



# The Asia-Pacific Journal: Japan Focus

in-depth critical analysis of the forces shaping the Asia-Pacific...and the world.

## The Plan to Rebuild Japan: When You Can't Go Back, You Move Forward. Outline of an Environmental Sound Energy Policy

Kaneko Masaru

### Unthinkable Not to Rethink Policy in This Catastrophe

Japan seems on the verge of a second defeat. The March 11 magnitude 9.0 East Japan earthquake shoved the entire country 2 metres and brought even more mayhem in a tsunami that wrecked whole communities and snatched away the lives of thousands. Now we see 100,000 troops from the Self-Defense forces dispatched to rescue operations amidst the pall rising from massively damaged nuclear reactors. Radioactivity is drifting out to sea and over the surrounding prefectures, poisoning farm produce and forcing restrictions on their shipment and sale. The crisis has extended even to drinking water in the capital of Tokyo. The scale of disasters evokes embedded memories of the cusp of postwar reconstruction, the moment when rebuilding economy and society was about to harness prodigious resources and time.

So it is urgent, right now, to confront the question of how Japan should be rebuilt, and in whose interests. Recall the press conference held a few hours in the wake of the earthquake. The authorities repeatedly assured us the worst was already over, that "the situation is not grave" and "it's safe so let's be calm." And when matters predictably worsened, Prime Minister Kan Naoto merely lost his cool and erupted at the utility TEPCO. The crisis-management centre eventually occupied the offices of TEPCO, but it was already too late to bring the crisis under control.

This lamentable performance resembles the stumbling of the state and the banks during the financial crisis of the 1990s. Ad hoc injections of public funds were matched with the banks' assurances that "we're okay now." The show was repeated over and over. Bad news was deliberately concealed, and only when there was marginal improvement somewhere in the swelling mess was information forthcoming. Meanwhile, the crisis morphed from bad to worse.

But let us recall, too, the over-reaction to that recent history and be cautious. Failure to deal forthrightly with the financial crisis led to the rashness of the Koizumi regime's structural reforms. Its wholesale deregulation failed to generate new growth industries, and its liberalization of finance only increased that sector's exposure to the continuing subprime crisis. Poorly targeted leadership and policies saw large firms increase their cash hoarding. And labour was squeezed by employment mobility measures that led instead to expanding inequality and poverty. None of this was any good for the deflationary economy.

Japan's present is not unlike the very start of those 20 lost years. Without a serious reconsideration of the governance and policies that created this crisis, we risk forfeiting yet again the chance to renew Japan.

There is, of course, much reluctance to look closely at our crisis in leadership. We see the firemen and other workers risking their lives up in Fukushima, in the midst of imminent meltdown, bravely able to focus on bringing the chaos under control. Their sacrifice suggests to many that "now is not the time" for talk of politics. Those who would raise questions about the government and the utilities' responsibility are quickly silenced while a "once in 1000 year earthquake," "unforeseeable," and similar rhetorical evasions have free rein in the public debate. The March 18 Atomic Energy Society of Japan's exculpatory statement is one pertinent example. This is not unlike sentiment during the war, when people met doubts with a nativist "at this time, criticizing the authorities is simply un-Japanese." If we continue with this refusal to think, to reflect on failure, we invite yet more of the same and again squander the opportunity for renewal.

### Start With an Environmental-Energy Revolution

TEPCO, METI, the nuclear regulators, and their allies strewn through academe insist even now, in the face of the facts, that "nuclear power is safe." They seek to sidestep responsibility for this incident by declaring it "unforeseeable." But was it actually "unforeseeable"? Certainly in the Diet, the past few years have seen plenty of questions concerning the potential for loss of power in an earthquake as well as the risk of a tsunami wiping out cooling functions. Yet the facilities were not improved. Among other danger signs we had the 2006 "new earthquake reinforcing" followed by the 2007 Chuetsu offshore earthquake ([link](#)) and the startling cracks in the shroud of the Kashiwazaki Kariwa nuclear station ([link](#)). Here too, there is scant evidence of regulators' pressure for improvements. Rather, we have a litany of scandals concerning efforts to doctor records and conceal incidents. Added to this, we have repeated shutdowns of the reactors and a drop of their operating rates to about half of capacity.

The industry and its oversight's lamentable record saw the Democratic Party's 2009 election campaign manifesto advocate an environmental-energy revolution. Rather than nuclear power, the Democrats promised a feed-in tariff for renewable energy, carbon trading, and an environmental tax. This set of policies was aimed at accelerating our ongoing energy transformation, towards renewables, to foster new industries and new employment. Yet in the wake of the election, vested interests ensured that much of the substance of the manifesto was put off or simply eviscerated. This process of dumping sustainable options in favour of the status quo became even more pronounced under Kan Naoto's leadership from June of 2010.

In particular, the Kan Cabinet eagerly assented to the "more nuclear plants and more nuclear exports" enthusiasm of the financial clique, TEPCO, and METI. They ignored the declining costs and mushrooming opportunities of wind power and other renewable energy generation. The drop in costs has already seen many renewables become cheaper than nuclear power. Japan's oft-quoted "seven yen per kilowatt hour" price of nuclear power omits the cost of comprehensive safety as well as cleaning up the waste. And while it perhaps smacks of opportunism to make predictions while this crisis unfolds, it seems pretty clear that an expanding burden of human and fiscal costs will be pushed out onto subsequent generations. The sins of the nuclear regulators, TEPCO, METI and the others who told the people "nuclear is safe" and "nuclear is the cheapest power" are already unforgivable.

In addition to rebuilding from the earthquake, the following initiatives are necessary:

- 1) This nuclear crisis has delivered an enormous blow to Japan's reputation for safety and security. Recovery has therefore to include the institution of a Diet committee to study this incident. The committee needs to thoroughly investigate the responsibility of TEPCO, METI, the industry itself, and the regulators. And the inquiry's mandate must include more than matters directly concerning the incident itself. The METI's nuclear-dependent energy and electricity administration should also be a focus of this investigation.
- 2) In addition, one basis of rebuilding has to be a fundamental rethinking of such matters as the administration of electricity and energy policy, the monopoly enjoyed by the electrical utilities, the separation between the production of power and its distribution, the structure of the regulatory and governmental authorities, and the safety administration of nuclear power. Regulations governing power production must also be liberalized and a comprehensive management structure imposed to oversee the grid transmission of the 10 utilities.

### We need reconstruction not restoration

Damage to housing and infrastructure in the regions struck by the quake and tsunami is severe. The shortage of electrical power has cut production and

output, and agricultural production has received an enormous blow. In the Tohoku region, hundreds of thousands have lost their homes and their livelihoods. And as the nuclear crisis worsens, Japan's reputation for safe and high quality products has taken an increasingly enormous hit. Japan's aftershocks include not only those from the quake but also a deepening economic crisis. Before March 11, Japan's economy was already in decline and its fiscal deficits scraping at the limits of available fiscal resources. This backdrop makes the question of how best to recover all the more immediately pertinent, and the issues we must grapple with from here on all the more grave.

At present, the political parties and bureaucracy are in negotiation over whether to have a YEN 10 trillion or YEN 20 trillion supplementary budget for reconstruction. There is also debate over whether to set up a reconstruction authority. But there is no serious debate on the proper *content* of a reconstruction plan. Before talking about fiscal resources, it would seem imperative to prioritize deliberation and decision on the reconstruction plan.

It goes without saying that we must rebuild such essential infrastructure as telecommunications, sewers and water supply, roads, bridges, hospitals and elderly care facilities, harbours and the like. In order to get this important work underway, we need financial capital and public finance. But what we have to avoid is a restoration of old-style public works. Neither do we need a simplistic turn back towards thermal power, ramping up coal-fired electricity generation because nuclear is deemed unsafe and in order to meet current electricity demand. Our commitment to cutting carbon emissions must remain in place, and even be strengthened. What is in question here is the emphasis on nuclear power as the path out of dependence on fossil fuels. We have to inquire into the aptness of current energy policy. A simple extension of the conventional thinking that has brought us to this impasse is not going to bring Japan safely out of it. Continuing on the present path is almost certain to see reconstruction-driven demand lead to an uptick in growth followed by yet another fall into an even deeper economic malaise.

This massive crisis is bringing an era to an end before our eyes. Conceptions of the possible must rapidly shift to keep up with reality. Just as with defeat in the war, this crisis is an opportunity for a fundamental rebirth and reconstruction. The present is our best chance to formulate a "state reform plan."

A fundamental part of this transformation is to move boldly in the direction of renewable energy. Policies to promote renewable energy hold forth the potential for sustainable growth, the promise of new technology, and the route for capital to flowing into truly productive investment. Without that kind of effort, there is little hope of a bright future for Japan.

We have to move forward rather than vainly try to go back. What is necessary is not restoration but rather reconstruction.

At the core of a state reconstruction plan, we need the following shift to environmental energy policies:

- 1) We must have a fundamental transformation to environmental energy policies so as to avoid repeating the tragedy of the foreseeable (and foreseen) massive major earthquake and tsunami. To that end, the Democratic Party is called upon to set up party organizations for quickly institutionalizing the feed-in tariff, cap-and-trade mechanisms for carbon trading, global warming countermeasure taxes and other policies that were part of its 2009 election manifesto.
- 2) We must restructure the ravaged local areas on the pattern of smart cities, vaulting Japan to the cutting edge of the global competition to create advanced forms of sustainable urban design.
- 3) We must make it mandatory for all schools, hospitals and other public buildings and commercial buildings in Tokyo and other cities to attain energy self-sufficiency. Households too should be equipped with solar panels, and peak load be met by such means as "ene-farm" natural-gas fuel cells as well as LED lighting so as to create the world's leading self-sufficient and low-energy cities.
- 4) In the local areas, it is imperative that local production and local consumption ideas be extended to the energy field. This can be achieved by an emphasis on solar, wind, geothermal, small hydro, biomass and other forms of renewable energy. At the same time, we must reconstruct the damaged electricity network with smart grid networks that allow distributed renewable energy to become the basis of a new local economy. This is not rocket science: we can already see the successes of Germany, Denmark, Iceland and a host of other countries and regions. Power production not only holds out the promise of local income, but also the prospect of new employment. Through restructuring the backbone energy economy and renovating the state, Japan's "centralized, mainframe style economy" can be reshaped to a "decentralized, network style economy."

### **Where Shall We Get the Money?**

In order to achieve this reconstruction, what scale and type of funds are required? As is well known, Japan's burden of public debt has risen to 1.8 times GDP, the accumulated cost of past failures. Japan's central and local governments' mountain of debt is the highest among the developing countries. Under these circumstances, we cannot simply opt to fund trillions of yen in reconstruction costs merely through yet more public bonds. It is imperative that the burden of reconstruction be shared among the entire society. This reconstruction and the fiscal structure implemented to achieve it must, at the same time, be aimed at recovering the "publicness" that has been destroyed by neoliberal policies undertaken since the 1980s. It is imperative to restore the communal bonds among the victims of these policy disasters and future generations.

Hitherto, Japan's fiscal debate has centered on increased family allowances and reductions in highway tolls. It is imperative to think bigger. The core financial needs of a Japan reconstruction plan are as follows:

- 1) Essential infrastructure must be restored along with the production of small and medium firms, farmers and others. To fund these initiatives, financial reform should see the elimination of the Special Account for Social-Capital Improvement (about YEN 3.2 trillion). This account should be merged with the farm, forest, and fisheries public works budget (about YEN 0.5 trillion). In addition, about half of the relevant inter-governmental budget should be decentralized via quick action on the "lump-sum subsidies" the DPJ has been promising for two years. The DPJ ran into bureaucratic obstruction of this fiscal decentralization, but now it has the gale of a full-blown crisis at its back. The remaining half of these funds should be dedicated to a Tohoku-Kanto Earthquake Area Recovery Fund (about YEN 2 trillion per year, as a five-year special account for earthquake damage recovery). This fiscal restructuring allows for special emphasis to be placed on the damaged areas. At the same time, urban and rural land-use policies must be fundamentally and comprehensively restructured with an eye to smart-city design in order to bolster Japan's subnational jurisdictions' disaster preparedness and energy autonomy.
- 2) All other special accounts must be re-examined, with any surplus funds directed towards the above accounts.
- 3) In addition, a five-year, limited period "Social-Bonds Tax" (as a surcharge to the income tax) must be instituted, the inheritance tax rates raised, an environmental tax implemented (using the special roads funds) and other tax reforms undertaken (to produce annual revenue of about YEN 2 trillion).
- 4) Concerning the corporate tax, all its special measures should be abolished and tax measures bolstered to make cash hoarding more costly. Special tax reductions should be implemented to foster investment in such strategic industries as renewable energy and health care.

5) In order to foster renewable energies, electricity charges should be increased while being mindful of the effects on lower-income households.

6) If financial needs exceed the revenues accrued to the above, reconstruction bonds should be floated. But in order to cover the huge cost of refinancing bonds, permanent bonds should be floated and held by the Bank of Japan with a prohibition on their sale.

### Let's Confront the Real Shock of This Crisis and Move Forward

Look at modern history. You see a narrative in which communities have confronted wars, depression, natural disasters, and social crises. They have deliberated over their substance and then dealt with them by democratic means. In dealing with crises, these communities have evolved innovative institutions and organizations. The present is one of those times of creative, democratic action.

The origins of the welfare state and its various institutions are seen in processes of this kind. Germany's Weimar Constitution and its right of livelihood and suffrage are one story line. So, too, the English "Representation of the People Act" that accorded the right of voting to women. The Beveridge Report and its famous "from the cradle to the grave" policies came out in 1944, in the midst of the Second World War. Our large-scale indirect tax (the value added tax) has its roots as a transaction tax in the First World War, and the progressive income tax was also born in the trauma of the two wars. The Great Depression brought unemployment insurance and employment policies, along with redistribution to alleviate inter-regional inequality in fiscal means via fiscal redistribution (general subsidies). America's President Lyndon Johnson hammered out the Great Society program against the backdrop of the Vietnam War.

Our energy transformation can move forward in the wake of a major natural disaster. The earlier transition from coal to oil, and the current transition from oil and nuclear to renewable energy are the start of an enormous transformation in the nation's energy use. We faced sobering incentives even before this recent shock. The more robust is the growth of the developing countries, the greater the pressure on oil. The International Energy Agency now tells us that oil production peaked in 2006 because the biggest oil fields have already been tapped. And we have the ominous, perhaps runaway escalation of climate change. Japan's energy and food self-sufficiency are extremely low; and against this backdrop of challenges, business as usual does not suggest a promising future.

We stand atop 20 years of accumulated failure, in the midst of a once in a century financial crisis, followed by the East Japan earthquake and a nuclear crisis. We face an unprecedented and multifaceted crisis, one in which this country's very survival hangs in the balance. If we do not reach out as far as possible to grasp the promise of the future, then we shall surely lose this chance to revive Japan's economy and society. When you cannot go back, surely you move forward.

*Kaneko Masaru is Professor, Keio University, Department of Economics and a leading public intellectual and prolific author whose work has focused on political economy and public finance.*

*Recommended citation: Kaneko Masaru, The Plan to Rebuild Japan: When You Can't Go Back, You Move Forward. Outline of an Environmental Sound Energy Policy, The Asia-Pacific Journal Vol 9, Issue 14 No 2, April 4, 2011.*

Articles on related subjects:

- [Andrew DeWit](#), The Earthquake in Japanese Energy Policy
- [Andrew DeWit and Iida Tetsunari](#), The "Power Elite" and Environmental-Energy Policy in Japan
- [David Adam Stott](#), Snakes and Ladders for Japan in Indonesia's Energy Puzzle
- [Andrew DeWit](#), Get FIT: Public Policy, the Smart State and the Energy-Environmental Revolution
- [Edward Barbier](#), Toward a Global Green Recovery: The G20 and the Asia-Pacific Region