The Changing Political Dynamics of Japanese Agricultural Cooperatives

Yoshihisa Godo
Meiji Gakuin University
godo@eco.meijigakuin.ac.jp

Contributed Paper prepared for presentation at the International Association of Agricultural Economists Conference, Beijing, China, August 16-22, 2009

Copyright 2009 by [authors]. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes for any means, provided that this copyright notice appears on all such copies.
The Changing Political Dynamics of Japanese Agricultural Cooperatives

Yoshihisa Godo

Abstract

The system of agricultural cooperatives, collectively referred to as JA, is one of the most politically powerful organizations in Japanese politics. Based on its strong ties with the ruling Liberal Democratic Party, which has been in government for almost the entire postwar period, JA has lobbied the Japanese government to maintain its various restrictive trade policies regarding agricultural commodities. JA is regarded by many as being Japan’s biggest obstacle to further international trade liberalization. How has JA become so politically powerful, and will JA continue to dictate the position of the Japanese government in international trade negotiations? In order to provide clear answers to these questions, this study focuses on JA's sociopolitical role and influence in rural communities.
1. Introduction

The system of agricultural cooperatives in Japan is collectively referred to as JA, which is derived from the words “Japan” and “agriculture.” In addition to playing a pivotal role in organizing Japan’s agricultural sector, the organization is a highly influential political lobby group and has a strong economic presence in rural areas of Japan.

JA has consistently lobbied for increased protection for Japanese agricultural commodities, and the organization has frequently dissuaded the Japanese government from entering into international trade agreements. A typical example is the Uruguay Round (UR) of negotiations (1988-1994), when the fierce anti-UR campaigns organized by JA almost resulted in the Japanese government capitulating and walking away from the final UR agreement.

So, how has JA come to wield such considerable political power, and will JA keep dictating the Japanese government’s position in matters related to international trade negotiations? This study aims to provide clear answers to these two very important questions.

2. The structure and activities of the JA system
2. 1 Political dynamics of JA

Japanese agriculture is dominated by traditional, small-scale farming. A typical farming community consists of approximately 20 to 30 farmers, each with approximately 1.0 hectare of farmland. The relative similarity in the size of farms among the members of such communities dates back to the prewar period.

Traditional farming communities have several characteristics that make them attractive to politicians. The first is that traditional small-scale farmers have farmed the same land for generations and have strong ties with each other. The need to share irrigation water means that farmers are used to cooperating on issues in which they have common interests. However, these characteristics are also conducive to consolidating support for a politician at an election.

The second is that the number of votes required for a seat in the Diet (Japan’s parliament) is less for rural areas than it is for urban areas. Although this rural-urban disparity has been addressed to some extent in the electoral system reforms of 1994, rural voters still have approximately three times the voting power than their urban counterparts\(^1\). This disparity has a very marked impact on increasing the importance of the farmers’ votes.

It has therefore been in the interests of politicians to maintain the structure of the rural

\(^1\) More information related to the disparity in the weighting of rural-urban votes is available at http://www.soumu.go.jp/senkyo/1030_5_e2.html.
community and to obtain the support of farmers.\(^2\) This has been the main strategy by which the Liberal Democratic Party (LDP) has ensured that it has consistently been elected to power and how it has managed to be the government for almost the entire postwar period; LDP politicians have used a variety of preferential policies to maintain small farming communities.

This close association between politicians and farming communities benefits the Ministry of Agriculture, Forestry and Fisheries (MAFF), too. As of 2006, the number of personnel in the MAFF is approximately five times as large as that of the Ministry of Economy, Trade and Industry. In order to maintain its high staff levels and budget, the MAFF needs the support of the LDP.

Interestingly, technological developments in farming machinery and chemicals do not favor the small traditional farmer, because these technologies have increased the optimal farm size to 15-25 hectares.\(^3\) If markets for renting and purchasing farmland had functioned properly, large commercial farms would have eliminated both small traditional farmers as well as the support base of the LDP government.

The maintenance of small traditional farming communities is not a straightforward task for politicians and the MAFF because large-scale farming is a natural consequence of the market mechanism. In other words, these political groups need a special organization that blocks the

\(^2\) For LDP politicians, winning a seat in lower house elections at least five times is a prerequisite for ministerial nomination. This tacit agreement has made the stability of the rural communities very important to LDP politicians.

\(^3\) 15-25 hectares is the area submitted to the MAFF’s policymaking committee on March 9th in 2005.
market mechanism, and the way this is achieved is through JA. JA not only lobbies politicians and renders services to farmers, but it also observes and controls members’ activities, both directly and indirectly.

JA also functions as a *de facto* quasi-governmental body. Given that many MAFF policies would not have be successful without assistance from JA, the MAFF does not attempt to introduce policies without first considering how JA will respond. In addition, as discussed in section 2.2 below, MAFF often treats JA preferentially.

The Agricultural Cooperative Law (ACL), which was passed in 1947, guarantees farmers the freedom to establish their own agricultural cooperatives. The ACL stipulates that there is no agricultural cooperative is required to join the JA system. In addition, farmers are free to choose whether they wish to join or leave such agricultural cooperatives. However, under implicit pressure from the MAFF and agents within the rural communities themselves, all farmers “voluntarily” join JA and “voluntarily” renounce establishing other agricultural cooperatives.

This has meant that, despite recent developments in laborsaving technologies, small-scale farming is still dominant in Japan today. Indeed, according to the 2005 Census of Agriculture, farms less than 3 ha account for almost 70 % of farmland. These small-scale farmers do not expect profits from farming, and many earn their living from off-farm employment, farming only on

---

4 Calculated for all the prefectures excluding Hokkaido.
weekends or during their leisure time (Table 1).

2.2 The Structure of the JA System

The basic organizational structure of the JA system was established in the mid-1950s. Until 1997, JA had a simple three-tier structure. Unit cooperatives in the villages, towns and cities make up the first level, with each cooperative having its own service area that does not overlap with the service areas of others. These unit cooperatives not only provide agricultural services but they also provide almost every service related to daily life. Farmers are regular members of unit cooperatives and non-farm residents can join as associate members if they adhere to the principles of JA. Both regular and associate members have access to all of the services offered by unit cooperatives, but only regular members are entitled to engage the management of unit cooperatives. Election for the position of president of a unit cooperative are also only open to regular members.

In the organizational level above the unit cooperatives are the agricultural federations. These prefectural federations belong to, and are supervised by, the Prefectural Central Union, which

---

5 To promote non-farming-related businesses, the unit cooperatives encourage non-farm households to join JA as associate members; however, these associate members are not allowed to participate in decision making of the cooperative. Further, although farmers allow non-farm households to contribute to JA’s profits, they keep non-farm households away from the various pork-barrel benefits obtained from LDP politicians.
are organized to form a network of national federations, which are in turn supervised by the National Central Union. It is the National Central Union that is responsible for organizing JA’s political activities.

Previously, many of JA’s business activities were heavily regulated and protected by the government. For instance, JA was awarded the sole rights to the collection of rice and sales of fertilizer. Although the markets of farm produce and farm inputs were deregulated in the 80s and 90s, JA has maintained a dominant position in the distribution of farm products and supply of farm inputs. This market dominance is due in part to JA’s farming-support services being so widespread and convenient for small-scale farmers who retain farmland with the expectation of future capital gains but who are not that enthusiastic about generating profits from farming. Although entrepreneurial, large-scale farmers have made efforts to develop their own distribution and procurement channels, the traditional small-scale farmers, who are still in the majority in JA, have become increasingly dependent on JA’s services.

2.3. JA financial activities

It is not only the MAFF who have benefited JA, the Ministry of Finance (MOF) has also

---

treated JA favorably. Until approximately 1990, the regulation and protection of financial institutions, including JA, by the MOF was so heavy that these institutions were often compared to armed convoys. Before then, MOF permission was required for activities such as the location of branches and the creation of new financial instruments. Moreover, interest rates on deposits and insurance premiums were maintained at levels above and below those of the open market, respectively. Since market entry of new financial institutions was restricted, existing financial institutions were guaranteed stable returns. In particular, JA was afforded particularly favorable treatment. For example, JA was given more freedom than ordinary commercial banks to set up branches, and the interest rates on JA’s term deposits were allowed to be 0.1 percent higher than the rate set by the ordinary commercial banks. Because of these heavy interventions by the MOF, JA was able to generate profits simply by inter-bank money transfers to metropolitan banks which were confronted with chronic shortfalls of funds due to demand from large enterprises. The MOF also gave JA greater freedom to set insurance premiums, which was a clear advantage over private insurance companies.

The presidents of unit cooperatives, all of whom are respected figures in rural communities, are usually more astute politicians than businesspeople. However, lack of business acumen was not considered to be a disadvantage given the privileges and preferential treatment given to JA’s banking

---

7 Teranishi (1994) provides a concise review of the MOF armed convoy-style of financial intervention policies.
and insurance businesses. The president simply set a target amount for deposits and insurance policies, and all of the employees would attempt to meet those targets. Using JA’s considerable organizational power, JA employees would then persuade farmers to invest additional funds in JA’s banking and insurance products. A typical example of such efforts would be ‘deposit promotion week’ when JA employees would visit farmers after normal office hours and on weekends to ask for new deposits, appealing to farmers’ sense of obligation toward the rural community.

Unit cooperatives became increasingly dependent on profits generated through their banking and insurance activities in the 1970s and 1980s (Figure 1) when unit cooperatives extended the scope of their activities under the slogan ‘not only farming, but rural living overall’. Unit cooperatives also started other businesses ventures such as housing development and travel ticket services in the 1970s and 1980s, but these were not particularly profitable. However, this provision of a broad range of services at increased levels of convenience made unit cooperatives more attractive to farmers, and this in turn helped unit cooperatives attract new deposits and sell new insurance policies. In other words, the real purpose of these new activities was the promotion of JA’s financial services.

Because the president of a unit cooperative is elected by a majority of regular members, JA policies favor the larger body of traditional, small-scale farmers rather than the smaller number of innovative, entrepreneurial farmers. Farmers find it difficult not to rely on JA’s services because
the scope of services provided by JA is so wide. Even farmers who are critical of JA will not oppose the organization for fear of retaliation from JA and other farmers. The only form of resistance available to such farmers however, is for them to reduce their reliance on the organization.

2.4 Farmland-use regulations and rural political dynamics

One of the biggest efforts undertaken by politicians in farming communities is to bring various political benefits to small-scale farmers, primary among which is political ‘alchemy’ involving the manipulation of farmland-use regulations. This ‘alchemy’ can be summarized as follows:

- The meaning of ‘high-quality farmland’ in Japan differs from that used in other developed nations (Australasia, North America and the European Union). One major difference is that ‘high quality for farming’ in Japan means ‘high potential for farmland conversion’. The favorable conditions for today’s farming are flatness, abundance of sunlight, conveniently sized blocks of well-shaped plots, good supply and drainage of water and good access to roads. Ironically, these five conditions are also favorable for the conversion of farmland to non-agricultural uses such as the construction of shopping centers or public facilities.
Because farmland has external benefits such as the prevention of flooding, many promulgated laws provide for a variety of protection measures and regulations governing farmland use. Of these, the Law concerning Construction of Agricultural Promotion Areas (LCAPA), which was passed in 1969, is particularly important. The LCAPA authorizes municipal governments to zone Exclusively Agricultural Areas (EAAs). Farmers in EAAs are required to use farmland only for the purpose of farming; the abandonment of farming and conversion to non-agricultural uses is prohibited in EAAs. In return, farmers in EAAs receive favorable treatment with respect to instruments such as tax incentives and agricultural subsidies. In addition, the MAFF undertakes a large number of farmland improvements in EAAs, most of which are directed at increasing agricultural productivity as well as the potential for farmland conversion.

While the laws regarding farmland appear to be strict on the surface, the practical implementation of these laws has proved difficult problematic. In addition, farmland-use regulations are often manipulated if there is strong political pressure to do so. The ideal scenario for a small-scale farmer is that, in ordinary times, his farmland is included in an EAA as this means that he can benefit from agricultural subsidies, reduced taxes on assets, and the various investments in farmland improvement by the MAFF. These investments by the MAFF not only increase agricultural productivity, but they also increase the value of
the land in the event that it is used for non-agricultural purposes at a later date. Then, once a plan for farmland conversion is proposed (e.g. shopping center or similar public facility) and his farmland is excluded from the EAA, the plan is approved by the local municipality and the farmer enjoys the capital gains of his land.

- In order to realize this ideal scenario, small-scale farmers lobby politicians to facilitate such a process. The critical stage of this plan is the timing and nature of farmland conversion, and this is beyond the farmers’ control. While it may not be easy to deliver the desired outcome to the farmers that supported him/her, in the long run, the likelihood of a successful outcome is highly dependent on the politician’s efforts.

- An overwhelming majority of farmland owners (i.e. small-scale farmers) are more concerned with generating income through this ideal scenario, than they are with generating profits from farming. Such farmers prefer to maintain the structure of small traditional farming communities because it is well suited to establishing the necessary relations (oftentimes questionable connections) with politicians.

- The ideal scenario also benefits the MAFF by increasing the national budget for farmland investment and public construction works (along with the Ministry of Land, Infrastructure and Transport, the MAFF is also responsible for rural public construction works).

- This close association between small-scale farmers and politicians has the effect of drawing
JA into rural political dynamics. In addition, because the small-scale farmers who receive money from the sale of farmland deposit more money into JA bank accounts, JA also welcomes the ideal scenario.

3. Changes in agricultural political dynamics in the 1990s

3.1. Financial Liberalization and JA

The previous section describes the traditional agricultural political dynamics established in the 1950s and which has remained relatively intact since then. However, since the mid 1990s, the cohesive political power among LDP politicians, small-scale farmers, the MAFF and JA has gradually been weakening. Ironically, it was financial liberalization, and not agricultural liberalization, that precipitated this development.

During the period of high economic growth (from the early 1950s to the middle of the 1970s), the majority of Japanese business leaders supported heavy MOF intervention in the financial markets. At the time, the MOF allocated long-term credit to promising heavy industry companies. The MOF’s strong interventions were considered to be a necessary evil for maintaining double-digit economic growth.
In the mid 1970s, when the period of heavy industrialization came to an end and the rate of economic growth decreased, advocates of financial liberalization increased. The MOF initiated financial deregulation in 1979 by allowing increased flexibility of interest rates on large deposit accounts exceeding 100 million yen. Although financial liberalization has proceeded gradually since then, the rate at which it occurred was so slow that JA’s financial business activities were relatively stable throughout the 1980s.

The MOF completed the liberalization of interest rates on small deposit accounts in 1994, which thrust JA into a situation of intense market competition with other financial institutes. The presidents of unit cooperatives were no longer able to rely on the guaranteed profits from their financial business activities and JA’s profit margins in banking decreased drastically in the mid-1990s. JA’s financial status is currently considerably bleaker than it was previously (Figure 1).

3.2 JA’s new strategy in elections

In addition to the aforementioned financial problems, two additional factors have undermined traditional rural political dynamics. First, reforms in the lower house electoral system (the first election under the new system took place in 1996) have reduced the voting power of

---

8 Godo (2001) provides estimates of JA’s banking profits.
farmers by allocating more seats to urban areas and replacing the multi-seat system with a single-seat system; the LDP no longer needs to segment supporters’ votes by returning several lawmakers in a single constituency.\textsuperscript{9} Second, the government cutback on the public construction budget because the fiscal deficit has reached dangerously high and because Japanese citizens have become increasingly critical of public construction works after a series of reports in the mass media of inappropriate use of construction budget funds.

As a result of the decrease in JA’s economic power combined with the reductions in the national budget for public construction works, small-scale farmers are now becoming progressively more skeptical about the effectiveness of the traditional rural politics. Small-scale farmers are also less certain about whether public construction work will come, even if they get JA to support LDP politicians.

Until the early 1990s, farmers could wait for opportunities afforded by public construction works to affect farmland conversion. However, since the turning point of agricultural political dynamics in the middle of the 1990s, small-scale farmers are now more likely to sell farmland at a middling price rather than miss the chance of farmland conversion by waiting for public construction projects or private sector development. In some extreme cases, small-scale farmers have attempted

\textsuperscript{9} Mulgan (2000) provides an comprehensive analysis on the impact of this lower house election reform (Mulgan, 2000, pp. 458–473).
to sell their farms as industrial waste sites.10

Since the mid-1990s, it has become increasingly common that traditional pro-agriculture politicians suffer unexpected defeats in election. A typical example is the 2007 upper house election: the LDP lost many seats in rural constituencies that were previously regarded as the LDP’s ‘impregnable fortresses’. This record-breaking defeat made the LDP a minority party in at the upper house of parliament. Another example is the 2003 LDP election for Governor when the incumbent, Mr. Koizumi, who had given the cold shoulder to traditional pro-agriculture politicians, was challenged by Mr. Kamei, whose faction contained a large number of traditional pro-agriculture politicians. Although the election occurred when agricultural issues were being addressed in FTA talks with Mexico, neither of the candidates raised the issue of agriculture in their election campaigns. The fact that this matter was not addressed by either of the candidates implies that the issue of agricultural protection is becoming less important to LDP politicians.

The decrease in public construction works has forced the MAFF to seek out a new strategy to maintain its employment and budgets. Currently, the MAFF is trying to extend its jurisdiction to new non-agricultural fields, such as food and nutrition education at elementary schools, food traceability, and green tourism. As a consequence of this shift in focus, the historically close ties between the MAFF and JA are also becoming weaker.

---

10 A typical case is reported in ‘Rural Japan: Where have all the young men gone?’, Economist, August 26–September 1 2006 edition, pages 23–24.
4. Concluding remarks

The mass media in Japan has frequently reported that JA is the biggest stumbling block to the liberalization of agricultural trade in Japan. Indeed, JA is constantly organizing a variety of anti-trade liberalization campaigns and rallies across the country. It is said that they do this to protect the interests of farmers who become enraged at the mere mention of the words “trade liberalization”. However, careful watchers of Japanese agriculture are confident that the majority of Japanese farmers are not very concerned about trade issues. For example, a questionnaire survey conducted by Nihon Nogyo Shimbun (JA’s newspaper division) in April 2007 revealed the following interesting information. When respondents were asked to select their top three concerns regarding agricultural policy from a list of 16 choices, only 23% of respondents (monitor farmers belonging to JA) selected “international trade negotiations”. Further, international trade negotiations only ranked fifth among the potential 16 responses offered.

While this response may initially seem surprising, it is important to remember that most small-scale farmers earn their living through off-farm income, and their average incomes are higher than those of urban workers. Consequently, small-scale farmers do not concern themselves too much with how market conditions affect agricultural products.
What then about large-scale farmers? A significant number of large-scale farmers are already prepared for the import liberalization of agricultural products. For example, full-time organic farmers who produce value-added vegetables are confident that they can survive, even if tariffs on agricultural products are reduced. They also realize that Japan cannot oppose the global norm of trade liberalization indefinitely. So instead of blindly opposing trade liberalization, these farmers are concentrating on improving their farm management.

However, there are certain types of large-scale farmers who strongly oppose trade liberalization, particularly full-time livestock farmers. Under heavy protection from MAFF, livestock farmers increased the size of their herds by borrowing large sums of money from JA. For farmers in such a situation, import liberalization of meat and dairy products would have a marked impact on their livelihoods and JA would have difficulties collecting on its loans. However, full-time livestock farmers only account for a relatively limited proportion of Japanese agriculture.

This being the case, why is JA such a vocal opponent of trade liberalization? It may be that JA’s real objective is not the protection of domestic agricultural markets, but rather, its desire for increasing the national budget for public construction works. In fact, in order to persuade JA to accept the final agreements of the UR (1986-94), the Japanese government prepared 6.01 trillion yen as a special agricultural budget, the majority of which was used to finance rural public construction work. In short, JA’s anti-trade liberalization campaigns should be seen as a ruse.
However, this strategy is less effective than it was previously because JA’s ability to organize and the national budget for public works have both decreased since the mid 1990s. Thus, in the current international trade environment, Japan’s resistance to decreased trade tariffs on agricultural products is unlikely to be the stumbling block that it was ten years previously.

References


### Table 1  Comparison of household income

<table>
<thead>
<tr>
<th>Farm size (ha)</th>
<th>Number of farm households</th>
<th>Household income per head</th>
<th>Farm income as a proportion of total household income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;0.5</td>
<td>436</td>
<td>1763</td>
<td>4</td>
</tr>
<tr>
<td>0.5–1.0</td>
<td>673</td>
<td>1786</td>
<td>8</td>
</tr>
<tr>
<td>1.0–1.5</td>
<td>498</td>
<td>1579</td>
<td>13</td>
</tr>
<tr>
<td>1.5–2.0</td>
<td></td>
<td>1684</td>
<td>22</td>
</tr>
<tr>
<td>2.0–3.0</td>
<td>159</td>
<td>1561</td>
<td>34</td>
</tr>
<tr>
<td>&gt;3.0</td>
<td>144</td>
<td>1678</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>1911</td>
<td>Average 1693</td>
<td>19</td>
</tr>
</tbody>
</table>

**Commercial Farm household**

| Salaried worker household | ⋮ ⋮ ⋮ ⋮ | ⋮ ⋮ ⋮ ⋮ | 1515 | ⋮ ⋮ ⋮ ⋮ |

\[a\] Commercial farm households are defined as farm households larger than 0.3 ha or whose agricultural revenue is greater than 0.5 million yen.
Figure 1. Profits from JA business activities

Note 1. Profits estimated by the author and deflated using a GDP deflator
2. Profits from joint shipments includes agricultural warehousing.
3. Profits from joint purchases of farming inputs and daily retailing activities cannot be estimated separately due to data limitations.

Sources: Agricultural Cooperative Division, Economic Affairs Bureau, Ministry of Agriculture, Forestry and Fisheries, Statistics on Agricultural Cooperatives, various issues.