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THE PUZZLE OF SMALL FARMING IN JAPAN

Yoshihisa Godo



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GLOSSARY OF TERMS

ACL	Agricultural Committee Law
ALL	Agricultural Land Law
CPL	City Planning Law
EAA	Exclusively Agricultural Area as defined in the Law concerning Construction of Agricultural Promotion Areas
FTA	Free Trade Agreement
LCAPA	Law concerning Construction of Agricultural Promotion Areas
LDP	Liberal Democratic Party
MAFF	Ministry of Agriculture, Forestry and Fisheries
MCA	Management and Coordination Agency
MLIT	Ministry of Land, Infrastructure and Transport
NIE	Newly industrialised economy
UCA	Urbanisation Control Area as defined in the City Planning Law

THE PUZZLE OF SMALL FARMING IN JAPAN

Japan's small farming represents a puzzle. Currently nearly three-quarters of farmland is operated by farmers whose farm size is well under optimal size. Being too small is the main reason for the high cost of Japanese farm products, so why does inefficient, small farming persist and market mechanisms not function? This paper explains the political dynamics whereby traditional small farming communities are powerful voting groups that prefer to maintain their political power rather than increase farm income. By exerting political pressure upon the authorities, farmers can obtain large returns through the manipulation of farmland-use regulations, even though such manipulation causes social harm by preventing efficient land use. Farmland problems are linked to the social problem of Japan's underdeveloped participatory democracy, which is a problem in East Asian countries as well. These issues are not generally discussed by the Japanese mass media and academics. This paper also includes the author's policy suggestions for new farmland-use regulations and taxation.

1 Introduction

Japan's small farming presents a puzzle. The Ministry of Agriculture, Forestry and Fisheries (MAFF) and a majority of Japanese researchers estimate that optimal farm size is 15 hectares or more.¹ However, currently nearly three-quarters of farmland is operated by farmers whose farm size is less than three hectares.² Being too small is the most critical reason for the high cost of Japanese farm products. Why, then, does inefficient small farming persist?

This puzzle implies that market mechanisms do not function properly in the Japanese farmland market. If market mechanisms function properly, large farmers will dominate the Japanese agricultural sector by purchasing and/or borrowing farmland from small farmers. Japan is a developed, capitalist nation: what prevents market mechanisms from functioning in its farmland market? By solving this question, this paper aims to reveal the concealed reality of agricultural political dynamics in the Japanese agricultural sector.

Until now, an overwhelming majority of Japanese researchers have simply assumed the structure of small farming to be a historical legacy that is independent of economic factors.³ However, it is quite unlikely that farmers behave without any economic reasons.

In contrast to the majority view, Godo (2006) argues that there is a strong economic reason for small farming,⁴ and focuses on the farmers' tactics of obtaining easy money by manipulating farmland-use regulations. These tactics are so dubious that farmers need invisible mantles to hide the reality. Godo (2006) is the first comprehensive study to reveal these invisible mantles. The answer to the puzzle of small farming in Japan can be summarised as follows:

- The meaning of 'high-quality farmland' in Japan is different from that in other developed nations (Australasia, North America and the European Union). A major difference is that 'high quality for farming' in Japan means 'high potential for farmland conversion'. The favourable 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 favourable for the conversion of farmland to non-agricultural uses such as the construction of shopping centres or public facilities.
- Because farmland has various externalities such as prevention of flood, many written laws stipulate various protections and regulations regarding farmland use. Among these, the Law concerning Construction of Agricultural Promotion Areas (LCAPA) is particularly important. The LCAPA authorises municipal governments to designate the zoning of Exclusively Agricultural Areas (EAAs). Farmers in EAAs are responsible for using farmland only for the purpose of farming. Abandonment of farming and conversion to non-agricultural uses is prohibited in EAAs. In return, the farmland in EAAs receives favourable treatment in taxation and allocation of agricultural subsidies. In addition, the MAFF makes a large number of farmland improvement investments in EAAs. These investments increase not only agricultural productivity but also the potential for farmland conversion.
- On the surface, the laws regarding farmland use are strict. In practice, however, the implementation of those laws is problematic. Farmland-use regulations are often manipulated if the authorities receive strong political pressure. A farmer's 'desirable' scenario is that, at ordinary times, his farmland is included in an EAA so that he can enjoy agricultural subsidies, the MAFF's farmland improvement investments, and a reduction of asset taxes. Then, when a farmland conversion plan (such as for a shopping centre or a public construction project) occurs, his farmland will be excluded from an EAA and the plan will be permitted by the local governor swiftly so that the farmer can enjoy capital gain. In order to realise this desirable scenario, farmers combine to apply pressure to the local authorities and politicians.
- An overwhelming majority of farmland owners (i.e. farmers) are more concerned with making money by manipulating farmland-use regulations than with making profits from farming. They prefer to maintain the structure of traditional small farming communities because it is

favourable for forming good connections (including underground connections) with the authorities and politicians.

- A consequence of these factors is that farmland is slow to be amalgamated into larger holdings that could be used for more efficient, lower cost farming.

These points have not been openly discussed in Japan by the mass media or by researchers. This does not mean that the manipulation of farmland-use regulations is unimportant. On the contrary, as discussed in the latter part of this paper, this problem has roots in one of the most serious contradictions in Japanese society. It is such a deep-seated problem that Japanese citizens (including the mass media and academics) take the attitude of 'don't go asking for trouble'. As a result, the manipulation of farmland-use regulations has been treated as a taboo subject for open discussion in Japanese society.

The author also finds that there was a turning point of agricultural political dynamics in the mid-1990s (Godo 2006). Since then, the MAFF and farmers have rushed to relax farmland-use regulations. As a result, unsystematic and short-sighted farmland conversion has been spreading nationwide. The acreage of idle farmland has been increasing. In effect, the MAFF and farmers have taken the initiative of dumping farmland: a course to self-destruction.

This is the first paper written in English that solves the puzzle of small farming and related questions. Godo (2006) gets to the core of this paper. This puzzle is so arcane that socioeconomic arguments are necessary. Therefore this paper discusses not only Japan's agricultural sector, but also Japanese society overall. It points out that Japanese citizens' neglect of their responsibilities for participatory democracy is one cause of the rampant manipulation of farmland-use regulations. Not only Japan, but also East Asian societies in general, lack participatory democracy. Thus, while the primary objective of this paper centres on Japan's agriculture, this paper's discussion is informative for social studies of East Asian countries overall. For citizens in Japan's neighbouring countries, the harsh reality revealed by this paper should be regarded as an important lesson—a good example of what not to do.

Following this introductory section, Section 2 provides general information on Japanese agriculture and farmland. Section 3 examines urban land-use problems. Section 4 presents details of farmland-use regulations and traditional political dynamics in the Japanese agricultural sector. Section 5 explains the structural change in agricultural political dynamics that occurred in the mid-1990s. Section 6 studies popular misinformation on farmland problems distributed by the mass media and researchers. Section 7 provides this author's proposal for real farmland policy reform. Section 8 concludes.

2 Characteristics of Japan's agriculture and farmland

The Japanese agricultural sector is infamous for its poor performance. For example, in spite of Japan imposing one of the highest levels of trade protection on farm products in the world, Japan is the only country among the industrialised economies that is decreasing its food sufficiency rate.⁵ The OECD also presents evidence that the Japanese government's support on farm products (including non-fiscal support such as import barriers) exceeds the agricultural GDP. Such poor performance, however, does not mean low potential. Indeed, much evidence exists that implies a high potential for Japanese agriculture. For example, the MAFF estimates that if farmland is concentrated among optimal-size farmers, the average cost of farm products will be halved.⁶ It is estimated that the border price ratio of rice is around 2.5 if the quality difference between domestic and foreign rice is adjusted.⁷ Thus, if farmland was accumulated by large farmers, Japan's rice sector would have been already prepared for perfect import liberalisation.

In addition, Japan has several technological advantages for producing high-value-added farm products. For example, marketing and storage facilities are among the best in the world. Irrigation systems and agricultural machinery are highly developed. The emerging wealthy classes in the Asian NIEs already demonstrate strong demand for Japanese high-value-added farm products. Since the income levels of those countries will keep growing, further demand for high-value-added farm products is also expected in the future. Thus, there is an enormous potential for Japanese agriculture.

In Japan, flat areas are so limited that there is almost no new land available to be opened up for farming. Thus, if a farmer wants to increase the size of his farm, he must buy or rent farmland from other farmers. If market mechanisms function properly, inefficient small farmers will exit farming by selling or lending their farmland to large farmers. Then, the high potential of Japanese agriculture would be realised. However, this potential has not yet been achieved. Farmland is slow to be amalgamated into larger holdings that could be used for more efficient, lower cost farming. This is because small farmers are more interested in maintaining their political power than in earning profits from farming (as is discussed in detail in Section 4). They live mainly on off-farm income, and their average income level is higher than that of urban workers (Godo, 2005). They can afford to lose money in farming.

3 Japan's land-use problem in urban areas

It is logical to discuss land-use problems in general briefly before discussing farmland problems (because farmland is a part of land). Each country has its own systems and policies for land-use control. Each country has different land problems. Thus, in order to discuss a

country's land problems, researchers need a wide range of background knowledge on the country. Land-use problems are closely related to historical and cultural problems that may be unfamiliar to foreign researchers. In particular, in Japan, land-use problems are so touchy and unpleasant that citizens, researchers, the mass media and the authorities often take the attitude of 'don't go asking for trouble'. Instead of touching the core of land use problems, they often frame misguided (apparently meaningful but actually useless) discussions. This attitude increases the difficulty and complexity of Japan's land-use problems.

In any country, urban planning is necessary for urban citizens to live together peacefully and comfortably. Urban land use is a typical case of strong externalities. Everyone would be happy to be allowed to escape land-use regulations. However, everyone agrees with the necessity of land-use regulations because it is obvious that the situation would be hectic if everyone used the land without considering the inconvenience of others.

In this sense, land-use regulations are similar to parking regulations. Everyone accepts the necessity of parking regulations although everyone personally dreams of parking his car freely anywhere he likes. In the case of parking regulations, police officers, who are neutral towards local people's personal benefits, are authorised to implement parking regulations according to the rules designed by the central government. In contrast, in the case of land-use regulations, who should design the regulations and who should implement them are big problems. In a dictatorship, the regime designs urban planning and enforces it without listening to voices from the local residents. However, in the case of a democratic society, since land use should be in the field of self-government, great importance should be placed on the local people's personal interests. Simultaneously, personal interests should not be overemphasised so as to avoid causing social disorder. This is a huge dilemma in democratic societies.

Participatory democracy presents a solution to this dilemma. Typical cases of participatory democracy for land-use planning are found in the United States: local citizens accept the responsibility for involvement in land-use planning. Fierce discussions take place at public meetings such as the City Planning Council. Local citizens are also engaged in implementation of city planning. Citizens monitor each other strictly to ensure the plan is not violated.

Unfortunately, Japan has failed in involving its citizens in urban planning. Although Japanese cities have Development Committees, which are analogous to the City Planning Councils of the United States, they are so inactive that they are often likened to automatic endorsers. It is not difficult for a developer to have the Development Committee's endorsement for his development plan unless the plan contains some obvious violation of the law.

The high-rise building problem in urban areas represents a typical example. In urban areas, there are many conflicts about construction plans for high-rise buildings. The residents of a neighbourhood where a high-rise building is planned lodge strong complaints against the

plans saying that the planned building would block sunlight from the neighbouring houses. In order to show their indignation against the construction of such buildings, neighbouring residents protest by posters and rallies in front of the construction site. This is the 'high-rise building problem', which is widespread in Japanese urban areas. Those neighbours protest so fiercely that construction companies are often forced to extend construction periods and postpone advertisements for buyers. In order to avoid additional interest rate burdens and troubles with new tenants, construction companies sometimes pay extra money to protesters to settle disputes.

This is not a matter of written laws, but a matter of bad habits of Japanese society. Japanese society is weak in taking a stance against racketeering over land use, which is an old ploy for *yakuza* (Japanese gangster organisations) to make money. For example, *yakuza* members sometimes occupy offices as tenants without lawful rights and ask the landlords to pay 'consolation money' if the landlords want them to depart from the offices. Even though no laws require landlords to pay such consolation money, they often prefer to yield to *yakuza* rather than to have long drawn-out negotiations with them. However, such racketeering is not exclusive to *yakuza*. As the above-mentioned high-rise building problem shows, even 'good' citizens try to extract money from construction companies by racketeering over land use.

If urban dwellers really wanted to eliminate the risk of construction of high-rise buildings in their residential areas, they could request the municipal governments to introduce zoning regulations that prohibit high-rise buildings before construction companies bring forward plans for such buildings. However, urban dwellers often do not want such zoning regulations at ordinary times because they know that their land will be purchased at high prices if a developer brings forward a construction plan for high-rise buildings. Urban dwellers welcome construction plans for high-rise buildings if the plans include procurement of their own land. However, they oppose plans fiercely if they include the neighbour's land rather than their own land.

Such selfish behaviour results in disorder surrounding urban land use, which produces huge headaches in Japanese society.⁸ For example, residential housing and business accommodation are entangled with each other so unsystematically in Tokyo that citizens suffer from traffic congestion, destruction of scenery, noise pollution and wasteful land usage, even in flourishing areas. This can be compared to the situation in which parking regulations end up being ineffectual.

Urban planning is merely one of many examples of Japanese citizens sabotaging their responsibilities in a participatory democracy. Another typical example can be seen in the ambiguous attitude of citizens towards the jury system that will start in 2009. While a majority of Japanese citizens agree with the necessity of its introduction, most of them want to escape from jury duty because they dislike sacrificing their leisure time for such public duties.⁹

Why do Japanese citizens show such little regard for their duties of participatory democracy? This is a weighty and difficult question. The answer is not simple. However, it seems legitimate to point out two important reasons for the Japanese citizens' lack of responsibility. One is the short duration of Japan's experience of democracy: it is only 60 years since democratisation took place under the Occupation in the late 1940s. Before the Pacific War, the Japanese regime was a 'top-down' style of government. Citizens were expected to be obedient to the regime. In this situation, citizens were not allowed to resist despotism of the authorities or bureaucrats. Sacrificing personal interests for the national interest was the highest virtue in pre-war Japan. A typical example can be seen in pre-war Japan's fascistic slogan of 'For the Great Empire of Japan'. As a reaction to pre-war Japanese fascism, insubordination to authority was praised in the post-war period. Assertion of personal interests against higher authority is regarded as being equivalent to democracy. Such a simplified understanding of democracy might have been useful for the early years of the post-war period when a few vestiges of fascism remained in Japanese society. This oversimplification, however, retarded the development of participatory democracy in Japan.

Social development in Japan can be characterised as imitation of Western society. Japan imitated not only Western production technologies but also the Western social system. Democracy is also something Japan has imitated from Western society. Both the assertion of private rights and participatory democracy are the important components of democracy. For citizens, the assertion of private rights is easy to imitate. Participatory democracy, however, is difficult to imitate. Thus, while assertion of private rights has been already fully introduced, participatory democracy is still retarded in Japanese society.¹⁰

Another reason for Japanese citizens' lack of a sense of civic responsibility is the homogeneity of Japanese society. Japan is one of the most homogeneous societies of developed countries. Language, ethnicity and religious problems have been less fierce here than in any other developed country. In Japan, people can guess each others' feelings relatively easily. Accordingly, Japanese citizens prefer mutual understanding with each other, without clear words. In this social environment, it is difficult to develop participatory democracy. The passive attitudes common among Japanese citizens also sometimes cause serious problems. When Japanese citizens do have conflicts with each other, they are at a loss as to how to devise a solution.

As a result of the lack of participatory democracy, Japanese citizens tend to attribute blame to the authorities (or bureaucrats) without mentioning anything about citizens' responsibilities. At ordinary times, they oppose any intervention by the authorities over the use of their own land by criticising the authorities for the violation of private rights (such far-fetched understanding of 'private rights' is obviously undeserved). On the other hand, if citizens find something inconvenient or uncomfortable in other people's land use, they blame

the authorities for not having regulated such land use. For example, citizens who find their house blocked from sunlight by a neighbouring building that was built lawfully will blame the municipal government for neglecting to protect citizens' rights to enjoy the sunlight, even though the municipal authorities may have no legal rights to stop a lawful construction plan.

In today's Japan, manipulation of urban land-use regulations is not rare, particularly if influential politicians are involved. Igarashi and Ogawa (2003) describe this situation as 'no rules'. Japan has various zoning regulations for urban land use. For example, the City Planning Law (CPL) stipulates that construction of new buildings should be strictly controlled in areas designated as the Urbanisation Control Area (UCA) by the municipal government. The CPL prohibits construction of new buildings in the UCA with the exception of 'very rare' cases. However, 'very rare' cases can happen easily, particularly if influential politicians are involved. In 2000, the Ministry of Land, Infrastructure and Transport (MLIT) revised the CPL to allow local governments to remove the UCA zoning regulations. This revision introduced further short-sighted and hazardous land developments into urban areas.

Unfortunately, Japan's mass media and academics tend to avoid straightforward discussions about the irresponsible attitude of citizens toward urban land-use problems. This reflects the general tendency for the media and academics to avoid discussing any problems that make citizens feel uncomfortable: discussion about citizens' irresponsibility is a kind of taboo. It is a popular strategy for the media and academics to play up to citizens by blaming the government (including bureaucrats), large enterprises and foreign countries without mentioning anything about citizens' sometimes unpleasant, but critically important, duties of participatory democracy.

Since land use is difficult to change once buildings are constructed, poor land use is a serious negative legacy for future generations. Short-sighted development may bring easy money for landowners and developers. Citizens deal with their feelings of remorse by chit-chatting about unimportant (and sometimes fake) issues. In this sense, Japanese society is under collective self-hypnosis. All citizens, media, and academics unconsciously avoid confronting the unpleasant fact that citizens' irresponsible attitude toward participatory democracy is hurting future generations (as well as today's generation).

4 Farmland-use regulations

The previous section describes the concealed reality of Japanese citizens' selfish behaviour regarding urban land use, which damages public interests (particularly those of future generations). The basic structure of the farmland-use problems is similar to that of urban land-use problems. Yet farmland-use problems are much more complicated and serious than urban land-use problems, as described below.

Characteristics of Japan's farmland

It would be useful to provide a quick review of the geographical and ecological characteristics of Japan's farmland before discussing the problems in detail. Although Japan has huge rainfall, water runs quickly into the ocean because of the mountainous topography. Thus, farmers need a highly sophisticated water control system. Japan's water usage for paddy fields is unique in the eyes of Australasians, North Americans and Europeans. Paddy fields represent more than 50 per cent of Japan's total farmland. Hydrologically, it can be compared to a retarding basin. A paddy field plain consists of many small plots of land. Water drawn from a floodgate of a river goes through all the plots in a farming community by order (from upper plots to lower plots) slowly but continuously. Because of this continuous water flow, rice farming in Monsoon Asia is free from the continuous cropping hazard that is the biggest farming problem in Australasia, North America and Europe.

Since farmers in a Japanese farming community share the same water, inappropriate water usage on one plot badly affects farming in other plots on the paddy field plain. In addition, once noxious insects swarm into one plot, they will move to all the neighbouring plots along the water flow. In these circumstances, a farmer's private rights of water usage are accompanied by duties as a member of the farming community. This demonstrates the importance of collaboration by farmers on the usage of farmland and water within the farming community. As a precondition for the collaboration, every farmer must have sufficient farming skills and social awareness.

A traditional farming community in Japan consists of around twenty farm households. Each farmer has several tiny plots of land at different parts of a paddy field plain. The total farm size of an individual farmer is around 1.0 hectare. Therefore, farm ownership turns into a mosaic pattern in a paddy field plain. This mosaic structure is reasonable for traditional small farming. Since a farmer's paddy field plots adjoin different farmers' plots at different parts of a paddy field plain, farmers can routinely and daily observe each other's activities. This makes collaboration on water and farmland usage easier.

Geographically, Japan's limited availability of flat land produces another serious problem for farming. It is almost impossible for farmers to open up new farmland in Japan. In particular, high-quality farmland, which consists of flat and well-shaped plots of paddy field, is very limited. If a farmer wants to enlarge his farm size, he must purchase or borrow farmland from other farmers. Likewise, a new entrant to the agricultural sector must find some farmers who want to quit farming or reduce their farm sizes. However, finding such suppliers of farmland is a big problem. As will be described in this section, the majority of existing small farm owners are not interested in farming, but are so set on obtaining capital gain from future opportunities of farmland conversion that they are very reluctant to sell farmland to other

farmers. Since users' rights are often overprotected in Japan (*yakuza's* tactics in the previous section is such an example), farmers are also often unwilling to lease farmland.

The way to improve soil fertility is also different between Japan and non-Asian developed countries. Continuous farming with careful input of base manure and deep ploughing is the best way to increase the fertility of a paddy field. Such improvement activities increase the soil fertility significantly only if they are continued for several years. In other words, even if farmers do a bad job of fertility improvement, rice yield will not change for some years. However, the serious long-term damages of soil fertility from such shoddy work will unavoidably appear later. In non-Asian developed countries, fertility improvement activities (such as leaving farmland fallow with a green, manure crop) are easy for outsiders to observe. However, as discussed above, in Japanese farming, it is difficult for outsiders to investigate whether farmers are undertaking effective fertility improvement measures. Thus, preventing fertility exploitation is a big problem in the Japanese agricultural sector. The structure of a traditional small farming community presents a solution for this problem. Since farmers live in the same community for generations, they are under strong pressure not to abuse soil fertility.

In sum, the structure of the traditional small farming community in Japan can be seen as a clever system for operating small farms. As long as small farming is efficient, the traditional structure may be workable. However, since the remarkable development of labour-saving technologies in the post-war period, the traditional structure has hindered agricultural productivity improvements.

Agricultural committees

Some elements of collaboration among farmers can be achieved on the basis of implicit contracts between farmers in a farming community. However, for some delicate issues such as property ownership problems, collaboration needs a written legal basis. Indeed, there is a special organisation that authorises various kinds of farmland property ownership issues at the local level: the agricultural committee system. The Agricultural Committee Law (ACL) requires every municipal government to have its own Agricultural Committee. Members are elected by mutual vote among farmers.¹¹ All the farmers who own more than 0.5 hectare in the municipality are eligible to vote.

The Agricultural Committee is entitled to make various important decisions on farmland issues. For example, a person wishing to purchase or rent farmland in a municipality must obtain the Agricultural Committee's permission by showing sufficient farming skills and sociability. The ACL stipulates that the Agricultural Committee is also responsible for promoting the local agricultural sector. For example, if a farmer has a strong determination

and the capability of expanding his farm size, the Agricultural Committee in the village should help him by seeking farmers who may be willing to reduce their farm-size (or exit from farming). This intermediary activity is called ‘liquidation of farmland’. The MAFF repeatedly announces that ‘liquidation of farmland’ is critical to improve the productivity of Japan’s agricultural sector.

Farmers who pass the Agricultural Committee screening are allowed to use the farmland and have a responsibility to use it appropriately for agriculture. If a farmer does not use farmland appropriately, the municipal government is entitled to force the farmer to transfer the rights of the inappropriately used farmland to those who have the will and ability to farm it. The Agricultural Committee should collaborate with the municipal government in enforcing such mandatory transfers. This is also a part of the Agricultural Committee’s mandate of ‘liquidation of farmland’. The Agricultural Committee is also entitled to play an important role in farmland conversion regulations (see below).

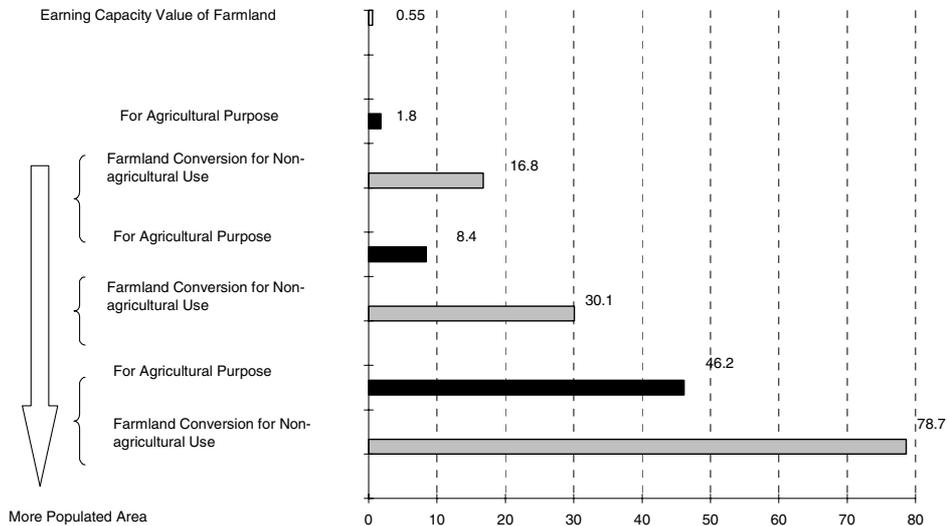
Necessity of farmland conversion regulations

The meaning of ‘high-quality farmland’ in Japan is different from that in other developed nations (Australasia, North America and the EU). In Japan, ‘high quality for farming’ means ‘high potential for farmland conversion’. The favourable 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 favourable for farmland conversion for non-agricultural uses such as shopping centres and public facilities. This irony comes from Japan’s geographical limitation of flat areas. Japan’s population density is at the highest level in the world, and agricultural land use and urban land use compete with each other for the limited flat areas.¹²

When farmland is converted to non-agricultural use, the price is 30–140 times higher than its earning capacity under agricultural use (see Figure 1). Even when used for farming, its selling value is 3–80 times higher than its farming earning capacity. This reflects farmers’ expectations of capital gain from farmland conversion: the value is too high if agricultural production is the sole motivation of purchasers.

Table 1 shows the magnitude of farmland conversion. As can be seen, only 0.5 per cent of farmland has been converted for non-agricultural land use. This percentage is not negligible, however, because a farmer can expect a nearly 15 per cent chance of farmland conversion during his period as the head of a family (one generation being approximately 30 years). Table 1 also demonstrates that revenue from farmland conversion is nearly 50 per cent of the total value of farm products even in non-metropolitan areas. Since farmers obtained

Figure 1 Comparison of trade prices of paddyfield (million yen/10a, the average of all the prefectures excluding Hokkaido as of 1999)



Source: Godo (2006) Figure 4-1.

(or inherited) their farmland at very low cost, this revenue is clear profit. Table 1 shows that capital gain from farmland conversion is more important than any crop production.

Table 1 shows a downward trend in the total acreage of farmland and capital gains from farmland conversion over the past ten years. This reflects the decrease of public construction and large development plans after the collapse of the ‘bubble’ in the early 1990s. However, there is evidence that illegal farmland conversion increased during those ten years.¹³ Since Table 1 includes legal farmland conversion only, the real acreage and capital gain may not have decreased over this period.

Japan’s paddy field system has two types of externality. One is the externality to the neighbouring plots. As described above, poor usage of water and farmland in a plot may spread negative side effects over all the plots in the community.¹⁴ Likewise, conversion of one plot may affect farming of all the paddy field in the rural community. The other type of externality is about macroeconomic concerns beyond the agricultural sector. Paddy field has positive environmental externalities such as the protection of endangered species and

Table 1 Capital gain from farmland conversion

Years	Farmland conversion in total farmland (%)	Farmers' capital gain from farmland conversion		Ratio between farmers' capital gain from farmland conversion and total value of farm products (%)
		billion yen	(1990 yen)	
44 prefectures (all prefectures except Hokkaido, Tokyo and Okinawa)				
1975-79	0.50	2,986	(4096)	48
1980-84	0.47	4,420	(5046)	66
1985-89	0.48	6,347	(6667)	92
1990-94	0.57	10,026	(9594)	138
1995-99	0.49	6,835	(6611)	103
2000-03	0.39	4,787	(4884)	82
36 prefectures (non metropolitan areas)				
1975-79	0.45	1,490	(2044)	28
1980-84	0.41	1,961	(2239)	35
1985-89	0.41	2,520	(2647)	44
1990-94	0.50	3,668	(3510)	61
1995-99	0.45	3,133	(3030)	57
2000-03	0.34	2,338	(2385)	49

Source: Godo (2006) Table 4-2.

prevention of soil erosion. In addition, the majority of Japanese citizens support the protection of paddy field from the viewpoint of food security.

Farmland conversion for non-agricultural uses is inevitable as a result of changes in economic conditions. However, given these externalities of farmland, regulation for farmland conversion is necessary. How to strike the balance between demands for farmland conversion from non-agricultural sectors and the necessity of preservation of high-quality farmland is a serious question.

Regulations on farmland conversion

Current regulations on farmland conversion are complicated. Various regulations of different laws refer to farmland conversion. In order to convert farmland legally, farmers and/or developers must satisfy all the relevant complicated laws. Among the laws, the Law concerning Construction of Agricultural Promotion Areas (LCAPA), the Agricultural Land Law (ALL), and the City Planning Law (CPL) are particularly important.

Law concerning construction of agricultural promotion areas (LCAPA)

The LCAPA authorises municipal governments to designate the zoning of Exclusively Agricultural Areas (EAAs). Farmers in EAAs are responsible for using farmland only for the purpose of farming. In return, the MAFF gives priority to EAAs when allocating agricultural subsidies. Abandonment of farming and conversion to non-agricultural uses are strictly prohibited in EAAs. The total acreage of EAA represents nearly 80 per cent of total farmland. This percentage is quite high compared with Korea, which has a similar zoning regulation but designates only 50 per cent of farmland as exclusively protected for agricultural use. Roughly speaking, except for plots of land on the edges of rapid urbanisation or in steeply sloping areas, an overwhelmingly large portion of paddy field in Japan is included in EAAs.

Municipal governments are supposed to revise EAA zoning when significant change occurs in the local economy. How frequently the zoning revisions should occur is a difficult question. Too infrequent zoning revision will prevent swift adaptation to changing economic conditions, so that the local economy will become depressed. Conversely, too frequent revision will undermine the meaning of the zoning so that farmers lose the incentive of investing in soil fertility, which is necessary to maintain and improve agricultural productivity. Because of the huge costs of demolishing built structures, land use cannot be easily changed once a construction project has occurred. Particularly in the case of farmland, conversion for non-agricultural uses is irreversible, and conversion from urban land use to agricultural land use is almost impossible. Thus, too frequent revision of zoning may generate short-term farmland development, which may be contrary to long-term social benefits.

The MAFF has guidelines about the frequency of zoning revision: municipal governments should have 10-year zoning plans and should not change zoning in less than five years. However, this guideline is not legally enforceable. It is only a goal to work towards, not necessarily to be implemented. The MAFF does not check whether this guideline is observed by municipal governments.

Agricultural land law (ALL)

Even for paddy field in non-EAA areas, farmland conversion is regulated by the ALL, which requires the prefectural governor's permission when a farmer converts his farmland for non-agricultural uses.¹⁵ In order to obtain the governor's permission, a farmer must submit details of the farmland conversion plan and explain why he wants to convert the land. The Agricultural Committee examines the proposal and classifies the proposed farmland into four types according to the quality of the land and the externalities to the neighbouring farmland: Types A, 1, 2 and 3. The ALL regards farmland of Types A and 1 as the farmland that should be strictly protected from farmland conversion.¹⁶ Conversion of farmland of Types A and 1

is permitted only in rare and exceptional cases. Permission for conversion is relatively easy to obtain for farmland of Type 3. The tightness of farmland conversion permission for farmland of Type 2 is between those of Types 1 and 3. Farmland is classified under this system only after an application for farmland conversion is filed. Unless a farmer applies for farmland conversion, he does not know what type of farmland he owns.

City planning law (CPL)

The LCAPA and the ALL are within the MAFF's jurisdiction. Besides them, the MLIT's CPL also stipulates the UCA zoning regulation as mentioned above. The CPL regards farmland conversion in UCAs as 'land development'. The CPL stipulates that all the land development in UCAs needs permission from the Development Committee. The Development Committee examines land development plans in advance. If it recognises that a plan is inconsistent with systematic urban development, the Development Committee is qualified to place a veto on the land development plan. However, as discussed above, it is often the case that the Development Committee is won over to the side of the developers. Unless some obvious violation of the law is found, the land development plan will be easily approved by the Development Committee.

In sum, in order to convert farmland that is included in both an EAA and a UCA, three conditions must be satisfied. First, the farmland should be excluded from an EAA according to the municipal government's revision of the EAAs. Second, the farmer should obtain the ALL's permission for farmland conversion. Third, the farmer (or the developer) should obtain the CPL's permission for 'land development'.

Practical problems in implementing farmland conversion regulations

What is stipulated in the written laws often differs from what is actually practised in Japanese land-use regulations. Many of the requirements stipulated in the ALL and the LCAPA are not observed strictly. For the mass media and researchers, written requirements are easier to study than examining the practice of farmland regulations in reality. Thus, they are biased to oversimplify farmland problems, scrutinising only what is stipulated in writing in laws and ignoring what is actually practised under regulations.

On the surface, regulations for farmland conversion are strict. In practice, however, the Agricultural Committees and the municipal governments often stretch their interpretation of the stipulations to suit themselves. For example, the EAA zoning is revised so frequently and so flexibly according to the demands for farmland conversion that the principle of protection for high-quality farmland is ineffectual.¹⁷ More precisely, while the MAFF stipulates that the zoning should be unchanged for at least five years except for 'very rare and

exceptional cases', more than half the municipalities change EAA zoning more than twice every year, regarding the cases as being 'very rare and exceptional cases'.¹⁸ Likewise, conversion of farmland of Type A and Type 1 (as discussed above, in the MAFF's guideline on ALL, farmland of Type A and Type 1 should be strongly protected from conversion) is relatively easily permitted, and often regarded as a 'very rare and exceptional case'.

While it is prohibited for municipal governments to conceal the records of EAA zoning revisions and the permissions for farmland conversion, they are unwilling to announce such information openly. Currently, unless citizens dare to request the municipal governments to provide such information, they do not know details of the EAA zoning and the reason for permission for farmland conversion. All the governmental bodies, including the MAFF and the MLIT, are reluctant to investigate and reveal poor practices under the LCAPA, the ALL and the CPL. However, a provocative report by the Management and Coordination Agency (MCA, 1992) is an exception. The report revealed the stark reality of the widespread neglect and stretched interpretation of farmland conversion regulations. Unfortunately, it did not affect the MAFF's farmland policy. As a response to the report, the MAFF issued two notices that obliged the local authorities to make sincere efforts for stricter implementation of the LCAPA and the ALL. These two notices were toothless, however, because only 'efforts' are required; there is no need for actual changes.

Worse still, illegal farmland conversion is not rare. The number of revealed cases of illegal farmland conversion has risen to nearly 10,000 every year. In some cases, the municipal government and/or the Agricultural Committee themselves assist illegal farmland conversion. Even if illegal farmland conversion is exposed, the MAFF imposes only light punishments in most cases.¹⁹

The reason for such inappropriate implementation of farmland-use regulations is political pressure from farmers. Farmers are aware that farmland prices rise more than 30 times if farmland is purchased for conversion for non-agricultural uses (see Figure 1). They also know that the farmland in EAAs receives favourable treatment in the distribution of agricultural subsidies and in property taxes. Thus, in order to enjoy subsidies and tax privileges in ordinary times and capital gains when a land development plan occurs, farmers want to manipulate farmland-use regulations.

In other words, a farmer's desirable scenario is that, in ordinary times, his farmland is included in an EAA so that he can enjoy agricultural subsidies and the MAFF's farmland improvement investments, as well as a reduction in asset taxes. The MAFF investments increase not only agricultural productivity, but also the value for non-agricultural land use when conversion is permitted. Then, when a farmland conversion plan (such as for a shopping centre or a public construction project) occurs, his farmland will be excluded from an EAA and the plan will be permitted by the local governor swiftly so that the farmer can enjoy capital

gains. Until the opportunity of farmland conversion plan is pursued, the Agricultural Committee will keep silent even if the farmer leaves the farmland idle.

In order to realise this ‘desirable’ scenario, farmers combine to pressure the local authorities and politicians. The critical part is when and how a farmland conversion plan will occur, and no farmer is certain of that. The best case is a public construction project. The public sector usually purchases farmland at a higher price than the private sector, and favourable tax treatment is available when farmland is sold for public sector use. A large private development such as a factory site or a shopping centre is the second-best case because farmland price tends to increase in such a large-scale development. However, the opportunities for public construction projects or large private development plans are limited. Even with a politician’s best efforts, it is not easy to deliver such desirable opportunities to the farmers who support him. However, in the long run, the possibility of the desirable scenario increases depending on the politician’s efforts.

In this sense, farmers regard their farmland as a lottery in which they obtain benefits for nothing. While the timing and the type of project may be uncertain, farmers eagerly wait to ‘win the chance of farmland conversion’. A special feature of this farmland lottery is that the prize money and the possibility of winning the prize are changeable according to the political power of the farmers. In the current farmland-use regulations, political pressure can be sometimes more effective than legal stipulations. Whatever is written in the laws, farmland-use regulations can be manipulated if strong political pressure is imposed. In order to manipulate farmland-use regulations as desired, good ties with the Agricultural Committee, the municipal government and politicians are necessary. For political purposes, the structure of the traditional small farming community has an advantage.

The traditional small farming community is attractive as a voting group for politicians. Since the farmers share the same water, they must observe each other’s daily activities. Traditional farmers live in the same place for generations, so that they can be stable and long-term supporters of a politician.²⁰ Since agricultural policy has plenty of room for ‘pork barrel’ behaviour such as construction of agricultural joint facilities, allocation of agricultural subsidies and introduction of farmland conversion plans, a politician can attract farmers (voters) strongly by dangling political privileges in front of them.

Until 1996, the lower house elections were conducted under a multi-member constituency system. The Liberal Democratic Party (LDP), which stayed in office most of the time since the 1950s, had more than one member elected in a single constituency. Thus, the LDP had to allocate its supporters’ votes among the LDP lawmakers within a constituency. For that purpose, farmers, who live in geographically compact areas, are useful for the party.

If a large number of traditional small farmers were to be replaced by a small number of large farmers according to market mechanisms, their attractiveness as a voting group would be reduced. Thus, small farmers, who are concerned with obtaining capital gain from farmland conversion, try to prevent free competition in the farmland market.

Since Japan is a developed capitalist country, it is not easy to block market mechanisms in the farmland market. The Agricultural Committees function as an elaborate system to do that. While the official role of the Agricultural Committees is to promote agricultural production (including liquidation of farmland as discussed above) by coordinating water and farmland use, the Agricultural Committees do not strictly enforce their official role. Instead, abusing their authorising powers over farmland use, they often manipulate farmland-use regulations according to the interests of the small farmers. Since the electoral eligibility and voting rights for the Agricultural Committee are extended to farmers who own at least 0.5 hectares, the Committee's decisions incline to the small farmers' interests rather than to those of large farmers because the small farmers outnumber the large.

The Agricultural Committees often tighten their guard against outsiders entering farming for the first time. As explained above, the Agricultural Committees are obliged to investigate the abilities of those who want to start farming in their farming community. The original (or official) aim of this investigation is the overall improvement of water and farmland use within the farming community. However, this examination is often used for a different purpose—maintaining the political power of the farming community. The Agricultural Committees tend to require high hurdles for permitting newcomers to purchase or rent farmland. In contrast, they are lenient towards existing small farmers. For example, the Agricultural Committees usually turn a blind eye to existing farmers' illegal farmland conversion and abandonment of farming. Such inconsistent attitudes prove that the Committees' concerns are not agriculture, but politics.

5 The new and harmful direction of farmland policy

Changes in agricultural political dynamics in the 1990s

The previous section describes the traditional agricultural political dynamics established in the 1950s and basically maintained since then. However, there was a turning point in agricultural political dynamics in the middle of the 1990s, which was brought about by three factors. First, the organising ability of agricultural cooperatives, which play a key role in aligning farmers' requests to politicians' pork barrelling, decreased after the agricultural cooperatives' financial

crunch in the middle of the 1990s.²¹ Second, the reform of the lower house election system reduced the voting power of farmers by allocating more seats to the urban areas and replacing the multi-seat system by the single-seat system whereby the LDP no longer needs to segment supporters' votes by returning a multiple number of lawmakers in a single constituency.²² Third, the government launched a cutback of the public construction budget because the fiscal deficit reached an intolerable level and because Japanese citizens started to become more critical of public construction works after a series of mass media reports on the dissipation of public construction budget funds.

Thus, farmers' expectations of the support of politicians for public construction works decreased in the 1990s. Until the early 1990s, farmers could wait for opportunities of farmland conversion for the purpose of public construction works. The public sector often offers higher procurement prices for farmland for public construction works than the private companies. In addition, farmers can enjoy preferential treatment on income tax when they sell their farmland to the public sector. So, they preferred to await public construction projects or large private development plans even if they lost money by farming. However, since the turning point of agricultural political dynamics in the middle of the 1990s, farmers have been hastier in finding opportunities for farmland conversion. The national budgets for public construction projects have been cut back. Demands for factory sites are shrinking because many manufacturers are shifting to China. Demands for commercial facilities are also limited because the total population in Japan is decreasing. Under such conditions, farmers have been more and more inclined to sell farmland at a middling price rather than miss any chance of farmland conversion by waiting for public construction projects or private development plans.

Since the turning point of the mid-1990s, farmers are increasingly requesting freedom of farmland conversion (in particular for the conversion of high-quality paddy field). Such requests are supported by construction companies too. Construction companies, as well as farmers, have backed the LDP for years, and public construction projects are major sources of income for them. The decrease in government expenditure on public construction works since the mid-1990s worsened the financial position of construction companies. To compensate, they began looking to private projects for farmland conversion (farmland conversion accompanies construction work such as raising ground level and building up facilities).

In some extreme cases, farmers try to sell their farmland as industrial waste sites.²³ Officially, the ALL prohibits dumping of industrial waste on farmland. In practice, however, the acreage of illegal dumping is increasing.²⁴ This is also a new tendency since the middle of the 1990s.

Introduction of laissez faire on farmland use

As discussed above, the unclearness and opacity in the implementation of farmland-use regulations hinder free competition in the farmland market. The manipulation of farmland-use regulations is so rampant that those who are committed to farming and fertility investments will find themselves fooled. Those who are good at politics will enjoy huge easy money from farmland conversion. Under these circumstances, Japanese agriculture cannot be improved. In order to improve Japanese agriculture, the introduction of clarity and transparency in the implementation of farmland-use regulations is needed most urgently and critically.

However, the MAFF is moving in the opposite direction. As discussed in the previous subsection, farmers and construction companies have been increasing their requests to allow them freedom of farmland conversion since the middle of the 1990s. Responding to these requests, the MAFF has been revising laws with regard to farmland use to allow more ‘flexible’ implementation of farmland-use regulations under the pretext of ‘deregulation’ and ‘decentralisation’. For example, in 2002, the MAFF announced its plan to deregulate the ALL in order to allow farmers to divide their land into small plots and sell them for housing lots.²⁵ In the same year, under the pretext of decentralisation, the MAFF released its plan for creating a new system that allows municipal governments to escape all the MAFF’s farmland-use regulations (such as the ALL and the LCAPA).²⁶ Once these plans are put into practice, patchy and short-sighted farmland conversion will spread across the nation quickly, particularly with high-quality farmland. These plans have not yet been realised. It is not certain whether the MAFF has given up this plan or is still looking for the chance to implement it.

In 2003, the MAFF launched a new program whereby the authority for permission for farmland conversion can be transferred from the prefectural governors to the Agricultural Committees.²⁷ The MAFF introduced this program under the pretext of decentralisation. Since the members of the Agricultural Committees are farmers, this decentralisation will promote self-serving farmland conversion. Another noticeable shift by the MAFF is the provision of more chances for non-agricultural companies to purchase farmland. According to the ALL, the ownership of farmland is allowed only for farm households and a special type of private corporations. These special corporations are referred as ‘agricultural production legal entities’. When a non-agricultural company wants to purchase farmland, the company starts up an agricultural production legal entity as an affiliated company. The MAFF is moving toward relaxation of the requirements for the qualification of agricultural production legal entities. In 2000, the MAFF allowed stock company-style agricultural production legal entities to be set up—before 2000, only limited liability company-style companies were allowed. In 2003, the MAFF relaxed the qualification requirements for investors in

agricultural production legal entities.²⁸ Such deregulations make non-agricultural companies easier to own farmland.

The MAFF announced that the deregulation of farmland ownership would promote new entries to the agricultural sector and therefore would improve farmland use. Since the MAFF's submission of *Shoku to No no Saisei Plan* (the draft for the revitalisation of Japanese food and agricultural industries), the MAFF has been repeatedly making such assertions. However, this is an example of exaggeration by the MAFF, because anyone could start a farming business by contract farming without purchasing farmland even before 2000 (see below for details of contract farming). Contrary to the MAFF announcement, the MAFF's deregulation provokes speculation on farmland. For example, it is reported that more and more industrial waste collectors are trying to start up agricultural production legal entities to own farmland.²⁹ It is obvious that those industrial waste collectors' intentions are not farming but securing sites for disposal of industrial waste.

Obviously, the MAFF's connivance encouraged unclearness and opacity of farmland-use regulations, yet the MAFF was enthusiastic about deregulation and decentralisation. This means that deregulation and decentralisation do not aim to liven up the agricultural industry but to fuel speculation in farmland.

In fact, those who seek the 'pure' purpose of farming criticise the MAFF's deregulation and decentralisation. For example, Messrs Takemoto and Sakamoto, both well-known as among the most innovative farmers in Japan, assert that the MAFF's deregulation and decentralisation will arrest the development of the agricultural sector by encouraging farmland speculation.³⁰ Once farmland speculation spreads, farmland prices will increase, reflecting the expectation that farmland conversion will be for non-agricultural uses. Such a hike in farmland prices will please small farm owners who possess farmland for the purpose of obtaining easy money. On the other hand, those who need farmland purely for agricultural use will be discouraged because they cannot afford to offer high prices for land. For the same reason, agribusiness stock companies do not welcome the MAFF's deregulation and decentralisation either.

Even before the MAFF's deregulation and decentralisation, agribusiness stock companies had already entered farming businesses by making special contracts with farmers (without starting up agricultural production legal entities as affiliated companies). Although the ALL did not allow farmland ownership by stock companies, it did not prohibit farmers from making contracts with any economic entities (such as buyers for farm products) on details of farming (such as how to eradicate insect pests and blight, what variety of crop should be planted, when to be harvested, and so on). Thus, even without ownership, agribusiness stock companies can *de facto* enter farming businesses. This style of farming, known as

‘contract farming’, worked so well that agribusiness stock companies did not show any interest in MAFF’s deregulation and decentralisation.³¹

Ironically, construction companies and industrial waste collectors, rather than innovative farmers such as Messrs Takemoto and Sakamoto, welcomed the MAFF’s deregulation and decentralisation. Construction companies, which have been suffering from the decrease in fiscal spending on public construction works since the mid-1990s, wanted to use farming as a buffer for employees. However, many surveys report that most of the construction companies that started farming businesses after the MAFF’s deregulations lost money in farming.³² Because farmland conversion is one of the main businesses of construction companies, pressure for farmland conversion will increase from now on. Industrial waste collectors are also interested in ownership of farmland as a *de facto* waste site. More and more waste collectors are dumping sludge and leftover food on farmland, claiming these to be fertility improvement measures.³³

Local governments also receive strong demands for manipulation of farmland-use regulations from farmers and construction companies in their jurisdictions. Farmers and construction companies play important positions in local politics. Thus, the heads and assembly members of prefectural and municipal governments are also requesting the MAFF to deregulate and decentralise farmland-use regulations.³⁴ Today, all the central and local governments have joined the chorus of support for the MAFF’s deregulation and decentralisation.³⁵

While most of the Agricultural Committees are not concerned with the protection of high-quality farmland, there are some exceptional municipalities whose Agricultural Committees are adhering firmly to their official role and are seriously concerned with the protection of high-quality farmland from urban development. Their seriousness, however, is not praised by the mayors and municipal assembly members. Regarding such serious Agricultural Committees as nuisances, the mayors and the city councils treat them coldly. Worse still, instead of supporting those serious Agricultural Committees, the MAFF is moving to provide the legal power for the dissolution of Agricultural Committees to municipal governments. In the revision of the ACL in 2004, the MAFF allowed the municipal governments to downsize or dissolve Agricultural Committees under certain conditions (here again the MAFF revised the ACL under the pretexts of deregulation and decentralisation).

In sum, the MAFF is introducing a *laissez faire* policy on farmland-use regulations. Given that Japan lacks clear and transparent land-use planning, the MAFF’s *laissez faire* policy will promote short-sighted and patchy farmland conversion. This will damage not only the agricultural sector but the Japanese economy overall (in particular, for future generations, because farmland conversion is irreversible). The MAFF has been driving in this harmful direction since the middle of the 1990s.

6 Popular but misguided discussions over farmland problems

The popular pattern of misunderstandings distributed by the mass media and researchers

In spite of the seriousness of the issue, the unclearness and opacity of farmland-use regulations have been seldom discussed. On the contrary, it is often the case that farmers and developers complain that regulations are too tight. The mass media and researchers are often supportive of such complaints. The most popular pattern of opinion in favour of agricultural policy reform among them is that 'the MAFF should deregulate and decentralise its farmland regulations so as to activate agriculture by introducing competitiveness. However, the MAFF resists allowing outsiders' new entries because the MAFF wants to protect vested interests of existing farmers and the MAFF itself'.³⁶

It is noticeable that this popular opinion stems from serious misunderstandings. For example, the MAFF does not resist allowing the new entry of deregulation but rather promotes deregulation on its own initiatives. As early as 1992, the MAFF announced its policy view that agricultural production legal entities should be the new 'bearers' of the agricultural industry.³⁷ Since then, the MAFF has supported the establishment of agricultural production legal entities and has relaxed the requirements to do so (see above).

Japanese business leaders are requesting the entire removal of the ALL's farmland ownership regulations.³⁸ It is uncertain how much Japanese business leaders know about the reality of farmland problems. In any event, it is unlikely that business leaders are really interested in farming.³⁹ On the contrary, it is quite likely that business leaders demand farmland for conversion to non-agricultural purposes in the near future. Once they obtain farmland ownership, they will oppose any further regulations on farmland conversion on the false grounds that this would be an intrusion of private rights, as discussed above. Small farm owners welcome such requests in the expectation that non-agricultural stock companies will purchase farmland at high prices for non-agricultural purposes.

Accordingly, the MAFF, the Agricultural Committees and agricultural cooperatives, all of which indulge the views of small farm owners, privately welcome requests by business leaders, a fact that they do not disclose to the mass media or to urban consumers. This is because they are recipients of huge agricultural expenditure from the national treasury under the official objective of 'promotion of Japanese agriculture'. Thus, they pretend to be eager to protect farmland from conversion for non-agricultural uses. Their 'desirable' and 'well-devised' scenario is: (1) gain time by pretending to oppose the lifting of the ban on non-agricultural stock companies' ownership of farmland, saying that stock companies will disturb farmers' collaboration for farming; (2) using that time, introduce 'freedom' of farmland

conversion to the utmost extent; (3) pretending that they yield to business leaders' strong requests, they accept the liberalisation of farmland ownership for all non-agricultural stock companies (actually, all of them feel extremely happy to liberalise).

The mass media and researchers also support the requests of business leaders for farmland ownership. In fact, deregulation and decentralisation have been in vogue in policy debate since the 1990s. The mass media and researchers can easily label themselves as reformers by asserting the advantages of deregulation and decentralisation before the general public.

Originally, deregulation and decentralisation are not objectives of policy reform: promotion of market mechanisms is the real objective. Deregulation and decentralisation should be regarded as some of the possible measures for promotion of market mechanisms. Unfortunately, in today's political discussions, the real objective and policy measures are often mixed up. In fact, deregulation and decentralisation were the slogans of former Prime Minister Koizumi, who was greeted by the general public as a determined reformer when he took up his position in 2001. Mr Koizumi demonstrated his strong initiative in breaking up the bureaucrats' vested interests and reactivating the price mechanism of the market economy by promoting new entries to the markets formerly controlled by the bureaucrats. In particular, 'promotion of new entry of stock companies by deregulation' was Mr Koizumi's favourite slogan.

Mr Koizumi assumed that schools, hospitals and agriculture were typical examples that had prohibited stock companies' entry to the businesses. In the case of schools and hospitals, there is no loophole such as 'contract farming' in agriculture. Therefore, Koizumi reforms provided the chance of stock companies' new entry to school and hospital businesses. The Ministry of Health, Labour and Welfare (the authority to supervise hospitals) and the Ministry of Education, Culture, Sports, Science and Technology (the authority to supervise schools) resisted Prime Minister Koizumi's idea of an open-door policy for stock companies. However, as described above, the case of agriculture is totally different from those of school and hospital businesses. Unfortunately, neglecting these differences, the mass media and academics raise the dogmatic assertion that bureaucrats (the MAFF) should deregulate and decentralise farmland-use regulations.

The reason for expansion of misinformation

The previous sections revealed the reality of farmland-use problems. This reality has been seldom discussed among the mass media and academics. Instead, the false idea that more deregulation and decentralisation are necessary has been widely discussed. A big question is why the mass media and academics avoid scrutinising the real farmland issues. We should be

careful not to seek too hasty an answer, but it seems plausible to argue that Japanese citizens avoided facing uncomfortable realities and choose to ‘leave the bill for future generations’.

Today’s landowners (small farmers) and developers may enjoy short-lived benefits from short-sighted and haphazard farmland conversion, but future generations will suffer the disadvantages of such actions. In that sense, today’s citizens are exploiting future generations. The self-interested behaviour of farmers on farmland use is similar to the self-interested behaviour of urban residents on the high-rise building problem (as discussed in Section 3). This similarity makes urban residents reluctant to discuss the reality of farmland problems openly. Urban residents feel that they are in a weak position if they try to criticise the selfish behaviours of farmers: if urban residents do so, farmers, in return, may criticise urban residents’ selfish behaviour on urban land use. Thus, both farmers and urban residents choose the attitude of being unconcerned about land-use problems in both rural and urban areas.

The mass media and academics also play to the sympathies of farmers and urban citizens by attributing all the blame to bureaucrats. Yet bureaucrats in the MAFF inwardly welcome demands for deregulation and decentralisation of farmland-use regulations. In this way, leaving the bill to future generations turns out to be a stable solution (although it is a makeshift one that damages future generations). In this sense, Japanese society is in the situation of self-hypnosis—an overwhelming majority of Japanese citizens collude with each other to avoid facing up to harsh realities and thereby transfer the bill to future generations.⁴⁰ History tells us that Japanese society did a similar thing in the pre-war period: it avoided facing up to the bitter reality of its failure of heavy industrialisation and attributed all its evils to foreign countries. In the pre-war period, the central government initiated the practice of spreading misinformation. In the case of today’s land-use problems, in contrast, citizens are deluding themselves.

7 Policy suggestions for new farmland regulations and taxation

The fundamental solution for farmland-use problems is the introduction of US-style participatory democracy in the planning and implementation of land-use regulations. Today, various laws refer to land use separately and the entire structure of those laws is hard to understand, even for government officials and academics.⁴¹ Japan should overhaul all the regulations, and have a unified system of land-use regulations. The new system should be comprehensive enough to control both farmland use and urban land use systematically, because these two uses are inseparable because of Japan’s limited flat areas.

The system of City Planning Councils in the United States (discussed in Section 3 above) provides useful hints. This paper suggests that Japan should have US-style local committees where residents, business leaders, green groups and politicians get together for

discussion on land-use regulations. All the stake-holders should bear the responsibility of participation in planning and implementing land-use regulations. The central government should provide the broad guidelines and macroeconomic conditions for the supply and demand of land by land-use type. The details of land planning should be decided by the local committees. For example, a local committee may designate particular plots of paddy field as a 'firefly area' where farmers cannot use agricultural chemicals and neighbouring residents must help chemical-free farming by supplying manual labour for weeding. Such flexible planning should be promoted at the local level.

There are some fields where collective decisions by all the affected farmers are necessary, for example, usage of irrigation water and prohibition of exploitation of fertility. For those fields, farmers' collective decisions should be emphasised.

While the development of participatory democracy is the ultimate solution for land-use problems, it would not be achieved in a short time. However, if Japan waits for the development of participatory democracy, its agriculture and land use may be damaged irreparably. Thus, Japan needs immediate policy measures, too. Following are the author's proposals.

Proposal for a bidding system for farmland conversion rights

Farmers' expectations of capital gain from farmland conversion are the root of all evils associated with farmland problems. Therefore, stricter regulations are necessary. Absolute prohibition of farmland conversion is, however, unrealistic, because economic conditions of society keep changing. Are there any good solutions for this dilemma?

The author's proposal is to introduce a system of bidding for farmland conversion rights. Such a system might be implemented in the following way. Every year, the government could set a quota for farmland conversion and auction the right to carry out conversion. Farmers (that is, farmland owners) would submit farmland conversion plans under joint signature with developers to the government. The government would assess all the plans before the auction. Based on the assessment, the government would determine a multiplier for each proposed plan. A better plan would receive a lower multiplier. For example, if a proposed plan benefits the local economy and does not include high-grade paddy field, the government assigns it a low multiplier. Being informed of an assigned multiplier, the farmer and developer bid their price (in yen per tan: 1 tan = 991.7 m²) for farmland conversion rights under joint signature. The concession amount would be calculated not at the bidding price, but at the adjusted bidding price that equals the product of the bidding price and the multiplier.

The difficult part of this bidding system is how to set the quota and determine the multipliers. These questions are sufficiently controversial to provoke fierce disputes among

farmers, developers, business leaders, urban consumers, environmentalists, researchers and the government. Fierce disputes are exactly what should be introduced now in Japan. So far, Japanese society has tended to avoid them. Even in local issues for which citizens must find a solution by themselves, Japanese citizens tend to defer to the government, in anticipation of the government's 'wise' decision. Then, if there is any problem, Japanese citizens simply blame the government without giving a thought to their own responsibilities. By contrast, in North American countries, citizens bear the responsibility of preparing and implementing land-use plans that include penal provisions. This is one reason that North American countries have much better land-use plans than Japan.

The author's bidding system siphons off a large portion of capital gain from farmland conversion, and thus discourages those who own farmland in expectation of future opportunities for farmland conversion. Those who own farmland for 'real' farming purposes are the beneficiaries of this system. Most citizens would agree with the general idea of controlling the total acreage of farmland conversion. While it is difficult to suppress the greedy requests of farmers individually, the general consensus on the necessity of total acreage control is easier to form. In this sense, the bidding system is a realistic and effective policy suggestion. The bidding system is effective in keeping macroeconomic externalities of farmland at a favourable level. As this paper points out in Section 4, there are two types of externalities in farmland: one is externality for neighbouring farmland and the other is macroeconomic externality. The regulations of the LCAPA and the ALL are concerned with the first type of externality only. Currently, there is no effective measure to cope with the second type of externality in today's system of farmland-use regulations.

In contrast to today's regulations, the author's bidding system is effective in curbing violations and evasion of farmland-use regulations. Those who fail in the bidding will feel resentment toward those who violate or evade regulations. Thus, a farmer will be pressured by neighbours not to violate or circumvent the regulations. The government will also be pressured not to shirk its duty to implement farmland-use regulations transparently. This is just the opposite of today's situation. Today, a farmer tends to turn a blind eye to neighbouring farmers' violations or evasion of farmland-use regulations because he expects he will also be able to follow suit in the near future.

Under the author's bidding system, local governments should be allowed to have flexible local land-use plans that include penal provisions and at the same time reflect citizens' originality and ingenuity. The 'multiplier' should be used to promote good local land-use planning. For example, if a farmland conversion plan includes a comprehensive and consistent community development, the multiplier for the plan should be lowered.

The characteristics of Japanese society are changing from the traditional homogeneous society to a more and more heterogeneous society. In such a situation, citizens' responsibility

of participatory democracy is inevitable. This is not a matter of whether Japanese citizens like or dislike participatory democracy.

Proposal for a self-reporting system for farmland assessment

The Japanese farmland taxation system is complicated.⁴² The assessment methodology of farmland differs according to the type of tax. The assessed values are not open to the public. Although researchers cannot observe the real tax burden of farmland property, much evidence indicates that the burden of farmland property taxes is very low.⁴³ Therefore, farmers hold farmland expecting capital gain from farmland conversion, bide their time waiting for this to occur, and as a result pay little property tax. As for inheritance tax, farmland in EAAs is assessed so low that farmers can inherit farmland from their parents at almost no tax cost. There are various reductions and exemptions for capital gain from farmland conversion, too. In sum, today's farmland taxes benefit farmers who own farmland not for farming, but in expectation of future capital gain.

The current farmland taxation system needs improvement in two major ways. First, farmland assessment should be more transparent and open to the public. Second, a heavier tax burden should be imposed on those who hold farmland for the expectation of capital gain from farmland conversion. The author's suggestion is to introduce a self-reporting system for farmland assessment. Farmland assessment is a difficult task because farmland value reflects not only earning capacity for agricultural use, but also expectation of capital gain from farmland conversion. Thus, for the tax authorities to introduce a self-reporting system is more realistic than to try to estimate the expectation of future capital gain. Both property and inheritance taxes should be levied according to the reported value. When farmland is purchased, the gap between the purchase price and reported price should be taxed heavily. The reported price should be publicised.

This proposed system discourages those who own farmland from the expectation of capital gain from farmland conversion. If they want to reduce tax on capital gain, they must set their reporting prices higher, which increase the holding cost, for example incurring a heavier burden of property and inheritance taxes. If they want to avoid the holding cost by reporting lower prices, they must pay more tax when they obtain capital gain from farmland. Those who own farmland for 'real' farming purposes are the beneficiaries of this system.

Suggestion for opening the agricultural labour market to foreigners

Today, there are a large number of foreign workers in Japanese farms. Some work using the system of in-service training; some work illegally. While there are no official statistics on the

number of foreign agricultural workers, it is an open secret that quite a number of foreigners are working on Japanese farms.⁴⁴ It is not rare that foreign workers cause social and/or legal problems in rural communities. Foreign worker problems are so touchy that none of the authorities, the mass media or researchers wants to discuss them openly. However, considering the increasing trend of globalisation, it seems inevitable that Japan should accept more and more foreign agricultural workers in the near future.

This paper advocates that not only agricultural commodity markets, but also the Japanese agricultural industry itself should be open to foreigners. Foreign capital and labour influx to the agricultural industry will revitalise this long-stagnant industry.⁴⁵ In addition, accepting farmers from the less developed countries (LDCs) contributes to poverty reduction in the world.⁴⁶ The language barrier is relatively low in farming. Farming provides good opportunities for cultural exchange between foreigners and local citizens. Thus, agriculture is the best sector to accept workers from the LDCs.

To open up the Japanese agricultural industry to foreigners, transparency and openness of farmland regulations and taxation are necessary. This paper's proposal for new regulatory and taxation systems is effective in meeting the necessary conditions. As far as the rule of how farmland should be used is observed, there is no reason to prohibit foreigners from entering the Japanese agricultural sector.

8 Concluding remarks

The centrepiece of the farmland-use problems is that private rights should be democratically controlled in the public interest. In other words, simple *laissez faire* policy will not work. Obviously it is wrong to describe the removal of traffic regulations as 'deregulation'. It is also obviously wrong to transfer the authority for controlling the use of public roads to local communities under the pretext of 'decentralisation'. In this sense, farmland-use regulations are similar to traffic regulations. Both in traffic and farmland-use regulations, clearness, transparency and fairness in planning and implementation of regulations are necessary (instead of removal of regulations).

However, the farmland-use regulation problems are more difficult than traffic regulation problems. In the case of traffic regulations, we can entrust all the planning to the central government. Simultaneously, we can entrust all the implementation of traffic regulations to police officers, who function above individual economic activities. In contrast, in the case of farmland use problems, citizens must bear the responsibility for planning and implementation.

The most fundamental problem is the lack of participatory democracy in Japan. In order to have clearness and transparency in land use, citizens' participation in planning and

implementing land-use regulations is necessary. However, Japanese citizens (both farmers and urban residents) do not seem ready to bear the civic responsibilities for participatory democracy. The mass media and academics are playing on the attitudes of citizens by attributing all the evils to bureaucrats (and the old-fashioned economic entities protected by bureaucrats) without mentioning the necessity of participatory democracy. In addition, ironically, such bureaucrat bashing is welcomed (inwardly) by bureaucrats and the old-fashioned economic entities (such as the MAFF, small farm owners and local construction companies), because they can protect their vested interests by fabricating a story of policy reform (Section 6).

If the lack of participatory democracy is the fundamental reason for Japan's poor use of farmland, do we have any solution for such a difficult situation? The author proposes new regulatory and taxation systems in order to solve Japan's farmland problems (Section 7): a bidding system for farmland conversion rights and a self-reporting system for farmland assessment. These systems would benefit not only the Japanese agricultural industry but also Japan's neighbouring countries because the systems would encourage liberalisation of international movements of agricultural capital and labour.

It is expected that Free Trade Agreements (FTAs) will be concluded in East Asia in the near future. If so, the liberalisation of farmland use is even more necessary. In addition, FTAs may require that member countries reach an accommodation among themselves on their domestic agricultural policies. In that case, farmland use problems will pose some critical issues. Thus, agricultural economists should be prepared for serious and constructive discussions on farmland use problems.

In East Asia, where a large population resides in limited flat areas, it is common that huge capital gain occurs if farmland is converted for non-agricultural uses. In the cases of the Republic of Korea, the Republic of China, and the People's Republic of China, the governments have exploited most of the capital gains from farmland conversion. However, democratisation is progressing in those countries. Thus, they are likely to suffer from the same farmland problems as Japan does. As the front runner in East Asia's economic catching up with the West, Japan is expected to present a model of farmland policy. To be a model case for East Asian countries, Japan should start real farmland policy reform immediately. This paper's final proposals represent a realistic way to start real farmland policy reform.

Notes

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- 1 According to MAFF (1992), optimal farm size is 10–20 hectares. Considering the development of labour-saving technologies since 1992, it would be legitimate to estimate that optimal farm size is at least 15 hectares.
- 2 This figure is taken from the data for the totalled results for all prefectures except Hokkaido in the 2000 Agricultural Census.
- 3 For example, see Sota (1997).
- 4 Godo (2006), a 300-page-long Japanese book, received the 28th Suntory Award, one of the most famous awards for Japanese academic books.
- 5 While some small countries including Norway, Switzerland and Iceland have higher protection rates than Japan, it would be legitimate to consider Japan's agricultural protection is at the highest level among the major economies in the world.
- 6 MAFF (1992).
- 7 Godo and Owens (1998) provide the border price ratio of rice whereby the quality difference between foreign and domestic rice is adjusted and miscellaneous indirect costs for rice imports are included.
- 8 Many Japanese urban economists point out the serious inefficiency of Japan's urban land use. For example, Ito, Kobayashi, and Onishi (2004), Hashimoto (1995), Igarashi and Ogawa (1993), Ono and Habe Evans (1992), Iwata, Kobayashi and Fukui (1992) and Nomura Research Institute (1991) compare urban land use among developed countries and assert that Japan's lack of strict urban planning is the major reason for Japan's poor urban land use.
- 9 According to the survey by the *Asahi Shimbun* (14 June 2006 morning edition, page 37), more than 50 per cent of citizens want to escape from jury duty).
- 10 This resembles the case of imitation production technology. While light industry technology is easy to imitate, heavy industry technology is difficult to imitate. When Japan started modern economic growth around the 1880s, light industry was the leading industry. Japan's performance was relatively good till around 1920 when the centre of gravity of industrialisation shifted from light to heavy industry. Japan's struggle with heavy industry generated a long economic slump and social unrest. This difficulty resulted in pre-war Japan's devastating military adventures. This bitter experience tells us that society will fall into a difficult situation when imitation moves from an easier stage to a more difficult stage.
- 11 Strictly speaking, there are two types of members: elected members and nominated members. Elected members are elected by mutual vote among farmers. Nominated members are appointed by the municipal government and are often seen as mere decoration because they do not play an important role in the Committee's decision-making processes (see Fueki's accounts in volume 217 of *Nogyo Kozo Mondai Kenkyu*).
- 12 Japan's ratio of total population to total acreage of land is smaller than those of Korea, Belgium and Holland. Otomo (1982) argues, however, that in terms of geographical shortage of flat areas, Japan is more congested than those three countries.
- 13 Illegal farmland conversion is estimated to have increased by nearly 50 per cent in the past ten years (*Asahi Shimbun* 15 June 2003, morning edition, page 1).
- 14 Some plots in fringe areas may not have significant externalities over other plots. The magnitude of externalities depends on the location of the plot of land.
- 15 The ALL stipulates a different process for large farmland conversion (over 4 hectares). The MAFF, instead of the prefectural governors, is the authoriser for large conversions.
- 16 Type A is top-grade farmland in Urbanisation Control Areas (UCAs). Type 1 is top-grade farmland not in UCAs.

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- 17 Two articles in the *Asahi Shimbun* (8 March 2003, morning edition, page 10: and 8 November 2003, morning edition, page 8) and Japan Management and Coordination Agency (1992) provide valuable information on the frequency of the revision of the EAA zoning.
- 18 Toyota (1998) describes how the Agricultural Committees stretch the meanings of ‘very rare and exceptional cases’.
- 19 The number of exposed cases of illegal farmland conversion is reported in the MAFF’s *Nochi Chosa Nempo* (Annual Survey Report of Farmland). The reports indicate that the MAFF hands out only slight administrative punishments for most of the cases.
- 20 Under the longstanding single-party government of the Liberal Democratic Party (LDP), surviving at least five times at the lower house election was an implicit requirement for being nominated to become a cabinet member. Thus, long-term supporters were particularly valuable for LDP politicians.
- 21 Godo (2005) describes the financial liberalisation which ironically, instead of agricultural market liberalisation, undermined the organising ability of agricultural cooperatives in the 1990s.
- 22 Mulgan (2000) analyses historical change of the inequality in the value of the single vote between rural and urban areas.
- 23 A typical case is reported in ‘Rural Japan: Where have all the young men gone?’, *Economist*, August 26–September 1 2006, pages 23–24.
- 24 Ando (2005) and Ando and Tomoda (2006) provide detailed case studies on illegal dumping of industrial waste into farmland.
- 25 *Nihon Keizai Shimbun*, 28 July 2002, morning edition, page 3.
- 26 This plan was discussed in an advisory council of the MAFF in 2002.
- 27 In order to obtain the right to permit farmland conversion, the Agricultural Committee needs an approval of transfer of the right from the local governor and the mayor. As of 2004, the Agricultural Committees in 44 municipalities had obtained the right to permit farmland conversion. The number is expected to increase steadily.
- 28 Before the revision of the ALL in 2005, investment by non-agricultural entities in an agricultural production legal entity were limited to less than 25 per cent of its total fund. The MAFF increased the percentage to 50 per cent in the revision.
- 29 The Federation of the Agricultural Committees in Chiba Prefecture submitted a special report on the movement of waste collectors towards establishing agricultural production legal entities for the purpose of purchasing farmland in 2004.
- 30 Mr Takemoto opposed the MAFF’s deregulation and decentralisation in an interview with a weekly edition of *Zenkoku Nogyo Shimbun* (19 July 2002, page 1). Mr Sakamoto presented a similar opposition at the Cabinet Office’s open meeting of the special economic zone evaluation team on 16 December 2003.
- 31 Godo (2006) provides more concrete discussions on contract farming and the attitude of agribusiness stock companies to the MAFF’s deregulation and decentralisation.
- 32 Mr Michio Ide, a senior council member of the MAFF, also admits that the construction companies’ motivation for entering farming business is not for earning agricultural income but for sheltering surplus construction workers (*Toshi to Noson wo Musubu*, June 2005 edition).
- 33 See Godo (2006) for case studies of such dubious ‘fertility improvement investments’.
- 34 *Nihon Keizai Shimbun*, 21 January 2004, morning edition, page 7.

- 35 Mr Toranosuke Katayama, the then-Minister of Public Management, Home Affairs, Posts and Telecommunications, advocated decentralisation of farmland-use regulations (reported in *Nihon Keizai Shimbun* 27 May 2002, morning edition, page 2).
- 36 The *Nihon Keizai Shimbun* presented this kind of assertion in editorial articles many times (for example, three times during the three months of February, March and April alone in 2003).
- 37 MAFF (1992).
- 38 For example, the Japan Federation of Economic Organisations, one of the most influential business leaders' groups in Japan, made special requests to the Minister of Agriculture for liberalisation of farmland ownership (*Nihon Nogyo Shimbun*, 7 July 2002, page 1). More than a decade earlier, Mr Ken Nagano, the-then President of the Japan Federation of Employers' Associations, requested then-Prime Minister Hosokawa to allow non-agricultural companies to use farmland freely, including conversion for non-agricultural purposes (*Nihon Keizai Shimbun*, 2 March 1994, morning edition, page 1).
- 39 *Nihon Sangyo Shimbun* (1996) presents such a view based on interviews with business leaders.
- 40 Citizens do not like to sacrifice the interests of their own descendants, but are not concerned about the interests of an unspecified number of people in future generations.
- 41 This point is emphasised in the final report of the Council for Regulatory Reform (an advisory board for the Japanese Prime Minister), 22 December 2003.
- 42 Godo (1994) provides a comprehensive description about the farmland tax system.
- 43 Godo (1994) provides numerical information on the level of farmland tax burden.
- 44 Ando (2006) and Ando and Tomoda (2006) provide informative case studies on foreign agricultural workers in the Kanto area of Japan. Some 'serious' farmers do not wait for the authorities, the mass media and academics to discuss foreign agricultural worker problems. For example, Maruta, a stock company founded by nearly 800 innovative farmers, held a symposium on foreign agricultural worker problems on 27–28 January 2007.
- 45 An example is organic agricultural products, for which Japanese consumers' demands are increasing. Since organic agricultural products need intensive labour input, employing farm labourers from the LDCs is an effective way to supply organic agricultural products at not too high prices.
- 46 Even now, not a negligible number of foreign workers (including illegal or law-evading workers) are working on Japanese farms. The liberalisation of international labour markets is irreversible in the 21st century. The Japanese tend to look down on manual workers from the LDCs as unskilled workers, but this reflects the arrogance of the Japanese, whose will to work is no longer as high as it was in the 1980s.

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