	212.00	211.75	216.75	203.60

source: <http://www2.boj.or.jp/en/dlong/stat/data/cdab0780.txt>,
seen on 25 April 2003

APPENDIX B: LIST OF INTERVIEWEES (date of interview)

1. Senior Cabinet Office official (19 November 1998; 20 November 2002).
2. DTI/DEn official (20 November 1998; 15 April 2002).
3. CPRS official (24 November, 1998).
4. Aide to a DTI minister in the Heath government (30 November 1998).
5. Senior Treasury official (2 December 1998).
6. Aide to Edward Heath, the prime minister (3 December 1998).
7. Aide to a Treasury minister (4 December 1998).
8. Government minister in the Heath government (8 December 1998).
9. Cabinet minister in the Heath government (9 December 1998).
10. Cabinet minister in the Heath government (9 December 1998).
11. Senior CPRS official (10 December 1998).
12. Aide to Edward Heath, the prime minister (17 December 1998).
13. Aide to Edward Heath, the prime minister (17 December 1998).
14. Aide to an FCO minister in the Heath government (20 January 1999).
15. Senior FCO official (21 January 1999).
16. Senior FCO official (27 January 1999; 4 December 2001).
17. DTI official (1 February 1999).
18. DTI official (4 February 1999).
19. Senior Cabinet Office official (10 February 1999).
20. Aide to an FCO minister in the Heath government (15 February 1999).
21. Government minister in the Heath government (10 March 1999).
22. CPRS official (15 March 1999).
23. Senior DTI official (24 March 1999).
24. Senior Treasury official (14 April 1999).
25. Senior DTI official (23 April 1999; 21 November 2001).
26. Cabinet minister in the Heath government (28 April 1999).
27. Government whip in the Heath government (20 May 1999).
28. Government minister in the Heath government (20 May 1999).
29. MOFA official (20 September 1999).
30. MOFA official (28 September 1999; 26 June 2002).
31. Aide in the prime minister's residence during the Tanaka government (13 October 1999; 8 July 2002).
32. MITI official (14 October 1999; 18 November 1999).
33. Aide to Masayoshi Ôhira, the foreign minister (14 October 1999).
34. PAJ staff (15 October 1999; 6 March 2000).
35. Senior PAJ staff (18 October 1999).
36. MITI official (21 October 1999; 12 July 2002).
37. Senior MOF official (25 October 1999).
38. Senior MITI official (28 October 1999; 1 March 2000).
39. MITI official (1 November 1999).
40. MITI official (2 November 1999).
41. Aide to Masayoshi Ôhira (4 November 1999; 10 April 2001).
42. MITI official (8 November 1999).
43. Senior MOFA official (11 November 1999; 26 March 2001).
44. Senior MITI official (12 November 1999; 21 June 2002; 2 July 2002).
45. Aide in the prime minister's residence during the Tanaka government (16 November 1999).
46. MITI official (17 November 1999).
47. MOF official (27 January 2000; 21 March 2001; 24 June 2002).
48. MOF official (27 January 2000).
49. Aide in the prime minister's residence during the Tanaka government (10 February 2000).
50. Senior PAJ staff (23 March 2000).
51. MITI official (30 March 2000).

52. Senior MOFA official (29 March 2000).
53. MITI official (10 April 2000).
54. MITI official (11 April 2000).
55. MITI official (12 April 2000).
56. Senior MOFA official (12 April 2000; 2 July 2002).
57. Senior official in the prime minister's official residence during the Tanaka government (2 March 2001; 18 December 2001).
58. MOFA official (6 March 2001).
59. MOF official (27 March 2001).
60. Aide in the prime minister's residence during Ôhira government (10 April 2001).
61. MITI official (11 April 2001).
62. Senior MOF official (12 April 2001).
63. Aide in the prime minister's residence during Ôhira government (13 April 2001).
64. FCO official (16 November 2001).
65. Cabinet minister in the Callaghan government (26 November 2001).
66. Senior DEn official (8 February 2002).
67. Government minister in the Callaghan government (13 February 2002).
68. DEn official (11 February 2002).
69. Senior DEn official (25 February 2002).
70. Aide to James Callaghan, the prime minister (26 February 2002).
71. Senior Treasury official (28 February 2002).
72. Government minister in the Callaghan government (28 February 2002).
73. Aide to James Callaghan, the prime minister (27 February 2002).
74. Adviser in the DEn (12 April 2002).
75. Cabinet minister in the Callaghan government (16 April 2002).
76. Senior Cabinet Office official (17 April 2002).
77. BP executive (17 April 2002).
78. Aide to James Callaghan, the prime minister (18 April 2002).
79. Senior CPRS official (24 April 2002).
80. Government minister in the Callaghan government (8 May 2002; 6 August 2002).
81. Senior MITI official (28 June 2002).
82. MOF official (3 July 2002).
83. MOF official (9 July 2002).
84. Cabinet minister in the Heath government (18 November 2002; Correspondence 19 May 2003).
85. Aide to Edward Heath, the prime minister (21 November 2002).
86. FCO official (21 November 2002).
87. FCO official (26 November 2002).
88. Cabinet minister in the Heath government (27 November 2002).
89. Aide to Edward Heath, the prime minister (28 November 2002).
90. Cabinet minister in the Heath government (4 December 2002).
91. Senior BP executive (4 December 2002; 13 December 2002).
92. Aide to Edward Heath, the prime minister (5 December 2002).
93. Government minister and aide to James Callaghan, the prime minister (10 February 2003).
94. MITI official (29 March 2001).
95. Journalist (27 August 1999).

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