Structural Reforms and Economists in Japanese Government:  
From the 1990s to the Present

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**Structural Reforms and Economists in Japanese Government:**

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This paper mainly examines Japan's current structural reform process, starting from around 1990. It discusses the deliberation process for the promotion of economic reform, and shows how Japanese economists have been involved in the reforming process and policy making. Shedding light on the role of economists in the government contributes to a better understanding of the on-going structural reform in Japan.

**Introduction**

It is sometimes argued that economic reform processes proceed very slowly in Japan. Actually the private, industrial sector makes some adjustments whenever the economic environment changes. In contrast, the public sector can be changed only by political resolutions to conduct 'structural reforms', which usually include economic, fiscal and administrative reforms. Prompt changes call for determined actions by decisive politicians who devote themselves to making a better society, by honest bureaucrats who serve the country faithfully, and by impartial economists who have a keen sense of the benefit to consumers, the international environment, and the feasibility of reform process. It is useful to examine the role of economists in the government to understand the economic and political troubles of Japan.

It can be said that in the decade following the end of the Pacific campaign of WWII in1945, Japanese economists were actively involved in economic reconstruction of Japan in various ways. From around 1945 to 1980, they kept in touch with policy makers and had indirect influence on policy making. Several bureaucrats published important books and articles on economic policies. In the 1980s, a few Japanese economists began to get involved in deliberation committees for 'structural reforms' and
from the mid-1990s more economists were called into the administrative reform process. It is also noteworthy that the mass media began to contribute to the promotion of the reform process in the 1980s, and the Internet to the increase of transparency in government policies-making process in the 1990s.

In the mid-1990s academic economists began to play a more important role in government than just members of deliberation councils (*shingikai*). Some were appointed to government positions while leaving their universities for a certain period (usually two to five years). On 6 January 2001, the central ministries and agencies were institutionally reformed as a result of the administrative reform that began in the first half of the 1990s. On the same day, several economists left their universities and joined the Cabinet Office which had been established as the result of the institutional reform of the Central Ministries and Agencies.

In the next section we make a brief review of the presence and the role of economists in Japanese government since 1945. We then show that an increasing number of economists became involved in policy making and identify the changes in their attitude toward the analysis of economic policies.

**Japanese Economists in the Public Policy Arena, 1945-1990**

Japanese economists played a part in the reconstruction of the Japanese economy from 1945 to 1955, which should be regarded as the period of cleaning up the post-war mess and which witnessed major institutional changes. A variety of governmental committees appeared and disappeared one after another. During this period, Japanese economists joined several organizations such as the Special Committee at the Ministry of Foreign Affairs, the Board of Economic Stabilization, the Committee on Coal Mining, and the Committee for Economic Reconstruction. These economists prepared for the talks on reparations with the Allied Occupation Force, estimated the optimal level for the single exchange rate, and discussed reconstruction plans for the Japanese economy. In this time the government and administration had a great advantage over the private, industrial sector in obtaining the information relevant to the international environment.
and the world market (Ikeo 1996; 2000).

Also, since 1955, Japanese economists have had formal or informal influences on the process of policy making and on policy makers themselves. For example, they became members of official and 'private' advisory bodies for ministers, taught economics to civil servants in intensive special training courses, visited the research organs attached to ministries and agencies, advised senior officials and ministers directly, contributed timely essays in Japanese to economics magazines and published books in Japanese on economic problems and future prospects. It is true that in the period between 1955 and 1980 they did not play any direct part in policy making. Neither did other social scientists. For example, OECD's Social Science Policy. Japan (1977) in the chapter 'The utilisation of scientific research and its influence on policy-making' said, '[Deliberation] councils are generally believed to be the most important forum for social scientists to participate in policy-making' (p. 88; the Japanese version: 227), and it paid attention to the members of the Economic Council (pp. 89-93). The Economic Council was an organ attached to the former Economic Planning Agency and was composed of less than 30 learned and experienced people, including a few economists. Its members could give the Prime Minister their opinions about important economic policies and planning and Japanese economists became formally involved in the making of long term economic plans.

This kind of situation reflected the results of the case study of Japan conducted when A. W. Coats organized the international comparative study project on the role of economists in the government around 1980. Ryutaro Komiya, economist of the University of Tokyo, and Kozo Yamamoto, bureaucrat of the Ministry of Finance, examined the role of the economics profession in Japanese government and other large institutions. At the beginning of their paper they put their conclusion bluntly as follows,

In the Japanese case one cannot discuss the role of the economist in government, since there is not one professional economist employed by the government of Japan. The employment practices and personnel policies of the Japanese government, or any other large institutional employer in Japan, are quite different
from those of countries with European traditions. Two distinctive characteristics peculiar to Japan in regard to the role of the economist in the government are, firstly, there is no profession called economists in Japanese society and, secondly, large organizations in Japan, whether government ministries, banks, or corporations, are run by general administrators or managers who work in most cases in one organization for their entire careers and reach the top positions after occupying many different posts in the organization. (Komiya and Yamamoto 1981: 262)

This statement was not an accurate description of the role of the economics profession in the government as of 1980 and contained an exaggeration, in that we could list several economists who had worked for governmental organizations. For example, Saburo Okita was a bureaucrat in the Ministry of Foreign Affairs and the Economic Planning Agency and became an economist thanks to on-the-job training in the process of mobilization during WWII and economic reconstruction and planning in the post-1945 period. Okita spoke English fluently and represented 'the able Japanese bureaucracy' for a long time. He played the role of spokesman for Japan at international economic meetings, and raised the status of Japan in the global community (Miyazaki 1993: 323).

Actually the situation began to change in the 1980s, namely right after this statement was made. The Japanese government had a serious budget deficit resulting from a number of causes in the 1970s such as the initiation of the national welfare program in 1973 and the revenue shortage during the economic recessions triggered by the sharply rising prices of crude oil. Private corporations adopted oil-saving technology and adjusted somehow to the changing international environment through the 1970s. On the other hand, the public sector, the heavily regulated industries, those industries dependent on public works could not change without political resolutions to execute administrative reforms or 'structural reforms'. Statesmen need popular support to make strong decisions to reform the ailing, inefficient public corporations. In the 1980s, privatization and the use of the private sector vitality were the buzzwords of the central
The partition and privatization of Japan National Railroad (JNR) in 1987 is one of the major post-War 'structural reforms' or 'administrative reforms' in Japan's public sector. JNR was divided into six private corporations although a large part of their stock has been kept in the hands of the government. The reform process started in March 1981, when Prime Minister Zenko Suzuki formed the Second Provisional Commission on Administrative Reform (Dai Niji Rinji Gyosei Chosakai, Rincho) to investigate the serious problems accumulated in the public sector. Kusano (1989: 6; 1999) pointed out that the two deliberation committees, the Rincho, and the Committee for the Reconstruction of JNR (Kokutetsu Saiken Iinkai), which included third party members, were important in the process of reforming the management of the nationwide railway company. The reform plan and the process were sustained by public opinion because many JNR engineers and service workers notoriously behaved in the 'socialist' manner with loose discipline, and finally at Nagoya Station in March 1982 a drunken motorman crashed his 'blue' train cars into standing ones causing serious or slight injuries to passengers. At the time, the mass media were already focusing on the significant deficit of JNR and the number of related articles in newspapers reached a peak in March (Kusano 1989: 111-115). The reform of JNR including its privatization and partitioning was supported by ordinary people, mass media, some iron-willed JNR management officers, learned and experienced people in the related government deliberation committees, and the majority of statesmen including members of the ruling Liberal Democratic Party. In 1986 the Nakasone Cabinet managed to get the JNR Reform Bill through the Diet. Hiroshi Kato, economist, played a pivotal role in persuading the people concerned of the indispensability of this major reform.

Kato issued a series of statements on TV, in newspapers, and in general magazines in support of administrative reforms and published Administrative Reforms Will Change Japan (1982). Kato described the problems which tend to develop from majority decisions at various levels and the administrative process carried out by those bureaucrats who have constant—and sometimes exclusive—access to the relevant

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1 The second process of the privatization of the former JNR is under way (in 2002).
information whereas ministers are reshuffled more often than even members of parliament who lose their positions after general elections. (Kato was a member of the Maekawa Group (1986) as discussed later.)

**More Economists in Policy Making, 1990-2000**

In the mid 1990s, it became conspicuous that a number of economists were actively involved in the discussion of administrative reform plans in government committees. Actually in 1994, the powerful Administrative Reform Committee (ARC, *Gyosei Kaikaku Iinkai*) was established based on the resolution passed by the Moriyoshi Hosokawa Cabinet and the law passed in the Diet by Prime Minister Tomiichi Murayama. It enjoyed legally empowered autonomy and independency as the result of a two-and-a-half year discussion in the Third Provisional Council for the Promotion of Administrative Reform (*Dai Sanji Rinji Gyosei Kaikaku Suishin Shingikai*), more commonly known as the Third PCPAR (*Dai Sanji Gyokakushin*).

**Third Provisional Council for the Promotion of Administrative Reform (Third PCPAR)**

**October 1990—October 1993**

In October 1990, the Third PCPAR was appointed by Prime Minister Toshiki Kaifu and chaired by Eiji Suzuki, who was the Chair of the Japan Federation of Employers' Associations (abbreviated in Japanese to "Nikkeiren"). Prime Minister Kaifu directed the Third PCPAR to answer the following three questions,

1. What are the reforms needed for the realization of an administrative structure that is centered upon consumer and national life: one that ensures consumers feel comfortable, and that can assume international responsibility in the internationalization of the world?
(2) What are the legal reforms needed for more transparent and fair administrative procedure?

(3) What is needed to follow up the administrative reforms proposed in the findings and the related opinions which were offered by the Provisional Commissions on Administrative Reform and the Provisional Councils for the Promotion of Administrative Reform? (Third PCPAR 1994)

The Third PCPAR formed three subcouncils, namely the Subcouncil on Comfortable Life (consisting of 31 members), the Subcouncil on Japan in the World (27 members), and the Subcouncil on Fair and Transparent Administrative Procedure (18 members). The members were selected from diverse occupational groups such as private and public corporate executives, private and governmental bank presidents, labor union leaders, private and public research institute directors, university professors, and the leaders of the housewives’ union. No economists were included in these three subcouncils. Only two economists, Hiromitsu Ishi (Hitotsubashi University) and Takamitsu Sawa (Kyoto University), joined the Subcommittee on the Role of the Government Sector, one of the three subcommittees. The Third PCPAR did not attempt to bulldoze public opinion toward absolute support for market competition or market economy but cultivated a gentle and harmonious slide toward deregulation.

The final report of October 1993, which could never be accused of unambiguity, proposed the promotion of deregulation, the decentralization of power, the reform of corporations (juridical persons) having a special status, and the structuring of an administrative system with a comprehensive policy perspective. What the report advocated beyond the former Prime Minister's original remit were the establishment of two organs, one consisting of learned people for the promotion of deregulation and another investigative one for the reconsideration of special judicial corporations (Third PCPAR 1994). From October 1990 till October 1993, Japan's was lead by three prime ministers, Toshiki Kaifu, Kiichi Miyazawa, and Morihiro Hosokawa (see Table 1).
In October 1993, Prime Minister Hosokawa received the final findings from the Third PCPAR. He happened to serve as the chair for the Subcouncil on Comfortable Life from January 1991 until May 1992. His title at the time was Former Governor of Kumamoto Prefecture, and he came with the bitter experience of being hedged round with meticulous regulations. He could not move a bus stop without getting permission from the former Ministry of Transportation. A month before receiving the final findings, Hosokawa set up a private advisory body named the Study Group of Economic Reform (Keizai Kaikaku Kenkyukai). The study group was chaired by Gaishi Hiraiwa, the chair of the Japan Federation of Economic Organizations (abbreviated in Japanese to "Keidanren"), and it was popularly known as the Hiraiwa Commission. It had as members two economists, Hiroko Ota (Osaka University) and Iwao Nakatani (Hitotsubashi University).

In November 1993 it submitted an interim report on deregulation to the Prime Minister and clarified the reasons why deregulation was necessary for the improvement of future life and employment of Japanese people, even though public regulations had contributed to industrial development and the stability of national life so far. The report stated that market liberalization and business enterprise based on the principles of market discipline would break the government-manufactured straightjackets and bring more opportunities to business people and more freedom of choice for consumers. The final report supported economic reforms, especially deregulation, and public policies proposed in the findings of the Third PCPAR.\(^2\)

However, Nakatani and Ota were dissatisfied with the ambiguity of parts of the final report and published their *Vision of the Economic Reform* (1994) in order to clarify the problems found in the members, discussion process, and the two reports of the study group. They pointed out that there were six former bureaucrats in the group and that

\(^2\) Yet we do not know how many of the members had read the findings of the Third PCPAR.
some of the members had never read (governmental) papers on economic policy other than "The Maekawa Group's Report on the Structural Adjustment of the Japanese Economy" (1986). Moreover, three were former bureaucrats who had been in charge of economic affairs, namely Toyoo Gyoten (Ministry of Finance), Isamu Miyazaki (Economic Planning Agency), and Yoshihiko Yoshino (Japan Development Bank).

The advice of the Hiraiwa Commission finally pushed the Hosokawa Cabinet into a resolution to create the Administrative Reform Committee, whose main task was to evaluate the administrative reforms which were supposed to be conducted in accordance with the formal findings of the Third PCPAR. It is noteworthy that the Hosokawa Cabinet was the first coalition cabinet since the Liberal Democratic Party came into power in 1955. Moreover, Murayama was the head of the Socialist Party of Japan—the literal translation of its Japanese name, whereas its English name had been already changed to Social Democratic Party of Japan. The party's name in Japanese was changed and its political platform was adjusted to one represented by the English name. The new name reflected the change in the party's attitude toward public policy and socialist revolution. In the 1980s, some socialists had been opposed to the partition and privatization of Japan National Railway, which was discussed and proposed by the Second Provisional Commission on Administrative Reform (Dai Niji Rinji Gyosei Chosakai) and the Committee for the Reconstruction of JNR (Kokutetsu Saiken Iinkai). In the 1990s, the majority of social democrats in the party supported the administrative reforms which were discussed over a long period of time in the Third PCPAR. In November 1994, Prime Minister Murayama, social democrat, submitted a bill to set up the Administrative Reform Committee (ARC) in the Diet. The members of the Japan Communist Party were the only ones against the bill.

Administrative Reform Committee (ARC), December 1994-December 1997

Members of the Administrative Reform Committee (ARC) were supposed to be persons of broad vision regarding the improvement of administrative functions. In December 1994, the five candidates were all approved by the Diet. Yotaro Iida, senior corporate
advisor of Mitsubishi Heavy Industry, Ltd., was elected the chair of the committee. The other members were Kazuo Takenaka (advisor to the National Association for Economic Research), Eiko Otake (journalist), Morishige Goto (deputy president of Japanese Trade Union Confederation), and Naoki Tanaka (economic journalist and critic). In January 1996, Kazuo Takenaka was replaced by Isamu Miyazaki (special advisor to Daiwa Institute of Research, Ltd).

The Administrative Reform Committee (ARC) was different from the former Provisional Commission on Administrative Reform (PCAR, Rincho) and Provisional Councils for the Promotion of Administrative Reform (PCPAR, Gyokakushin) in the following respects,

(1) ARC was allowed to actively monitor, investigate and discuss whatever it regarded as important in administrative structure without receiving the Prime Minister's formal remit.

(2) The bill that created the ARC clearly commissioned it to engage in deregulation and the disclosure of administrative information and to have jurisdiction over the monitoring of overall administrative reform process.

(3) ARC was not regarded as a follow-up organ for the findings submitted by PCAR or PCPAR.

(4) The number of its members was five, including full-time members.

ARC promptly set up the Taskforce for the Disclosure of Administrative Information (TDAI) in March 1995, and the Subcommittee for Deregulation (SD) in April 1995. In March 1996, ARC formed the Subcommittee for Demarcation of the Public and the Private Sector Activities (SDPPSA) to examine the current situation of the public and private sectors and the related problems, philosophical foundations, and standards for judging administrative intervention. Although ACR and TDAI had no neoclassical economists, SD and SDPPSA included several active ones. SD had Motoshige Ito (University of Tokyo), Kikuo Iwata (Gakushuin University), Hiroko Ota
Ronald Dore was amazed by the actual changes and produced an "illustrative list of deregulation achievement" (Dore 2000: 162-3) in the following way:\(^3\):

1. Primarily to enrich the comforts of daily life:
   (a) changes in building regulations to improve land use and to allow taller apartment blocks, with more generous common facilities;
   (b) a simplified licensing system for mobile phones, allowing growth from 1 million to 18 million subscribes, 1992-7;
   (c) simplification of the rice distribution system;
   (d) taxi deregulation;
   (e) revision of the prescription/off-prescription categorization of drugs;
   (f) realization of domestic boiler regulations to take account of universally used new technologies;
   (g) introduction of the 'comparative efficiency yardstick' system for setting electricity and gas tariffs;
   (h) self-service petrol stations;
   (i) greater flexibility in curriculum choice in schools.

2. Primarily to revitalize the economy:
   (a) liberalization of telecommunications;
   (b) ending of enforced specialization of function of firms in the financial industry;
   (c) liberalization of foreign exchange transactions;
   (d) free entry into electricity generation (for steel firms and the like);
   (e) greater flexibility of labor and employment regulation;

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\(^3\) Somucho's official name in English was not the General Affairs Agency as translated by Dore (2000: 248) but the Management and Coordination Agency (Table 3).
(f) permission for the creation of holding companies.

3. Primarily to achieve international compatibility:
   (a) promoting mutual-recognition rules for building standards;
   (b) adjustment of the Japan Industrial Standards system to international standards;
   (c) licensing private firms, at home and abroad, to certify conformity to Japan Industrial Standards;
   (d) allowing an increased role for foreign lawyers in international arbitration cases.

4. Primarily to reduce the burdens on the public:
   (a) allowing wider scope for paperless electronic record-keeping, making of applications, etc.;
   (b) relaxation of the vehicle inspection system;
   (c) reduction (as yet not finalized) of the compulsory 66 hours of instruction required in driving schools;
   (d) acceleration of the customs procedure;
   (e) simplification of procedures for company mergers;
   (f) passport validity extended from five to ten years.

(Management and Coordination Agency 1997; ARC, OB Group 1998)

As pointed out by Dore (2000: 156), it is noteworthy that 'kiseikanwa', the Japanese words often translated as 'deregulation', does not mean deregulation in the normal sense of English, but 'the easing of regulations'. For example, foreign insurance companies have never been allowed to enter the Japanese life or nonlife (casualty) insurance markets, but they were allowed to deal with sickness and automobile insurance. Therefore, honestly speaking, Japanese 'deregulation' sometimes makes business conditions more complicated than they were in the age of regulation. Nonetheless, 'the easing of regulations' is much better than 'unchanged regulations based on the old environment'.

Actually, market competition has been unpopular in Japan for several decades. Japanese people believed more in authority, including the government, than in private,
individual activities. It is hard for them to forget that in the 1930s the Great Depression spread over the capitalist countries, and triggered a fierce trade war. The trade war gave way to the Second World War and destroyed a significant portion of the civilization which humanity had built up for centuries. Quite a few Japanese thought that something was wrong with the capitalist system and market mechanism, and some corrections were needed to alleviate what are now called market failures. They were worried about the gap between the rich and the poor in Japan which resulted from market competition. Free competition was often equated with the law of the jungle where 'the weak are victims of the strong' (Ikeo 1998). It may worth quoting from Dore's translation note on the meaning of the law of the jungle in Japanese, 'Jakuniku kyoshoku, literally, the strong eating the flesh of the weak' (Dore 2000: 161).

It is not surprising that the deregulation drive called for deeper discussion on the role of market, government and administration in the context of the contemporary Japanese economy from philosophical and theoretical perspectives. The Subcommittee for Demarcation of the Public and the Private Sector Activities (SDPPSA) consisted of economists like Kazuhito Ikeo (Keio University), Masahiro Okuno (University of Tokyo), Yoshitsugu Kanamoto (University of Tokyo), and Hiroshi Miyajima (University of Tokyo). SDPPSA was asked to establish criteria for differentiating jobs in the public and the private sectors. This meant that the role of the market and government was questioned and discussed seriously for the first time in a government committee (Ikeo 2000: chapter 5).

SDPPSA examined the current situation of administrative intervention in Japan through hearings with business leaders, economists, jurists, officials of various ministries and agencies, international business people and scholars familiar with Japan. It argued out the characteristics of public and private sector, the role of the government and the market, and the comprehensive standards for administrative intervention in economic process. It may be noteworthy that in Japan the public sector is positioned first and the private second in the sector-division of economic activities. In December 1996, SDPPSA collected its findings under the title of 'The Standards for Appropriate Administrative Intervention' with the cooperation of the Secretariat. A rough English version was made available by the SDPPSA's Secretariat. The findings summarized the
merits of the market mechanism and declared the principle of private activities, the rationalization of administrative activities, the assumption of responsibility of the administrative service, and accountability.

SDPPSA realized that, judging from market principles of efficiency and equality of opportunity, the current state of private activity, although not necessarily ideal, is superior in several respects to administrative intervention. SDPPSA concluded that 'it is necessary that overall economic activity (including administrative activity) be fearlessly reformed to be as much as possible in harmony with market principles' (SDPPSA Secretariat 1997: 6 and 280). SDPPSA summarized the three basic principles for administrative reform as follows,

Basic Principle A: Based on the principle that what the private sector can do should be left the private sector, restrict administrative intervention to the minimum.

Basic Principle B: Based on the principle of efficient administration centered on the people, provide the administrative service necessary for the people at the minimum cost.

Basic Principle C: In the case that administrative intervention is necessary, the administrative organs must exhibit accountability, namely the responsibility to explain their service activities to the people. (ARC Secretariat 1997: 7-8 and 283)

We can list the overall standards for appropriate administrative intervention in the committee's findings as follows (ARC Secretariat 1997: 284-287),

(1) Priority of Private Activities. Let the market function so far as circumstances permit. Next consider the practicality of nonprofit or nongovernmental organizations.

(2) Efficiency of Administrative Activities. Follow the market incentive
mechanism in providing administrative activities. Clarify administrative competence and responsibility, and prevent those organs performing administrative intervention from abusing their authority, because authority and responsibility are intricately entangled and layered in administrative activities. Government failures, namely the distortion caused by vested interests, must be seriously considered.

(3) Implementing Administrative Accountability and Transparency. Those organs performing administrative activities must bear responsibility for explaining, in each case, the necessity of administrative intervention and the relevancy of the administrative activities to the people's needs. Comprehensive cost-benefit analysis is required for the evaluation of each administrative activity before and after intervention. The quantitative evaluation of administrative intervention should be conducted in comparison with alternative measures. The benefits and costs should be calculated according to income strata, industry, generation, region, and gender. Those organs performing administrative activities should actively disclose the information regarding both individual and consolidated accounts (including related public corporations), their programs, the closing account of each, and the financial conditions.

(4) Regular Review. Each organ performing administrative activities should make a regular review of its methods and procedures, and publish the results periodically.

Moreover, SDPPSA pointed out that commercial companies should also establish the principle of self-accountability and disclose their activities to the market in order for shareholders and investors to judge the real situation of the companies. It argued that the back-scratching alliance of government and big business should be rectified on the side of the private sector as well as the public sector. It argued that individual business people would naturally master the principle of self-accountability unless the government intervenes (ARC Secretariat 1997: 129). At least there is a consensus that the government and administration do not have the advantage of economic information over the private sector any more, and therefore they should take the function of markets
into consideration in the making and implementation of economic policies.

The Standards for Appropriate Administrative Intervention' was the first government report that declared the policy of "Private Activities First" and kept the scope of the administrative intervention to a minimum by considering government failure. It is epoch-making to maintain in a Japanese government report that administrative intervention should be confined to the case of "market failure" in which market mechanism does no work effectively, and should be limited to the minimum necessary. This trend has been underway in the process of Japanese deregulation and has been inherited by the economists in Japan's government and the Council on Regulatory Reform.

Administrative Reform Council (Gyosei Kaikaku Kaigi), November 1996-June 1998

In January 1996, Ryutaro Hashimoto was elected Prime Minister in the Diet. He promptly ordered the deregulation of the financial sector (Japanese Big Bang) and then the reform of economic structure. In November 1996 Hashimoto set up the Administrative Reform Council (Gyosei Kaikaku Kaigi), chaired by the Prime Minister. Kiyoshi Mizuno, the Secretary General and LDP member of the House of Representatives, and the Minister of State (Administrative Reform), who assumed the role of Acting Chair, played an important role in the reform process of central ministries and agencies. The post of Minister of State (Administrative Reform) was assumed successively by three politicians, Yoshifumi Muto, Takayuki Sato and Sadatoshi Ozato. Mizuno realized that to perform administrative reforms is to become the enemy of bureaucrats. The other members were twelve people of learning and experience including an economist, Yuichi Shionoya. The council carried out intensive discussions in mid-August of 1997. At this time of year many Japanese are off-duty and enjoying a week-long break, while some are visiting their parents and extended families in accordance with the Buddhist tradition of honoring ancestors at this time of year. TV cameras showed Hashimoto coming out of the meeting room every day. In June 1998, the Diet voted for the Basic Law on the Reform of Central Government and Agencies
and the task of implementation was entrusted to the Cabinet Legislation Bureau. The institutional reform came into reality in January 2001, namely at the beginning of the twenty-first century.

Firstly, the institutional reform of the central government and agencies aimed to establish a system with more effective political leadership and to strengthen the administrative leadership of the Cabinet and Prime Minister. It introduced new positions in the Cabinet Secretariat, established a new Cabinet Office, created Ministers for Special Missions, set up Councils of important policies such as the Council on Economic and Fiscal Policy, and created new politically appointed positions, State Secretary and Parliamentary Secretary, within each Ministry.

Secondly, the reform aimed at restructuring national administrative organs by reducing their number and by realigning the roles of the government. Policy coordination on issues concerning two or more Ministries was to become more effective by the comprehensive coordination of the Cabinet Office which was given higher status than other Ministries.

Thirdly, the reform aimed at creating more transparent administration. Eighty-nine undertakings of the government such as the operation of national museums and research institutes are now conducted by IAI (Independent Administrative Institutions) which are organizationally independent from the government. In the IAI system, performance is evaluated by a third party, the general principles of the accounting system of private companies are incorporated, a wide range of information is disclosed, and each employee's salary reflects his/her performance as well as the performance of each IAI.

Fourthly, the reform aimed at a drastic streamlining of the central government, and set a goal of cutting the number of national civil servants by 25% over the next decade. http://www.mofa.go.jp/about/hq/central_gov/ (7 July 2002)

However, Hashimoto and Liberal Democratic Party met with a setback in the national election that took place soon after the Reform Law was passed by the Diet.
During 1998-1999, Prime Minister Keizo Obuchi formed the Economic Strategy Council (Keizai Senryaku Kaigi) as an advisory organ to the Prime Minister. The council consisted of ten members including business leaders and three active and popular economists, Motoshige Ito (University of Tokyo), Heizo Takenaka (Keio University), and Iwao Nakatani (Hitotsubashi University). In February 1999, the council compiled findings entitled 'Strategies for the Resurgence of the Japanese Economy' covering various policy issues such as employment, educational reform, deregulation, bad loans, public accounting and the reform of fiscal and loan investment, tax reform, the resurgence of cities, pension and medical reform. The proposed strategies were in conformance with the principles "Priority of Private Activities" and "Efficiency of Administrative Activities" and were inherited by the later Koizumi Cabinet. Yet it does not seem any English version is available on the government Web site.


In March 1999, for no obvious reasons, Obuchi set up the Prime Minister's Commission on Japan's Goals in the 21st Century (21seiki Nihon no Koso Kondankai), which consisted of sixteen members from various occupational fields but did not include any economists. The Commission comprised five subcommittees with thirty-three additional members. Each subcommittee was assigned one of five themes: (1) Japan's Place in the World, (2) Prosperity and Dynamism, (3) Achieving a Contented and Enriching Life, (4) A Beautiful Country and a Safe Society, and (5) Future of the Japanese. In addition to the meetings of members, the commission used the Web, e-mail and fax to take public opinion into consideration and utilized the official network of the Ministry of Foreign Affairs and the Ministry of Finance. In the fall of 1999, several members of the Commission traveled to Singapore, Washington, D.C., Seoul, Beijing, and Paris and talked to scholars and politicians there. In January 2000, the commission submitted its final findings entitled 'The Frontier Within:
Individual Empowerment and Better Governance in the New Millennium' to Prime Minister Obuchi. It took only about ten months to compile the final report filled with opinions expressed by members and non-members. The full English version is available on the Web site of the Cabinet Office.


The report dropped the principles "Priority of Private Activities" and "Efficiency of Administrative Activities". It advocated the "mobilization of the combined power of the public and the private sectors", overestimated public debate, and underestimated the deliberations of professional experts. In April 2000, Obuchi was hospitalized and Yoshiro Mori took over office.

Institutional Reform in Central Ministries and Agencies (January 2001):

Cabinet Office and the Council on Economic and Fiscal Policy (CEFP)

On 6 January 2001, when the central Japanese ministries and agencies were institutionally reformed, three economists were appointed to new Cabinet Office positions, and two joined the Council on Economic and Fiscal Policy (CEFP). The three economists who left universities and joined the Cabinet Office were:

Kazumasa Iwata (University of Tokyo) — became the Policy Director-General (Seisaku tokatsukan).

Keiichi Omura (Waseda University) — became Director of the Ministerial Secretariat (Daijin kanbo shingikan), and

Shuhei Shiozawa (Keio University) — became a Councilor (Sanjikan).

The two economists who joined the CEFP were Masaaki Honma (Osaka University) and Hiroshi Yoshikawa (University of Tokyo) with other members as listed in Table 2. They were supposed to spend a couple of days each week at the Cabinet Office. Prior to the reshuffle of the central administrative structure, Takatoshi Itoh (Hitotsubashi University, former IMF senior economist) was appointed Vice Minister at the Ministry
of Finance in July 1999. After a two-year term, he returned to Hitotsubashi University (and moved to the University of Tokyo in April 2002). Masahiro Kawai (University of Tokyo, former chief economist of the World Bank) was appointed Vice Minister in July 2001. The Bank of Japan has appointed economists such as Kazuo Ueda (April 1998–April 2005, University of Tokyo), Miyako Suda (April 2001–March 2006, Gakushuin University), Teizo Taya (November 1999–November 2005, Daiwa Institute of Research), and Eiko Shinotsuka (April 1998–March 2001, Ochanomizu University). Taya worked for IMF in the 1970s.

On 1 April 2001 the Council for Regulatory Reform (President: Yoshihiko Miyauchi, Chairman and CEO, Orix Corp.) was established within the Cabinet Office as an advisory council to the Prime Minister for the continued promotion of deregulation. Its task is to comprehensively investigate and deliberate basic issues on necessary reforms from the perspective of promoting (economic and social) structural reforms at the request of the Prime Minister.


In April 2001, Heizo Takenaka was nominated Minister of State (Economic and Fiscal Policy as well as Information Technology) by Prime Minister Junichiro Koizumi and became the first economist-minister in Japan. Iwata, Omura and Shiozawa, the economists at the Cabinet Office, are trying to promote policies and reform plans in accord with neoclassical, market-oriented economics (Ikeo 2001; 2002). It seems that in the second year after the institutional reform of the central ministries and agencies we must continue a close monitoring of developments in government policy making.

Tax reform is also imperative in Japan because the government has a huge fiscal deficit. Currently several plans are lined up. One was provided by CEFP, and the other by the Tax Commission (Zeisei Chosakai), chaired by Hiromitsu Ishi (Hitotsubashi University). Again, no English version is available on the government Web site. Several economists including Ishi (chair), Masahiro Okuno, Haruo Shimada, Masaaki Honma, and Tadatsune Mizuno joined the Tax Commission. Although there are five sub-commissions under the parent Tax Commission, they are not as active as the parent commission and some may, indeed, be dormant. In April 2002, Hiroko Ota joined the
Cabinet Office in order to promote the reform of the tax system.


At present (2001–2002) there are as many economists in the government as during the period of the reconstruction of the Japanese economy immediately after WWII. It is a good step forward towards making policy-making processes transparent.

Changes in the Attitude of Japanese Economists

The way Japanese economists talk about economic problems and policies has changed since around 1990. Ronald Dore noticed the change and realized that economists had come to the fore in the discussion of deregulation.

Whereas privatization in the 1980s was controversial — at that time the Socialist Party still counted for something and opposed it — the principle of deregulation came to be like motherhood and apple pie. Everybody is in favor. It was a major commitment of the Socialist Prime Minister Murayama when he took office in 1994. . . . The standard arguments of this consensus are well set out in a report of the Deregulation Subcommittee of the Administrative Reform Committee, published in December 1996 under a crusading title that translates as Creativity Builds a New Japan. The report covers a highly diverse range of topics. . . .

But more revealing than the individual recommendations is the committee's general crusading stance. It included a number of businessmen, but none from the traditional manufacturing sector: there are the heads of a supermarket chain and of a research consultancy, . . . The committee also included one trade union official, one journalist, one novelist (who doubled as the token woman), and a sprinkling of academic economists. It was doubtless the latter, together with a few hand-picked modernists from the bureaucracy in the committee's secretariat, who
were the main authors of the report. (Dore 2000: 159-160)

Why are so many economists in the Japanese government? We need to look at the accelerating economic globalization and the groping for a new international order after the end of the Cold War. The changes in the international environment in around 1990 were massive as compared with those during the decade just after the end of WWII. Large changes took place both in the East and West, but they first became noticeable in the West. This was partly due to the revolutionary changes in electronic communication, the rapid extension of informational networks, and the introduction of the European monetary unit, developments that have accelerated economic globalization.

In 1985, U. S. international policies apparently began to change and made Japanese economists think and research differently from before. In the mid 1980s, in the discussion of policy issues, a number of Japanese economists in the areas of international and applied economics began to take economic ideas and institutional arrangements in policy making into consideration. They realized that the theoretical analysis of government policies, such as comparative statics in macroeconomics, was not enough to rebut the critical remarks on Japan's economic policies made by foreign economists (to be discussed later). American economists in particular, including Paul R. Krugman, blamed Japan's large trade surplus on economic and industrial policies that were implemented to increase Japan's savings rates and the international competitiveness of targeted industries such as iron and steel and oil refinery. Some Japanese realized that applied economists should get out of the ivory tower, arm themselves with relevant facts and ideas, and face American professional economists in policy debate (Ikeo 2001; 2002). Actually, many Japanese economists were surprised by Paul Krugman's controversial paper entitled 'Is the Strong Dollar Sustainable?' (1985), which was prepared for the conference on the volatile dollar organized by the Federal Reserve Bank of Kansas City, to be held in August 1985 (It began to be distributed more widely as a paper in the NBER Working Paper Series in December 1986). When

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4 Toshiyuki Masujima should be among the "few hand-picked modernists from the bureaucracy in the committee's secretariat". See Nikkei (1994: 272-276), Masujima (1996; 1999), and Masujima and Ouchi (1994).
copies were distributed a few months before the conference, it became the topic of conversation among economists in US and gave a shock to Japanese economists.

Krugman (1985) started his argument with the following statement, 'The strong and strengthening dollar of the past five years has been a source of surprise and puzzlement to many observers, who had grown accustomed during the 1970s to the fact of a weakened dollar and the prospect of further depreciation.' Based on the modest real interest differentials between the U. S. and its trade partners, he drew his conclusion and said, 'The current strength of the dollar reflects myopic behavior by international investors; that is, that part of the dollar's strength can be viewed as a speculative bubble. At some point bubble will burst, leading to a sharp fall in the dollar's value.' Japanese economists, especially those who happened to be in the U. S., were shocked because it was widely known that several major Japanese financial institutions had invested in a considerable amount of dollar assets including U. S. bonds. The national bonds financed the public debt and helped increase public spending under the conditions of low saving rates and huge trade deficit in the U. S. In fact, the dollar plummeted right after the Plaza Accord was announced in September 1985.

Around the same time, the U. S. government began to file actions against those policy measures which it regarded as 'unjust, irrational, and discriminative' based on the so-called Super 301. On the other hand, the good performance of the Japanese economy had been receiving serious attention and examination by American researchers since the early 1980s. Many research results were about to come out. It can be safely said that most of the books, even scholarly works, published after 1986 were finalized as though there had been a conflict of interest between the U. S. and Japan, and some of them were studded with extreme critical assertions. Japanese economists had to counter the critical remarks and then to correct the U. S. mis-recognition of the economic relationship between the U. S. and Japan, including the one expressed in Maekawa Group's Report on the Structural Adjustments of the Japanese Economy (April 1986). Heizo Takenaka and Naoko Ishii's Economic Debate between the U. S. and Japan (1998) included a detailed report of the response made by Japanese economists at the time. They said that Japan's age of excuses was now over and things were different from what they used to be; that the situation was different from what is remembered as the
conflict in the trade of textile goods between U. S. and Japan in the 1960s. They advocated the necessity of organizing a 'social group' consisting of researchers, journalists, and policy makers to respond to the age of economic controversy between the U. S. and Japan.

In fact, we notice that the way Japanese economists talk about economic problems has changed since around 1990, if we compare the scholarly books and scientific papers on economic policies published in the 1990s and before. Prior to 1990, Japanese economists supposed that there was some distance between their scientific research and the actual economy, even in discussing economic policy issues. Most of the findings prepared by bureaucrats for deliberation committees were approved by the members with no calls for correction or revision. Speaking of the analysis of economic policies prior to 1990, we can list comparative statics or simulation of the effect of macroeconomic policies, the study of mathematical conditions of dynamic stability, and the general equilibrium analysis of taxation. Some Japanese economists surveyed the debate on the effect of fiscal and financial policies between Keynesian economists and monetarists in the U. S. Some pointed out that government policies and the administrative system might influence private activities on the side of main analysis but never analyzed it within a theoretical framework.

From around 1990 on, however, an increasing number of Japanese economists changed their attitude and began to seriously take the 'reality' of Japan into consideration from an international perspective. Some entered the government and participated in the making of economic policies. They spoke the language of neoclassical economics as we have already discussed and provided the recent structural reform with the economic philosophy of "Priority of Private Activities". In this respect, they were different from the Japanese economists of the 1950s and 1960s, because the latter laid emphasis on the government's economic intervention in the promotion of, for example, heavy and chemical industries to increase the international competitiveness of Japanese industry.

The Japanese economists in the government are engaged in a struggle with politicians backed by special interest lobbies (zokugiin), those bureaucrats (in the
Ministry of Finance and probably the Ministry of Foreign Affairs) who have connections with particular politicians, and economists outside the government. The latter are sometimes extremely critical of the economists inside of the government. One advocated the resurrection of Keynesianism and maybe considered points such as the following,

The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. . . . I conceive, . . . , that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. (Keynes 1936 [1973]: 378)

A few politicians try to raise funds for the construction of highways, official buildings, and public houses for international exchange.

Hiroshi Yoshikawa (2002), economist in the Council on Economic and Fiscal Policy (CEFP) and known as a Keynesian economist, maintained that we should not invest what is expected to produce current deficit; Keynesian policy might be recommended only if the government deficit is expected to converge soon.

Japan's economic troubles may continue and may need foreign pressure (gaiatsu) on the politicians elected by special interest groups and with close connections to groups of bureaucrats (See Gyoten 1997).
Table 1: Prime Ministers of Japan, 1980-2002

<table>
<thead>
<tr>
<th>Name</th>
<th>Tenure of Office</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zenko Suzuki</td>
<td>17 July 1980 to 27 November 1982</td>
<td>864</td>
</tr>
<tr>
<td>Yasuihiro Nakasone</td>
<td>27 November 1982 to 6 November 1987</td>
<td>1,806</td>
</tr>
<tr>
<td>Noboru Takeshita</td>
<td>6 November 1987 to 3 June 1988</td>
<td>576</td>
</tr>
<tr>
<td>Sosuke Uno</td>
<td>3 June 1988 to 10 August 1988</td>
<td>69</td>
</tr>
<tr>
<td>Toshiki Kaifu</td>
<td>10 August 1988 to 5 November 1991</td>
<td>818</td>
</tr>
<tr>
<td>Kiichi Miyazawa</td>
<td>5 November 1991 to 9 August 1993</td>
<td>644</td>
</tr>
<tr>
<td>Morihiro Hosokawa</td>
<td>9 August 1993 to 28 April 1994</td>
<td>263</td>
</tr>
<tr>
<td>Tsutomu Hata</td>
<td>28 April 1994 to 30 June 1994</td>
<td>64</td>
</tr>
<tr>
<td>Tomiichi Murayama</td>
<td>30 June 1994 to 11 January 1996</td>
<td>561</td>
</tr>
<tr>
<td>Ryutaro Hashimoto</td>
<td>11 January 1996 to 30 July 1998</td>
<td>932</td>
</tr>
<tr>
<td>Keizo Obuchi</td>
<td>30 July 1998 to 5 April 2000</td>
<td>616</td>
</tr>
<tr>
<td>Yoshiro Mori</td>
<td>5 April 2000 to 26 April 2001</td>
<td>387</td>
</tr>
<tr>
<td>Junichiro Koizumi</td>
<td>26 April 2001 to the present.</td>
<td></td>
</tr>
</tbody>
</table>

List of Prime Ministers (Since 1885)

(http://www.kantei.go.jp/jp/rekidai/ichiran.html)

In the Homepage of the Prime Minister of Japan and His Cabinet
Table 2: List of Members of the Council on Economic and Fiscal Policy (CEFP)

Chairman: Junichiro Koizumi, Prime Minister
Member: Yasuo Fukuda, Chief Cabinet Secretary
Member: Heizo Takenaka, Minister of State for Economic and Fiscal Policy
Member: Toranosuke Katayama, Minister of Management, Home Affairs, Post and Telecommunications
Member: Masajuro Shiokawa, Minister of Finance
Member: Takeo Hiranuma, Minister of Economy, Trade and Industry
Member: Masaru Hayami, Governor of the Bank of Japan
Member: Jiro Ushio, Chairman and Chief Executive Officer of USHIO INC.
Member: Hiroshi Okuda, Chairman of Toyota Motor Corp.
Member: Masaaki Honma, Professor, Faculty of Economics, Osaka University
Member: Hiroshi Yoshikawa, Professor, Faculty of Economics, University of Tokyo

http://www5.cao.go.jp/shimon/index-e.html (7 July 2002)
Table 3-1: List of the New Government Ministries and Agencies (in English)

<table>
<thead>
<tr>
<th>Ministry/Agency</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabinet Office (Naikaku fu)</td>
<td><a href="http://www.cao.go.jp/index-e.html">http://www.cao.go.jp/index-e.html</a></td>
</tr>
<tr>
<td>National Public Safety Commission</td>
<td><a href="http://www.npa.go.jp/police_e.htm">http://www.npa.go.jp/police_e.htm</a></td>
</tr>
<tr>
<td>(National Police Agency (Keisatsu cho) (Kokka Kouan Iinkai))</td>
<td></td>
</tr>
<tr>
<td>Defense Agency (Boei cho)</td>
<td><a href="http://www.jda.go.jp/e/index_.htm">http://www.jda.go.jp/e/index_.htm</a></td>
</tr>
<tr>
<td>Ministry of Justice (Homu sho)</td>
<td><a href="http://www.moj.go.jp/ENGLISH/preface.html">http://www.moj.go.jp/ENGLISH/preface.html</a></td>
</tr>
<tr>
<td>Ministry of Foreign Affairs (Gaimu sho)</td>
<td><a href="http://www.mofa.go.jp/">http://www.mofa.go.jp/</a></td>
</tr>
<tr>
<td>Ministry of Finance (Zaimu sho)</td>
<td><a href="http://www.mof.go.jp/english/">http://www.mof.go.jp/english/</a></td>
</tr>
<tr>
<td>Ministry of Agriculture, Forestry and Fisheries (Norin Suisan sho)</td>
<td><a href="http://www.maff.go.jp/eindex.html">http://www.maff.go.jp/eindex.html</a></td>
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(12 August 2002)
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<tr>
<th>Ministry of Home Affairs (Jichi sho)</th>
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<tr>
<td>Ministry of Justice (Homu sho)</td>
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<td>Ministry of Foreign Affairs (Gaimu sho)</td>
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<td>Ministry of Finance (Okura sho)</td>
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<tr>
<td>Ministry of Education, Science and Culture (Monbu sho)</td>
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<tr>
<td>Ministry of Health and Welfare (Kosei sho)</td>
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<tr>
<td>Ministry of Transport (Unyu sho)</td>
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<tr>
<td>Ministry of Posts and Telecommunications (Yusei sho)</td>
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<tr>
<td>Ministry of Labour (Rodo sho)</td>
</tr>
<tr>
<td>Ministry of Agriculture, Forestry and Fisheries (Norin Suisan sho)</td>
</tr>
<tr>
<td>Ministry of International Trade and Industry (Tusho Sangyo sho)</td>
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<tr>
<td>Ministry of Construction (Kensetsu sho)</td>
</tr>
<tr>
<td>Management and Coordination Agency (Somu cho)</td>
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<tr>
<td>Defense Agency (Boei cho)</td>
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<tr>
<td>Economic Planning Agency (Keizai Kikaku cho)</td>
</tr>
<tr>
<td>Science and Technology Agency (Kagaku Gijutsu cho)</td>
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<tr>
<td>Environment Agency (Kankyo cho)</td>
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</tbody>
</table>
References


Third Provisional Committee on the Promotion of Administrative Reform (1994). *Dai Sanji Gyokakushin Teigenshu* (Proposals Made by the Third Provisional Committee on the Promotion of Administrative Reform), edited by the Secretariat. Tokyo: Gyoseikanrikenkyusenta.


Prime Minister of Japan and His Cabinet

http://www.kantei.go.jp/foreign/index-e.html (7 July 2002)