
JAPAN'S HOST NATION SUPPORT PROGRAM FOR THE U.S.-JAPAN SECURITY ALLIANCE

Past and Prospects

===== Tatsuro Yoda
=====

Abstract

Japan's Host Nation Support program represents one characteristic of the U.S.-Japan security relationship in that Japan contributes mainly financially. This article examines how recent events in the relationship might affect Japan's policy decision on the program. It also discusses the prospects for the next Special Measures Agreement and beyond.

Keywords: alliances, foreign relations, host nation support, United States, Japan

The Host Nation Support program (HNS) is Japan's significant contribution to the U.S.-Japan security alliance. According to an annual study by the U.S. Defense Department (DOD), the budget for HNS in 2002 was about \$4.4 billion.¹ Although this is only about 1.3% of the U.S. defense budget (\$345 billion in 2002),² HNS has become a key factor in planning the operation of the U.S. Forces in Japan (USFJ). In 2002 74.5% of the operating

Tatsuro Yoda is Senior Researcher at the Institute for Future Technology, Tokyo, Japan. He wishes to thank Charles Wolf, Jr., Greg Treverton, and Kevin Lewis at the RAND Corporation and an anonymous reviewer for their help in preparing this article. Email: <tatsuro_yoda@hotmail.com>.

1. U.S. DOD, *2004 Statistical Compendium on Allied Contribution to the Common Defense* (Washington, D.C.: DOD, 2005), p. B-21.

2. See Table 5.2 "Budget Authority by Agency: 1976-2011" (category "defense-military") in the U.S. Office of Management and Budget, *Budget of the United States Government Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006).

Asian Survey, Vol. 46, Issue 6, pp. 937-961, ISSN 0004-4687, electronic ISSN 1533-838X. © 2006 by The Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Rights and Permissions website, at <http://www.ucpressjournals.com/reprintInfo.asp>. DOI: AS.2006.46.6.937.

costs of the USFJ—which does not include the personnel costs of U.S. servicemen and women—was borne by Japan.³ The HNS has a real value in continuing the USFJ's operations and is recognized by the U.S. as a “key element of Japan's strategic contribution.”⁴

In May 2006, the U.S. and Japan agreed on a realignment plan of the U.S. forces and bases in Japan, resolving the cost-sharing issue to relocate a part of the Marines from Okinawa to the U.S. territory of Guam by 2014. According to the plan, *Roadmap for Realignment Implementation*, “[O]f the estimated \$10.27 billion cost of the facilities and infrastructure development costs for the III MEF [Marine Expeditionary Forces] relocation to Guam, Japan will provide \$6.09 billion (in U.S. fiscal year 2008 dollars), including \$2.8 billion in direct cash contributions. . . .”⁵

The bilateral Special Measures Agreement (SMA) covering April 2001 to March 2006 for the HNS expired in March 2006. The realignment and transformation of the USFJ made the negotiation process of a new SMA more complex than the previous SMAs. In January that year, both countries agreed to extend the SMA for another two years and Foreign Minister Taro Aso and Deputy Secretary of State Robert Zoellick signed a new SMA.⁶ The agreement covers only two years because the financial measures for relocation had not been decided at the time. Other than that, the content of the HNS stipulated in the agreement is exactly the same as in the previous accord. This new agreement will expire in March 2008, so another round of negotiation on cost-sharing will be necessary in 2007 and 2008.

These negotiations over the next SMA will be important for the future of the U.S.-Japan alliance. The program reflects an earlier aspect of the relationship, where Japan contributes mainly financially and in non-military areas and the U.S. contributes militarily. However, since 2001 Japan has sent military forces abroad to support the multinational military forces in Iraq and Afghanistan. Moreover, the USFJ is now functioning more for regional security than solely to defend Japan, following the U.S.-Japan Defense Guidelines of 1997. How do those changes affect the perception of the HNS in Japan and the decision choices of the Japanese government? In spite of the centrality of the HNS for any analysis of the alliance, the literature analyzing the program is scanty.

3. U.S. DOD, *2004 Statistical Compendium*, p. B-21.

4. Thomas Foley (U.S. ambassador to Japan), “Host Nation Support Vital to Asian Security,” *Asahi Evening News*, February 10, 2000; idem, “Omoiyari De Naku Doumei Senryaku” [Not sympathy budget but alliance strategy], *Asahi Shimbun*, February 10, 2000, p. 5.

5. United States-Japan Security Consultative Committee Document, *United States-Japan Roadmap for Realignment Implementation*, by Secretary of State Rice, Secretary of Defense Rumsfeld, Minister of Foreign Affairs Aso, and Minister of State for Defense Nukaga, May 1, 2006.

6. Embassy of the United States, press release, “U.S. and Japan Sign Alliance Support Agreement,” January 23, 2006, <<http://tokyo.usembassy.gov/e/tp-20060123-71.html>>, accessed May 21, 2006.

Most studies were written prior to 1990, when burden-sharing was a contentious policy issue between the U.S. and Japan.⁷ In this paper, I examine the HNS in the past (section 1), discuss key issues at present (section 2), analyze the issues (section 3), and assess prospects for the next SMA and beyond (section 4).

1. The Past

The Status of Forces Agreement (SOFA) of 1960 forms the basic principle of bilateral cost-sharing about the stationing of U.S. forces in Japan. SOFA is an administrative agreement under Article VI of the Security Treaty, which obliges Japan to grant the U.S. the right for “the use by its land, air, and naval forces of facilities and areas in Japan.” Article XXIV of the SOFA stipulates the division of costs necessary for maintaining U.S. bases in Japan. Japan provides “all facilities and areas and rights of way” “without cost to the United States and make[s] compensation where appropriate to the owners and suppliers thereof.” The U.S. side bears “without cost to Japan all expenditures incident to the maintenance of the United States armed forces in Japan except those to be borne by Japan as provided in paragraph 2.” Simply put, Japan provides bases without cost to the U.S., and Washington pays the cost for operation of military forces on the bases.

Japan’s HNS program⁸ started as an exception to this principle in 1978. The purpose of the HNS was to increase Japan’s burden-sharing within the U.S.-Japan alliance by paying the part of USFJ operational expenses that the U.S. had to pay in yen, such as the salaries of Japanese working at U.S. bases and the cost of facilities construction. In 1978 Defense Cabinet Secretary Shin Kanemaru called this allocation *omoiyari yosan* (sympathy budget) and said it should be part of Japan’s defense budget to support the alliance. Kanemaru used the non-legal term *omoiyari* to refer to sympathy for the U.S. and its soldiers in

7. U.S. literature includes U.S. General Accounting Office (GAO), *The United States and Japan Should Seek a More Equitable Defense Cost-Sharing Arrangement*, ID-77-8 (Washington, D.C.: GAO, June 15, 1977); idem, *DOD Pay Practices for Japanese Nationals Should Be Changed*, FPCD-78-47 (Washington, D.C.: GAO, May 31, 1978); and idem, *U.S.-Japan Burden Sharing: Japan Has Increased Its Contributions but Could Do More*, report to the chairman, Committee on Armed Services, House of Representatives, NSIAD-89-188 (Washington, D.C.: GAO, August 1989). Japanese literature includes Nonaka Shigeki, “Zainichi Beigun No Shisetsuhi Roumuhi Buntan Mondai” [On sharing of facilities and labor costs for the USFJ], *Rippou To Chosa* [Legislation and research], Sangiin Jonin Iinkai Chosashitsu [Research Division, House of Councillors of Japan], June 1979, pp. 38–43; Yajima Sadanori, “Zainichi Beigun Roumuhi Tokubetsu Kyotei” [Special measures for labor expenses of the USFJ], *ibid.*, April 1987, pp. 50–55; and idem, “Zainiti Beigun Tyuryu Keihi Tokubetsu Kyotei” [Special measures for stationing expenses of the USFJ], *ibid.*, April 1991, pp. 51–57.

8. In this study, the HNS refers to peace-time support for stationing forces including financial support for salaries for local labors (covered by SMA) and facilities (covered by the Facilities Improvement Program [FIP]). It does not include war-time support for stationing forces such as logistics support for U.S. forces during a crisis.

TABLE 1 *Special Measures Agreement for the HNS Program*

<i>Fiscal Year</i>	<i>SMA</i>	<i>New Support Item Included</i>
(1978)	N/A	Labor cost (welfare expenses)
1987–91	1st SMA	Labor cost (50% of allowances)
1988–91	1st SMA revised	Labor cost (100% of allowances)
1991–95	2nd SMA	Labor cost (100% of base pay), plus utilities (electricity, etc.)
1996–2000	3rd SMA	Relocation cost of training sites
2001–05	4th SMA	(Minus utilities for houses outside U.S. bases)
2006–07	5th SMA	(Same as the 4th SMA, but with two years)

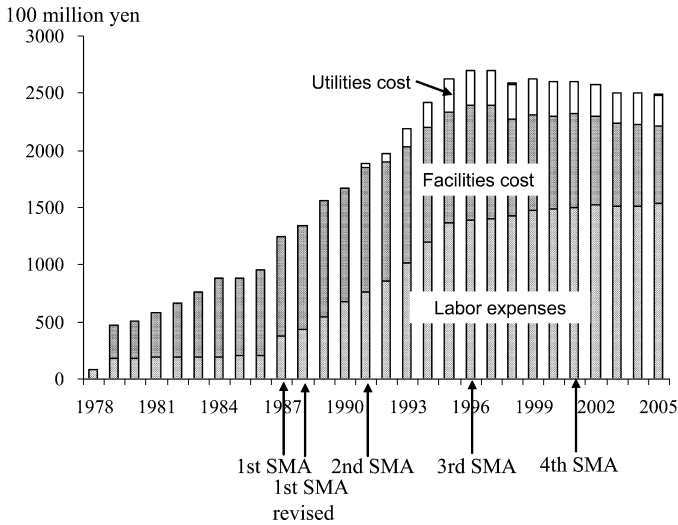
SOURCE: By author.

Japan tasked with protecting the Japanese people from military aggression: there is no legal obligation for Tokyo to pay the salaries of Japanese workers under the SOFA.⁹ Meeting in November 1978, Kanemaru and U.S. Secretary of Defense Harold Brown agreed that Japan would pay 7 billion yen (about \$33.3 million) for differential allowance, language allowance, and the part of retirement pay which those two allowances caused to increase.¹⁰

The first SMA was concluded in 1987 because it had become difficult for the Japanese government to increase the size of the HNS further using the non-legal explanation of Kanemaru. The Ministry of Foreign Affairs (MOFA) noted that the spending covered by the SMA was “limited in scope (part of labor costs), provisional in period (five years), and exceptional to the SOFA.” This means the decision on spending for the HNS depends on concrete situations, unlike the provision of bases for U.S. forces. SMAs have been concluded five times (the first was revised) including the one in 2006, as Table 1 shows. The size of the HNS was increased by adding new support categories such as utility expenses (electricity, gas, and water) for the USFJ on a step-by-step basis. Japan’s share in local labor costs increased and reached 100% in the 1995 SMA. Each new SMA reflected different contexts at the time (rapid appreciation of the yen, growing U.S. trade deficit against Japan, and U.S. criticism of Japan’s

9. Shin Kanemaru, *Waga Taikenteki Bouei Ron: Omoiyari No Nichibei Anpo Shin Jidai* [My opinion on defense of Japan based on my own experiences: Japan-U.S. security relationship in a new era with sympathy in mind] (Tokyo: E-ru shuppansha, July 1979), p. 26.

10. In the same month in 1978, the U.S.-Japan Security Consultative Committee concluded the Guidelines for Defense Cooperation. The HNS was to stabilize the stationing of the USFJ, when the yen was rapidly appreciating to the dollar during the late 1970s; the Guidelines decided on the basic principles for U.S.-Japan joint military operations when such principles and the study on joint operations were lacking in the alliance relationship. I could argue that both decisions reflected the necessity for Japan of strengthening and not weakening the U.S.-Japan alliance relationship in that period.

FIGURE 1 *HNS for U.S. Forces in Japan, 1978–2005 (2000 calendar year price)*

SOURCE: Data on GDE (Gross Domestic Expenditure) (GDP) deflators are from the Economic and Social Research Institute, Cabinet Office, <<http://www.esri.cao.go.jp/sna/qe061/def-fy0611.csv>>, accessed November 25, 2006.

free-riding in the late 1980s; the Gulf War in the early 1990s, etc.). Japan's cost-sharing for facilities also increased from the late 1970s to the late 1990s under the FIP, which is based on the SOFA, not on the SMAs.

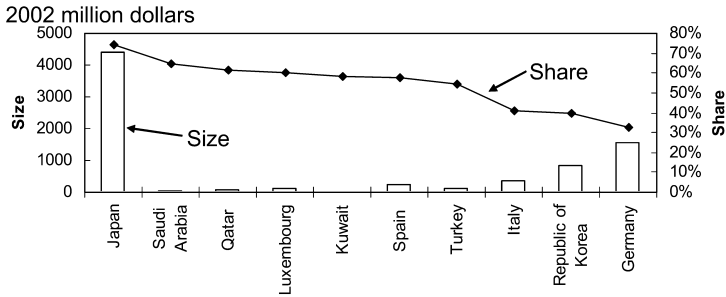
Under these circumstances, the HNS made it possible for the U.S. to decrease the cost of maintaining bases in Japan, especially when the yen appreciated sharply against the dollar in the late 1970s.¹¹ Since then the budget for the HNS has increased from 6.2 billion yen (\$29.5 million) in 1978 to 244 billion yen (\$2.26 billion) in 2004 (prices are not adjusted to inflation; see Figure 1). Adding indirect expenses such as land fees and compensation to the local community to the direct expenses and expressing them in dollar terms, the size of the HNS increased from \$275 million in 1976¹² to about \$4.4 billion in 2002.¹³

11. The yen-dollar exchange rate (average annual rate, yen per dollar) was 296 in 1976 and 219 in 1979 (Bank of Japan, Foreign Exchange Rates, <http://www.boj.or.jp/en/type/stat/dlong/fin_stat/rate/cdab0780.csv>, accessed November 25, 2006).

12. Estimate of land fees, by the U.S. GAO, *The United States and Japan Should Seek a More Equitable Defense Cost-Sharing Arrangement*, p. 5.

13. U.S. DOD, *2004 Statistical Compendium on Allied Contribution to the Common Defense*, p. B-21.

FIGURE 2 *Size and Share of U.S. Overseas Stationing Costs Paid by Allies (U.S. Allies with High Cost-Sharing Rate of U.S. Stationing Forces, 2002)*



SOURCE: Based on data in U.S. DOD, *2004 Statistical Compendium*.

NOTE: Includes both direct and indirect costs.

According to the U.S. Defense Department's *2004 Statistical Compendium to Report on Allied Contribution to the Common Defense*, Japan's HNS (\$4.41 billion) was the largest among all U.S. allies and much larger than Germany's (\$1.56 billion) or South Korea's (\$842 million), the second and third largest, respectively (see Figure 2).¹⁴ Japan's share of U.S. stationing costs (74.5% in 2002) was also high compared to that of other U.S. allies, for example, Germany (32.6%) or South Korea (40%) (see Figure 2).

The U.S. government evaluates the HNS very positively. The DOD publishes a yearly document on the allies' defense contribution and reports this to Congress. The 2003 report evaluates the contribution as "Japan's most significant responsibility sharing," and the level of the HNS as "most generous of any U.S. ally."¹⁵ The Pentagon reports on Asian security strategy in 1995 and 1998 had similar positive evaluations.¹⁶

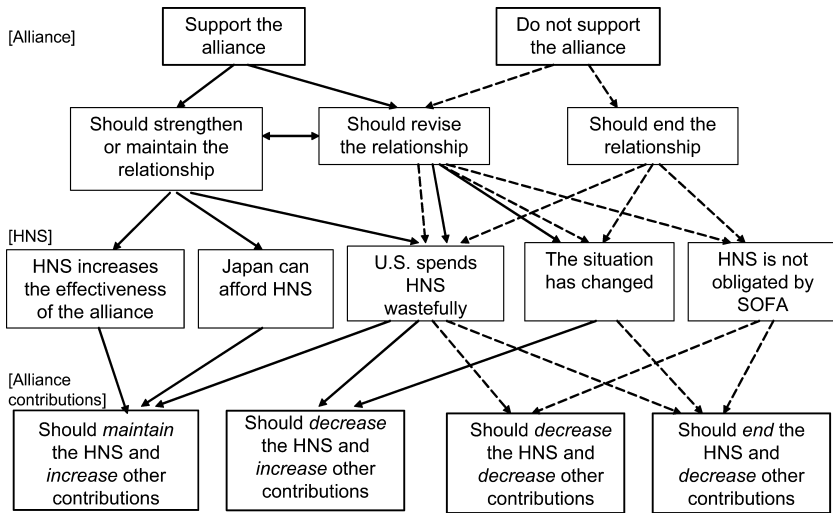
2. Issues

Views and analyses on the HNS reviewed here include not only long analytic studies but also short newspaper articles, brief policy memoranda, and brief

14. Ibid., pp. B-7 and B-22.

15. U.S. DOD, *Report on Allied Contribution to the Common Defense 2003* (Washington, D.C.: U.S. DOD, 2003), p. II-20 and II-21. To date, only the DOD *Statistical Compendium 2004* version is available.

16. U.S. DOD, *United States Security Strategy for the East Asia-Pacific Region* (Washington, D.C.: U.S. DOD, 1995), p. 25; and U.S. DOD, *The United States Security Strategy for the East Asia-Pacific Region* (Washington, D.C.: U.S. DOD, November 1998).

FIGURE 3 *Views on the HNS Program*

SOURCE: By author.

essays on policy topics. Figure 3 summarizes the arguments on the HNS, as explained below. Dashed lines in the figure show the link from non-supporters of the alliance; unbroken lines show links with supporters. It is notable that both supporters and non-supporters point out that the USFJ may be using a part of the HNS wastefully and that no one has argued for increasing the HNS. In other words, the change in the USFJ function from being Japan centered to regional has not swayed Japanese perceptions enough to justify a higher level of spending for HNS. In the following discussion, views and analysis are classified into those arguing for maintaining the HNS and those arguing for decreasing or stopping the program.

Positive Views on the HNS

Roughly speaking, there are two types of positive or supportive views: (a) Japan has to make a large financial contribution because it is limited in how much it can contribute to actual military forces; and (b) the size of the HNS is not so large relative to its capacity.

(a) *Japan has to make a large financial contribution.* Hisahiko Okazaki, a former Japanese diplomat, wrote a newspaper opinion article about the HNS during negotiations on the SMA in 2000. He emphasized the value of the HNS as

branding for the Japanese contribution in the context of gaining U.S. congressional support for the alliance. Hisahiko Okazaki reasoned that money is the only contribution Japan can make for that purpose, given Japanese government restrictions on cooperation with the U.S. through the use of force.¹⁷

(b) *The size of the HNS is not large relative to Japan's economic size.* Michael Green touched on the HNS negotiations in his review of U.S.-Japan relations in 2000.¹⁸ Green defended the HNS, arguing that it comprises less than 0.25% of the Japanese government's budget and the USFJ uses the "majority of spending under HNS" to pay the salaries of *Japanese* workers at the U.S. bases.¹⁹

Charles Wolf and others briefly discussed the HNS in their report on Asian economic trends and their security implications in 2000.²⁰ The authors pointed out that burden-sharing by U.S. allies such as Japan is important because America shoulders the larger burden both for security/economic reasons and for political ones, i.e., the joint nature of the alliance makes it advisable. Another study compared HNS with GDP, military spending, and military capital stock, concluding that the size of the HNS is modest vis-à-vis Japan's overall economic capacity.²¹

Negative Views on the HNS

Roughly speaking, there are three types of negative or unsupportive views on the HNS: (a) the U.S.-Japan alliance should adapt to a new international situation and domestic conditions, and so should the HNS; (b) the USFJ spends the money provided wastefully; and (c) Japan does not have any obligation under the security treaty and the SOFA to support the USFJ financially. Among people

17. Hisahiko Okazaki, "Penny-Wise, Pound-Foolish," *Sankei Shimbun* [Sankei Newspaper], February 15, 2000.

18. Michael Jonathan Green, "The Security Treaty at 40-Strong but with Complaints about Back Pain," *Comparative Connections* (an e-journal on East Asian Bilateral Relations), Pacific Forum CSIS, January-March 2000. In FY 2004, 143 billion yen was paid by Japanese government for labor costs, which accounts for 59% of Japan's budget for HNS; 244.1 billion yen, including the labor costs plus 25.8 billion yen for utilities cost; 1.4 billion yen for training relocation (those are covered by the SMA, except for welfare-related labor costs); and 74.9 billion yen for the FIP. See MOFA, <http://www.mofa.go.jp/mofaj/gaiko/treaty/treaty164_1.html>, accessed May 21, 2006.

19. Thomas Foley expressed the same kind of view in 2000. See footnote 4.

20. Charles Wolf, Jr., Anil Bamezai, K. C. Yeh, and Benjamin Zycher, *Asian Economic Trends and Their Security Implications*, RAND, MR-1143-OSD/A (Santa Monica, Calif.: RAND, 2000), pp. 76-77.

21. Charles Wolf, Jr., and Michele Zanini, "Benefits and Burdens: The Politically Dominated Economics of U.S. Alliances with Japan and Korea," Occasional Papers, Asia/Pacific Research Center, Stanford University, April 1998.

holding negative views, some ask for revision of the HNS, including making it smaller, and others ask for its end.²²

(a) *Change of environment should lead to revisions.* Masahiro Hosokawa, who was Japan's prime minister between August 1993 and April 1994, insisted in 1998 on a drastic reduction of the U.S. force presence in Japan and reduction of the HNS because of a changed international situation around Japan and the tight financial situation of the Japanese government. On the HNS, he stated, "This burden to Japanese taxpayers hangs like a darkening cloud over the future of the alliance. Japan should honor the 1995 agreement but put America on notice that it will not renew the agreement in 2000."²³

Shinichi Kitaoka, a Japanese political scientist, argues that Tokyo should change the size of the HNS in order to become a "normal" country. He states that "by increasing the sharing of roles in other areas for contributions, it would be possible to proceed to the direction of a more mature U.S.-Japan alliance relationship."²⁴

(b) *U.S. Forces in Japan waste the HNS.* Tetsuo Maeda, a journalist specializing on the Japanese military, cites many examples in the HNS of "wasteful" spending and spending for entertainment. He insists that the Japanese government should end the HNS.²⁵ Nobumasa Ohta, a former senior official of the Japan Defense Agency and the Defense Facilities Administration Agency, recommended in his 2000 book that Tokyo end the HNS in 10 years. His view is that because expenses are covered by the HNS, there is no incentive for the USFJ to reduce the size of the local labor force at its bases, nor for military personnel and their families to save electricity or other utilities. In Ohta's reading, a negative image of the USFJ among Japanese would harm their trust in the U.S. alliance.²⁶ An opinion article in the *Mainichi Shimbun* in spring 2000 also criticized wasteful

22. There are other types of negative views. For example, one foreign policy analyst argues that the size of the HNS is exaggerated because it includes indirect costs such as land value, and the HNS works to perpetuate Japan's dependence on the U.S. for protecting its security. See Ted Galen Carpenter, "Paternalism and Dependence: The U.S.-Japanese Security Relationship," Cato Institute Policy Analysis (Washington D.C.: Cato Institute, November 1995).

23. Morihiro Hosokawa, "Are U.S. Troops in Japan Needed? Redefining the Alliance," *Foreign Affairs*, July/August 1998, pp. 2–5.

24. Shinichi Kitaoka, "Omoiyari Yosan no Sakugen" [Reduction of the sympathy budget], *Chuo Koron* [Central Review], March 2000, pp. 42–45. Newspaper articles with this line of argument include Chiyako Sato, "Beigun Churyuu Keihi no Minaoshi" [Reconsidering stationing costs of the USFJ], *Mainichi Shimbun*, May 2, 2000, p. 4; and *Japan Times*, "Scrutinize the 'Sympathy Budget'," March 23, 2000.

25. Tetsuo Maeda, *Zainichi Beigun Kichi no Shūshi Kessan* [Earnings and expenditures of the USFJ] (Tokyo: Chikuma Shinsho, July 29, 2000), p. 147.

26. Nobumasa Ohta, *Boeicho Saisei Sengen* [Declaration to rebirth the Defense Agency] (Tokyo: Nihon Hyoron sha, July 2001), pp. 78–79.

spending.²⁷ A piece in the *Asahi Shimbun* earlier that year reported on suspicions at the Ministry of Finance over wasteful spending at a time of tight budgets.²⁸

(c) *HNS is not an obligation under the alliance treaty and the SOFA.* In his book *Blowback*, published the same year, Chalmers Johnson also criticized the HNS, arguing that there is no legal obligation for Japan to share with the U.S. the stationing costs of the USFJ, either under the alliance treaty or under the SOFA.²⁹

3. Analysis

Major concerns on the HNS can be expressed thusly: Is it necessary or appropriate for Japan to provide the HNS at the current level given the reexamination of the composition of Japan's contributions, the accusations of waste, and the fact that HNS is not a legal obligation under SOFA?

This section analyzes three topics: the relationship between the HNS and Japan's military investment, wasteful spending by the USFJ, and political opinion on the HNS, which has often become a contentious political issue affecting government decisions on the first and second issues. The legal issue is not discussed further because it is unlikely to affect government decisions.

HNS and Military Investment

With a tight national budget, it is reasonable for officials in Tokyo to ask how to increase overall contributions to the U.S. alliance while simultaneously decreasing the financial aspect. Japan would like to maintain or strengthen the alliance relationship, as stated in the tentative report of October 2005 on the realignment plan for the USFJ.³⁰ The degree of HNS reduction would depend on balancing the possible resulting decrease in security against the ability to use the money for other purposes, perhaps including tax cuts. In other words, whether Japan will be better off with HNS cuts depends on how the government uses the leftover funds. One candidate for increased funding would be Japan's own defense capability. Would reduction of HNS lead to an increase in Japan's security?

Figure 4 shows the past relationship between the share of spending on HNS and military investment in Japan's defense budget. During the 1970s and 1980s, both were increasing; the government could boost both its financial support for

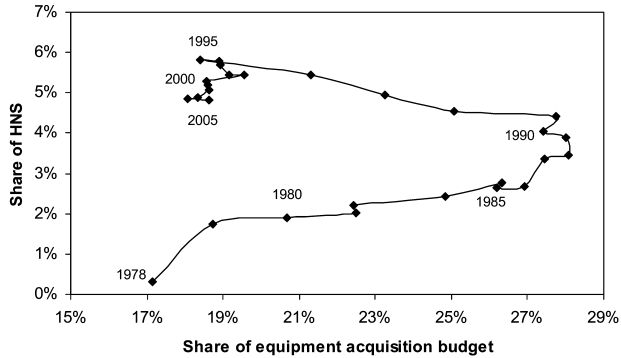
27. Chiyako Sato, "Beigun Churyuu Keihi no Minaoshi," p. 4.

28. *Asahi Shimbun*, "U.S.-Japan Security Treaty Marks 40th Anniversary (Part 1): Bureaucrats, Lawmakers Begin to Raise Questions about U.S.-centered Policy Direction and 'Sacred Domain'," January 10, 2000. From American Embassy, Tokyo, Political Section, Office of Translation Services, *Daily Summary of Japanese Press*, January 20, 2000.

29. Chalmers Johnson, *Blowback: The Cost and Consequences of American Empire* (New York: First Owl Books, 2000), p. 228.

30. "U.S.-Japan Alliance: Transformation and Realignment for the Future," by Secretary of State Rice and Secretary of Defense Rumsfeld, Minister of Foreign Affairs Machimura, and Minister of State for Defense Ohno, October 29, 2005.

FIGURE 4 *Share of Budget for Equipment Acquisition and HNS in the Defense Budget of Japan (1978–2005)*



SOURCE: Data are from Japan Defense Agency, *Defense of Japan*, various years (Tokyo: Japan Times).

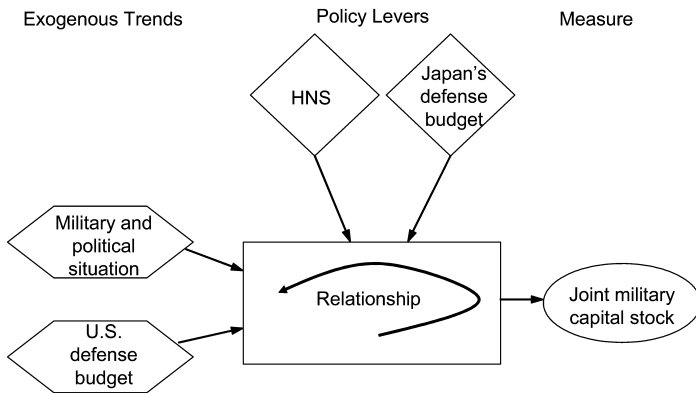
the U.S. forces and investment for its own defense capability. But in a tight budget situation in the 1990s and 2000s, spending on the HNS and military investment became a trade-off. This choice between the HNS as a means to strengthen the alliance relationship and military investment as a means to strengthen Japanese defenses is analyzed using the concept “military capital stock.”³¹ Military capital stock represents the sum of new military investment (procurement of weapons and military construction) and the previously accumulated depreciated military capital. It does not include intangibles such as expenses for salary, maintenance, or research and development (R&D).³² This concept is a *rough proxy* for the military power of a country.

Key factors that are relevant in this choice are shown in Figure 5.³³ The key assumption of the analysis is that reduction of the HNS makes it possible to increase the same amount of the budget for military investment, which increases

31. Military capital stock in yen is converted to dollars by purchasing power parity (PPP) of investment, per Wolf et al., *Asian Economic Trends and Their Security Implications*. The use of PPP exchange rate answers the question “how many dollars would be received if the same market-basket were sold (i.e., valued) at U.S. prices?” (p. 12).

32. On treatment of R&D expenses for measuring capital, see Organization for Economic Co-operation and Development (OECD), *Measuring Capital OECD Manual: Measurement of Capital Stocks, Consumption of Fixed Capital, and Capital Service* (Paris: OECD, 2001), p. 117.

33. The basic scheme and terms (exogenous trends, policy levers, relationship, and measures) for this policy analysis are from George S. Park and Robert J. Lempert, *The Class of 2014: Preserving Access to California Higher Education*, RAND Education, MR-971-EDU (Santa Monica, Calif.: RAND, 1998), p. 7.

FIGURE 5 *Key Factors Considered in the Analysis*

SOURCE: By author.

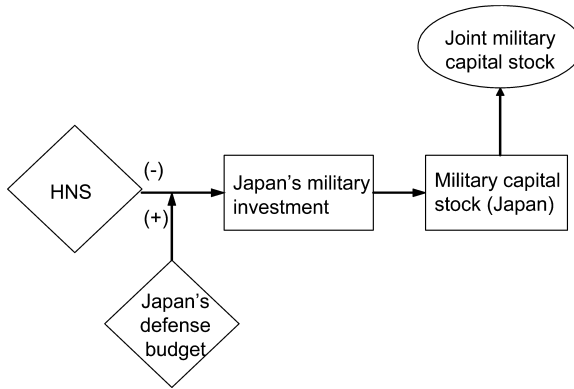
the military capital stock for Japan. The concept “joint military capital stock” in the figure is defined as the military capital stock of the U.S. and Japan that is potentially available for the U.S.-Japan alliance, specifically for the defense of Japan and maintenance of regional stability.³⁴ Military capital stock is calculated as the sum of military investment in the year plus 92% of military capital stock in the prior year. It is assumed that 21% of military spending is used for investment and 5% is used for the HNS as a baseline and the Japanese government uses the entire reduction for military investment. Three scenarios are used here: no reduction, 25% reduction, and 50% reduction of the HNS. The model is described in Figure 6. Figure 7 shows that the effect of the funds swap on the size of military capital stock would be small and would take time to identify.³⁵ Next, we examine the effect of reduction in HNS on the U.S. military capital stock available for the alliance.³⁶ There are theoretically two kinds of effects. First, if the Japanese government reduces the HNS and Washington

34. The data on the estimate of military capital stock in the base year (2005) and use of 8% as a depreciation rate of military capital stock were from Wolf et al., *Asian Economic Trends and Their Security Implications*.

35. The scale of the vertical axis shows that Japan’s military capital stock is more than 100 billion dollars. Assuming an investment of about 8 billion dollars a year (about 800 billion–1,000 billion yen a year depending on the dollar/yen exchange rate) and that the depreciation rate of the accumulated capital is 8%, the capital will approach 100 billion dollars, as the following formula shows: $\text{Capital [N]} = 0.92 \text{ Capital [N-1]} + 8$ / When Capital [N] approaches to a limit, $\text{Capital [N]} = \text{Capital [N-1]} / \text{Capital} = 8 / (1 - 0.92) = 100$.

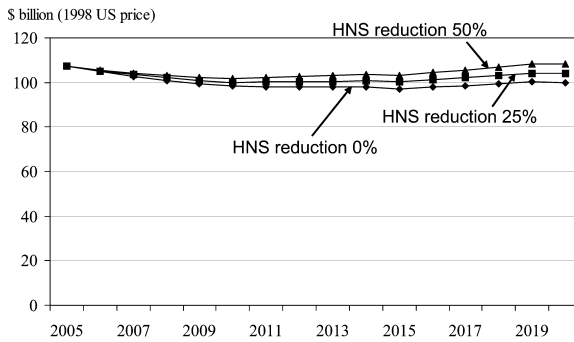
36. Japan’s military capital stock is 100% available for the alliance, because the alliance exists for the defense of Japan.

FIGURE 6 *HNS and Japan's Military Capital Stock*



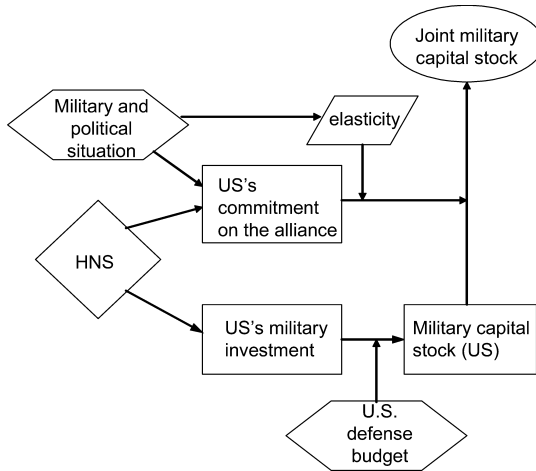
SOURCE: By author.

FIGURE 7 *Effect of the Reduction of the HNS on the Size of Military Capital Stock of Japan (2005: base year)*



SOURCE: By author.

NOTE: Reduction of 0%, 25%, and 50% of the HNS. It is assumed that all the reduction will be used for military investment.

FIGURE 8 *HNS and the U.S. Military Capital Stock*

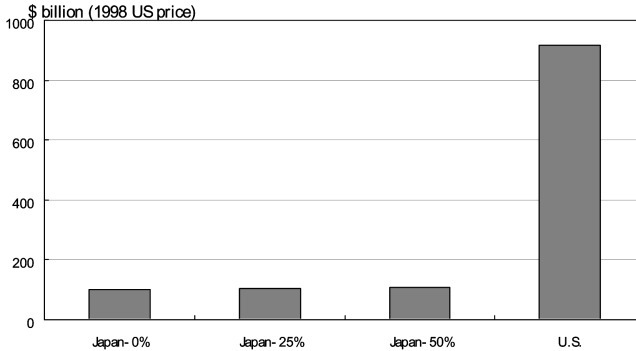
SOURCE: By author.

maintains its defense budget, the U.S. or its forces in Japan could decrease military investment, which affects the U.S. military capital stock. However, this type of effect would be minor or trivial in case of the overall bilateral alliance relationship relative to the U.S. defense budget.

Second, the HNS may affect the U.S. commitment to the U.S.-Japan alliance, or at least the part of U.S. military capital stock that would be mobilized for the alliance. Figure 8 describes this model. The HNS might affect both the U.S. military investment (first effect) and America's commitment to the alliance (second effect). The second effect would be larger than the first, considering the difference between the sizes of military capital stock of the U.S. and Japan. Figure 9 shows this point by comparing the size of the projected U.S. military capital stock in 2020, and the projected Japanese military capital stock with the three scenarios on the reduction of the HNS.

On the other hand, by allocating, say, half of Japan's fiscal year 2004 budget for HNS, 244.1 billion yen (\$2.26 billion) (see footnote 18), Japan's military could almost double the size of programs such as the procurement of Ballistic Missile Defense systems, military R&D, or aircraft procurement. The point is that boosting Japan's military capital stock by less than 10% by decreasing the size of HNS would not compensate for the possible damage to the alliance reliability, considering the size of the U.S. military capital stock, which is more than 10 times as large as that of Japan.

FIGURE 9 *Effect of Reduction of the HNS on the Size of Military Capital Stock of Japan: Comparison to the Projected U.S. Military Capital Stock in 2020*



SOURCE: By author.

NOTE: Reduction of 0%, 25%, and 50% of the HNS. It is assumed that all the reduction will be used for military investment. See Figure 7.

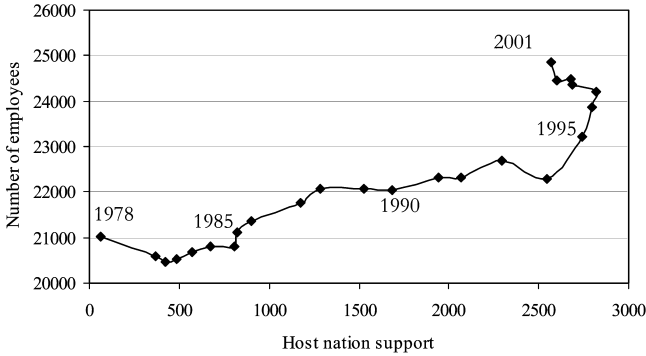
Wasteful Use of the HNS by U.S. Forces in Japan

One of the criticisms from the public in Japan is that the USFJ uses the HNS wastefully or lavishly. As a case study, the number of local Japanese employees working at U.S. bases is examined. Because the HNS covers their salaries, there might be no incentive for the USFJ to cut civilian labor costs by reducing the size of the civilian work force. Actually, that was the point of starting the HNS, because labor disputes erupted in the late 1970s when the USFJ was trying to cut the Japanese labor force. Figures 10–13 are used to examine whether this claim is legitimate. The following are observations drawn from the figures:

- The number of Japanese employees has been increasing (Figure 10) and is positively correlated with the size of the HNS. The coefficient of correlation is 0.95, statistically significant at the 1% confidence level. The number of local laborers and the size of the HNS should in fact be correlated since the budget for salaries is one of the major items in the HNS budget.³⁷
- The proportion of local employees to U.S. military personnel is positively correlated with the size of the HNS (Figure 11). The coefficient of correlation is 0.86 and

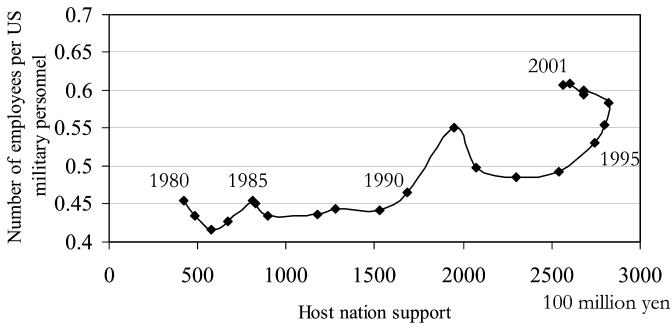
37. HNS basically consists of labor and facility costs. So the relationship among marginal changes of the HNS (HNS), number of labors (Labor), salary (Salary), and facility cost (Facility) is the following:

FIGURE 10 *HNS and the Number of Japanese Employees at U.S. Bases in Japan (1978–2001)*



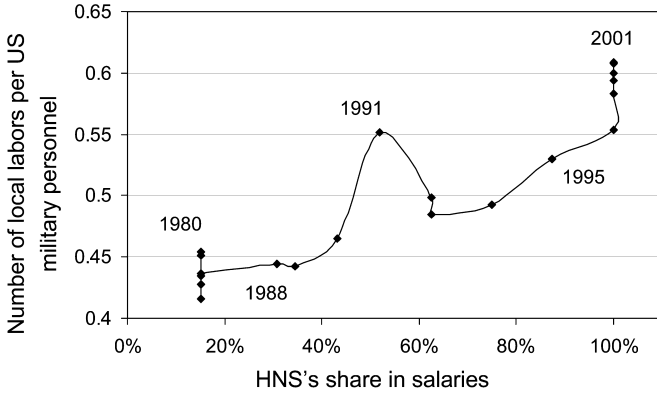
SOURCE: Data are from Asagumo Shimbun, *Defense Handbook 2002* (Tokyo: Asagumo Shimbun, 2002).

FIGURE 11 *HNS and the Number of Japanese Employees at U.S. Bases in Japan Per U.S. Military Personnel in Japan (1980–2001)*



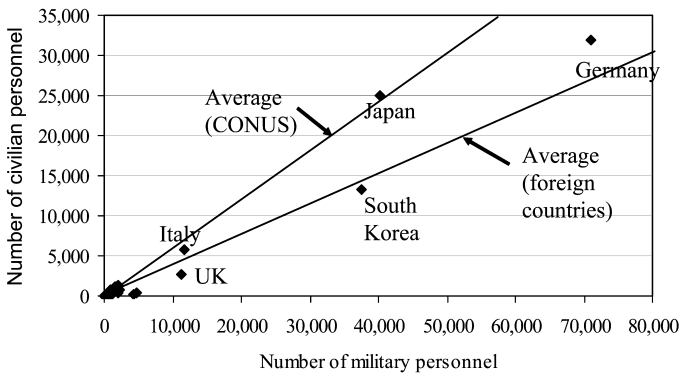
SOURCE: Data are from U.S. DOD, *Active Duty Military Personnel Strengths by Regional Area and by Country* (Washington, D.C.: U.S. DOD, various years, September 30 of each year); and Asagumo Shimbun, *Defense Handbook 2002*.

FIGURE 12 *HNS's Share in Salaries and Local Workers Per U.S. Military Personnel (1978–2001)*



SOURCE: Data are from Diet minutes in various years on HNS's share in salaries (the full-text database of the Minutes of the Diet, <<http://kokkai.ndl.go.jp/>>, accessed November 25, 2006); and Figure 11 sources.

FIGURE 13 *Number of U.S. Military and Civilian Personnel Overseas in 2001*



SOURCE: Data are from U.S. DOD, *Active Duty Military Personnel Strengths by Regional Area and by Country*, September 2001.

- is statistically significant at the 1% confidence level. Different from the number of local laborers, this civilian/military personnel ratio should be basically constant.³⁸
- The correlation between the share of the HNS in local workers' salaries and the number of workers per U.S. military servicemen is also examined, to exclude the items in the HNS not related to the hiring of Japanese employees (Figure 12). Again, they are correlated, with a coefficient of correlation of 0.90, which is statistically significant at the 1% confidence level.
 - The proportion of civilians to military personnel in the USFJ, approximately 0.6, is above the average for U.S. overseas bases and about the same as the average for bases in the Continental U.S. (CONUS) (see Figure 13).

Because there are no reasons other than the increase of the HNS to explain all these points, it is safe to conclude that the HNS contributed to the increase of the number of local workers relative to the number of U.S. military personnel. Of course, whether the increase is welcome or not from the standpoint of Japan is an issue that requires a political judgment from the Japanese government and people. As Figure 13 shows, the increase may simply reflect a convergence of the ratio between civilians and military personnel in Japan with that in the CONUS. This may indeed be a desirable effect of the HNS, given that the purpose of the program is to stabilize the stationing of U.S. forces, thereby making the alliance relationship more effective and reliable and Japan more secure.

HNS and "Politicization"

The necessity of signing a formal agreement on the HNS, the SMA, every five years "politicizes" Japanese support for the USFJ; this makes it difficult for a small community of U.S. and Japanese security specialists to monopolize the

$$HNS = Labor \times Salary + Facility$$

$$dHNS = dLabor \times Salary + Labor \times dSalary + dFacility$$

By dividing both sides of the equation above by dHNS, I get the following:

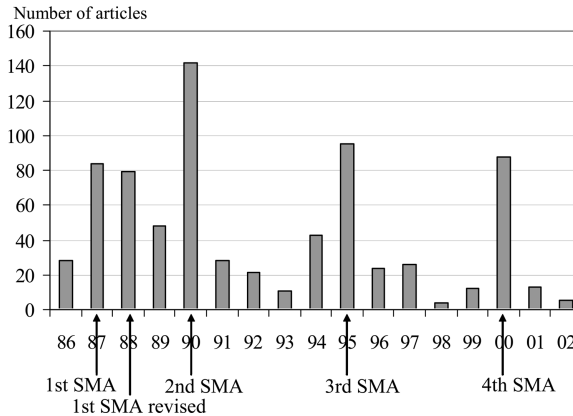
$$1 = \frac{dLabor}{dHNS} \times Salary + Labor \times \frac{dSalary}{dHNS} + \frac{dFacility}{dHNS}$$

$$\frac{dLabor}{dHNS} = \frac{1}{Salary} - \frac{Labor}{Salary} \frac{dSalary}{dHNS} - \frac{1}{Salary} \frac{dFacility}{dHNS}$$

So, the increase of the number of labors as a result of a unit increase of the HNS is simply a reciprocal of salary subtracted by the change in salary level (its effect on the current labor force) and the share of facility cost in the HNS at the margin. In other words, if salary does not increase as a result of an increase of HNS, the second term is zero, and if facility cost does not increase as a result of increase of the HNS, the third term is also zero. Only the first term, which is positive, remains. Please note that the size of the first term is different from "coefficient of correlation," which is the number from -1 to 1.

38. Because the ratio of civilian to military personnel is different among military services and the change in a civilian/military ratio may reflect the change in the composition of forces, I also examined the change in the ratio in each of the services. I found that the ratio has been increasing in all of the services.

FIGURE 14 *Number of Newspaper Articles on the HNS Program (from Yomiuri Shimbun, January 1986-June 2002)*



SOURCE: Data are obtained from *Yomiuri Shimbun* Database, <<https://db.yomiuri.co.jp/bunshokan/>>, accessed November 25, 2006.

process. Such politicization puts pressure on Japanese negotiators seeking smooth acceptance of their deal to be recognized by the public as being critical and tough on wasteful spending by the U.S. forces.³⁹

Politicization not only activates groups that are *less* worried about the costs of non-agreement; it may indeed activate groups that *are* worried about such costs, because of the local economic impact of the HNS. For example, there are 8,941 Japanese workers at U.S. bases in Okinawa Prefecture, where 75% of U.S. bases in Japan are concentrated.⁴⁰ According to the prefecture, base-related revenue for Okinawa in 2003 totaled 190.1 billion yen (\$1.64 billion). This accounted for 5.1% of the gross prefectural income of Okinawa,⁴¹ where unemployment in 2005 hit 7%, much higher than the average in Japan.

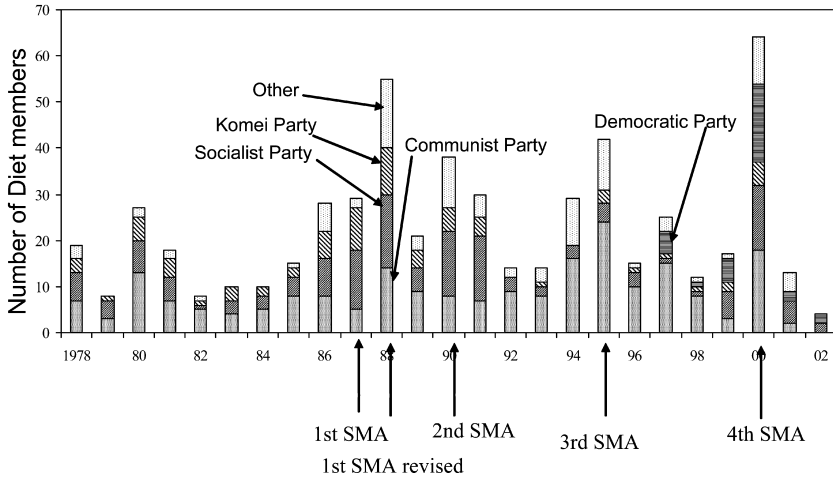
Which groups become louder and stronger because of politicization? As seen from the number of newspaper articles related to the HNS in Figure 14,

39. Robert D. Putnam explains that “[p]oliticization often activates groups who are less worried about the costs of non-agreement, thus reducing the effective win-set” (p. 445). “Win-set” in the sentence means the set of all possible agreements that can be ratified domestically. Putnam, “Diplomacy and Domestic Politics: The Politics of Two-Level Games,” *International Organization* 42:3 (Summer 1988), pp. 427–60.

40. There are 25,417 Japanese workers in total. See “Labor Management Organization for USFJ Employees,” <<http://www.lmo.go.jp/recruitment/pdf/annai.pdf>>, accessed May 21, 2006.

41. Okinawa Prefectural Government, *U.S. Military Issues in Okinawa* (Naha City: Okinawa Prefectural Government, 2004), p. 11.

FIGURE 15 *Number of Japanese Diet Members Whose Questions in the Diet Were on the HNS Program (1978–2002)*



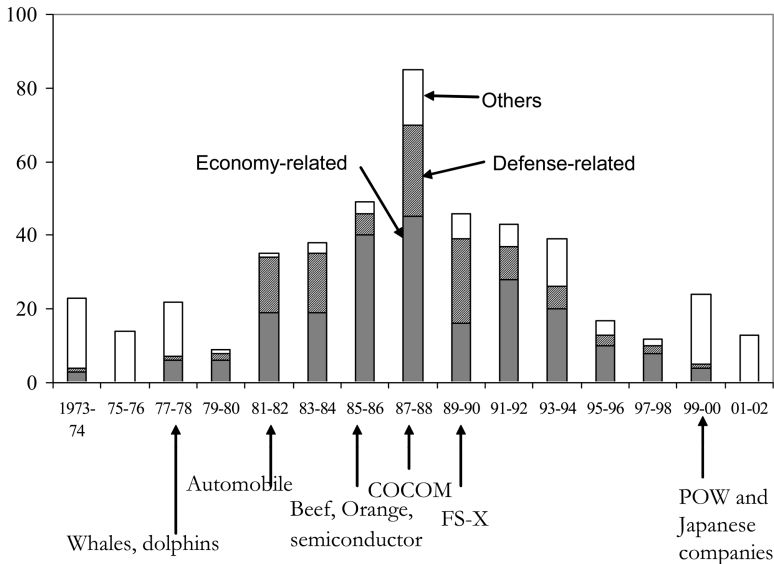
SOURCE: Data are obtained from the full-text database of the Minutes of the Diet. Diet members are counted every time he/she asks questions on the HNS in different Diet sessions.

media attention increases quickly during negotiations on the SMA and subsequent discussions in the Diet. During the years when the government and Diet do not discuss the SMA, media attention to the HNS subsides rapidly. As seen in Figure 15, interest among Diet members also grows during negotiations. Public interest in the HNS similarly soars every five years during negotiations. This includes people who are not particularly interested in the bilateral security relationship or who do not know much about the benefit side of the alliance. Although the purposes of the HNS when it was started in the late 1970s included protection of the U.S.-Japan security relationship, and job security for local workers,⁴² the voices of people who were not worried grew louder than those of people who depend economically on the HNS, especially when the government budget debt is increasing and Japan's economy is weak.

This issue is exceptional in security policy in that both public and Diet interests are important and the issue arises every five years. The bases issue is a problem where the public, especially local people living near the bases, is affected

42. Statement of Tamaki Kiyoshi, director general of the Defense Facilities Administration Agency at Kessan Inikai [Committee on Audit], Sangiin [House of Councillors], February 28, 1979 in *87 Kai Kokkai Sangiin Kessan Inikai Kaigiroku* [Records of proceedings] *Dai 2 Go Showa 54 Nen 2 Gatsu 28 Nichi* (Tokyo: Sangiin, 1979), p. 13.

FIGURE 16 *Number of Japan-related Resolutions, Bills, and Amendments Proposed in the U.S. Senate and the House, 1973–2002*



SOURCE: Data are from Thomas Legislation Database of the Library of Congress, Bill Summary and Status, <<http://thomas.loc.gov/home/multicongress/multicongress.html>>, accessed November 25, 2006.

NOTE: Arrows explain the main events in the years with high number of proposed resolutions. COCOM = Coordinating Committee for Multilateral Export Controls.

directly. But it differs from the HNS question in that politicization of issues takes place in an unexpected manner. In Japan, participants in policymaking on the U.S.-Japan alliance usually belong to a community of specialists, bureaucrats, and a small number of Diet members. On the other hand, because the HNS negotiations undergo public scrutiny, issues such as the use of HNS for construction of golf courses or recreation centers can become easily a target for criticism in the media and in the Diet.

There is no such cycle of these interests in the U.S. Very few articles were published in U.S. newspapers about the SMA negotiations in 2000 and 2005.⁴³ There is a declining trend in interest in and criticism of Japan, at least in the Congress. Figure 16 shows the number of Japan-related resolutions, bills, and amendments

43. For example, Calvin Sims, "U.S. Resists a Proposal by Japan to Cut Money for U.S. Bases," *New York Times*, February 16, 2000, Section A, p. 11.

proposed in Congress. Although very few were actually adopted, the figure shows a general trend. Criticisms have been made about Japanese firms' business practices, the country's economic policy, and its defense policy. Compared to the 1980s and early 1990s, the number decreased rapidly in the late 1990s and early 2000s.

4. Prospects

The realignment plan for the USFJ was agreed upon in May 2006. In addition to the cost of relocating the Marines from Okinawa to Guam, the plan would entail other costs, including construction of the Futenma Replacement Facility and consolidation of the remaining facilities and areas on Okinawa. A top U.S. DOD official noted in April that the total cost for Japan would be around \$26 billion, including \$6 billion for relocating the Marines.⁴⁴ If Tokyo were to shoulder 100% of the costs, Japan's relevant financial burden would average about \$3 billion per year between 2007 and 2014.

How does this affect the size of the HNS? According to the 2000 estimate by the DOD, direct costs (\$3.87 billion) include rent (\$802 million), labor (\$1.4 billion), utilities (\$275 million), facilities (\$820 million), and miscellaneous (\$566 million). Indirect costs of \$1.12 billion include rent (\$912 million) and taxes (\$214 million).⁴⁵ Implementation of the realignment plan would temporarily but significantly increase expenses related to facilities between 2007 and 2014, while it would permanently decrease rent, labor, and utilities as direct costs and rent and taxes as indirect costs. According to the USFJ, in January 2006 there were 36,860 U.S. military personnel and 36,580 dependents in Japan.⁴⁶ Since 8,000 military personnel and 9,000 dependents will be relocated to Guam, the costs for Japanese labor and utilities are expected to decrease by around 20%, an annual reduction of about \$280 million and \$55 million, respectively. However, the agreed document *Roadmap for Realignment Implementation* specifies only the cost related to the relocation of the Marines; the size of the increase or decrease in each HNS category is not clear at this time.

How would implementation of the plan and other recent events affect the HNS in the near future? A report by the U.S. GAO in 1989 on Japan's defense burden-sharing recommended that Washington ask Tokyo to pay for the costs of routine maintenance, contracted ship repairs, among others, to further reduce

44. U.S. DOD, news transcript, *DOD News Briefing*, Deputy Undersecretary of Defense for Asia and Pacific Affairs Richard Lawless, April 25, 2006, <<http://www.defenselink.mil/transcripts/2006/tr20060425-12886.html>>, accessed May 21, 2006.

45. U.S. DOD, *Report on Allied Contributions to the Common Defense 2002* (Washington, D.C.: U.S. DOD, June 2002), p. D-8.

46. USFJ website, "U.S. DOD Personnel in Japan" (approximate number per January 2006) <http://usfj.mil/fact_sheet/brochure.html>, accessed May 21, 2006.

yen-based stationing costs.⁴⁷ The Japanese government has not implemented any of those recommendations to date, and the SMAs for fiscal 2001–05 and 2006–07 concluded in January 2006 do not list those items. It is unlikely that the Japanese government will agree to include such yen-based costs or other quality of life initiatives in the next SMA, for several reasons discussed below. These include a lack of “triggering events”; the weakened position of U.S. negotiators and strengthened position of their Japanese counterparts; and the increase of Japanese contributions to the alliance in other areas, as well as the current fiscal condition of Japan and the temporary but significant increase of spending related to the force realignment plan. At the same time, it is unlikely that the Japanese government will change the framework of the SMA and decrease the size of the HNS substantially, because of the necessity for Japan to maintain and strengthen the alliance relationship.

First, there were always “triggering events” when the size of the HNS covered by the SMA increased conspicuously in the past.⁴⁸ At the start of the HNS in 1978, these events included the yen’s rapid appreciation against the dollar just when the U.S. was trying to cut the cost of stationing forces abroad after the Vietnam War. When the SMA was concluded in 1987 and revised in 1988, the yen appreciated rapidly following the Plaza Accord in 1985. Additional factors included the necessity for Japan to contribute to the safety of the Persian Gulf during the Iran-Iraq War by non-military means, plus the increasing congressional criticism of Japan after Toshiba Machine exported machine tools to the Soviet Union in violation of the rules of the COCOM. Triggers for the 1991 SMA included the invasion of Iraq into Kuwait in 1990 and the Gulf War in 1991 plus the sharply contrasting economic conditions of Japan and the U.S. For the next SMA, there are no comparable triggering events that would justify a greater financial contribution from the Japanese government and that could elevate the contribution issue to the policy agenda.

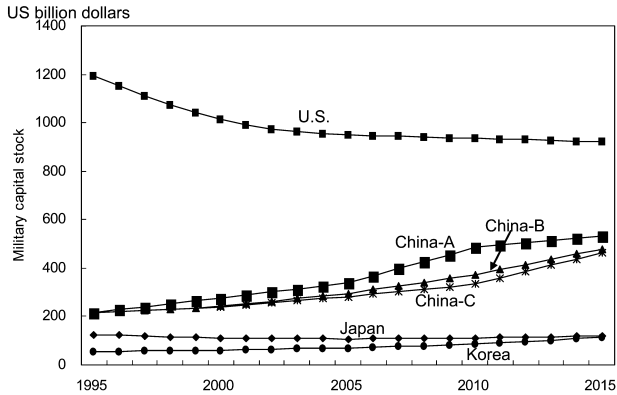
Second, dwindling criticism of Japan in the Congress has weakened the U.S. negotiating side and diminished the power of its argument for better SMA terms.⁴⁹ On the other hand, there is a risk of more “politicization” in Japan over how the HNS is used, as noted previously, and also over the cost of the USFJ realignment. Both factors make it difficult for the Japanese government to accept an agreement that favors the U.S.

47. GAO, *U.S.-Japan Burden Sharing: Japan Has Increased Its Contributions but Could Do More*, pp. 33–35.

48. John W. Kingdon, *Agendas, Alternatives, and Public Policies*, 1984, 2nd ed. (New York: Longman, 1995). His theory on public policy making is that setting an “agenda” needs “coupling” of three streams: problem, policies, and politics, which are affected by various factors, including “triggering events.”

49. This is explained by Putnam in “Diplomacy and Domestic Politics: The Politics of Two-Level Games,” using the concept “win-set.”

FIGURE 17 *Projection of Military Capital Stocks of the U.S., China, Japan, and South Korea*



SOURCE: Wolf et al., *Long-Term Economic and Military Trends 1994–2015: The United States and Asia*, on the U.S.; and Wolf et al., *Asian Economic Trends and Their Security Implications*, on countries other than the U.S.

NOTE: China-A: stable growth and defense spending 3% of GDP; China-B: stable growth and defense spending 2% of GDP; China-C: disrupted growth and defense spending 2% of GDP.

Third, there is less motivation within the Japanese government to contribute to the alliance through the HNS because Tokyo has provided aid via other means during the past five years. Tokyo's support for the U.S. war on terrorism came in diplomatic, military, force protection/intelligence-sharing, financial, and humanitarian areas. The Japanese Self-Defense Forces were deployed overseas for the first time in history to support ongoing combat operations during Operation Enduring Freedom in Afghanistan in 2001. The Japanese government sent ground troops in Iraq in 2003. Although those were non-combatant troops in charge of transport of goods or construction of roads, it has become difficult to argue for an increase in the HNS based solely on the argument that Japan must make a large financial contribution.

Fourth, severe tensions endure in East Asia, whether on the Korean Peninsula or in the Taiwan Straits, in contrast to Europe today. China's rapid economic growth and continuing expansion of its military power make it difficult for Japan to move toward decreasing the size of its military, either through smaller investment or by loosening the alliance relationship with the U.S. Figure 17 shows the military capital stocks of the U.S., China, Japan, and South Korea. As shown, the military capital stock of China will become much larger than Japan's (390%–450% of Japanese levels) although it will be still smaller

than that of the U.S. (50%–58% of U.S. levels).⁵⁰ As discussed above, the HNS is a financially reasonable way for Japan to maintain its military capability in view of Chinese military capital stocks.

The points discussed above, especially the fourth, would apply not only to the next SMA but also to Japan's HNS in the near future. As a mid- to long-term trend, the Japanese government tries to strengthen the alliance relationship. At the same time, the government tries to constrain financial contributions such as the HNS. To strengthen the alliance, it has to increase its own alliance contributions. So, Japan will try to increase other (non-financial) contributions such as participation in peace keeping operations and closer cooperation between the U.S. and Japanese military forces in military conflicts in East Asia and other areas.

Finally, one way to avoid negotiations on the Special Measures Agreement is to revise Article XXIV of the SOFA, making it possible for the Japanese government to spend the HNS without concluding an SMA every five years. Although the Diet still has to approve the budget for the HNS every year, it would become easier politically to get approval of a complete package. If in future the political cost of repeated SMA negotiations grows sufficiently burdensome, it may prove worthwhile to put revision of the SOFA on the agenda.

50. Data on China, Japan, and Korea are from Wolf et al., *Asian Economic Trends and Their Security Implications*, Table 5 (“Military Capital Stocks of Selected Asian Countries”), p. 22. Since it listed the data of every five years, I assume that the data in-between five years changes linearly. Data on the U.S. are from Charles Wolf, Jr., K. C. Yeh, Anil Bamezai, Donald P. Henry, Michael Kennedy, *Long-Term Economic and Military Trends 1994–2015: The United States and Asia*, MR-627-OSD, RAND (Santa Monica, Calif.: RAND, 1995), Table 5 (“Military Capital Stocks of the United States and Selected Countries”), p. 17. In the table, the U.S.’s military capital stock in 1994 in 1994 dollars was 1,103 billion dollars. I converted this number into 1998 dollars, using the composite deflators in the Office of Management and Budget, *Budget of the United States Government 2004*, Table 5.2 “Budget Authority By Agency: 1976–2007.” I estimated the U.S. military capital stock by adding military investment in each year to 92% of the military capital stock of the prior year, as in Wolf et al., *Asian Economic Trends and Their Security Implications*, p. 21. I use the defense budget 1995–2007 (estimates from 2002 to 2007) in 1998 dollars from the Office of Management and Budget, *Budget of the United States Government 2004*, Table 5.2. I assume the defense budget after 2008 is the average of the past five years. By averaging, the increase rate of the defense budget(s) in 2008, 2012, and 2015 becomes –5%, –0.1%, and 0.1%, respectively. I assume that 20% of the defense budget is military investment. Wolf et al., *Asian Economic Trends and Their Security Implications*, p. 30, assumed that this share for the U.S. was 26% in 1993 and dropped 1% every year to 1999 and 20% after 1999.