

JAPANESE BUREAUCRACY :
AN ASSESSMENT OF ITS STRENGTH AND WEAKNESSES

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This is to certify that the dissertation entitled "***Japanese Bureaucracy: an Assessment of its Strength and Weaknesses***" Submitted by **Hiroko Arakawa** in partial fulfillment for the award of the degree of **Master of Philosophy** is her own work. This dissertation has not been submitted for the award of any other degree of this university or elsewhere. It may be placed before the examiners for evaluation.

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P R E F A C E

John Campbell has called Chalmers Johnson's "capitalist developmental state" the only concept from Japanese studies to be widely applied in the larger field of comparative politics. The CDS concept has generated enormous controversy. Some political scientists have argued it is impossible for the state to act independently from interest groups, while some economists have argued that 'picking winners' could only slow, not propel, economic growth. MITI's initial strong endorsement of the concept was reflected in the speed with which the Japanese economic miracle was actualised. However, after continuous American criticism for the trade-distorting effects of industrial policy, MITI officials now insist that they are not so powerful after all.

As Japan has experienced "deregulation", financial and trade liberalisation, the challenges of competing in a time of rapidly changing technologies, and nearly a decade of economic stagnation, it is debatable if the CDS concept still applies to Japan.

There has been a concerted drive in Japan over the past few decades to "reinvent government". In conjunction with this, ambitious plans have been put forward by a series of high profile commissions for thoroughgoing "administrative reform". These plans have recently begun to bear results in legislation that could potentially bring about substantial changes in the administrative structure and procedures of the Japanese government bureaucracy.

To what extent, if at all, does this current restructuring of the bureaucracy constitute a deconstruction of the Japanese developmental state? Even to understand this, it is necessary to first discuss the extent to which the organisational structure and functions performed by the Japanese bureaucracy since World War II corresponded to the capitalist developmental state model. Similarly important are the kind of changes that are being proposed or are underway and how the slated changes involved are likely to impact the basic structure and function of the Japanese state.

The debate over the Japanese state and competition have received attention in international trade circles as Japan's trading partners have accused Japan of nurturing private anticompetitive practices in key industries. How should we evaluate competition-based critiques of the CDS model? How do we assess the evidence that MITI has been able further industrial policies by relying on restraints on competition? How have the reforms to the Anti-Monopoly Law and changes in industrial policy over the last decade changed the relationship between the capitalist developmental state and private anti-competitive arrangements? No doubt these are important but larger questions. Nevertheless, for want of time, some of these questions have not been attempted in this dissertation.

The current economic crisis has pushed Japan's postwar economic miracle into distant memory. For nearly a decade, the Japanese have witnessed appalling governmental mismanagement, not to mention corruption, in dealing with grave economic difficulties. Fearful of future pay cuts, unemployment, and a failed pension system the people have simply stopped spending. Even so, Japan will remain one of the wealthiest countries for the foreseeable, thanks to the solid industrial infrastructure and deep technological know-how bequeathed it by past industrial policies. Chalmers Johnson was correct that Japan's postwar success was primarily due to the microeconomic industrial policies of MITI, rather than the macroeconomic policies of the Ministry of Finance. The absence of sensible macroeconomic policies or any grand strategy of becoming an engine of economic growth in East Asia have reduced Japan to economic mediocrity in the 1990s. American supremacy is assured as long as Russia and Japan remain weak and feeble-minded.

In such a changed economic situation in Japan, it is both timely and appropriate to examine the strength and weaknesses of Japanese bureaucracy.

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Hiroko Arakawa

CHAPTER 1

INTRODUCTION

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INTRODUCTION

As Japan began to modernize in the mid-nineteenth century, it acquired a distinct position. Japan was one of the first non-Western countries to borrow the modern political and economic institutions that had emerged in Europe after the sixteenth century. In that process, Japan has not only emerged as an economic superpower but also has become a role model for many developing countries in Asia, at least until recent time.

The Japanese experience of political development shows the extent of Western influence on Japanese government, however, it is a fact that Western political systems cannot be entirely transplanted into Japan.

CATEGORIES OF STUDIES ON JAPANESE POLITICS, POLICYMAKING AND ORGANISATION

Studies on Japan show that there are many aspects of categorisation for patterns of Japanese politics and policymaking. For example, Haruhiro Fukui shows two categories: the elitist perspective and the pluralist model(1). Many studies of the elitist model are, more or less, based on the concept of

tripartite power elite composed of leaders of the Liberal Democratic Party (LDP), senior bureaucrats, and big businessmen. These three major groups comprise a regular and effective alliance and control decision-making on all major policy issues.

Among the elitist models, B. C. Koh finds that there are two contending schools of thought: the "bureaucratic-dominance school" and the "party-dominance school", and opinion is divided about which of these two institutions is more influential(2).

On the other hand, according to the pluralistic model no single group or elite coalition controls outcomes across all policy issues. Quansheng Zhao observes that instead of viewing Japan as "Japan, Inc." or as having a "soft authoritarian system", most recent researchers on Japanese politics argue that, for the last two decades or so, the roles of politicians and mass participation have become more and more prominent(3).

Muramatsu and Krauss identify a policymaking style which

(1) Haruhiro Fukui, "Studies in Policymaking: A Review of the Literature", in T.J. Pempel, ed., *Policymaking in Contemporary Japan* (Ithaca: Cornell University Press, 1987), pp. 22-59.

(2) B.C. Koh, *Japan's Administrative Elite* (Berkeley: University of California Press, 1989), pp.204-215.

they describe as "patterned pluralism" in which bureaucrats and *zoku* or tribe politicians (it will be examined in chapter 3) carries out equally important and complementary roles, differing patterns of relationship on case-by-case basis(4).

For another aspect, Masahiro Aoki categorises four prototypical views of the Japanese organisational mode, in those are normally confined more than one view, either explicitly or implicitly. These are:

(1) The culturalist view. They see that Japanese organisational mode is culturally unique and therefore distinct from its Western counterpart.

(2) The historicist view. Differences between the Japanese and Western organisational modes have been conditioned by the different historical processes through which they have been formed.

(3) The universalist view. In any given environment, there is a

(3) Quansheng Zhao, *Japanese Policymaking* (London: Praeger, 1993).

(4) Michio Muramatsu and Ellis S. Krauss, "The Conservative Policy Line and the Development of Patterned Pluralism", in *The Domestic Transformation*, vol.1 of *The Political Economy of Japan*, eds. Kozo Yamamura and Yasukichi Yasuba (Stanford: Stanford University Press, 1987).

specific organisational mode that is most efficient. Therefore, similar organisational modes tend to be selected in Japan and the West for the same environment.

(4) The institution-designer's view. Some aspects of Japanese organisational mode are superior to its Western counterpart and vice versa. Therefore, both Japanese and Western organisations could, and should, emulate each other in those aspects in which they themselves are inferior(5).

JAPAN AS A DEVELOPMENTAL STATE AND ITS AUTHORITIES

As Chalmers Johnson points out, "all states intervene in their economies for various reasons", hence what matters most is the purpose and mode of state intervention. On the basis of these, Johnson differentiates between a "developmental state" and a "regulatory state." In the former, of which Japan is a prime example, the state has a predominantly "developmental

(5) Masahiro Aoki, "Decentralization-Centralization in Japanese Organization: A Duality Principle", p.142, in Shumpei Kumon and Henry Rosovsky, eds., *The Political Economy of Japan*, Vol.3 (Stanford: Stanford University Press, 1992), pp.142-169.

orientation," taking an active part in setting "such substance social and economic goals" as "what industries ought to exist and what industries are no longer needed." By contrast, the latter, exemplified by the United States, eschews explicitly developmental goals, concerning itself instead with the "forms and procedures...of economic competition." A developmental state, in Johnson's words, is "plan rational", whereas a regulatory state is "market rational(6)."

Nonetheless, the degree of state intervention is necessarily greater in a developmental state than it is in a regulatory state. And the greater the degree of state intervention in the economy, the more salient is the government bureaucracy, a quintessential embodiment of state power(7).

During the period of rapid economic development and modernization in the late nineteenth century and early twentieth century, the government bureaucracy presided over by the modernizing elite formulated, financed, and implemented various industrial and commercial plans, operated and managed them, and

(6) Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982), pp.18-19.

(7) B.C.Koh, *Japan's Administrative Elite*, p.2.

after turning them over to private sector upon ascertaining their viability, guided their expansion, directed their conduct, and thus fostered the growth of the modern industrial economic sector of the nation. The giant economic cartels of prewar Japan known as *zaibatsu* (such as Mitsui, Sumitomo, Mitsubishi, Yasuda) were all beneficiaries of state subsidy, technical assistance, managerial guidance, and political direction of the government bureaucracy(8).

Despite its quick adoption of Western institutions, the Japanese political system remained essentially authoritarian until the end of World War II. During the prewar period there were four key social groups; the government bureaucracy, the big business, the rural landlords, and the armed forces.

It is widely believed that even though the postwar reforms rendered the rural landlords and the armed forces powerless, nevertheless, there is a remarkable continuity in the basic process of the political system; yet the bureaucracy have retained strong influence. Japan's bureaucracy is powerful among the industrial democracies.

(8) Taketsugu Tsurutani, *Political Change in Japan: Response to Postindustrial Challenge* (New York: David McKay Company, 1977), pp.71-72.

After World War II, the peculiar relationship between the bureaucracy and the modern corporate world experienced reconsolidation and further entrenchment. The enormous task of economic recovery from the ashes of defeat in the war and its subsequent rapid development and growth and prosperity dictated careful allocations of resources to, coordination of, and setting of priorities for, various sectors of national economy from the centre, i.e. by the government bureaucracy. The task included reorganisation (including, after the end of the American occupation, a reamalgamation of the former cartels that had been disbanded after the war), planning, and guidance of the nation's economic structure, its activities, and growth(9).

SOME CHARACTERISTICS OF THE BUREAUCRACY:

FROM THE PRESENT STUDIES

The modern state is not simply an "administrative state" in the sense of a set of national political arrangements based purely on administrative organisation. However, it can be considered to be such to the extent that there is a dominant tendency to "administrative regulation".

(9) Ibid.

Bureaucratic coordination of activities, Max Weber argued, is the distinctive mark of the modern era. According to him bureaucracies are organised according to rational principles. Offices are ranked in a hierarchical order and their operations are characterised by impersonal rules. He contends that only through these bureaucratic types of organisational device, which is technically superior to all other forms of administration, large-scale planning, both for the modern state and the modern economy, has become possible(10). For Weber, bureaucracy is, thus, in terms of an organisation's basic structural characteristics. These include:

- (1) a well-defined hierarchy of authority,
- (2) a division of labour based on functional specialisation,
- (3) a system of rules covering the rights and duties of incumbents of various positions in the organisation,
- (4) a system of procedures for dealing with work,
- (5) impersonality of interpersonal relationships, and
- (6) selection for employment and promotion based on technical competence(11).

(10) Lewis A. Coser, *Masters of Sociological Thought: Ideas in Historical and Social Context*, 2nd Ed. (Jaipur: Rawat Publications, 1996), pp.230-233.

In this Weberian context these bureaucratic characteristics can be seen in all modern institutions, like civil services, political parties, universities, industrial enterprises, and the like.

In fact, "bureaucracy" in Japan today is far more influential and far-reaching. The term "bureaucracy" is extremely elastic, as Alan Rix puts it, and its usage is often unclear in studies of Japan. Many analyses have limited their attention to national and local levels, spanning central ministries and agencies, many public corporations, defence forces and national education staff, etc. In a proximate policy makers sense, bureaucracy extends into a complex array of government commissions and advisory bodies embracing non-officials from all walks of Japanese life(12).

Inasmuch as power tends to be concentrated at the upper rungs of bureaucratic organisations, we may be justified in

(11) Shriram Maheshwari, *Administrative Theory: An Introduction* (New Delhi: Macmillan India, 1998), p.104.

(12) Alan Rix, "Bureaucracy and Political Change in Japan", pp.57-59, in J.A.A. Stockwin et al. *Dynamic and Immobilist Politics in Japan* (Hampshire: Macmillan Press, 1988), pp.54-76.

focusing our attention on members of the "administrative elite" - those who occupy relatively high positions in the government bureaucracy. Operationally, however, "administrative elite" can be defined in a dual sense: in a narrow sense, it refers to those bureaucrats who actually occupy designated positions, say section chiefs (*kacho*) and above in the national government; in a broad sense, the concept encompasses not only current incumbents of such designated positions but also candidates for promotion to such positions(13).

The major characteristics of Japanese bureaucracy can be seen as follows:

(1) The degree to which Japan's top bureaucrats may be described as an elite. Japan's civil service examinations are the most rigorous among the industrialized democracies, and those that survive the competition tend to be among the best that Japan's educational system has to offer.

(2) Only those who have passed the higher civil service examination have a fair chance of being promoted to section chief and beyond, becoming "career" officials. In other words, one's future success depends to a large extent on mode of entry into a ministry.

(13) B.C.Koh, *Japan's Administrative Elite*, p.2.

(3) The stress placed on seniority. Though merit is not ignored, age ranking is strict and shapes relations with one's colleagues.

(4) the large number of law graduates in the ministries. A law graduate is considered a "generalist".

(5) The predominance of generalists over technical specialists in bureaucracy.

(6) The sectionalism and turf battles between ministries, that is, the *shoeki* (interests of one's ministry) and *kokueki* (interests of the nation) problem. These result in waste of resources, duplication of effort, occasional paralysis of government action, and erosion of bureaucratic power.

(7) The importance of consensual decision making in the ministries, especially through *ringisei* (in which a formal document is composed and then circulated from the bottom of the organisation to the top) and *nemawashi* (pre-meeting negotiations).

(8) The privileged position of power that Japanese ministries enjoy compared with other bureaucratic agencies.

(9) The retirement patterns of Japanese administrative elite is that after retirement they find employment in business corporations, politics, academia, or think tanks, where many still wield considerable influence. This practice is called

amakudari, or descent from heaven(14).

CHANGES IN 1990s

For much of the postwar period, the Japanese public trusted the bureaucracy and saw it as being capable, honest, and upright. However, this high public confidence has fallen especially in 1990s due to a series of policy failures and corruption scandals. In fact many Japanese criticize bureaucrats for usurping legislative power and, like people everywhere, they complain of official red-tape, and administrative arrogance, and like bureaucrats everywhere, it sometimes appears as if they are not concerned with rational efficiency, but only individual and organisational survival.

The recession that followed the collapse of Japan's economic bubble in 1991 led to the increasing criticism that excessive regulation stifled the country's growth and inhibited the development of innovative new industries.

And there is a threat to the country's social contract, especially the job security of lifetime employment. Unemployment

(14) Brian J. McVeigh, *The Nature of the Japanese State: Rationality and Rituality* (London: Routledge, 1998).

in Japan has already risen to the highest levels in 40 years - above 5 per cent by the official count, and if Japan used American or European definitions of unemployment, it would be 7 or 8 per cent.

Under these circumstances the voice of Japan's reform movements has been raised, and deregulation and administrative reform are the most visible measures of Japanese government.

THE OBJECTIVE OF THE STUDY

At least now, when socio-economic-political system is witnessing a 'moral hazard', analysis of strength and weaknesses of Japanese bureaucracy is important to both assess and project government efficiency in handling challenges in the days to come. An empirical model of Japanese bureaucracy is so intermingled with positive and negative features as to preclude an unambiguous conclusion about its implications. Notwithstanding these, the lesson of Japanese experience in bureaucratic organisation and administration is that Japan has paid a high price for its success while also demonstrated an aptitude and capacity to create socio-political environment for adaptation of structures developed in alien situations. Japan is a clear case where a powerful confirmation of the tenacity of

culture - the enduring effects of culture over structure - can be observed.

Thus, an attempt is proposed to re-examine and analyse the role of the bureaucracy in Japanese political system, which faces a transformation under the increased influence of globalization. As Peter F. Drucker points out, "the most important key to understanding how the Japanese bureaucracy thinks, works, and behaves is understanding Japan's priorities(15)."

(15) Peter F. Drucker, "In Defense of Japanese Bureaucracy", p.79, *Foreign Affairs* vol.77, no.5 (September/October 1998), pp.68-80.

CHAPTER 2

JAPANESE BUREAUCRACY
IN THE PREWAR PERIOD:
LEGACIES TO THE POSTWAR DEVELOPMENT

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JAPANESE BUREAUCRACY IN THE PREWAR PERIOD:

LEGACIES TO THE POSTWAR DEVELOPMENT

THE PROTOTYPE OF THE BUREAUCRACY IN JAPAN:

THE TOKUGAWA PERIOD

At first, to learn the roots of the bureaucracy in Japan, it is important to remember that Japan did borrow the idea of civil-service examinations from T'ang China in the seventh century, but, unlike the situation in China, where it flourished, the idea was never fully implemented(1). For most Japanese today the institutions and processes of Tokugawa governance appear to define their legal tradition(2). The administrative structure of the Tokugawa regime itself developed gradually. Military units of Sengoku warrior organisation were

(1) Robert M. Spaulding Jr. *Imperial Japan's Higher Civil Service Examinations* (Princeton: Princeton University Press, 1967), pp.9-19.

(2) John Owen Haley, *Authority Without Power: Law and the Japanese Paradox* (New York: Oxford University Press, 1991), p.51.

adopted to serve administrative needs and members of the hereditary samurai class were transformed into a functional administrative elite(3). Its bureaucracy began to emerge during the mid-Tokugawa period, as warriors moved from the countryside into the regional castle towns (*jokamachi*) to become administrative officials; however, they were not bureaucrats in the Weberian sense of officials whose power is vested in their office, since these warriors retained hereditary samurai status. Structural arrangements for administration that existed both in the central government and in the fiefs were more patrimonial rather than bureaucratic. The criterion of recruitment to key officers was primarily ascriptive, such as membership in the Shogun's immediate vassalage in Edo and the possession of a specified feudal family rank in the fiefs(4). The shogunate in Edo also established a proto-bureaucratic administrative office (*goyobeya*). Moreover, the strong Confucian influences that pervaded Tokugawa Japan further reinforced the institutional position of the emerging samurai-bureaucratic class. Following the coming of Perry's black ships in 1853, new requirements of defense and foreign affairs produced additional bureaucratic

(3) Ibid., p.55.

(4) B.C.Koh, *Japan's Administrative Elite*, p.11.

offices, although these at first were rather unsystematically appended to existing structures(5).

THE FORMATION OF THE BUREAUCRACY:

THE MEIJI RESTORATION

Overwhelming economic pressures from the West on Japan, exploiting its vulnerable circumstances, brought into question Japan's very survival as an independent nation. The bureaucratic structures that Japan set up to respond ultimately became vital to national economic survival, although at the time of their inception they were often not clearly designed to do so(6).

There was a keen desire to learn from the West in efforts to build the nation's strength, not to suffer the fate of China and other Asian countries at that time. Study delegations to Germany, France, and England found many models for government and industrial development from which to choose. Prussian victory over France in the Franco-Prussian War

(5) Kent E. Calder, *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949-1986* (Princeton: Princeton University Press, 1988), p.138.

(6) *Ibid.*, pp.138-139.

(1870-71) added weight to the opinion of those who favoured that nation's systems. Most of the institutions of government owed their existence to European influence adopted in the latter part of the nineteenth century. The Prussian form of government called for a powerful bureaucracy that was responsive more to the emperor or king than to the elected members of parliament(7). The German model also called for a system of rigid stratification within the bureaucrats. Officials were separated from non-officials, and the officials were divided into two distinctly unequal status groups, that is, *kotokan* (higher officials) and *hanninkan* (non-higher officials). Moreover, the former was in turn divided into three classes and nine grades. The main criterion of this classification was the distance from the Emperor, alternatively, the mode of appointment(8).

The first two decades following the Meiji Restoration of 1868 produced thoroughgoing administrative centralization, creating a strong technocracy emerged as the central force in both policymaking and implementation. The essence of the modern

(7) Willam R. Farrell, *Crisis and Opportunity in a Changing Japan* (Westport: Quorum, 1999), pp.83-84.

(8) B.C.Koh, *Japan's Administrative Elite*, pp.16-19 and 30.

bureaucratic structure was established during the first fifteen years after the Meiji Restoration, with the foundation of the ministries of Finance and Foreign Affairs in 1869, the Home Ministry in 1873, the Ministry of Agriculture and Commerce in 1881, and the Bank of Japan in 1882. The key ministries were thus set up significantly before the emergence of full-fledged political parties during the 1880s and 1890s - a reality with profound significance for evolution of the Japanese political system. This historical precedence of the bureaucracy strongly reinforced the institutional preeminence of technocrats in prewar policymaking(9).

There is another fact that in the first two decades of the Meiji era, key government positions were doled out to those who played the leading role in the Restoration - the lower samurai from the fiefs of Satsuma, Choshu, Tosa, and Hizen as well as court nobles who had collaborated; B.C.Koh calls it "the implementation of a spoils system". An interesting aspects of the spoils system pertained to its use as a device for cooping the opponents of the new regime. Some leaders of the opposition clamoring for "freedom and civil rights" (*jiyu minken*) were co-opted into the government(10).

(9) Kent E. Calder, *Crisis and Compensation*, pp.139-40.

As the forces of democracy grew in strength, however, the Meiji oligarchs were compelled to make concessions, including a commitment to establish a parliament by the year 1890. The need to cope with opposition politicians and to guard against the possibility of the abuse of "free appointment" privileges by party politicians upon winning power provided the oligarchs with a strong incentive to institutionalise the merit principle in the recruitment of officials(11).

THE MEIJI CONSTITUTION AND THE BUREAUCRACY

The Meiji Constitution, which was promulgated in 1889 and enforced in 1890, reflected the natural desire of the oligarchs to perpetuate their own authority and that of their selected successors. They justified this provision on the grounds that Japan needed the decisive leadership that only they could supply. So the nature of the Constitution was strongly authoritarian and antipopular. In theory, The Meiji Constitution resulted in a system of government that was centralized to a degree unprecedented among the major states of the modern world.

(10) B.C. Koh, *Japan's Administrative Elite*, pp.11-12.

(11) *Ibid.*, pp.11-12.

Power under the Meiji Constitution in practice was that the authority of the emperor was delegated to a complex array of offices and officials(12).

The bureaucracy functioned on the basis of laws, and officials were usually graduates of the law departments of the universities. The Meiji Constitution, which had established the rule of law in Japan, was never amended or abrogated. Unlike other totalitarian countries, there was no constitutional break in Japan prior to 1945(13).

Constitutional continuity was paralleled by institutional stability. Most of the institutions that had functioned in the 1920s and 1930s continued to function throughout the war, although their relative power changed. Cabinet positions which had been held by party politicians in the 1920s came to being held by bureaucrats and military men in the late 1930s. Despite the many changes in policy, there were no major purges in Japan prior to 1945. The bureaucrats continued to serve the state in time of war with the same zeal,

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(12) Robert E. Ward, *Japan's Political System* (New Jersey: Prentice-Hall, 1978), pp.11-13.

(13) Ben-Ami Shillony, *Politics and Culture in Wartime Japan*

(Oxford: Clarendon Press, 1981), p.29

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they had shown in time of peace(14).

THE IMPERIAL DIET AND THE BUREAUCRACY

The position of the bureaucracy vis-a-vis political parties and the Imperial Diet was bolstered by the constitution and practice alike. Pursuant to the advice of their Prussian and Austrian mentors, the Meiji oligarchs had taken pains to establish the framework of the bureaucratic system prior to the formation of the Diet. This meant that all the rules regarding the structure and functioning of the bureaucracy were embodied in imperial ordinances rather than in statutes. This practice was continued even after the Diet came into being(15).

Although the Diet did emerge as a significant political force, particularly during the Taisho era (1912-26), it never attained sufficient power to control the executive branch. As the instrument and embodiment of executive power, the bureaucracy was thus assured a dominant role in the political system(16).

(14) Ibid.

(15) B.C.Koh, *Japan's Administrative Elite*, pp.14-15.

(16) Ibid., p.15.

EDUCATION SYSTEM AND THE BUREAUCRACY IN THE PREWAR PERIOD

The social background of Japan's bureaucracy was predominantly samurai. The bureaucracy was regarded as the cream of society, because they were representatives of the emperor rather than the servants of the people. As the need for trained civil servants grew, however, more recruits were drawn from the general population and educated at the new state and private universities and technical schools, especially at Tokyo Imperial University.

As the nation began its rapid modernization and development in the late nineteenth century, Tokyo Imperial University was established (and thereafter other Imperial universities) by the modernizing government as a training centre for government officials and leaders in order to hasten the transformation of the country into a powerful modern state(17).

In the prewar era, officials were usually graduates of the law departments of the universities, and the graduates of Tokyo Imperial University virtually dominated the administrative section of the higher civil-service examinations in both absolute and proportionate terms. The two top universities,

(17) Taketsugu Tsututani, *Political Change in Japan*, p.74.

Tokyo Imperial University and Kyoto Imperial University, together accounted for seven out of every ten success(18).

During the prewar period, Japanese higher education was extremely elitist. Only 4 per cent of the relevant age cohort were attending any institution of higher education in 1940; only about one-quarter of these were in universities; and only a minuscule proportion attended the high-prestige Imperial Universities, graduates from which generally secured the most advantageous positions(19). Thus, graduates of university were to man various desicion-making organs of government and to direct the modernizing activities of the nation. They were to form the nation's ruling elite, and were so viewed by society at large and by themselves(20).

(18) Robert M. Spaulding, Jr., *Imperial Japan's Higher Civil Service Examinations* (Princeton: Princeton University Press, 1967), pp.90-99.

(19) T.J.Pempel, "Patterns of Policymaking: Higher Education", pp.302-303, in T.J. Pempel ed., *Policymaking in Contemporary Japan*, pp.269-307.

(20) Taketsugu Tsututani, *Political Change in Japan*, p.74.

ECONOMIC PROBLEMS AND THE CREATION OF A NEW MINISTRY FOR INDUSTRIAL POLICY

Chalmers Johnson writes that economic crisis gave birth to industrial policy(21). During 1920s Japan faced economic problems; the long recession following World War I, capped by the panic of 1927, led to the creation of the Ministry of Commerce and Industry (MCI), which is the predecessor of the MITI (now stands renamed METI) in the postwar period. There is the first attempt at industrial policy: the need to restore competitive ability in international trade, the need to reorganise industry in order to achieve economies of scale and to take advantage of new technological developments, and the need to increase the productivity of the labour force.

During the period from the creation of the MCI to the passage of the Important Industries Control Law in 1931, the Japanese experimented with the first of their characteristic approach to industrial policy, that have remained in their repertoire to the present day. It was the attempt to replace competition with self-control of an industry by the enterprises

(21) Chalmers Johnson, *MITI and the Japanese Miracle*, Chapter 3; pp.83-115.

already established in it. The institutional form of this approach, state-licensed controls, remains big business's preferred form of industrial policy down to the present day. Its major weakness, the tendency of cartelization to lead to zaibatsu domination and monopoly, was already fully visible by 1931; and this weakness in turn elicited demands for the opposite of self-control, namely, state control, that dominated the rest of the 1930s(22).

POWER OF THE BUREAUCRACY IN THE WARTIME

In late 1932, the Saito government established a Commission on the Guarantee of Official's Status (*Kanri mibun hosho iinkai*) with the power to review the retirement of officials. With the creation of this commission, it became impossible for new governments to fire officials simply on the basis of their political affiliations. In February 1933, an Imperial Ordinance (*Junsa mibun hosho-rei*) was issued guaranteeing the status of police officials. This edict prevented new governments from arbitrarily replacing police officials with men sympathetic to the new regime. These two

(22) Ibid., p.113.

measures were of enormous significance. They made government officials far less dependent for their occupational security on the regime in power, and prompted a reinforced sense of bureaucratic independence. By and large, they also eliminated the parties' ability to penetrate the bureaucracy, thereby reducing the parties' capacity to serve as foci of competing elite viewpoints and harmonizers among the elites. They represented a successful culmination of the bureaucratic effort to limit party influence in the ministries, particularly in the Home Ministry(23).

The parties' ability to provide rewards for party membership naturally declined as they become less influential in government. Moreover, once they had lost control of the Cabinet, the bureaucracy was able to procure stiffer guarantees of official's positions in government(24).

There were thirteen cabinet ministries at the outbreak of the war. The largest and most pervasive civilian branch of government was the Home Ministry (*naimusho*). Unlike Home Ministry, which was strengthened by the war, the Foreign

(23) Gordon Mark Berger, *Parties out of Power in Japan, 1931-1941*(Princeton: Princeton University Press,1977), pp.64-65.

(24) Ibid.

Ministry lost power. In addition, there were the Prime Minister's Office, the Chief Cabinet Secretariat, the Planning Board, and the cabinet bureaux of Legislation and Information. This structure proved cumbersome when the need arose to make a decisive move, such as increasing arms production(25).

Under these circumstances, policies were not decided by a single statesman, but were a result of long consultations among various power elites, like the general staffs of the army and navy, cabinet ministers, and palace officials(26).

Robert E. Ward enumerates major contestants of political power during prewar period as follows:

- (1) the Meiji oligarchs and their direct successors in top civilian positions;
- (2) an increasingly distinct and professionalized group of military leaders;
- (3) the higher ranks of the civil bureaucracy;
- (4) leaders of the larger and more important conservative political parties;
- (5) a big business group usually known as the *zaibatsu*;

(25) Ben-Ami Shillony, *Politics and Culture in Wartime Japan*, pp.30-33.

(26) *Ibid.*, p.30.

(6) an hereditary peerage, many of whom held high posts in the Imperial Court, in the Privy Council, or in the House of Peers(27). From these it can be said that decision-making had been an exhausting process, even in time of war. The cabinet remained a bureaucracy, but this power was not concentrated in the hands of federation of ministries and agencies, each scrupulously guarding its privileges and autonomy(28).

OCCUPATION REFORMS - AFTER THE WAR

As a part of the multifaced program of political democratization, the Supreme Commander for the Allied Powers (SCAP) carried out a comprehensive reform of Japan's civil-service system.

The principal instrument of the reform was a comprehensive civil-service law, of which the centre-piece was to be a powerful central personnel agency. Armed with quasi-legislative powers as well as a measure of independence, such an agency would function as the principal guardian of merit

(27) Robert E. Ward, *Japan's Political System*, p.14.

(28) Ben-Ami Shillony, *Politics and Culture in Wartime Japan*, pp.29-30.

principles in the recruitment, promotion, and remuneration of civil servants. The civil-service law would also pave the way for the introduction of a position-classification system for the first time in Japanese history; additionally, by prohibiting strikes and other dispute behaviour by civil servants, the law would help ensure both the integrity of government operations and the political neutrality of its personnel(29).

Paradoxically, however, the lofty objective of democratization was pursued in a patently undemocratic fashion. This was facilitated by SCAP's policy of indirect rule and the language barrier. In theory the occupation was an Allied responsibility, but in fact it was an almost exclusively American operation that made a few minor gestures in the direction of Allied participation. The U.S. Occupation sought to induce greater egalitarianism by consolidating the system in accord with an American model.

The occupation leaders chose to exercise their authority indirectly rather than directly. Americans did not themselves take over replace the existing governmental machinery in Japan. So administration continued in Japanese hands, but it was made subject to American direction and supervision. The Occupation

(29) B.C.Koh, *Japan's Administrative Elite*, p.65.

was indirect, and having to work through the Japanese bureaucracy the Americans, in effect, guaranteed that the bureaucracy retain substantial power. They had little choice but to work through the existing organs of state.

It seems natural to admit the fact that since the American Occupation was an indirect occupation that worked through the existing Japanese government structure, the bureaucracy was left relatively untouched by the purge. General Douglas McArthur's headquarters ensured that 79 per cent of the purged officials were military, 16 per cent were politicians, and only 1 per cent were members of the bureaucracy(30).

For another aspect, T.J. Pempel points out that the goals of bureaucratic "reform" were not conceived in terms of new structures, new personnel, or new relations to other political units; but bureaucratic "reform" was interpreted almost exclusively in terms of improving the efficiency of Japanese administration. These interpretations and realities grew naturally out of the prewar and wartime administrative theories and experiences of both Japan and the United States.

(30) Harold R. Kerbo and John A. McKinstry, *Who Rules Japan?: The Inner Circles of Economic and Political Power* (Westport: Praeger, 1995), p.85.

They were not unique to the Occupation, according to Pempel; rather, the Occupation provided laboratory conditions under which they could be realized to their fullest. The increased reliance on technical expertise and rationality combined with the increasing complexity of the problems faced by modern states gives bureaucracies a constant push toward accumulating more power(31).

THE NEW CONSTITUTION AND THE BUREAUCRACY

The new postwar constitution replaced the Meiji Constitution's fragmentation of governmental power with a system in which the Diet was formally established as the supreme organ of state power and in which the prime minister and a majority of cabinet ministers must be Diet members. Centralizing formal political power in the Diet did not suddenly make the Diet powerful. For many years the Diet did little more than rubber stamp policies designed largely by bureaucrats. What the new

(31) T.J. Pempel, "The Tar Baby Target: 'Reform' of the Japanese Bureaucracy", in Robert E. Ward and Sakamoto Yoshikazu ed., *Democratizing Japan: The Allied Occupation* (Honolulu: University of Hawaii Press, 1987), pp.157-187.

constitution did do was to insure the party, or coalition parties, that controlled a majority of Diet seats would control the premiership and the cabinet. This was a fundamental change in the rules of the political game, as Gerald L. Curtis puts it(32). It established the parties as the ultimate arbiters of political power, and it changed the nature of party-bureaucratic relations, drawing politically ambitious bureaucrats into the

The politicians allowed to run the new Japan were inexperienced and depended heavily on the bureaucracy for information and guidance. In July 1948 the Liberal Party announced that it was being joined by twenty-five high-ranking bureaucrats. Included in this group were two later LDP prime ministers, Ikeda Hayato, who at the time was the vice minister of the Ministry of Finance, and Sato Eisaku, the vice minister of the Ministry of Transportation. These Liberal Party bureaucrats became the core of what came to be known as the "Yoshida School", bureaucrats-turned-politicians who were parties and forcing the bureaucracy to collaborate closely with politicians in the ruling party.

hand-picked by Prime Minister Yoshida and who were to be a

(32) Gerald L. Curtis, *The Japanese Way of Politics* (New York: Columbia University press, 1988), pp.9-10.

dominant force in conservative politics thereafter(33).

CONTINUITIES OF THE BUREAUCRATIC INFLUENCE

Some practices whose origin stem from the prewar period still can be seen continuing in the postwar period. One of them is the domination by law graduates, known as *hoka banno*, was much more pronounced in the prewar period than it is in postwar era. Practices that gave rise to "sectionalism" originated in the prewar period: decentralized hiring of officials, lifetime employment, and the low frequency of interministerial transfers(34).

Chalmers Johnson explains that there are striking continuities among the state's various policy tools over the prewar and postwar years. Virtually all leaders of politics, banking, industry, and economic administration were prominent in public life before, during, and after the war. The continuities between prewar Ministry of Commerce and Industry (MCI) and postwar Ministry of International Trade and Industry (MITI) are not only historical and organizational but also biographical.

(33) Ibid., p. 7.

(34) B. C. Koh, *Japan's Administrative Elite*, p.258.

For example, Yoshino and Kishi discovered industrial rationalization during the late 1920s as a means to overcome the recession; their proteges Yamamoto, Tamaki, Hirai, Ishihara, Ueno, Tokunaga, Matsuo, Imai, and Sahashi applied it again during the 1950s and 1960s to achieve modern, competitive enterprises. During both periods the state attempted to replace competition with cooperation, while not totally losing the benefits of competition. Governmental control over the convertibility of currency lasted uninterruptedly from 1933 to 1964, and persisted even after that time in attenuated forms. The Petroleum Industry Law of 1934 is the precise model for the Petroleum Industry Law of 1962. The plans and planning style of the Cabinet Planning Board were carried over to the Economic Stabilization Board and the Economic Planning Agency, particularly in their use of foreign exchange budgets to implement their plans. MITI's structural features - its vertical bureaus for each strategic industry, its Enterprises Bureau, and its Secretariat (derived from the old General Affairs Bureau of MCI and the General Mobilization of Bureau of Ministry of Munitions) - date from 1939, 1942, and 1943, respectively. They continued to exist in MITI down to 1973 unchanged in function and even, in some cases, in name. Administrative guidance, which will be examined in detail at the next chapter, has its roots in

the Important Industries Control Law of 1931. Industrial policy itself was as much a part of the Japanese governmental lexicon in 1935 as it was in 1955(35).

(35) Chalmers Johnson, *MITI and the Japanese Miracle*.

CHAPTER 3

THE ROLE OF THE BUREAUCRACY
FOR GROWTH AND STABILITY
IN THE POSTWAR PERIOD

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JAPAN'S RAPID ECONOMIC GROWTH

Japan experienced an extraordinary pattern of economic growth. Real economic growth in Japan averaged 9.8 per cent from 1955 to 1973, including virtually continuous double-digit growth across the decade of 1960s. Even during the first post oil shock decade (1974-1984), Japanese growth averaged 3.7 per cent, in real terms, the highest in the industrialized world(1). GNP and per capita income doubled every five years. Even considering the rises in commodity prices, real wages still nearly doubled between 1960 and 1972. With the growth of GNP and increase of per capita income and wages, government revenue and spending have expanded enormously. From 1965 to 1973, for instance, the government budget grew from 3,658 billion yen to 14,284 billion yen - that is, over three times. In other words, with the growth of the Japanese economy, the government had acquired tremendous amounts of goods and services(2).

(1) Kent E. Calder, *Crisis and Compensation*, p.467.

In this context the bureaucracy was strengthened by the expansion of the nation's budget, made possible by the growth of the economy and the concomitant "natural increase" of governmental revenues through taxes. While the GNP was doubling every five years, the governmental budget also doubled every five years, growing eight-fold between 1955 and 1970(3).

The rapid economic growth was sustained by the following factors:

- (1) Growth in the labour force.
- (2) A rapidly expanding share of world markets, fueled initially by Japan's reaching world standards of technological capacity at a time when its standard of living was low and its labour-cost advantage was consequently great.
- (3) The momentum generated by that initial high growth - high saving rates from rising incomes, high "habitual" rates of investment, a high level of "animal spirits" built on expectations of continued growth.
- (4) Consequently young average capital vintages permitting rapid incorporation of new technology which helped to sustain

(2) Joji Watanuki, *Politics in Postwar Japanese Society* (Tokyo:

University of Tokyo Press, 1977), p.25.

(3) *Ibid.*, p.59.

productivity growth.

(5) High growth stimulated shifts in distribution of wealth and provoked societal transformations, such as accelerated urbanization, that greatly intensified political demands against the Japanese state. Growth thus appeared to intensify disposition toward political crisis, although it did not precipitate crisis itself.

(6) High growth, in an economy oriented toward debt-based heavy industrialization, gave the Japanese private sector a lower tolerance for political uncertainty than would otherwise have been the case.

(7) High growth generated a rapidly expanding pool of resources available for public allocation. These resources provided the wherewithal for the interest group compensation, although neither a plan for compensation nor the direct impulse to engage in it.

(8) High growth intensified private-sector dependence on the state for credit, infrastructure, and regulatory dispensations, spawning intense distributive political interactions between the state and industrial society.

(9) As a consequence of the foregoing, high growth forced a range of issues onto the policy agenda that were not primary strategic concerns of the Japanese state although intermittently

matters of high priority, they had little direct relation to industrial competitiveness or national economic security. But growth did not create a political process for dealing with these issues(4).

BUREAUCRATS AS ELITES

There are, within the Japanese civil service, a myriad of personnel types and classifications. The best known of these are the career "elite" groups that form the core of the policy process within the bureaucracy.

The Japanese political process has often been described in terms of the elite model. Graduating from the University of Tokyo, especially its law department, means being automatically hooked up to a huge network of connections that is easily activated at any time. As we have seen in chapter 2, traditionally its graduates have entered the highest administrative ranks, which means that new graduates can readily

(4) Kent E. Calder, *Crisis and Compensation*, pp.467-468, and Ronald Dore, "Japan's Reform Debate: Patriotic Concern or Class Interest? Or Both?", pp.82-83, *Journal of Japanese Studies*, vol.25, no.1 (1999), pp.65-89.

plug into the established alumni network. And also, the system protects the administrator class. As a whole the elite is insulated from the vagaries of ideologically inspired politics. Individually, its members enjoy a significantly greater protection from the consequences of their actions than do ordinary Japanese(5).

Nonetheless, it would be neither an exaggeration nor a distortion of the reality to characterise Japan's administrative elite as a "meritocratic elite" - an elite chosen on the basis of the universalistic criteria of performance in open, competitive examinations and, indirectly, of educational attainments(6).

It may also be the case that bureaucrats in Japan perceive themselves to be more influential in determining the directions of the nation than do bureaucrats in other western countries. One cross-national survey shows that 96 per cent of Japanese bureaucrats felt they were "very" or "rather" influential in the policy process; the percentage was 85 per

(5) Karel van Wolferen, *The Enigma of Japanese Power: People and Politics in a Stateless Nation* (London: Macmillan, 1989), pp.111-112.

(6) B.C.Koh, *Japan's Administrative Elite*, p.254.

cent in the UK and 75 per cent in the USA(7).

Until recent years, the economic bureaucracies - Ministry of Finance, Ministry of International Trade and Industry, Ministry of Agriculture, Forestry and Fisheries, Economic Planning Agency and the major government corporations - have developed complex and far-reaching mechanisms for translating policy into achievement, and have built a bureaucratic citadel within the state founded on a set of premises about national directions(8).

However, the meaning of the words "bureaucracy" or "elite" can be different to the man in the street, the counter official at the local ward or town office is the most direct semblance of bureaucratic power; thus the government concern in the context of the administrative reform movement, especially in 1980s, is to improve the image of the madoguchi or 'shopfront'. A 1982 poll by the Administrative Management Agency found that the registration office had the worst image of any civil service shopfront(9). It is also recognized that public demands on

(7) Alan Rix, "Bureaucracy and Political Change in Japan", pp.65-66.

(8) Yamamoto Masao, *Keizai kanryo no jittai* (Mainichi Shinbunsha, 1972).

bureaucracy are increasing and diversifying, but the consciousness of the citizenry is moving to greater antagonism towards a system which is seen to be exploiting, rather than benefiting, them.

Moreover, a slight decline in elitism can be seen in a number of trends:

- (1) a strong showing of universities other than Tokyo University and Kyoto University in the higher civil-service examination,
- (2) a notable increase in the proportion of private-university graduates who enter the higher civil service, and
- (3) advancement of "noncareer" bureaucrats to elite administrative positions(10).

METHODS OF EXERCISING BUREAUCRATIC POWER:

ADMINISTRATIVE GUIDANCE, *AMAKUDARI*, AND ENTERING POLITICS

ADMINISTRATIVE GUIDANCE

One of the main sources of consensus-building power for the bureaucrats is their access to and control of information.

(9) Gyosei kanricho, *Gyosei kanri no genkyo* (Gyosei kanricho, 1983), p.74.

(10) B.C.Koh, *Japan's Administrative Elite*, p.259.

Not only do they have the data, but they are often the sole interpreters of it.

The best known source of ministry influence is a practice called administrative guidance. This practice derives from Japanese law, which gives the ministries the authority to issue directives, requests, and warnings (often vague and implied) and to offer suggestions and encouragement to private organizations and individuals. The practice is constrained only by the requirement that those guided come under a government organ's jurisdiction(11).

Enhancing the bureaucrats' interpretative function is the fact that the bills that go to the Diet are written in general terms. After passage, these laws are returned for elaboration to the ministry that prepared the draft. At this time the key details, standards, and definitions are spelled out in ministerial directives. Thus, for practical purposes, much of the given law may be written after its actual enactment, and the writing will be done out of public view by those who will be responsible for administering it(12).

However, one study shows that the Japanese bureaucracy

(11) William R. Farrell, *Crisis and Opportunity in a Changing Japan*, p.87.

had less control of business and the economy than its European counterparts. In both France and Germany, the government directly owns large chunks of the economy. A fifth of Europe's largest automobile producer, Volkswagen, is owned by the state of Saxony, giving it absolute veto power. Until quite recently, the French government owned most of the country's major banks and insurance companies. "Where the Japanese make do with 'administrative guidance,' or control through persuasion, the Europeans rely on *dirigisme*, direct decision-making power as owners and managers, for good or ill(13)".

AMAKUDARI: DESCENT FROM HEAVEN

A highly regulated economy that entails copious administrative guidance ensures interaction between businesses and the bureaucrats who pilot them through the sea of red tape. Meetings, telephone conversations, and correspondence seem endless. Despite the regulations, the process is not static. Wording and interpretations are often modified and expanded. One way companies come to grips with this is to hire former

(12) Clyde V. Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988), p.118.

(13) Peter F. Drucker, "In Defense of Japanese Bureaucracy", p.71.

bureaucrats. The process, termed *amakudari*, or descent from heaven, ensures continued employment for former senior bureaucrats. From the company's point of view, they now have an "in", hooked into the network of information and contacts(14). *Amakudari* employees are not hired randomly; they enter companies regulated by the ministry for whom they were employed before. These incoming officials from the ministry "speak the language" of those doing the regulating and they are very important links to the ministry, allowing corporations to anticipate future ministry actions, as well as to understand better the complex rules that are handed down(15).

Related to this there is another rationale for hiring these retirees: They are senior officials who are being taken care of by a grateful industry. This lesson is not lost on those who are moving up the ladder. Their seniors will still keep their respect, and they may be seeking a job in the same industry a few years down the road. Once posted in the new corporate position, the former bureaucrat usually receives a

(14) William R. Farrell, *Crisis and Opportunity in a Changing Japan*, p.92.

(15) Harold R. Kerbo and John A. McKinstry, *Who Rules Japan?* p.93.

hefty increase in salary. This has come to be viewed as a form of delayed compensation for years of hard work, coupled with less than optimum living conditions. Under circumstances like these, a comfortable working relationship can be worked out(16).

In that sense deregulation means the end of a government employee welfare system that ensures placement of people in paying positions after the age 55 or so, but often sooner.

The practice of *amakudari* is, however, not just confined to Japanese companies. Many U.S. and European companies also seek former bureaucrats either as senior executives or members of their boards(17).

Amakudari entails mixed consequences. On the positive side, it contributes to the optimal utilization of talent, facilitates communication between government bureaucracy and private business, and enhances the effectiveness of administrative guidance. On the negative side, *amakudari* may compromise the independence and integrity of government bureaucracy, breed corruption, and confer unfair advantages on

(16) William R. Farrell, *Crisis and Opportunity in a Changing Japan*, p.93.

(17) Peter F. Drucker, "In Defense of Japanese Bureaucracy", pp.69-71.

the firms that hire retired higher civil servants(18).

ENTERING POLITICS

The option of running for a seat in the Diet is available only to a very few of retired higher civil servants. Whereas *amakudari*, broadly defined, is typically arranged by the prospective retiree's ministry or agency, running for election is something one must arrange on one's own. Virtually all retired higher civil servants run as candidates of the Liberal Democratic Party, they find it necessary to affiliate themselves with one of the factions within the party in order to win official endorsement. Factional affiliation is also necessary to help finance the campaigns, which cost astronomical sums(19).

The entry of former bureaucrats into the political arena via the ballot box, too, can be viewed from the standpoint of resource utilization. The expertise and experience they bring to their roles as members of the Diet can theoretically enhance the latter's capability to formulate policy and monitor policy implementation. On the other hand, the necessity to plan ahead - to find a patron, to align oneself with a faction, and to build

(18) B.C.Koh, *Japan's Administrative Elite*, pp.245-246.

(19) *Ibid.*, p.242.

a political base, no matter how rudimentary it may be - may conceivably interfere with a dispassionate discharge of bureaucratic responsibilities(20).

The reemployment of retired higher civil servants, like in *amakudari* or in entering the politics, presents a pragmatic response to real needs of individual bureaucrats, the government bureaucracy as a whole, and private business(21). So long as the needs remain, the practice is likely to persist.

THE LIBERAL DEMOCRATIC PARTY AND THE BUREAUCRACY

Both the bureaucrats and the Liberal Democratic Party (LDP) embraced the objective of fostering equity in income distribution during the developmental period. Potential conflicts between the ruling party and the bureaucracy were forestalled during the period of high growth by the fact that the economy was growing so fast that the LDP could allocate

(20) Ibid., p.246.

(21) Chalmers Johnson, "The Reemployment of Retired Government Bureaucrats in Japanese Big Business," p.965, *Asian Survey* 14, no.11 (November 1974), pp.953-965.

increasing amounts of money from the national budget to its subsidy programmes without making hard choices about funding priorities or upsetting the Ministry of Finance's concern for maintaining the principles of fair share and of "balance(22)".

Over thirty years the LDP has been transformed from a "coalition of factions" to a much more complex, differentiated institution which has clear rules regulating the recruitment of leaders and which plays varied and important roles in making public policy. It has also developed a relationship with the bureaucracy that has become increasingly close. One consequence of this is that the political opposition has been deprived of the opportunity to exploit bureaucratic-LDP differences and has been largely unable to utilize the bureaucracy's expertise. Thus the evolution of the LDP and the development of its relationships with the bureaucracy have contributed to a situation in which the Japan Socialist Party (JSP) and other opposition parties are at a virtual loss for ways to mount an effective challenge to LDP dominance(23).

Political factionalism within the ruling parties and the bottom-up style of Japanese decision making have made the

(22) Gerald Curtis, *The Japanese Way of Politics*, p.61.

(23) *Ibid.*, p.116.

bureaucracy an exceptionally strong institution that greatly affects the ability of individuals to exercise political leadership(24).

ZOKU MEMBERS OF THE DIET AND THE BUREAUCRACY

There is one more political actor which plays significant role: the *zoku*, the political tribes. Some LDP Diet members accumulated knowledge and experience in specific policy areas. With their interests, expertise, and experiences in a particular policy area, the *zoku* members individually have close ties to the ministries that oversee their particular area of interest and themselves have considerable influence over policy in those areas. Combining these *zoku* with interest groups also involved in those same areas and the ministerial bureaucracies concerned, often produces so-called "iron triangles" of influence(25).

(24) William R. Farrell, *Crisis and Opportunity in a Changing Japan*, p.82.

(25) Ko Mishima, "The Changing Relationship Between Japan's LDP and the Bureaucracy", p.972, *Asian Survey*, vol.38, no.10 (October 1998), pp.968-965.

As a result, the members of the LDP's Policy Affairs Research Committee (PARC, or *Seicho-kai*) and its subcommittees (*bukai*) became instrumental in policymaking.

The shift in power from the bureaucracy to the LDP policy committees became more apparent after the two oil shocks of the 1970s. As mentioned before, during the era of high growth, government revenue increased significantly each year and a majority of policy decisions involved the allocation of extra revenues to a variety of programmes. However, with limited funding, bureaucracy became more dependent on the mediation and political decisions of members of the ruling party when seeking to reallocate funds among administrative programmes. It became part of the official process for bureaucrats to seek approval from the relevant *zoku* members before submitting budget proposals and other policy initiatives to the cabinet(26).

THE IMPLEMENTATION OF POLICIES BY THE BUREAUCRACY

T.J. Pempel argues that "the agenda of economic policy

(26) Tomohito Shinoda, "Japan's Decision Making Under the Coalition Governments", pp.703-704, *Asian Survey*, vol.38, no.7 (July 1998), pp.703-723.

in Japan was the conservative agenda of big business and the central economic ministries(27)". The bureaucracy's methods of implementing its policies have magnified many of its traditionally accepted characteristics - complexity, authority, and pervasiveness. However, implementation is more than just enacting the policies of the day. It is part of an ongoing policy cycle, through which Japanese bureaucracy has come to be not only seeing policy enacted, but setting new agenda objectives - in much the same way that Meiji bureaucrats setting the parameters for deciding the "public interest" so as to legitimize their own policies(28). The ultimate contribution of the bureaucracy to the state, however, comes in its impact on policy objectives, in defining new agendas, problems and challenges.

Models of bureaucratic dominance are mostly drawn from the early years of LDP rule when there existed an overwhelming public consensus on the desirability of rapid industrialization and high GNP growth, and when the party's organisation was rudimentary and its most important leaders drawn largely from senior bureaucrats. Even in that period, bureaucratic behaviour

(27) T.J. Pempel, *Policy and Politics in Japan*, p.58.

(28) Alan Rix, "Bureaucracy and Political Change in Japan", p.72.

was characterized by a considerable amount of anticipatory response, as professional bureaucrats sought to avoid alienating the elected political leadership and endeavoured to remain as much of their traditional power and autonomy as they could in a new political system in which they were formally responsible to the Diet and to the political parties that controlled it. But it should be recognized that the bureaucratic power, especially on issues relating to the national economy, was enormous. Agreement on the nation's economic goals in those years was so profound that economic policy decisions were regarded as largely administrative rather than political issues and few dissented from the view that they could be handled best by Japan's capable administrators in the professional bureaucracy(29).

During the first three decades of the postwar era, Japan experienced a system of government in which formal authority lagged behind actual power; in Chalmers Johnson's phrase, politicians "reigned", whereas bureaucrats "ruled(30)".

Among the many factors undergirding bureaucratic power was a national consensus regarding the primacy of developmental

(29) Gerald L. Curtis, *The Japanese Way of Politics*, pp.244-245.

(30) Chalmers Johnson, *MITI and the Japanese Miracle*, pp.34-35 and 316.

goals, which, along with an institutional legacy of the prewar and wartime era, helped to sustain a "developmental state". The adoption of an "industrial policy" and the use of "market-conforming methods of state intervention" in the economy, including "administrative guidance", were further sources, or perhaps symptoms, of the formidable power of Japan's administrative elite(31).

Although the power of the administrative elite has been waning gradually since the mid-1970s, as LDP politicians acquired more expertise and became more assertive in the exercise of their constitutional authority, reinforced by electoral mandates, senior bureaucrats have by no means relinquished their power. They continued to play a pivotal role in policy formulation, while virtually monopolizing the power of policy implementation.

(31) Ibid., pp.17-34.

CHAPTER 4

RECESSION CHALLENGES AND
THE RESPONSE OF THE BUREAUCRACY
IN 1990s

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RECESSION CHALLENGES AND THE RESPONSE OF THE BUREAUCRACY IN 1990s

PROBLEMS OF THE BUREAUCRACY IN 1990s

The bureaucracy has continued to greatly extend its role. The results include the "high-price, high-cost syndrome", causing tangible distortions everywhere in society and the economy(1). It has also been pointed out that the Japanese bureaucracy suffers from policy failures; for example, the extension of its organisation and authority, protection of vested interests, concealment of information in order to evade the attribution of responsibility, lack of coordination due to departmentalisation, corruption, and the absence of the fear of bankruptcy.

In 1995-96 the Japanese bureaucratic system also faced a number of extraordinary dilemmas. These ranged from scandals surrounding the government's bail-out of financial institutions

(1) Gyosei Kaikaku Iinkai Jimukyoku, *Gyosei no yakuwari o toinaosu - gyosei kan'yo no arikata ni kansuru kijun* - (Tokyo: Okurasyo Insatsukyoku, 1997), p.279.

(*jusen*), and its largesse to pharmaceutical firms that had allowed HIV-contaminated blood to be used in transfusions even though known to be infected, to the *Monju* nuclear reactor accident, and public outrage at local and national bureaucratic business entertaining (*kankan settai*)(2).

The seemingly endless recession that gripped in the 1990s led to an increasing clamor at home and abroad to reduce or eliminate suffocating economic regulations on entry, exit, and provision of new products and services.

Though the Japanese government frequently proclaims its commitment to deregulation, most observers remain deeply skeptical(3). In response to measures to decrease opportunities for administrative guidance, bureaucrats have expanded their licensing power under law. Based on statistics provided by the Management and Coordination Agency, the number of licence being

(2) Takashi Inoguchi, "Japanese Bureaucracy: Coping with New Challenges", in Purnendra Jain and Takashi Inoguchi, eds, *Japanese Politics Today: Beyond Karaoke Democracy?* (Melbourne: Macmillan, 1997), pp.92-107.

(3) Lonny E. Carlile and Mark C. Tilton, eds., *Is Japan Really Changing Its Ways? Regulatory Reform and the Japanese Economy* (Washington: Brookings Institution Press, 1998).

issued by the Japanese government grew by more than 13 per cent between 1983 and 1993(4).

In addition to providing and interpreting guidance, issuing regulations is another way for bureaucrats to oversee the economy and business. In a July 1996 survey of U.S. firms in Japan, the highest rated challenge to business (cited by 34 per cent of the respondents) was the regulatory environment. Despite many calls for deregulation by domestic and foreign interests, in 1996 bureaucrats had more than 10,000 regulations on the books to enforce. These regulations affected approximately 40 per cent of the economy and, in total, were nearly double the number of regulations on the books in 1984(5).

REFORM MOVEMENTS IN 1990s

After "small government" and tax cuts in the early 1980s, then privatisation, in the mid- to late 1980s, deregulation became the central focus slogan of Japan's

(4) Ikuta Takahide, *Kanryo: Japan's Hidden Government* (Tokyo: NHK Publishing, 1995), p.4.

(5) William R. Farrell, *Crisis and Opportunity in a Changing Japan*, p.89.

neoliberal reformers after the election of the Hosokawa Morihiro government in 1993.

The reform movement in recent Japan - the drive to deregulate, to establish shareholder sovereignty, to make a nation of ruthless competitors - has multiple origins: neoliberal individualism, undiluted faith in the marketism of neoclassical economics, plus the belief that it is the recipe to get Japan back on the road to being Number One. The slogans of the reformers are: "deregulation", "competition", "consumer sovereignty", the "convoy system" (the enemy of competition), curing the problems of "the high-cost economy", "equality of opportunity not of outcomes", "transparency", and "global standards(6)".

What their arguments and all these slogans add up to is a general belief that:

- (1) the principles according to which the typical neoclassical economics textbook says the economy ought to work are a priori correct principles,
- (2) those principles are best exemplified in the American economy,
- (3) the rightness of those principles is further confirmed by

(6) Ronald Dore, "Japan's Reform Debate", pp.65-66.

American success, and

(4) Japan's present plight is not just a cyclical phenomenon and a debt-deflation hangover from the bubble; it is the natural and wholly just retribution visited on Japan for not following those principles(7).

Some of the reformers - particularly the nonacademic ones, writing often from experience of working in America or for American firms - explicitly identify the United States as the source of inspiration(8). Others resort frequently to the term *O-Bei senshinkoku* - the advanced countries of Europe and America - as the source of their model(9).

A background swell of opinion that has furthered the reformer's cause is the cumulated populist resentment against the bureaucracy. The administrative reform slogans - "small government", "from bureaucrat-led development to private-sector-led development" - derive a good deal of extra impetus from the daily revelations in the media of evidence of official corruption(10).

(7) Ibid., p.66.

(8) E.g. Yashiro Masamoto, *Yomigaere! Nihon kigyō* (Tokyo: Nihon Keizai, 1997).

(9) Ronald Dore, "Japan's Reform Debate", p.66.

Efforts at deregulation begun under Prime Minister Hosokawa in 1993 had not got too far by the time Prime Minister Murayama had been in office a year (1995). Attempts to privatise, eliminate, or consolidate 92 of Japan's quasi-government corporations that operate under the protection of various ministries immediately ran into resistance. In response to the prime minister's plea that a special multi-ministerial committee review those organisations, parent ministries did not name a single corporation for action. Eventually, only 14 were offered up for consolidation; one other was to be eliminated. This minimal effort drew a lot of criticism from the Japanese press. Yet, even that plan faltered when the ruling coalition could not agree. The list of proposed mergers dropped to 11 when a plan to merge three government financial institutions came under fire by the Ministry of Finance(11).

STANDARDS FOR APPROPRIATE ADMINISTRATIVE INTERVENTION

Administrative Reform Committee submitted the report on

(10) Ibid., p.67.

(11) William R. Farrell, *Crisis and Opportunity in a Changing Japan*, pp.89-90.

the standards for appropriate administrative intervention in 1996(12). It suggests several aspects how administrative reforms should be as follows:

The market paradigm, through competition, does not merely satisfy the principle of equal opportunity, but also that it is a decidedly superior mechanism with the power to offer efficient allocation of resources and incentives for expression of creativity and improvement of activity.

Nevertheless, with competition alone, there is a possibility of generating an unfair distribution of income, and under certain conditions, efficient allocation of resources may also fail to be realized. Then, the administrative bureaucracy may be expected to have a certain role in competing markets to alleviate market failure and realizing efficient allocation of resources and fair distribution of income. According to the report, the proper nature of administrative activity must emphasize the following three points:

Firstly, it is not sufficient only to carefully investigate market failures, but being fully aware of governmental failure, administrative activity must be kept to

(12) Gyosei Kaikaku Iinkai Jimukyoku, *Gyosei no yakuwari o toinaosu.*

the necessary minimum.

Secondly, to properly execute administrative activities, simultaneously the people's control must be strengthened, market principles must be allowed to operate as much as possible, and high quality services must be efficiently offered to the people, the consumers of administrative services. As much as possible market incentives should be introduced.

Thirdly, to fulfill their responsibility to the people, it is crucial that each organ of the administrative bureaucracy must recognize and accept that it bears the responsibility to publish the contents of the activity and routinely actively explain them to the people, both before and after an action.

From the above viewpoints, a proper reformulation of the nature of administrative activity must be founded on the following three basic principles:

a) On the basis of the principle that what the private sector can do, leave to the private sector, restrict administrative intervention to the necessary minimum.

b) In order to realize the principle of efficient administration putting the people first, the administrative bureaucracy needed to satisfy the demands of the consumers of administrative services, namely the people, should be accomplished at minimum cost.

c) In the case that administrative intervention is necessary, the various organs providing administrative services must exhibit accountability, the responsibility to explain their activities to the people.

In this report the importance of introducing the market principles is emphasized. "Whenever possible let the market work. Furthermore, carefully consider the practicality of nonprofit or nongovernment organizations... In cases where it may be supposed that the same results can be achieved by several options, methods and forms of intervention by the administrative bureaucracy that are as much as possible compatible with market incentives are to be given precedence(13)".

It is also required that the tasks not only relate to the bureaucrats but also to the private sector. When promoting and advancing such administrative reforms as limiting administrative activity to the necessary minimum according to the criteria, it is necessary that, not merely tackling the bureaucratic sector, but the private sector fulfill its own role in these changes. Hereafter, changing the attitude held until now, that the private sector is dependent on the administrative

13) Ibid., pp. 281-285.

bureaucracy, the private sector shall be made primary, relying on its own effort and bearing its own responsibilities. Further, it is natural and necessary that citizens themselves possess self-awareness, a consciousness that each is a single member of society. It is expected that individual reform shall be urgently tackled by establishing the principle of individual responsibility, and the like. At the same time, along with leaving matters to market principles as much as possible, in order that they effectively function, the private sector itself must promote information dissemination even more via reform of business accounting and establishment of internal auditing(14).

THE COLLAPSE OF THE 1955 SYSTEM AND THE CHANGING DECISION-MAKING PATTERNS

Going back to June 1993, the House of Representatives (the Diet's lower house) passed a no-confidence resolution against the LDP government headed by Miyazawa Kiichi, effectively putting an end to the LDP's long reign subsequently sealed by the July general election. This was followed by the establishment of a non-LDP coalition government in August. The

(14) Ibid., p. 306.

prime minister who emerged was Hosokawa Morihiro of the Japan New Party. This is so-called the end of the 1955 system in which contained the LDP's long dominance in Japanese politics. The following is an overview of the period after the event.

Political changes since the establishment of the Hosokawa Morihiro cabinet have brought about a series of substantial transformation to Japan's political decision-making process. The most notable characteristic of Hosokawa's term was the centralization of the decision-making process. To maintain the vulnerable coalition, Hosokawa introduced a new decision-making mechanism outside of the cabinet: the Council of Representatives of the Coalition Parties (*Yoto Daihyosha Kaigi*). The council was composed of the secretary-generals (second in command) of each party in the coalition; under its banner, they would meet and discuss major political issues. Under the Council of Representatives, Hosokawa also formed the Policy Adjustment Council to discuss policy matters among the coalition parties(15). He discontinued the issue-specific subcommittee system. In the opening of Japan's rice market, the prime minister decided behind the closed doors of the Council of

(15) Tomohito Shinoda, "Japan's Decision Making Under the Coalition Governments", pp.704-705.

Representatives of the Coalition Parties and without disclosing information to accept the General Agreement on Tariffs and Trade (GATT) proposal. The political reform package was likewise passed after negotiations with the LDP president using a similar top-down decision-making style. Hosokawa's high public support successfully contained political opposition and enabled them to achieve these goals.

This centralized decision-making system, however, was the target of heavy criticism. The Renewal Party's Ozawa Ichiro and Komeito's Ichikawa Yuichi became dominant figures as time progressed and the Council made a number of policy decisions. Leaders of the other coalition parties saw the Council's decision-making process as undemocratic.

Murayama Tomiichi, who was critical of the automatic nature of the Hosokawa government's decision-making style, introduced a decentralised decision-making system with issue-specific project teams and committees. The JSP leader saw his role as being that of coordinator in a democratic, bottom-up, decision-making process. This system worked in dealing with certain policy issues such as Minamata Disease case. At the same time, it gave LDP *zoku* members (mentioned in Chapter 3) a stage on which to become politically active. New *zoku* from the JSP joined them over such issues as the setting of

rice prices, the agricultural subsidies, and the *jusen* problem, further tilting the balance of power between *zoku* and the government.

Hashimoto Ryutaro's leadership style was different again, although he agreed to maintain the same project team and committee framework as had Murayama. This will be examined in detail later on the issue of administrative reform. The approach taken was reminiscent of Hosokawa's deal with the LDP on political reform. The highly political nature of the two incidents allowed the prime ministers to exercise a top-down style of leadership.

In order to strengthen his power base within the LDP to pursue the administrative reform, Hashimoto reshuffled his cabinet. He named Sato Koko to the cabinet as head of the Management and Coordination Agency, which was a key position for Hashimoto's drive to reform the bureaucracy. The public, however, raised the red flag because of Sato's criminal involvement in the highly publicized Lockheed scandal of the 1970s. That caused Hashimoto's popularity fall down, LDP *zoku* members took the opportunity to attack the prime minister's administrative reform plans(16).

(16) Ibid., p.719.

Engaging in such a leadership style in a coalition government is possible only when the leader has succeeded in attracting public support. When he ignored the need to convince the public about a tax increase, however, Hosokawa failed to persuade the opposition within his governing coalition. Similarly, Hashimoto lost public support when he chose to let intraparty political considerations take precedence over the public reaction regarding the problematic appointment of Sato to the cabinet. LDP *zoku* members did not miss the opportunity to attack Hashimoto's administrative reform effort in order to protect their client industries(17).

THE CHANGING RELATIONSHIP BETWEEN LDP AND THE BUREAUCRACY:

A CASE STUDY ON HASHIMOTO'S ADMINISTRATIVE REFORM

Of major reforms advocated by former Prime Minister Hashimoto Ryutaro during his two-and-a-half-year stay in office that ended in July 1998, administrative reform was at the top of his agenda.

At least three major factors motivated Hashimoto to choose administrative reform as his administration's top issue.

(17) Ibid., pp.720-722.

First, the bureaucracy has been the object of great public criticism in recent years, concerning things in which are mentioned at the beginning of this chapter.

The second motivation was the understanding and consensus of necessity on a drastic structural reform among economic policy experts and business leaders.

The third motivation concerned Hashimoto's position within the LDP. Hashimoto was not the leader of any internal LDP faction and so he lacked a strong power base within the party. Accordingly, public popularity was a particularly important political resource for him. In this respect, he seems to have emulated former Prime Minister Nakasone Yasuhiro. Nakasone held onto power for five years despite a weak power base in the LDP by maintaining a high level of public approval. He had this approval in part because of his success in his own administrative reform effort(18).

Soon after winning the October 1996 general election for the House of Representatives, Hashimoto began intensive efforts to advance administrative reform. In November, he established the Administrative Reform Council (ARC), a government policy

(18) Ko Mishima, "The Changing Relationship Between Japan's LDP and the Bureaucracy", pp.969-970.

deliberation council (*shingikai*), under his own chairmanship. Hashimoto and ARC produced a tentative reform plan called the Interim Report in September 1997. The involvement of politicians from either the LDP or its ruling coalition partners was minimal at this stage due to Hashimoto's strategy of attempting to limit political resistance to his reform effort(19).

The bureaucracy accepted the inevitability of reform. There was a consensus among bureaucrats that, given strong public criticism of the bureaucracy, Hashimoto would be able to carry out some of his intended reforms. They anticipated that the public's distrust of the bureaucracy would make any effort to obstruct reforms far less workable. The bureaucracy's aim was not the complete emasculation of the reform. Rather, it was that each ministerial bureaucracy sought to minimize damage such reform might cause, even if this came at the expense of the interests of other ministerial bureaucracies. Compared with other reform efforts of recent times, it suffered much less from bureaucratic obstructionism.

Policy making over administrative reform unfolded in two stages with different players involved in each. In the first, pre-ARC Interim report stage, only Hashimoto, the bureaucracy,

(19) Ibid., pp.970-971.

some LDP senior politicians, and ARC members were engaged. In this first phase, Hashimoto was willing to show leadership and overcome bureaucratic resistance. He was largely successful in placing the bureaucracy under his control and able to selectively accept or reject the claims the various ministerial bureaucracies made in their endeavors to protect their own interests. Those ministries or government bodies without a *zoku* group or with a weak one lost out - for example, the Ministry of Labour, the Economic Planning Agency, and the Science and Technology Agency were going to be abolished and absorbed by other ministries. Hashimoto prevailed over these bureaucracies and his leadership was effective.

But for those ministries with strong *zoku* support whose claims were rejected, the release of the Interim Report was only the beginning of the fight. In fact, ministries of this sort - such as the Ministry of Post and Telecommunications and the Ministry of Construction - were successful in reversing reform proposals in the second round of policymaking. Hashimoto continued to make concessions to the *zoku*-bureaucracy coalitions and did not demonstrate the leadership that he had showed in the first round. As a result, there was a clear shift in the balance of power over policy making and an inconsistent combination of Hashimoto's leadership and the dominance of the *zoku*-bureaucracy

coalition.

Two patterns were of particular importance in the policy making pursued over administrative reform. The first was Hashimoto's determined efforts to control the bureaucracy; his strong commitment, and the second was the dominance of the *zoku*-bureaucracy coalitions. While the latter factor suggests a continuation of old LDP politics, the former represents a new trend(20).

That these two patterns coexisted suggests that the relative strength of each actor differed at different stages of the policy-making process and in different policy areas. The LDP has become more assertive with respect to the bureaucracy and more suspicious about bureaucratic intentions. The bureaucracy has become more conciliatory and less willing to take the leading role in policy formulation.

BUREAUCRACY IN TRANSITION

A questionnaire shows that bureaucrats lacking confidence, especially in its younger generation. Whereas the majority of bureaucrats answered that "I am satisfied with my

(20) Ibid., p.969.

job as a bureaucrat", only a half of bureaucrats in their age of 20s did the same. About 80 per cent of them also answered that they did not positively recommend their children to become a bureaucrat, although 44 per cent of the whole respondents were in favour of that their children enter the bureaucracy(21). It can be said that in comparison to their seniors, the young generation of the bureaucrats have less clear objective but doubt of the role of the bureaucracy in Japan's development.

They are so-called "cyuryu-nisei", or second generation middle class. They are the children of first-generation immigrants into the metropolitan middle class. What distinguishes them from the first generation is not just the quality of their historical experience. They also differ in average cumulated wealth(22). There is a tendency that social class status is more likely to be inherited. A steady increasing proportion of the students at top universities are the children of parents who went to top universities themselves. Intellectual elites are being reproduced in the same social cluster, on the

(21) Nihon Keizai Shinbunsha ed., *Kanryo - Kishimu kyodai kenryoku* (Tokyo: Nihon Keizai Shinbunsha, 1994), pp. 422-424.

(22) Ronald Dore, "Japan's Reform Debate," pp. 86-87.

contrary of the general belief that Japan has an equality of opportunity. The workings of meritocracy slow down the rates of social mobility(23).

Nevertheless, the bureaucracy also responds to the changes and challenges, whether it is willingly or not. Gregory W. Noble shows in his study on liberalisation of Japanese television broadcasting that the confluence of rapid technological change, interministerial competition, and partial political opening caused the then Ministry of Posts and Telecommunications - now reorganised according to the plan of reorganisation with effect from the year of 2001- to reorder its priorities. Technological innovation may also impinge directly upon the strategies of regulators. The combination of rapid technological progress and slow economic growth exacerbated inherent tensions in bureaucratic goals and pushed MPT in the direction of revolutionising its own regulatory system(24).

The extraordinary ability of a ruling elite to stalemate any attempt to unhorse it is by no means a Japanese phenomenon. Developed countries, especially developed democracies, are

(23) Sato Toshiki, *Fubyodo shakai Nihon* (Tokyo: Cyuko Shinsho, 2000).

convinced that they need a ruling elite. Without it, society and politics disintegrate - as, in turn, does democracy. Only the United States and the few smaller English-speaking countries are immune to this certainty. In all major developed countries other than US, it is considered self-evident that without a ruling elite there can be neither political stability nor social order(25). Bureaucracy can remain themselves in the position of elites in Japan, provided they have strong objectives appropriate to these change of circumstances.

(24) Gregory W. Noble, "Let a Hundred Channels Contend: Technological Change, Political Opening, and Bureaucratic Priorities in Japanese Television Broadcasting", *Journal of Japanese Studies*, vol.26, no.1 (2000), pp.79-109.

(25) Peter F. Drucker, "In Defense of Japanese Bureaucracy", p.72.

CHAPTER 5

CONCLUSION

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The first two decades following the Meiji Restoration of 1868 produced thoroughgoing administrative centralization, creating a strong technology emerged as the central force in both policymaking and implementation, establishing the essence of the modern bureaucratic structure. There has been a deeply rooted antipluralistic bias to much of Japanese political structure and culture. Japanese national bureaucracy appears to be one of the few sectors of prewar Japan that were minimally damaged by seven years of U.S. occupation. The constitution created after World War II also continued to allow for a large bureaucracy. The military, historically the ruling elite, enjoys no public support whatsoever. Big business now commands unprecedented public respect, but it would not be accepted as society's ruling elite.

After Japan's bitter defeat in World War II, a majority consensus developed that the country should concentrate on economic construction and technological catch-up. Until recent years, the economic bureaucracies - such as the Ministry of Finance (MOF), the Ministry of International Trade and Industry (MITI), the Ministry of Agriculture, Forestry and Fisheries, the

Economic Planning Agency and the major government corporations - have developed complex and far-reaching mechanisms for translating policy into achievement, and have built a bureaucratic citadel within the state founded on a set of premises about national directions.

The bureaucracy have strove to attain and harmonize three broad goals: maximize power, minimize trouble, and acquire a measure of glory. Leadership of the catch-up effort justified an aggressive stance toward industrial promotion and provided an opportunity for elite bureaucrats to act on their own ideas and preferences. Even during the rapid growth period, officials used the catch-up imperative as a rationale to magnify not only the power and prestige of Japan but also of their individual ministries. As they competed to impress their superiors, bureaucrats constantly strove to secure larger budget allocations from the MOF and the politicians, to expand their jurisdictions at the expense of competing ministries, and to consolidate a rich and expanding network of private companies and quasi-public institutions into which to place retiring officials.

The bureaucrats also have sought to avoid trouble and disgrace. Minimizing trouble meant protecting the ministry and the industries under its jurisdiction from disruption and thus

from criticism and intervention by business, politicians, and the attentive public. Avoiding obvious policy reversals and the bankruptcies of major regulated firms impelled the ministry to listen carefully to the concerns of constituents and also to retain control over the course of events. This controlling but passive and indulgent stance was consistent with an "iron triangle" model of policymaking - and utterly inconsistent with promotion of competition and new entry, for new entrants might well undermine politically connected producers.

Thus, the relationship between the state bureaucracy and privately owned business, i.e. the MITI and the large corporations, or the MOF and the banks, and the like, tends to be highly informal and personal. The effectiveness of the Japanese bureaucracy is not judged by impersonal standards, but counted by how much a ministry has "protected well-performing firms" or "adjusted the benefits among various members of the business world", rather than what the overall effect has been on the economy or society.

This is a fundamental problem of the state-guided high-growth system which would never disappear; it is inherent in the capitalist developmental state, like Japan. Over the past 50 years Japan developed and attempted to implement three different solutions to this problem - namely, self-control,

state control, and cooperation.

Studies of Japanese policy making show that patterns are extremely diverse, however, assessing the role of the bureaucracy in postwar political change involves considering how the bureaucracy has contributed to the postwar policy agenda, in terms of the objectives set, the methods used to achieve them and the criteria used to judge the effects. Bureaucracy has been important in Japan in legitimating state functions through politics and performance. And bureaucracy is not a passive servant of politics, and the institutional process of bureaucratic activity has a life of its own. Its legitimating activities have involved reinforcing the relation between the state and the people, emphasising the "public service" aspects of its functions.

The role of the Japanese bureaucracy in making policies work has been vital to the success of the Japanese state in several areas - economic planning is a good example. The methods of the postwar political agenda have largely been the responsibility of the bureaucracy.

The implementing function of bureaucracy has important political ramifications in that the delivery of policies affects popular values as they relate to the state. This is not to say that the bureaucracy has permanently affected popular political

values, but the bureaucracy has held a powerful political weapon in the effective way it has been able to carry out policies and, therefore, to create new policies, new demands, new clients and new power structures.

Models of bureaucratic dominance are mostly drawn from the early years of LDP rule when there existed an overwhelming public consensus on the desirability of rapid industrialization and high GNP growth, and when the party's organization was rudimentary and its most important leaders drawn largely from senior bureaucrats. Even in that period, bureaucratic behaviour was characterised by a considerable amount of anticipatory response, as professional bureaucrats sought to avoid alienating the elected political leadership and endeavoured to remain as much of their traditional power and autonomy as they could in a new political system in which they were formally responsible to the Diet and to the political parties that controlled it. But it should be recognised that the bureaucratic power, especially on issues relating to the national economy, was enormous. Agreement on the nation's economic goals in those years was so profound that economic policy decisions were regarded as largely administrative rather than political issues and few dissented from the view that they could be handled best by Japan's capable administrators in the professional bureaucracy.

The role of the bureaucracy became decisive and crucial in the subsequent development of the nation's political and economic systems. The strength of bureaucratic power, however, should not be exaggerated. It is also important that the ministries have lost power vis-a-vis the Diet, opposition parties, local government, consumer movements, and the courts, so that there was a general fragmentation, decentralization, and debureaucratization of government power since in 1970s. Although the bureaucracy remains the most formidable centre of power in Japan, it is also clear that the bureaucracy is more vulnerable today than in decades past.

As the economy stalled in the 1990s, critics in Japan increasingly questioned the commitment and capacity of the ministries to contribute to catch-up and national development, instead emphasizing their obsession with jurisdiction battles, descent from heaven or *amakudari*, and ease of regulation. Once a trend is set in motion in Japan, it is very difficult to stop, let alone reverse. The government has continued to greatly extend its role. The results including the "high-price, high-cost syndrome", causing tangible distortions everywhere in society and economy at large. After "small government" and tax cuts in the early 1980s, then privatisation, in the mid- to late 1980s, then deregulation has become the central issue of Japan's

reform after the election of the Hosokawa Morihiro government in 1993. At the present, Japan is facing the enormous task of adapting to and coping with whole structural change. And the bureaucracy accepted the inevitability of reform, although they try to minimize the damages of it.

The reorganisation plan launched under Hashimoto Ryutaro government eventually passed the Diet in the summer of 1999, to take effect January 2001 (see the appendix). In this plan MITI and MOF has remained virtually unscathed, while, for example, the Ministry of Posts and Telecommunications, the Home Ministry, and the Management and Coordination Agency merged to create a Ministry of General Affairs.

Political changes since the establishment of Hosokawa Morihiro cabinet, i.e. the collapse of LDP domination, have brought about a series of substantial transformation to Japan's political decision-making process. Two patterns were of particular importance in the policy making; one was prime ministers' determined efforts to control the bureaucracy, and the other was the dominance of the *zoku*-bureaucracy coalitions. While the latter factor suggests a continuation of old LDP politics, the former represents a new trend. That these two patterns coexisted suggests that the relative strength of each actor differed at different stages of the policy-making process

and in different policy areas. The LDP has become more assertive with respect to the bureaucracy and more suspicious about bureaucratic intentions. The bureaucracy has become more conciliatory and less willing to take the leading role in policy formulation.

The Japanese bureaucracy is feeling more vulnerable to political pressures. Profound public distrust is making bureaucrats more cautious about their behavior. These developments are reducing the strong disposition to activism that has characterized the Japanese bureaucracy and making bureaucrats more conservative in their actions. Their ability to play a leading role in policy formulation is visibly decreasing. Historically, the bureaucracy has been a major actor in initiating policy changes and reorienting policy direction. It has provided important leadership and consistency in Japanese policymaking, however, the changing relationship between the bureaucracy and the LDP suggest that the Japanese government might not be able to effectively respond to the call for change.

Moreover, the ongoing arguments of "deregulation" and "structural reforms" in which the ideas are derived from the American model, are difficult to entirely transplanted into Japan, just as much as when Japan had opened up the country and

started modernization in the latter half of 19th century it was impossible to adopt the Western structures thoroughly.

Nevertheless, the ruling elites in developed countries need to survive for political stability, whether the actual role is positive or negative, even if it is totally discredited and dysfunctional. And Japanese bureaucracy will still remain as one of the most powerful ruling elites, since an alternative has not been available so far.

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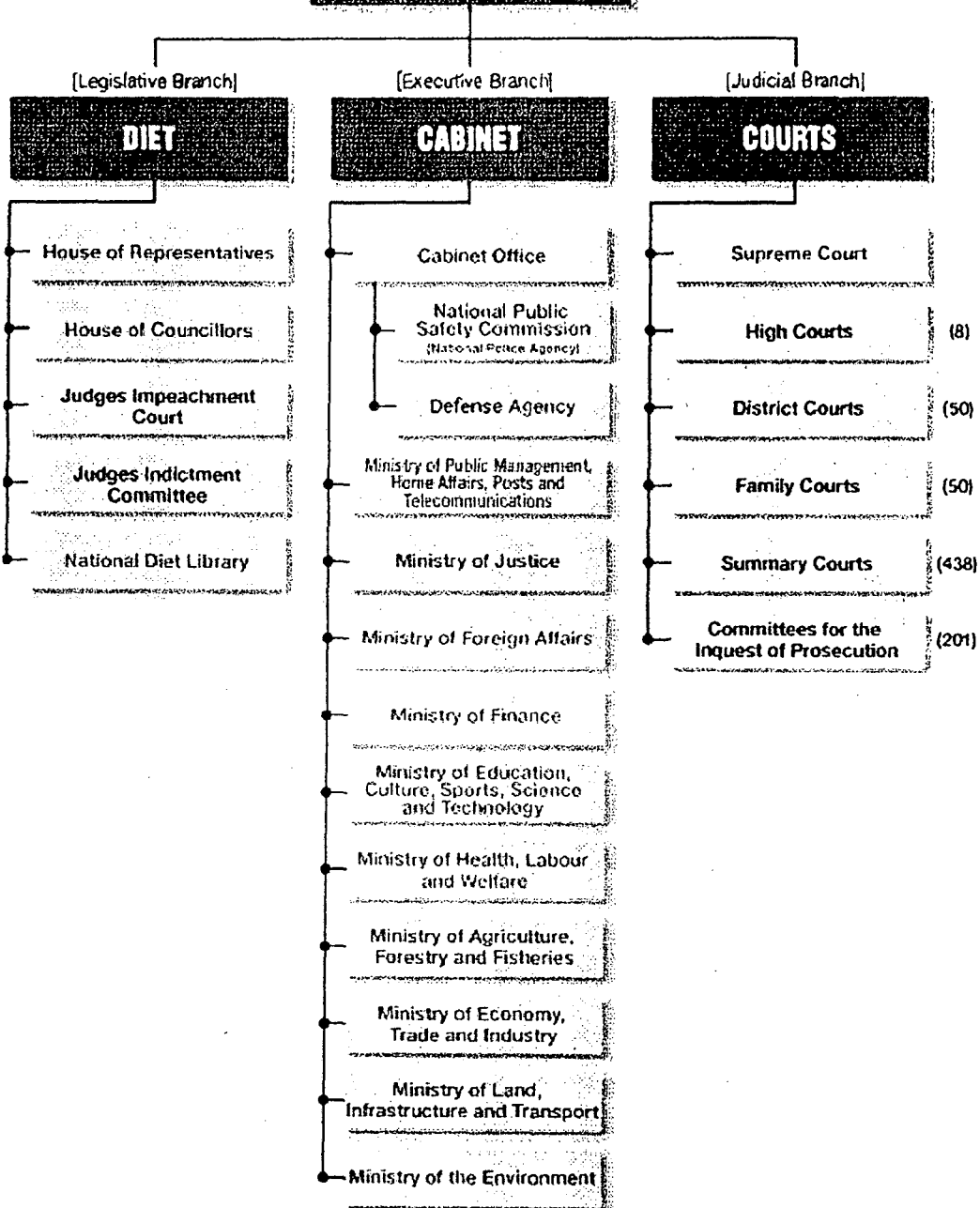
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APPENDIX

GOVERNMENT OF JAPAN



THE NATIONAL ADMINISTRATIVE ORGANIZATION IN JAPAN

[The Outline of National Administrative
Organization]

[Shared Responsibility of Management of State
Organs]

[The Cabinet]

[The National Administrative Organs and Their
Structure]

1. The Outline of National Administrative Organization

National administration is uniformly carried out by the Cabinet and the organizations under the Cabinet.

The Cabinet, Ministries, Agencies, and public corporations form one organization, at the top of which exists the Cabinet. It is responsible for all the activities of State except legislative and judicial ones. Consequently it is natural that the agencies and corporations which take care of national administration should be systematically organized under the Cabinet.

There are the Prime Minister's Office and twelve

administrative organizations in the proper sense of the term.

But the activities of State which are taken care of by the Ministries do not cover all the areas of State activities.

Public corporations, which now as of 1 January 2000 amount to 78, have been established to perform efficiently the business of the State. These special corporations are subject to the supervision and control of Ministers through the means of appointment of directors and financial supervision. Some of them are regarded the same as government offices in the application of statutes concerned.

It may be safe to say that public corporations are the instrumentality or agency of the national government, though their juridical person is different from that of State. Therefore, the whole organization for the national administration covers an area larger than that of national administrative organization in the proper sense of the term (the Prime Minister's Office and 12 Ministries).

2. Shared Responsibility of Management of State Organs

The Constitution stipulates that the executive power shall be vested in the Cabinet. The Cabinet itself is given several proper administrative works by the Constitution. (see Article 73).

The Cabinet has following functions:
to administer law faithfully
to conduct affairs of State
to manage foreign affairs

to conclude treaties
to administer the civil service
to prepare the budget and present it to the Diet
to enact cabinet orders to execute the provisions of the Constitution and law
to decide on general amnesty, special, amnesty, commutation of punishment, reprieve, and restoration of rights

But it is needless to say that the Cabinet can never perform all the activities of State for itself. Article 74 provides that all laws and cabinet orders shall be signed by the competent Minister of State and countersigned by the Prime Minister. And Article 72 provides that the Prime Minister exercises control and supervision over various administrative offices. In other words, the Constitution presupposes that the Ministers of State shall be competent Ministers and that specialized administrative organization which takes care of State affairs shall be established.

Under this Constitution the Cabinet Law provides that the Ministers shall divided among themselves administrative affairs and be in charge of their respective share thereof as a competent Minister.

In accordance with the provision of the Cabinet Law, the National Government Organization Law (Article 5 (1)) provides that the heads of the Prime Minister's Office and each Ministry shall be, respectively, the Prime Minister and the Minister of each Ministry, who, as competent Ministers referred to in the Cabinet Law, shall have charge and control of their respective administrative affairs. Namely Ministers

who are competent Ministers are the heads of the Prime Minister's Office and the Ministries. Their administrative affairs are the fields of public administration which are shown by "the scope of the function and powers of the respective administrative organs", which is defined by law. Generally speaking, each establishment law has provisions called "Authorities of Ministry" where various authorities of each Ministry are described for the convenience of the people who are interested in the activities of State.

The fact that each competent Minister has the responsibility of management of each field of national government does not tell what authority he has in dealing with the specific affairs within his jurisdiction. There are many cases where the Prime Minister or each competent Minister has no authority to perform the affairs which are subject to his control and supervision. For example, the Minister of Finance has responsibility for the management of national taxation but has no power to impose certain amount of tax on the citizens. The power belongs to the chief of taxation office.

The central function of the Cabinet is the coordination to secure uniformity of governmental administration performed by various administrative offices.

That is the reason why the Constitution provides that the Prime Minister, representing the Cabinet, exercises control and supervision over various administrative offices. The Cabinet Law stipulates that this power should be exercised in accordance with the policies decided upon at the Cabinet

consultation at the Cabinet meetings, decide on any point of doubt relating to the jurisdictions between the competent Ministers. And the Prime Minister may suspend the official measures or orders of any administrative office, pending action by the Cabinet. These powers of the Prime Minister are needed for securing integrity or uniformity of the national administration.

3. The Cabinet

(1) The Organization of the Cabinet

The Cabinet consists of the Prime Minister, who shall be its head, and not more than 20 Ministers of State. (Const. Article 66 (1), Cabinet Law Article 2 (1))

The Prime Minister shall be designated from among the members of the Diet by a resolution of the Diet. (Const. Article 67)
The Emperor shall appoint the Prime Minister as designated by the Diet. (Const. Article 6)

The Prime Minister shall appoint and dismiss Ministers of State. More than half of the Ministers must be chosen from among the members of the Diet.

The Prime Minister and the Ministers of State must be civilians.

The Prime Minister may remove the Ministers of State as he chooses. This power of removal is also the basis on which he keeps unity and integrity of the Cabinet.

(2) Management of the Cabinet

Cabinet Meeting

The Cabinet shall perform its functions through Cabinet meeting. (Cabinet Law Article 4 (1)) There is no written regulation concerning the procedures of Cabinet meeting. Regular Cabinet meeting is held on every Tuesday and Friday. If necessary, extraordinary Cabinet meeting is held at anytime.

As the Cabinet, in the exercises of executive power, shall be collectively responsible to the Diet, it is presupposed that the decision should be unanimous. In order to secure the unanimity the Prime Minister is provided with the authority to appoint or dismiss the Ministers of State.

The Prime Minister shall preside over Cabinet meetings.

The matters are coordinated through Administrative Vice-Ministers' conference before they are decided at the Cabinet meeting. Administrative Vice-Ministers' conference is held on every Monday and Thursday, one day before the Cabinet meeting.

(3) Subsidiary Organs of the Cabinet

The Cabinet Secretariat is in charge of the arrangement of the agenda, the coordination necessary for maintaining integration of the policies, and the collection of information and research.

The Cabinet Legislation Bureau reviews proposed bills, drafts of cabinet orders and treaties, and expresses legal opinion to the Cabinet, the Prime Minister or each Minister.

The Security Council of Japan deliberates important matters on national defense and measures to be taken in case of grave emergency. This is a deliberative council, whose members are the Prime Minister, the vice prime minister, the Minister for Foreign Affairs, the Minister of Finance, the Chief of Cabinet Secretary, the Chairman of National Public Safety Commission, the Director-General of Defense Agency and the Director-General of Economic Planning Agency.

The National Personnel Authority was established to secure neutrality of national civil service in accordance with National Public Service Law, and it is under the general control of the Cabinet.

4. The National Administrative Organs and Their Structure

The National Government Organization Law provides four kinds of administrative organs:

Office on the Ministerial Level, Ministry, Agency and Commission.

The main purpose of this law is to provide the criterion of structuring these administrative organs.

The primary administrative organs are the Office on the Ministerial Level and Ministry. Agency and the Commission are not on the same level with the other two. They are put as external organs of Ministry or Office on the Ministerial Level and under its control.

At present, only one administrative organ is classified as the Office on the Ministerial Level. It is the Prime Minister's Office. There are twelve Ministries.

- Prime Minister's Office
- Ministry of Justice
- Ministry of Foreign Affairs
- Ministry of Finance
- Ministry of Education
- Ministry of Health and Welfare
- Ministry of Agriculture Forestry and Fisheries
- Ministry of International Trade and Industry
- Ministry of Transport
- Ministry of Posts and Telecommunications
- Ministry of Labour
- Ministry of Construction

Each Ministry and each Agency of which the head is a Minister of State as provided for by law shall have one or two Parliamentary Vice-Minister. Some Parliamentary Vice-Minister shall take charge of formation of policies and planning of programs, conduct the political affairs; and under prior orders of the Minister perform the Minister's functions on his behalf in the absence of the Minister. Others shall assist the Minister, participate in the formation of policies and in program planning and conduct the political affairs. (National Government Organization Law, Article 17)

Each Ministry shall have one Administrative Vice-Minister who assists the Minister in such a way as to keep in order the affairs of Ministry and to supervise the working of respective bureaus and divisions, attached agencies and local branches. As mentioned above, Agencies and Commissions shall be set up as external organs of an Office on the Ministerial Level or of a Ministry. But in case of special necessity, Commissions or Agencies may be set up in a Commission or an Agency of which the head is a Minister of State.

An Agency is established, when a certain area of the activities which are dealt with by a Ministry is of large volume, its character is different from other works, and consequently it is appropriate for the area of work to be separated from the other and to be taken care of by a head (who is substantially independent of the minister) from the viewpoint of efficiency. A Commission may be established, when

substantial control and supervision by a Minister is likely to thwart the achievement of objectives of a certain work and the work may well be carried out by a joint conference or panel, precluding direct control and supervision of a Minister.

Fair Trade Commission
National Public Safety Commission
Environmental Disputes Coordination
Commission
Financial Reconstruction Commission
National Bar Examination Administration
Commission
Public Security Examination Commission
Labour Relations Commission for
Seafarers
Central Labour Relations Commission

The head of an Agency is called "Director-General" and that of Commission is called "Chairman".

They cannot directly submit bills or proposed cabinet orders to the Cabinet nor issue ministerial orders.

Except these two, Agencies and Commissions enjoy almost equal status with that of Ministries.

Agency shall have "Deputy Director-General" but those the heads of which are Ministers of State shall have "Administrative Vice-Ministers".

Imperial Household Agency	Prime Minister's Office
* Management and Coordination Agency	do.
* Hokkaido Development Agency	do.

* Defense Agency	do.
* Economic Planning Agency	do.
* Science and Technology Agency	do.
* Environment Agency	do.
* Okinawa Development Agency	do.
* National Land Agency	do.
Financial Services Agency	do. (Financial Reconstruction Commission)
Defense Facilities Administration Agency	do. (Defense Agency)
Public Security Investigation Agency	Ministry of Justice
National Tax Administration Agency	Ministry of Finance
Agency for Cultural Affairs	Ministry of Education
Social Insurance Agency	Ministry of Health and Welfare
Food Agency	Ministry of Agriculture, Forestry and Fisheries
Forestry Agency	do.
Fisheries Agency	do.
Agency of Natural Resources and Energy	Ministry of International Trade and Industry
Patent Office (Agency)	do.
Small and Medium Enterprise Agency	do.

Maritime Safety Agency	Ministry of Transport
Marine Accidents Inquiry Agency	do.
Meteorological Agency	do.
Fire Defense Agency	Ministry of Home Affairs

Asterisk (*) indicates the Agency the head of which is a Minister of State.

The establishment or abolition of Office on the Ministerial Level, Ministries, Agencies or Commissions shall be provided for by law.

Administrative organs are hierarchically structured at the top of which exists Minister, Chairman or Director-General.

National Government Organization Law classifies the internal structure into five groups: internal subdivisions, local branch offices, councils, facilities, and extraordinary organizations.

(1) Internal Subdivisions

Prime Minister's Office	Secretariat	Bureau	Department
Ministry	do.	do.	do.
Agency (head is a minister)	do.	do.	do.
Agency (head is not a minister)	do.		do.
Commission	do.		do.

Secretariat is the organization for staff work. As a rule it takes care of archives and documents, budgeting, staffing, public relations, statistics, investigation, etc., through which it controls and

coordinates the activities of various bureaus and departments.

Bureaus and departments are line organizations which directly take care of the duties of the administrative organ. The establishment of secretariats, bureaus and departments is to be provided for by cabinet order. Divisions are established within secretariat, bureau and department. Their establishment or abolition is to be provided for by cabinet order.

(2) Local Branch Offices

They are established by law to take care of a portion of the affairs of administrative organs in places outside of the Central Offices.

(3) Councils and others

There are many types of organizations which belong to the category provided in Article 8, 8-2 and 8-3 of the National Government Organization Law. One of the most important of them are advisory councils.

The National Government establishes advisory councils as the device to obtain information from experts in various fields to secure fairness of administration, to adjust the conflicting interests or to coordinate various fields of administration.

Based on *Organization of the Government of Japan 2000*
(Management and Coordination Agency, 2000)

Gist of the Central Government Reform

I. Establishing a System with More Effective Political Leadership

To strengthen the administrative leadership of the Cabinet and Prime Minister, the reform

- introduced new positions in the Cabinet Secretariat;
- established a new Cabinet Office;
- created Ministers for Special Mission;
- set up Councils of important policies, such as the Council on Economic and Fiscal Policy;
- placed new politically appointed positions, State Secretary and Parliamentary Secretary, within each Ministry.

II. Restructuring of National Administrative Organs

- Currently 1 Office and 22 Ministries were reorganized into 1 Cabinet Office and 12 Ministries by realigning the roles of the government.
- Policy coordination on issues that concern two or more Ministries will become more effective by the comprehensive coordination of the Cabinet Office which is given higher status than other Ministries.

III. More Transparent Administration

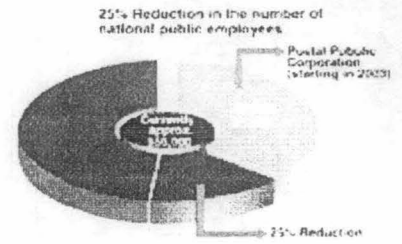
89 undertakings of the government such as the operation of national museums and research institutes are now conducted by IAIs (Independent Administrative Institutions) which are organizationally independent from the government. The establishment of 59 IAIs has been legislated, and most of them will start operating from April 1, 2001. In the IAI system,

- its performance is evaluated by a third party;
- the general principles of the accounting system of

- private companies are incorporated;
- a wide range of its information is disclosed;
- each employee's salary reflects his/her performance as well as the performance of each IAI.

IV. Drastic Streamlining of the Central Government

- A goal is set to cut the number of national civil servants by 25% over the decade.
- The number of bureaus is reduced from 128 to 96 (by 25%) and that of divisions from approximately 1200 to 1000 (by 20%).



I. Establishing a System with More Effective Political Leadership

A number of laws related to the administrative reform of the central government in January 2001 were enacted in 1999. The four main objectives of the reform are to strengthen the function of the Cabinet, to reorganize the Central Government, to make the administration more transparent, and to streamline the government. How then will the national administration change toward the 21st century? Let's begin with the establishment of political leadership.

1. Necessity of Strengthening the Functions of the Cabinet
2. Amendment to the Cabinet Law and Related Measures
3. Establishment of the Cabinet Office
4. Reinforcement of Political Leadership by
the Introduction of the State Secretary
5. Realignment and Rationalization of the Policy Councils

1. Necessity of Strengthening the Functions of the Cabinet

As Japan's goals have become more diverse, and both internal and external circumstances have seen increasingly radical changes, it has become

administrative leadership of the Cabinet and Prime Minister so that timely decisions can be made with strategic and comprehensive administration.

Among the laws enacted in 1999 are the "Law to Amend the Cabinet Law" and the "Law to Establish the Cabinet Office." Both provide measures to strengthen the functions of the Cabinet.

2. Amendment to the Cabinet Law and Related Measures

1. Emphasis on the principle that sovereign power resides with the people

The final report submitted by the Administrative Reform Council, formed by former Prime Minister Ryutaro Hashimoto, states that the goal of the ongoing administrative reform is to rebuild "the make-up of this country," which is no less the reform of "administration" than the matter of the way we, the people, should be. This leads to an emphasis on the principle that sovereign power resides with the people, who, as the electorate of government, must take responsibility for the sound administration of the State.

This statement from the abovementioned final report has resulted in the amendment of the Cabinet Law. The phrase "based on the principle that sovereign power resides with the

people has been inserted into Article 1, to clarify the positions of the Diet, Prime Minister and Ministers of State in terms of government.

While the Cabinet exercised executive power under the principle of sovereign power, this principle is now specifically mentioned in the Cabinet Law, since the exercise of executive power directly affects the everyday lives of the people.

Clarifying the relationship within the law between the sovereign people, the Diet, Prime Minister, and Ministers of State is, in a sense, affirming the leadership of the Prime Minister in government.

2. Number of Ministers of State

The number of Ministers of State, fixed as not more than twenty in the existing Cabinet Law, has been changed to "not more than fourteen"; nonetheless in case of special necessity, up to three Ministers may be additionally appointed, thus bringing the maximum number to seventeen.

3. Clarification of the Prime Minister's authority to propose

The Cabinet Law has been also amended to clarify that the Prime Minister, who presides over Cabinet meetings as the head of the Cabinet, may submit to the Cabinet proposals on such issues as "basic principles on important policies for the Cabinet." These "basic principles" include:

- i. basic principles on external policies and national security policies,

- ii. basic principles on administration and financial management,
- iii. basic principles on the management of the entire economy and the planning of the budget, and
- iv. basic principles on the organizational and personnel affairs of administrative organs.

As a result of the amendment, the administrative leadership of the Prime Minister as the head of the Cabinet has been further clarified. Thus, it is expected that the Cabinet will be able to fulfill its organizational purpose of conducting affairs of State, sharing the Prime Minister's basic principles.

4. Clarification of the Cabinet Secretary's planning and drafting functions

In addition to the clarification of the Prime Minister's authority to propose, the Cabinet Law has been amended to clarify that the Cabinet Secretariat, which directly assists the Prime Minister, takes charge of drafting and planning the "basic principles" mentioned in the preceding section, and now stipulates that the Cabinet Secretariat drafts and plans "basic principles on important policies of the Cabinet."

Moreover, with regard to other affairs, it has also become more important for the Cabinet to consummate a "comprehensive strategic function" rather than to subsequently "coordinate" measures taken by administrative

branches. The amended Cabinet Law clarifies that the Cabinet Secretariat takes charge of "planning and drafting," in addition to "comprehensive coordination" of matters stipulated in the existing Law.

5. Introduction of new positions in the Cabinet Secretariat

Three Assistant Cabinet Secretaries, a Cabinet Secretary for Public Relations, and a Cabinet Secretary for Information Research have been created within the Cabinet Secretariat, replacing the present posts of Chief Cabinet Councillor on Internal Affairs, Chief Cabinet Councillor on External Affairs, Director-General of the Cabinet Office for National Security Affairs and Crisis Management, Director-General of the Cabinet Public Relations Office, and Director-General of the Cabinet Information Research Office. This change is intended to strengthen the Cabinet Secretariat's function in planning and drafting, and comprehensive coordination.

The three Assistant Cabinet Secretaries are in charge of the affairs currently administered by the Cabinet Councillor's Office on Internal Affairs, the Cabinet Councillor's Office on External Affairs, and the Office for National Security Affairs and Crisis Management in the Cabinet Secretariat. The new arrangement provides institutional flexibility by not separating the jurisdiction of each Assistant, thus enabling them to respond to situations in a

unity manner.

The occupants of these newly-created posts are to be appointed by the Prime Minister. Each time the Cabinet resigns en masse, the appointment of the posts must be processed for the new Cabinet.

6. Flexibility in the number of Special Advisors and Private Secretaries to the Prime Minister

The Special Advisor to the Prime Minister and the Private Secretary are positions that assist the function of the Prime Minister directly. The former gives advice and makes representation to the Prime Minister on important policies of the Cabinet; the latter, among other functions, takes charge of confidential matters concerning the Prime Minister.

These reforms, as part of the consolidation of the direct assistance system provided for the Prime Minister, have changed the fixed number of Special Advisors and Private Secretaries. That is, (i) the fixed number of Special Advisors has been increased from three to five; and (ii) the number of Private Secretaries currently fixed by law will be provided by Cabinet order.

7. Opening the Cabinet Secretariat's posts to individuals from both inside and outside of the Government

In order to ensure that talent can be brought into

the Cabinet Secretariat from both inside and outside the Government, an inflexible method of assigning particular posts in the Cabinet Secretariat to officials from particular Ministries will be avoided. The effective use of the "term recruitment system," which is planned to be introduced, based on the "Report on the Basic Principles of the Reform of the Public Personnel System" (on March 16, 1999 by the Council on the Public Service Personnel System), will be considered and other measures will be taken to recruit eminent officials from various Ministries and specialists from outside the Government.

3. Establishment of the Cabinet Office

1. Status of the Cabinet Office

Strengthening the functions of the Cabinet is an essential element of this reform. As a contribution to this element, the Cabinet Office headed by the Prime Minister has been established to reinforce the support system for the Cabinet and the Prime Minister.

The organizational purposes of the Office include providing support for Cabinet affairs. The Office is given a higher status in assisting the Cabinet by presiding over the administrative offices. It is expected to consummate a strong coordinating function by providing prior proposals for policy directions rather than

In order to enable the Office to fully perform its functions of planning and drafting, and comprehensive coordination, the positions of the Ministers for Special Missions will be created. These Ministers are equipped with solid coordinating power vis-a-vis the heads of related administrative branches; and four collegial bodies, including the Council on Economic and Fiscal Policy, have been established, headed by the Prime Minister or the Chief Cabinet Secretary, and having competent Ministers and highly-knowleable people as their members.

2. Organizational Purposes and Functions

The Cabinet Office is the administrative organ whose roles are twofold: to assist the Cabinet with its functions with a higher status than the other Ministries, as explained in the previous sections; and to administer the Office's affairs, in a manner similar to the other Ministries.

The Law to Establish the Cabinet Office, unlike the laws establishing the other Ministries, stipulates its purposes separately in light of the two different types of functions. The law also separates the provisions of the Office's undertakings in parallel with its purposes. Moreover, the law makes it explicit that the Office engages in, as an organ of the Cabinet, planning and drafting, and comprehensive coordination, in order to complement the functions of the Cabinet Secretariat which is in

charge of final coordination at the highest level.

3. Organization of the Cabinet Office

i. Top management

With its purposes spreading over the entire government, the top management of the Office is reinforced more than the other Ministries in order to fully accomplish its functions.

- a. The Prime Minister, the head of the Cabinet, presides over the affairs of the Office, and controls and supervises its personnel in regard to the performance of duties.
- b. Since the Office, which performs a part of the comprehensive strategic function of the Cabinet, needs to deal with a large number of affairs that require Minister-level judgments, the Chief Cabinet Secretary and Ministers for Special Missions directly assist the Prime Minister. Meanwhile, the Deputy Chief Cabinet Secretaries, in addition to the Chief Cabinet Secretary, participate in the policy-making of certain affairs of the Office, since the close contact and coordination between the Office and the Cabinet Secretariat are required; the latter performs comprehensive and strategic functions and conducts the final

coordination at the highest level as an organ of the Cabinet.

- c. The three State Secretary posts and three Parliamentary Secretary posts have been installed in the Office to enhance political leadership in policymaking.

ii. Ministers for Special Missions

The Prime Minister will be able to appoint the Ministers for Special Missions at his discretion, when he considers the appointment highly necessary for the cohesiveness of the policies of administrative branches.

However, Ministers for Special Missions will always be appointed respectively for the affairs concerning Okinawa and Northern policies, and those under the jurisdiction of the Financial Services Agency.

The Ministers for Special Missions are granted, for the sake of "strong coordination," authority over the heads of related administrative organs, such as to request materials and explanations, to recommend and request reports on measures taken under such recommendations, and to make proposals to the Prime Minister who has power to control and supervise the administrative

iii. Director-General-level positions for special missions

Director-General-level positions for special missions have been introduced in the Cabinet Office, in addition to the conventional Minister's Secretariat and bureaus, primarily to efficiently accomplish the planning and drafting, and comprehensive coordination needed for the integration of the policies of administrative branches.

Specifically, seven such positions have been set up for economy and finance; arts and science, and technology; disaster prevention; and so forth. The Prime Minister considers the priority of political issues and decides upon the division of labor among them. This arrangement is intended to enable the timely enforcement of policies.

iv. Councils on important policies

The Councils on important policies are set up within the Office to form an organ that "contributes to the planning and drafting, and comprehensive coordination needed for the integration of the policies of administrative branches."

The Prime Minister or the Chief Cabinet Secretary presides over the Councils, which will be in charge of the business deemed proper to be dealt with by the conference of highly-knowledgeable people. With the competent Ministers as members, the Councils are expected to

contribute to the Cabinet's timely decision-making, and with their highly-knowledgeable members are expected to contribute to proper policy-making by reflecting upon their academic knowledge and practical experience in their research and deliberations.

The Council on Economic and Fiscal Policy; the Council for Science and Technology Policy; the Central Disaster Prevention Council; and the Council for Gender Equality have been established as Councils on important policies.

v. Independent organs

The National Public Safety Commission, the Defense Agency and the Financial Services Agency have been re-positioned as independent organs within the Office. Also, the Defense Facilities Administration Agency will remain in the Defense Agency.

4. **Others**

Consideration will be given to the application of such new systems as a "centralized personnel management system" and "the term recruitment system" in the sections related to planning and drafting, and comprehensive coordination. Measures may be taken to open positions, if necessary, to eminent officials from other administrative organs and specialists outside the government.

the Introduction of the State Secretary

The new positions of the State Secretary and the Parliamentary Secretary have been installed in each Ministry to reinforce the function of assisting the Minister with his/her political judgment.

The introduction of these positions and the restructuring of the central government were first agreed upon by the ruling party and then discussed between the ruling and opposition parties, and finally confirmed by the enactment of the "Law concerning the Vitalization of Diet Deliberations and the Establishment of the Policy-making System with Political Leadership" (drafted by members of the Diet). The laws related to the administrative reform contain amendments to the National Government Organization Law and the National Civil Service Law that are necessary for the installment of the two positions.

Under the existing system, the Parliamentary Vice-Minister (one in each Ministry as a rule) assists the Minister in making political decisions by giving advice on particular policies and plannings in accordance with the Minister's instructions. On the other hand, the new State Secretary will control and supervise related administrative branches in terms of policy-making and planning, and will make necessary policy decisions, in accordance with orders from the Minister, placing him/her second in line to the Minister with regard to decision-making. Meanwhile, the Parliamentary Secretary will give the Minister advice on particular policies and plannings in accordance with the Minister's instructions.

Furthermore, both the State Secretary and the Parliamentary Secretary are to be in charge of coordinating administration and politics, and will be authorized by the abovementioned legislation by

members of the Diet to participate and give answers to questions in committees and other Diet meetings in support of their Minister.

5. Realignment and Rationalization of the Policy Councils

Critics have pointed out that the Policy Councils have only acted as a camouflage over the self-righteous policies of bureaucrats, and have merely accelerated the sectionalism of officialdom. In response to such criticism, the "Basic Plan concerning the Realignment and Rationalization of the Councils, etc." was decided upon by the Cabinet, which aims to make it explicit that the Cabinet or the Minister of State, and not the Policy Councils, takes responsibility for policy-making.

1. Realignment of the Policy Councils

The number of Councils has been reduced from 211 to 90. The number of Councils that deliberate basic policies, in particular, has been reduced to around one sixth of what it was, from 176 to 29.

2. Preparation of the guidelines for the management of the Policy Councils and other meetings

In accordance with the Basic Law on the Administrative Reform of the Central Government, the Final Report of the Administrative Reform Council and the related Cabinet decisions, guidelines have been drawn to set standardized rules with regard to the establishment, organization, and management of the Councils, and the holding of informal meetings organized by administrative organs.

i. The guidelines concerning the

establishment of the Councils advocate the active utilization of "public comment procedure" and public hearings, so as not to establish ineffective Councils.

- ii. The guidelines concerning the composition of the Councils limit the number of Council members to no more than twenty in principle, and no more than thirty at most. The guidelines also exclude, in principle, the Ministers of State and other administrative officials from becoming the Council members.
- iii. The guidelines concerning the management of Councils:
 - in principle exclude ex-officials of the Office or Ministries from becoming the Council members;
 - in principle limit the term of each Council member to no longer than two years, and restrict reelection so that no Council member can occupy the same seat for a period exceeding ten years;
 - render the reports of Council reflective upon the various opinions of Council members when their views are divided, as final policy decisions of the administration are made under the responsibility of the Cabinet or the Minister of State;
 - in principle require the prompt disclosure of reports on the meetings to the public.
- iv. The guidelines concerning the informal meetings that do not fall under the category of Councils require that such meetings be used to hear opinions and exchange views in a manner deemed appropriate for such meetings.

II. Restructuring of National Administrative Organs

To respond to the major administrative issues in the 21st century, the Ministries have been restructured according to their organizational purposes. This section explains the concept of this restructuring and the new system of policy coordination.

1. Restructuring according to Organizational Purposes
2. New Systems

1. Restructuring according to Organizational Purposes

Reviewing the role of the national administration based on the principle of "from the public sector to the private sector" and "from the central government to the local governments," the administrative reform at this time has reorganized the Ministries according to their main "purposes" in a way that they can perform as synthetic and coherent a function as possible, in order to properly respond to the main administrative issues in the 21st Century.

Accordingly, the National Government Organization Law has been revised in the way that each Ministry's

"purposes" and "functions" are what its existence depends upon, and the existing provisions defining the Ministry's authority, which appear to grant overly extensive discretion to each Ministry, have been eliminated.

For the creation of the new Office and Ministries, the laws have been enacted to establish the Cabinet Office and ten Ministries. Laws such as the Police Law, providing the establishment of the National Public Safety Commission, and the Law to establish the Defence Agency have been revised.

In the stipulation and the revision, the "purposes," which are the administrative objectives for each Office and Ministry, and the "functions," which are required for the completion of those purposes, have been defined according to the Basic Law on the Administrative Reform of the Central Government.

Needless to say, while each Office and Ministry performs its administrative activities within its jurisdiction in order to swiftly respond to various complicated administrative demands, legal bases are required individually, for example, when restrictions are imposed upon citizens' rights.

Whatever measures are taken for the reform, the government shall be determined to make efforts to prevent overly extensive discretion in administration, and maintain just and transparent administration.

The following new systems have been created along with the restructuring of the Office and Ministries.

1. Inter-Ministerial Coordination System

In order to prevent sectionalism, which has been pointed out for its detrimental effects and respond to issues flexibly and cohesively, systems of policy coordination have been constructed so that related administrative organs, in light of their purposes, hold deliberations on their inter-Ministerial measures.

In particular, the National Government Organization Law, setting the standards for administrative organs, has been revised in a way that it provides the basic principle that each Office and Ministry must coordinate its policies in light of its purposes and with the policies of other related Office and/or Ministries. The revised law also invigorates and smoothes inter-Ministerial policy coordination by providing fixed procedures for such consultation as requests for material and the submission of opinions.

Moreover, the function of comprehensive coordination, which is conducted at a higher level than the policy coordination between Ministries, has been enhanced by the establishment of the Cabinet Office within the Cabinet, in addition to the existing Cabinet Secretariat.

2. Policy Evaluation

It has been pointed out that the executive branches have been putting too much priority on legislation and winning the allocation of a budget, whereas tending to regard policy evaluation less significant; that is to say, the review of implemented policies in light of their effects and changes in the socio-economic circumstances was not sufficient.

With this point in mind, a system of policy evaluation has been introduced for the government itself to evaluate the effects of its policies before and after implementation, and to utilize the result of evaluation in the planning and drafting of policies.

In this system, each Office and Ministry first evaluates its policies by itself as an organ most responsible to them. To ensure comprehensive and strictly objective evaluation, retain consistency and rigid subjectivity, the Ministry of Public Management, Home Affairs, Posts and Telecommunications then conducts policy evaluation, utilizing a third party organ (tentatively named the Committee for the Evaluation of Policies and Independent Administrative Institutions), which will be established in the Somusho and consist of knowledgeable persons outside the government.

From the viewpoint of the accountability of the government to the people, efforts will be made

evaluation.

3. **Others**

It will be able to place Director-General-level positions on special missions in each Office and Ministry for timely operations that respond to changes in the internal and external circumstances or in administrative demands and issues.

Organizational elasticity of the agencies, whose main functions are the implementation of policies, is to be enhanced, so that their operations can be carried out more efficiently and with increased autonomy.

III. More Transparent Administration

In order to improve the administration in the 21st century, the reform will create a system of Independent Administrative Institutions (IAIs) different from any existing organs of the State, and will delegate certain undertakings of the central government to institutions independent from it. This chapter will explain the system of IAIs established for a higher degree of transparency in the administration and operations based on self-responsibility.

1. What are the IAIs?
2. Concepts of the IAI System
3. Operation
4. Finance and Accounting
5. Executives and Employees
6. Disclosure
7. Conclusion

1. What are the IAIs?

The introduction of the new system of IAIs is one of the core items of the administrative reform. This system has been introduced to enhance the effectiveness, quality, and transparency of certain parts of administrative services, by separating the

administration into the implementing function and the planning and drafting function, and by delegating certain parts of the undertakings classified as the implementing function to the IAI's, each of which has its own independent judicial personality.

The IAI's are to commit themselves not only to autonomous and flexible operations, but also to rigid ex post facto evaluation and review of their performance, and to the active disclosure of various matters. These rules of operation will be regulated by the Law concerning the General Rules of the IAI's.

The following sections explain the gist of the IAI system, according to the Law of the General Rules and the Plans to Expedite the Administrative Reform of the Central Government determined by the Headquarters of the Administrative Reform of the Central Government on April 27, 1999.

2. Concepts of the IAI System

The IAI System lies on the basic concepts of public welfare, transparency, and autonomy of activities, as Article 3 of the Law of the General Rules provides that "(i) the IAI's must make efforts for just and effective operation under the consideration that the fulfillment of their undertakings is indispensable from such public viewpoints as the stability of people's lives, society and the economy; (ii) the IAI's must make efforts to open to the public the status of their organizations and operations by such means as the announcement of the content of their activities as provided under this Law; (iii) the autonomy of each IAI's operation must be respected in accordance with

the application of this Law and the laws establishing the IAIs."

These concepts are reflected in the system in the form of operations based on self-responsibility, the introduction of the principles of corporate accounting, thorough disclosure, and the introduction of a performance-based salaries.

3. Operation

The most distinctive features of the IAIs are the autonomy of each IAI with limited prior control from the outside and the ex post facto evaluation by which each IAI rigidly evaluates its own performance subsequently and makes use of the result of the evaluation to its operations.

In the system of IAIs, the competent Minister of State presents to each related IAI a mid-term objective, which the IAI is to achieve during a term set by the Minister from three to five years. The mid-term objective includes its duration, matters concerning the promotion of the efficiency of its operations, matters concerning improvements in the quality of services offered to the public and matters concerning improvements in financial performance.

The mid-term objective sets the standards for evaluation as explained in subsequent paragraphs, and is produced in a manner that will allow a decision to be easily formed on the evaluation, preferably

paid to make the object reflective of the characteristics of the activities performed by each IAI, because of the diversity of IAIs' activities.

Based on the presented mid-term objective, the IAI drafts a mid-term plan to achieve the objective autonomously, and requests the competent Minister's approval.

The mid-term plan includes the measures to achieve the objectives concerning the promotion of efficiency in operations, the measures to achieve the objectives concerning improvements in the quality of services offered to the public, the budget, the plan regarding revenues and expenditures, and the financial plan. It also includes matters concerning finance, the plan concerning facilities and equipment, the plan concerning personnel affairs (including the targets concerning the efficient use of human resources and personnel expenditures), and the plans regarding other matters differing according to the characteristics of the individual IAIs.

Based on the mid-term plan, each IAI is to make a plan for one fiscal year (one-year plan), and submit it to the competent Minister. According to its mid-term plan and one-year plan, the IAI is to perform its operations in a flexible manner.

The performance of the IAI is to be periodically evaluated by the IAI Evaluation Committees established in the competent Office and Ministries, and by the Committee for the Evaluation of Policies and IAIs established in the Ministry of Public Management, Home Affairs, Posts and Telecommunications. The members of both

committees are to be selected from knowledgeable persons outside the public sector.

Every fiscal year the IAI Evaluation Committee is to investigate and analyze the status of the achievement of the mid-term objective in the fiscal year. By considering the results of the investigation and analysis comprehensively, it shall evaluate the entire performance of the IAI during the fiscal year, and may recommend, when the Committee considers necessary, that the IAI modify its operations. The results of evaluations conducted by the Committee are to be conveyed to the Committee for the Evaluation of Policies and IAIs. The latter Committee, when it considers necessary, may submit its opinions to the IAI Evaluation Committee.

The IAI Evaluation Committee investigates and analyses the status of the achievement of the mid-term objective at the end of its term, and by considering the results of the investigation and analysis, comprehensively evaluates the entire performance during the term of mid-term objective. Taking the results of its evaluation into consideration, the competent Minister is to consider the overall organizational matters and activities of the IAI, such as the necessity of continuing the IAI's activities and the way the IAI should operate, and according to this consideration, necessary measures shall be taken. In this regard, the Committee for the Evaluation of Policies and IAIs may give recommendations to the competent Minister concerning the changes to or the abolishment of the main undertakings of the IAIs.

To sum up, in order to maintain neutrality and objectivity, each IAI's performance will be double-checked by both the IAI Evaluation Committee

placed in each Office or Ministry, and the Committee for the Evaluation of the Policies and IAIs in the Ministry of Public Management, Home Affairs, Posts and Telecommunications. Both of these evaluations are to be conducted every fiscal year and at the end of the term for the mid-term objective.

4. Finance and Accounting

The financial management and accounting of the IAIs incorporate a number of systems enabling efficient and flexible management.

The accounting for IAIs is made in accordance with the principles of corporate accounting as a rule, adopting the concept of the accrual basis and the double entry system, and producing such financial materials as balance sheets and profit/ loss statements. The IAI becomes able to make more flexible use of its profits defined on a profit/ loss statement; for instance, allocating the profit for a use determined in the mid-term plan with the approval of the competent Minister. Another new feature is that the financial materials of IAIs with scales larger than a certain standard, will be professionally audited.

Meanwhile, since IAI activities need to be fully executed, the Government may allocate to each IAI, within the budgetary limitation, a part or all of the amount of the necessary financial resources. A self-supporting accounting system is not to be adopted, and the disbursement of the budget to the IAI needs

to be given careful consideration so as to ensure the full execution of the IAI's undertakings, with reference to the budget that was disbursed for those undertakings before the establishment of the IAI.

The Government plans to allocate two kinds of financial resources to the IAIs, management grants and facility expenses. A management grant is "a lump-sum grant" whose use is not specified and which can be carried forward to the next fiscal year. Management grants aim at contributing to the flexible operation of the IAIs.

5. Executives and Employees

The status of national public employees is given to the executives and employees of Specified Independent Administrative Institutions (SIAI) to which this kind of status is deemed as necessary by comprehensively taking into account their objectives, the nature of their activities, etc. of SIAIs, including those whose failure to complete their undertakings is considered to cause direct and significant damage to people's lives or social and economic stability. Which IAIs are classified as SIAIs is to be determined by individual laws establishing IAIs.

The executives and employees of SIAIs in general observe the rules of national public employees. As a result, for example, employees are not endowed with the right to strike.

From a viewpoint of the autonomous management of the IAIs, payment of the executives and employees, for instance, must be reflective of the achievement of each individual or IAI without regard to the fact of whether they have the status of national public

employees or not. In this regard the Law of the General Rules prescribes that the IAI determines and publicizes the standard of salary and the conditions of work for its employees.

Likewise, the number of the employees in IAIs is to be managed by the IAIs themselves and not by the State administrative organs. Therefore, they are excluded from the subject of the laws and orders including the Law concerning the Fixed Number of Personnel of the Administrative Organs. However, IAIs are still required to report their numbers of employees to the Diet .

The executives are selected from either those who have eminent knowledge and experience related to the undertakings and operations or those who have the ability to properly and efficiently manage the undertakings and operations. The candidacy of the selection can be made open to the public. Executives may be dismissed even during their terms on account of the aggravation of the IAI's performance or other reasons.

Whether or not executives and employees possess the status of national public employees does not actually affect the substance of the IAI system such as its operation. The important part of the system is rather that the autonomous and flexible organization and operation lead to improvements in the efficiency and quality of administrative services.

6. DISCLOSURE

The IAIs aim at retaining the efficiency and soundness in operation by actively disclosing to the public various information on their activities, performances, evaluations, etc. For example, the IAIs are required to disclose their operation manuals, mid-term objectives, mid-term plans, one-year plans, financial materials, reports on operations, results of evaluations by the Evaluation Committees, standards of salaries, etc. The measures of disclosure are also designated; the IAIs are to actively publicize this information by utilizing proper means including the electronic media, in addition to printing on gazettes and preparing printed materials for distribution or reference.

7. Conclusion

The IAIs will incorporate plenty of unconventional systems that have not appeared in any existing public organizations. Sometimes they could be compared to "Agencies" in the United Kingdom. Actually the Agencies were an insightful reference for the making of the IAIs, for example, in light of the separation of the planning and drafting function from the implementation function, the introduction of transparent, autonomous, and flexible operations and so forth. On the other hand, this UK prototype was remodeled in many ways.

Most of the IAIs will start their operations in April 2001. They are expected to offer efficient and high-quality administrative services.

IV. Drastic Streamlining of the Central Government

The review of the State administration also focused on streamlining the Government from the viewpoint of "from the public sector to the private sector" and "from the central government to the local governments." This section will explain how the undertakings of the Government have been revised and how the number of national civil servants is to be reduced.

1. Streamlining of the Administration
2. Rationalization of Undertakings
3. Alignment of Organizations
4. Reduction in the Number of Personnel

1. Streamlining of the Administration

The streamlining of the Administration has been one of the core issues of the administrative reform of the Central Government. With regard to this streamlining, the reforms aim at reviewing the undertakings of the State, to abolish, privatize, deregulate, or delegate to local governments jobs not necessarily performed by the State and to promote more efficient implementation of those which the State must

...to be administered, for example, by utilizing the private sector. This review of the undertakings entails the streamlining of the administrative organs and the reduction of the number of national civil servants.

Among the administrative organs, the Policy Councils in particular are to be rationalized in an organizational sense, and their operation is to be improved in order to make the process of policymaking more transparent and to ensure political leadership.

Thus, the Cabinet has decided upon the "Basic Plan concerning Outsourcing and More Efficient Operation of the Administrative Organs of the State, etc." and the "Basic Plan concerning the Realignment and Rationalization of the Policy Councils, and other meetings" The following sections explain the plans for outsourcing and the measures for increasing efficiency.

2. Rationalization of Undertakings

1. Abolishment/ Privatization

The ongoing rationalization of undertakings includes:

- i. the abolishment of the Construction Machinery Engineering Center in the Hokkaido Development Agency;
- ii. the privatization of food inspections;
- iii. the abolishment of the Government monopoly on industrial alcohol;
- iv. the transfer to the private sector of the

departments of standard implementation in the Agency of Industrial Science and Technology; and,

- v. a substantial reduction in the number of Post and Telecommunications medical clinics in number.

In addition to the above, the Pearl Inspection Station has been abolished.

2. Promotion of Outsourcing

With regard to the undertakings that the State continues to administer, the plans to promote entrustment to the private sector have been made individually for certain categories of undertakings, in such fields as social capital consolidation, data processing, statistics, and the management of national properties.

3. Deregulation and the Delegation to Local Governments

The undertakings pointed out in "the Three-Year Plan to Promote Deregulation," "the Decentralization Promotion Plan," and "the Second Decentralization Promotion Plan" (all plans decided upon in the Cabinet meetings) are to be thoroughly reviewed and retrenched to become more efficient. Moreover, subsidies, public works, and the administration of statistics have been reviewed in the establishment of reform plans.

4. Reform of Government Enterprises

This reform includes the transformation of the postal services into the newly-established Postal Public Corporation, measures for more

appropriate operation and more efficient implementation of the undertakings concerning national forests, and the transformation of the bureaus of mint and printing into IAs.

3. Alignment of Organizations

1. Reduction in number of Ministers' Secretariats, Bureaus, and Divisions

The total number of Secretariats of Ministers and bureaus has been decreased from 128 to 96, and the total number of divisions has been reduced from approximately 1,200 to 1,000. Furthermore, General-Director-level and Director-level positions for special missions are to be fully utilized in order to make the organizational composition as flexible as possible.

2. Review of Affiliated Facilities and Other Organs

The national universities, national hospitals and clinics, research institutes, and other organs are to be reviewed.

3. Realignment and Rationalization of Local Branch Offices

There are fourteen categories of realignment and rationalization, including the establishment of Regional Development Bureaus by integrating the Regional Construction Bureaus and the

District Port Construction Bureaus, and the establishment of Regional Health and Welfare Bureaus by integrating the Regional Medical Affairs Offices and the Regional Narcotics Control Offices.

4. Reduction in the Number of Personnel

Strong efforts are to be made to reduce the number of employees in national administrative organizations by yearly reduction plans and by transforming these organizations into IAs and the Postal Public Corporation. Currently, this number is approximately 840,000, of which about 300,000 employees in the postal services will be transformed to the Postal Public Corporation.

The goal for the Government is to reduce the remaining 540,000 national public employees by 25% over the 10 year-period starting in Fiscal Year 2000.

(Headquarters for the Administrative Reform of the Central Government, 2000)

STRUCTURAL REFORM OF THE JAPANESE ECONOMY: BASIC POLICIES FOR MACROECONOMIC MANAGEMENT

Prepared by Cabinet Office

Foreword

We declare and manifest the basic outline of "the Koizumi cabinet reform." We intend to elaborate and implement the reform plan with the support by the whole population, and the Council on Economic and Fiscal Policy will have a crucial role in realizing the reform. □@

Scenario for Japan's Economic Revitalization

The Japanese economy still faces many difficult challenges. The Council on Economic and Fiscal Policy makes its best effort to gather the wisdom of its members to cope with these challenges and to forge new rejuvenating paths for the economy.

The source of economic growth in this new global century is found not so much the labor force as in "knowledge." Knowledge generates economic growth through technological progress and through mobilization of resources from relatively inefficient sectors to highly efficient ones-in other words, through the dynamic process that could be called "creative innovation." This process induces the emergence of new growth industries as well as products through market competition, and it creates new places of employment.

This new policy package we now propose is designed to achieve the following goals, all of which are crucial for the resurrection of the Japanese economy. First, we aim to resolve the non-performing loans problem within two or three years and to carry through forcefully with forward-looking structural reforms that are long overdue. We regard the next two to three years as a period of intensive adjustments for the Japanese economy. Though we may have to accept low economic growth in the short run, after this adjustment period we expect that the Japanese economy will overcome the current economic weaknesses and that it will achieve growth driven by private-sector demand and spontaneous economic incentives. Along with this recovery process, we will steadily move forward with the fiscal reform while carefully considering the macroeconomic environment to restore Japan's government primary balance for the sake of future generations.

Resolution of the Non-Performing Loans Problem

The first step toward economic revitalization is the definite and final disposal of non-performing loans (NPLs). To achieve this objective, we must facilitate the appropriate disclosure of information about the financial condition of the companies burdened with excessive debts. We propose to classify properly the debtors by bankers with respect to their risk categories and the presence of reserves against default.

Second, we also plan to monitor the major banks for their progress in clearing their NPLs off their balance sheets, making use of new indicators.

Third, disposal of NPLs will be facilitated by the Resolution and Collection Corporation (RCC), whose functions will be further strengthened in securitization and business restructuring of viable debtor companies .

Fourth, we are providing employment measures to guard against the unwelcomed side-effects of disposing of NPLs. We plan to create employment opportunities in new sectors (for an estimated 5.3 million people within five years for the services sector). We will encourage mobility in the labor force by supporting self-education community colleges as well as through an occupational ability assessment system, by deregulating temporary personnel markets, and by improving safety nets such as assistance of housing loans and educational burdens for those who are without jobs.

Fifth, we aim to construct a stable financial system suitable for the 21st century by emphasizing the flow of funds through direct finance, and by achieving banking reforms that will limit the risks of shareholding among banks.

SEVEN PROGRAMS OF STRUCTURAL REFORM

To achieve the basic goals outlined above, we propose the following seven-point program. The first two are aimed at revitalizing society and the economy. Programs 3, 4, and 5 are aimed at supporting better standards of living, better lifestyles, and safety nets. The final two will reinforce government functions and radically review the divisions of labor among governmental institutions.

1. Privatization/Regulatory Reform-Maximizing Use of the Private Sector

We intend to review the merits of special public corporations and semi-public institutions and to reduce their subsidies for the sake of a powerful promotion of privatization, and will attempt to expand the arenas and earning opportunities of the private sector. High on the list is the privatization of the "three post-office businesses"-mail, savings, and life insurance-and a radical review of the roles of the public financing. We intend to introduce the free market process into such fields as health,

nursing care, social welfare, and education. We also plan to introduce private management methods including privatization in, for example, the operation of Japan's national universities.

2. The "Support Challengers" Program-A Social System That Encourages Individual Ability

We will consider systems, including tax systems, in order to facilitate shift from the emphasis on savings-primarily in the form of bank deposits-to the emphasis on equity investments, as well as on business start-ups and business creation. We will strengthen the function of the Fair Trade Commission, which promotes competition policy. We will fuse broadcasting and telecommunications, and utilize the application of a free market process such as open bidding for broadcasting frequencies and for other public assets. Moreover, we will promote a revolution in information technology (IT) through measures such as the creation of IT model areas and support for IT education.

3. Strengthening Welfare and Insurance-Making People Feel Secure and Stable

We will create a social insurance system that is both reliable and easy to understand by adopting, for example, a system of social security numbers and "Individual Social Security Accounts" (tentative name), which would allow people to track their own social security payments and benefits. We will establish a sustainable pension system that provides a sense of security, and explore possible changes in working styles. We will review pension taxation to smooth the burden among generations in a fair and appropriate manner. We will form a "Medical Services Efficiency-Boosting Program" (tentative name) to achieve efficient, high-quality medical care through reviewing the standardization of medical services and compensation systems and through diversifying management systems that include joint-stock corporations. We will control the growth of national medical expenses, especially those for the aged patients, to be in good balance with the growth of national economy.

4. Doubling Our Knowledge Stock-Human Capital Development Through Individual Choice

We will give priority to assisting individuals who are eager to study. For example, we will increase scholarships and develop measures to support self-help efforts (for instance, by education vouchers) for individuals who receive education as well as adults who educate themselves while working. We will promote the flow of education and research funds from the private sector, for example, by encouraging donations to universities and by preparing the conditions that facilitates commissioned research by universities by means of various devices including tax concessions.

5. Lifestyle Revolution-Creating an Infrastructure That Allows People to Live and

Work as They Like

We will build a society that is friendly to women who work outside the home, by, for example, providing tax and social security systems for promoting individual participation and by eliminating the waiting times for children to enter day-care facilities. We will create an environment that is friendly to the elderly, and the handicapped by, for example, expanding barrier-free constructions .

6. Local Independence and Revitalization-Empowering Local Governments to the Maximum

We seek the independent development of regions by capitalizing on their unique character. Prompt reorganization of cities, towns, and villages and rebuilding of regional fiscal strength in proportion to cost and benefit for residents are two examples. We seek to reduce national involvement in local government. For example, we seek a reduction in national subsidies and supports, a review of local grant and tax systems, and, at the same time, an expansion of local taxation. We aim to revitalize rural regions by introducing private-sector-style management locally. Examples include the water supply business and the participation of NPOs in elderly care, town revitalization, and recycling.

7. Fiscal Reform-Creation of a Simple, Efficient Government Suitable for the 21st Century

We have to change the rigidity of resource allocation patterns of the national and local governments. We will reform the practice of earmarked revenue sources and the practice of budget allocations bound by the distinction between public works and non-public works. We will make budget allocations among regions more flexible and review the long-term plans related to public works.

Reform of Policy-Making Process

In short, to increase government credibility, we need a complete reformation of Japan's policy-making process. First, the real needs and wants of the people must be reflected more directly in the political process. For example, we may consider the public election of the prime minister, national dialogues through such means as "open sources," and town meetings.

We require the assurance of transparency and accountability in the policy-making process, including the complete reform of fiscal systems and budget compilation systems. We welcome the transparent deliberation of policy matters, with a focus on discussions in the Council on Economic and Fiscal Policy, and budget compilations that reflect the results of such discussions and the evaluation of precious year's outcome. We

seek unified and coordinated pursuit by the Cabinet of high-priority, trans-agency projects, from the budget-request phase to execution.

We will explore issues concerning transparency and accountability in, for example, fiscal transfers between national and local general accounts, special accounts, and the Fiscal Investment and Loan Program (FILP), as well as for fund transfers between special corporations and other institutions, and between the national and local authorities.

We will identify and prioritize strategic areas, objectively evaluate the management of enterprises, and create systems for reflecting financial and evaluation results on budgets and plans. We will apply an "administrative cost statement," based on corporate accounting principles including consolidated accounting with respect to affiliated subsidiaries, to special corporations, and consider introducing it to special accounts.

On Medium- and Long-term Economic and Fiscal Management and Compilation of the Fiscal 2002 Budget

For the next two or three years, the disposition of NPLs will cause deflationary pressure, and growth may remain low. After that, in the medium run, the Japanese economy is expected show a gradual recovery led by private demand as a result of appropriate economic management and progress in structural reforms.

In fiscal 2002, as a first step toward fiscal reform, we aim to restrict the issues of new government bonds to a maximum of 30 trillion yen. Subsequently, the goal of policy management will be to turn the primary balance of the budget into a surplus.

For planning FY2002 Budget we emphasize the following seven points: (1) Address the environmental issues□c.For example, we establish the recycling society where resource are fully reused for the future. (2) Cope with the problems from the aging population. (3) Develop local facilities fit for regional need. (4) Revitalize cities□c.We make our cities more attractive and enhance their international competitiveness (5) Promote science and technology (6) Cultivate human resources. (7) Develop our nation into one of the most advanced IT states in the world.

A Concluding Remark

Through the implementation of this policy package, we believe that the Japanese economy will recover from the long tunnel of slow down and that it will be able to play a positive and significant role in the international economy.