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The Persistent Power of 1 Percent

How an informal policy changed Pacific regional power dynamics

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Abstract

Among the choices that have complicated Japanese defense, one of the most consequential has been Japan's self-imposed limit on national defense spending. Issued in 1976 and abolished in 1987, the impact of Japan's decision to limit military spending to 1 percent of its gross domestic product (GDP) is still felt today. The decision's roots can be found within a mix of issues, including anti-war sentiment, Cold War strategy, economic recovery imperatives, the Ministry of Finance's power of the purse, and individual personalities. Although it was never enacted into law, the policy's impacts on a rising Asia in the twenty-first century reflect defense policies that could have been; roads not taken that have changed the region drastically, for better or worse. By examining Japan's decision to impose a 1 percent limit on its own military spending, we can better understand current Asia-Pacific regional defense arrangements.

Why GDP?

Conventionally, analysts look at military spending in comparison with overall GDP, and with good reason. GDP represents the output of a nation produced within its borders and is the most commonly recognized measure of a nation's economy. While measuring military spending as a portion of GDP is useful in assessing a country's military potential and comparing it to other countries, it is not perfect. Problems arise from nations intentionally concealing their true GDP, military spending, or both. In Japan's case, this method of calculation was used as a tool for budgetary battles in the face of shifting foreign influences, hard economic decisions, and new ways of thinking about the Soviet threat.

“One Percent Shall Be a Suitable Amount”

The Japanese decision to limit defense expenditures to 1 percent was not made in a vacuum. The origins of the decision can be traced to 1958, when the government was still profoundly affected by an introspective attitude towards its wartime activities and taboos associated with national security and military discussions. These pressures also led to a policy of *senshu boei* or “defense-only defense,” a policy closely related to the 1 percent limitation.¹ In 1967, Prime Minister Eisaku Sato announced the Three Principles of Japanese Arms Exports,² originally as an attempt to satiate the anti-communist (and anti-Soviet) strategy of the United States and simultaneously assert Japan's commitment to international peace. As discussed below, the Three Principles also unwittingly contributed to an environment in which later prime ministers could further restrict defense activities. Against the backdrop of important developments affecting Japan in the 1970s, including the Strategic Arms Limitations Treaty talks with the Soviet Union and the “Nixon Shock” of 1971, a small cohort of Japanese officials familiar with defense matters began to rethink the country's defense budget. Given these developments and their effect on Japan's continually rising—and politically controversial—defense budgets of the 1960s, officials contemplated the scale of military force necessary to deter regional threats to Japan. As a result of these deliberations, limiting defense spending was considered a realistic option for the first time.

In October 1972, discussions between Prime Minister Kakuei Tanaka and his Defense Agency Director-General, Shigeyoshi Masuhara, framed the issue in terms of “peacetime military strength limits” as a direct response to the increasing defense budgets

¹ Sanada, Naotaka. “Sengo Bōeiseisaku to Bōeihi: Teiryōteki Hadome wo Chūshin ni.” *21st Century Design Research*, no. 9 (2010).

² These principles prohibit arms exports to (1) communist bloc countries, (2) countries subject to arms export embargos via UN Security Council resolutions, and (3) countries involved in or likely to be involved in international conflicts.

of the 1960s.³ On January 18, 1973, the Defense Agency Deputy Director-General, Hiroshi Shimada, commented about the budget not in terms of “limits” but “defense objectives.” Limits were not formally discussed until Prime Minister Tanaka, while weathering a storm of opposition party criticism, remarked during a session of the Diet on February 1 of the same year: “Beyond the limitations imposed by the constitution and existing policy, we expect to establish an appropriate limit to peacetime military spending, something within range of 1 percent of the GDP.” The Defense Agency and Self-Defense Forces, forced to accept this position as official guidance, had no choice but to watch the opposition party latch onto the fixed spending idea as it issued a statement of support for the 1 percent limit within a month of Tanaka’s comments. The notion of “peacetime military strength limits” began to seem less a suggestion and more an unavoidable policy.⁴

With new elections came a new administration, and under Prime Minister Takeo Miki, a noted “dove,” the 1 percent policy coalesced into its final iteration. Facing the “Nixon Shock,” the 1970s oil crisis, and the beginnings of détente with the Soviet Union, Japan’s government was under immense pressure to cut costs in any way it could, including in defense. Michita Sakata, Miki’s Defense Agency Director-General, convened several “Thinking about Defense” meetings in the early 1970s and actively questioned the wisdom of a 1 percent limit. However, the Japanese public generally supported the 1 percent cap on defense spending, and the concept of “peacetime military strength,” which if adopted, would leave the door open for potentially unrestrained military downsizing, an idea which was gaining currency.⁵

By 1976, political pressures, Miki’s “dovish” proclivities, and foreign policy concerns made the policy all but reality. Miki, after consultations with Party Policy Research Committee Chairman Yorimitsu Matsuno during the end of August and early September, was close to making the 1 percent limit official. Sakata still pushed for the adoption of his policy of *kibanteki boeiryoku* (standard defense force) as a necessary response to regional security realities. However, sensing he was losing the battle against a 1 percent defense spending limit, he shifted his strategy to making the proposed limit a standard—keeping budgets as close to the 1 percent mark as possible—rather than a ceiling.⁶

The debate ended during a minister-level defense meeting on October 29, 1976. For the final time, Sakata argued with Finance Minister Tadamichi Ohira over whether

³ Japanese defense spending increases in the 1960s were actually moderate relative to its heavy-lifting allies, such as the United States and NATO members. Japanese attitudes surrounding defense spending in this era came from a distinctly East-Asian regional conventional force deterrence perspective as opposed to the global nuclear war deterrence strategies favored by their Western allies.

⁴ Sanada, Naotaka. “Sengo Bōeiseisaku to Bōeihi: Teiryōteki Hadome wo Chūshin ni.” *21st Century Design Research*, no. 9 (2010).

⁵ *Ibid.*, 5.

⁶ *Ibid.*, 8.

the 1 percent limit should be a “standard” or a “less than” restriction, a seemingly minor word choice, but one that could lead to a major difference in the Defense Agency’s annual budget. Miki ended the debate by announcing his final decision: “At this opportunity we have for establishing our defense end-strength, for the meantime we make it our goal that 1 percent of the GDP shall be a suitable amount not to allow defense expenditures to exceed each fiscal year.” Sakata had succeeded in adding the words, “for the meantime,” and convinced the PM to refer to the 1 percent limit as a “goal” rather than a hard limit. In reality, it made no difference.⁷

The limit would remain an official policy of the Liberal Democratic Party until Prime Minister Yasuhiro Nakasone ignored it by passing a military budget amounting to 1.004% of GDP in 1987, along with a statement re-affirming Japan’s peaceful defensive posture and an understanding that the budget wouldn’t go much higher for the foreseeable future.⁸ In fact, until very recently, the defense budget exceeded 1% of GDP in only two other instances—fiscal year 1988 at 1.013% and fiscal year 1989 at 1.006%—though even in these cases, some analysts calculate that the percentages were actually less. Thereafter, military spending remained under 1 percent according to most sources⁹ until December of 2015, when a record defense budget of 5.05 trillion yen was passed for fiscal year 2016, pushing the proposed military budget to between 1 and 2.5 percent of GDP, pending the final actual GDP output of fiscal year 2016.

Small Limit, Large Consequences

The 1 percent concept had other impacts on Japan’s security policies, including easing the promulgation of the Three Principles of arms exports in February 1976 that restricted arms exports to areas not included in the 1967 Three Principles “in conformity with Japan’s position as a peace-loving nation.”¹⁰ The result was that Japan could not export arms, regardless of the destination; and in October 1976, the 1 percent limit policy was also adopted. Both policies, when coupled with Japan’s constitutional interpretation that the country could not conduct any military activity that appeared unrelated to its own defense, had sweeping consequences for Japan’s security policy, defense industry, arms export acumen, regional influence, and post-Cold War capacity building capabilities.

⁷ Ibid., 8.

⁸ Haberman, Clyde. “Japan Formally Drops Military Spending Cap.” *New York Times*, January 25, 1987.

⁹ Sources vary as to what percentage of GDP military spending comprises, as Japan includes items such as expenditures related to Okinawa in some sources, while excluding common items found in the NATO definition of defense budget, such as reservist pay.

¹⁰ “Japan’s Policies on the Control of Arms Exports.” Ministry of Foreign Affairs of Japan. Accessed September 09, 2016. <http://www.mofa.go.jp/policy/un/disarmament/policy/>.

For the forty years from 1976 to 2016, Japan continually missed chances to build greater regional security influence, defense capability, and defense partnerships with its neighbors. The limit policy, combined with arms export controls, contributed greatly to a chain of events culminating in a Japan unable to completely provide for its own deterrence and incapable of effectively influencing regional neighbors via defense exchange and defense-related activities. Even though Japan possessed the largest economy in Asia by orders of magnitude during most of this period, it failed to spend money on deterrence, capacity building, and defense equipment exchanges during the last days of the Cold War and early post-Cold War, all activities that could have influenced Japan's South Asian and Southeast Asian neighbors.¹¹ It is difficult to imagine how different the strategic picture would look in Asia if Japan today possessed a better-funded defense apparatus, an expeditionary capability, a robust defense-export relationship with its neighbors, and closer military-to-military relations with other Asian countries. The early twenty-first century and the rise of China as a regional threat signaled the end of the military capacity "head-start" Japan enjoyed in East Asia throughout the Cold War.

The 1 percent limitation also gave opponents of an increased Japanese regional security role a ready platform to hamper changes and improvements to that role. Critics could fall back on the 1 percent limitation policy, should the government seek to increase defense spending or enhance Japan's security role in any meaningful way. Simultaneously, the limitation freed those critics from any requirement to suggest an alternative vision for Japan's security role. There was no reason to develop a different defense vision for Japan in the region when the government could not achieve the associated defense objectives because of its own budget restrictions. This kind of thinking has been a boon to critics of the Japanese government—and to Japan's regional rivals. Because the limit stymied creative defense thinking, Japan has long been considered by many to be an inconsequential defense actor in the region, unable to change its defense mindset—at least until the recent passing of new security legislation in the fall of 2015.¹² Not only did the limit policy hold back Japan's regional strategic role for nearly half a century, but it also gave domestic opposition the best tool it could have to cudgel any progressive defense discussions.

A more recent and concrete casualty, at least in part, of the 1 percent defense spending limitation, was Japan's failure to secure a military sales contract providing submarines to Australia despite being the early favorite.¹³ The 1 percent limitation has constrained Japanese defense acquisition and procurement experience. Because the limit was in place for so long, Japan has had neither the resources nor the incentive to diversify

¹¹ As recently as 2005 Japan's GDP was twice the size of China's.

¹² Yoshida, Reiji, and Mizuho Aoki. "Diet Enacts Security Laws, Marking Japan's Departure from Pacifism." *Japan Times*. September 19, 2015.

¹³ Soble, Jonathan. "Japan Consortium Misses Out on \$38.5 Billion Australian Submarine Deal." *New York Times*, April 29, 2016.

its acquisition activities; nor has it had the budgetary resources to fund its long-awaited and much-needed Acquisitions, Technology, and Logistics Agency (ATLA), a centralized acquisitions hub similar to that found in countries possessing major defense industries, until it was pushed into existence by Prime Minister Shinzo Abe's administration in the autumn of 2015. After forty years of arms export restrictions and extremely limited competition among Japanese firms in the defense industry, and without an ATLA, Japan has been left with an under-developed government logistics arm, rather than one capable of developing a cohesive national acquisition strategy and interface with domestic defense firms. This put Japan at a great disadvantage when competing against other countries for the submarine deal with Australia.

One particularly unsavory problem caused by the 1 percent restriction has been the effect on the individual services within the Japanese Self-Defense Forces, which activate, staff, fund, and pay for their own service-specific research, development, and weapons acquisition. While the U.S. military services control their own defense acquisitions to some extent, Japan's small defense budgets have meant the services usually have little choice other than either obtaining weapons from abroad (usually the United States) or spending money out of the services' operational budgets for their own research and development. Decisions to choose superior—and expensive—foreign defense products year after year have dulled both the Self-Defense Forces' interchanges with domestic defense industries and these industries' production skills. Throughout the life of the 1 percent limit, Japan was unable to practice the art of defense acquisition. This lost time has meant lost opportunities for Japan to have worked towards becoming a major defense equipment supplier powered by the world's third-largest economy and working near the world's hungriest defense market—South and Southeast Asia.

Positive Changes

The good news is Japan has time to change its policies and attitudes on defense spending and play a much greater defense role in the Asia-Pacific region. Further, Japan is rapidly rectifying its defense procurement gap, especially as ATLA gains more experience and evolves its role in Japanese defense procurement. Additionally, Japan's first-rate diplomatic efforts have made excellent progress in defense cooperation with neighboring Asian countries, especially ASEAN members; and many states in the region look to Japan as a reliable defense procurement option and a partner worthy of closer regional military cooperation. Relaxation of the 1970s-era defense export restrictions has also created new opportunities for an enhanced regional defense strategy, as well as for the development of Japan's defense industry. Finally, the fact that Japan is increasing its military spending efforts now means Japan can more closely control and develop a more mature regional defense mindset—one based on close cooperation with a United States no longer burdened

by Cold War political concerns. The U.S.-Japan strategy of deterrence that worked so well during the Cold War laid the groundwork for a military partnership ready for defense strategies based on equipment compatibility and flexibility, rather than simply focusing on force-on-force Soviet deterrence.

In the halls of the Ministry of Defense, personnel repeatedly say their budget resembles a wrung-out towel, conjuring up an image of a ministry doing its best to squeeze every drop of precious funding from an insufficient cloth. Without additional liquid, the towel will dry up, become brittle, and potentially break. Japan has proven itself to be a focused and principled nation dedicated to regional stability, albeit self-restrained by its own budget for far too long; Asia-Pacific peace and prosperity stands to benefit greatly from more focused Japanese security engagement.

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