This chapter focuses on the phalanx of reformers who have assisted Koizumi in the pursuit of his program of economic change and on the endorsement this program has received from external sources. It also examines those aspects of his policies and programs that are conducive to their successful implementation and to engendering support for structural reform amongst affected groups.

— A coherent economic team

The Japanese administrative reforms of January 2001 established a formal system underpinning the formation of a coherent government economic team led by the prime minister. The prime minister is head of a new Cabinet Office (Naikakufu). The first and most important task of the Cabinet Office is ‘[h]andling basic issues regarding the state—economic and fiscal policy, science and technology policy’. It ‘conducts policy planning and policy coordination, such as every year’s publishing [sic] Economic Outlook and organising economic policy packages...in order to manage the economy in a consistent and flexible way’.

In the Cabinet Office, the prime minister is assisted by an executive team of politicians consisting of five ministers of state in charge of administrative reform, economic and financial policies, and other matters; three deputy ministers (Naikakufu fukudaijin); and three parliamentary secretaries (Naikakufu seimukan). From the perspective of structural reform, the two most important
ministers of state are Takenaka Heizō, Minister of State for Economic and Fiscal Policy and Minister of State for IT Policy (Keizai Zaisei Seisaku Tantō Daijin/Kagaku Tantō Daijin), and Ishihara Nobuteru, Minister of State for Administrative Reform and Regulatory Reform (Gyōsei Kaikaku Tantō Daijin). They are officially called ‘ministers for special missions’ (tokumei tantei daijin), whom the prime minister is able to appoint at his discretion, ‘when he considers the appointment highly necessary for the cohesiveness of the policies of administrative branches’. According to the official explanation, the ‘Ministers for Special Missions have a different mandate to ministers at other ministries and agencies and are established at the Cabinet Office, in order to put all their energies into the prompt implementation of key government policies’. In fact, going by their titles and missions, they are ministers of reform, which means that their missions cut across the interests of the established ministries. Moreover, these ministers do not lead ministries and hence are not bound to the interests of the established ministries. As Haggard has observed, prospects for reform can be enhanced by ‘the development of insulated agencies with a mandate to be responsive to broad interests in such areas as monetary policy, trade policy, and the budget process’. Instead of ministries, the ministers of state in the Cabinet Office are served by various administrative components of the Cabinet Office. For example, the Minister of State for Economic and Fiscal Policy is served by three newly created directors-general and their staff.

The main vehicle for structural reform and the primary locus of policy discussion and formulation by Koizumi’s economic team is the Cabinet Office Council on Economic and Fiscal Policy or CEFP (Keizai Zaisei Shimon Kaigi). It is modelled on the US White House Council of Economic Advisors and ‘is in charge of economic and fiscal policy’. As Takenaka claims, it plays ‘a key role in the formulation of economic and fiscal policies’. It is concerned with basic policies for ‘overall economic management, fiscal management and budget preparation...[as well as] affairs concerning comprehensive national development plans and other economic and fiscal policy for the purpose of ensuring policy consistency and integrity from an overall economic point of view’. It is chaired by the prime minister, has a maximum of 11 members, and includes the Minister of State for Economic and Fiscal Policy, ‘ministers of ministries concerned’ (the Minister of Finance, the Minister of Economy, Trade and Industry, and the Minister of Public Management, Home Affairs, Posts
and Telecommunications), the Governor of the Bank of Japan, and four members from the private sector. It aims at adequately reflecting opinions by private-sector [sic] in policy formulation. More than 40% of the members are supposed to be from [sic] private sector. The academic world and the economic world each have two members, currently two academic economists and two business leaders from the car and electronics industries respectively. The CEFP thus brings a private perspective directly into public policymaking. As Eda puts it, the policy formulation process now takes into consideration public sentiment and the true nature of the economy.

The CEFP is the chief promoter of Koizumi’s reform campaign and makes a significant contribution to the process of preparation of economic policy packages. For example, the June 2001 ‘Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management’ (also called the ‘Basic Policy Outline for Economic Reform’) was the Koizumi Cabinet’s first comprehensive reform manifesto (the first round of the so-called ‘big-boned reform agenda’, or bonebuto no hōshin) and the ‘key document setting out all the basic direction of the Koizumi reform [program]’. It was compiled by Takenaka and the four private-sector members of the CEFP following the lines of many of the reform proposals Koizumi advocated shortly after becoming prime minister. According to Takenaka, it ‘clarified the basic concept underlying the Koizumi reforms: “No growth without reform”’. Takenaka also claimed that the ‘Basic Policies’ formed the foundation for formulating the FY 2002 budget. Specifically, under a policy of limiting the issuance of government bonds to no more than ¥30 trillion, seven priority areas were identified, and issues for reforms in public investment, social security systems, and local public finances were presented. Based on these, the guidelines for budget requests were compiled in August. It was decided that the FY 2002 budget should be drafted based on the principle of ‘decreasing budget allocation by 5 trillion yen in non-priority fields while increasing by 2 trillion yen in priority ones’.

In addition, the CEFP was directly involved in capping the annual issue of government bonds at ¥30 trillion, reviewing the use of revenues from taxes collected mostly for road construction and improvement, reducing expenditures for public works projects and mapping out the ‘special zone concept’ for structural reform (kōzō kaikaku tokku). These are special geographical areas where the usual restrictions on economic and other activities will not apply.
Takenaka has described the initiative as ‘a showcase measure...a bold decision and a great achievement’.22

The CEFP was also instrumental in proposing flexible policy measures in response to the deterioration in the economic situation after the 11 September attacks in the United States and the continuation of the IT recession, both of which impacted negatively on the global economy.23 Takenaka listed the ‘Advanced Reform Program’ of October 2001 and the ‘Immediate Action Program for Structural Reform’ of December 2001 as containing the requisite measures, with the CEFP leading discussions to provide direction on the specific contents of those measures. The Council proposed various measures to contribute to the disposal of non-performing loans, the strengthening of safety nets for the unemployed and for small and medium-sized companies, and the acceleration of structural reforms.24

Subsequently, the CEFP was directly involved in working out the draft of the second round of Koizumi’s so-called ‘big-boned reform agenda’ in June 2002 (designed to clarify the second stage of reform and known as ‘Basic Policies No. 2’),25 Japan’s economic and fiscal policy blueprint for the second year of the Koizumi administration, entitled the ‘Basic Policies for Economic and Fiscal Management and Structural Reform 2002’. This policy document combined two separate packages that the CEFP had earlier adopted—-for economic revitalisation and tax reform—into a larger package that also included local government reforms and the framework for compiling the 2003 budget.26

The CEFP is one of four councils established under the auspices of the Cabinet Office to execute state strategy.28 Others are the Council for Science and Technology Policy, the Central Disaster Management Council and the Council for Gender Equality. Each is structured along the same lines as the CEFP and is headed either by the prime minister or the chief cabinet secretary. They are part of the Cabinet Office and are on quite a different legal and institutional footing from the private advisory groups used by prime ministers so often in the past to try and bypass vested interests in the bureaucracy and in the LDP. The CEFP, for example, was established under the Cabinet Office Establishment Law (Naikakufu Setsubishi), and the others were set up under various other laws. The new councils are thus formally part of the government, not just ad hoc groupings established by prime ministers.29 Their legal status guarantees them policy authority not normally available to prime ministers'
private advisory bodies. As Williamson and Haggard point out: 'The competence of the economic team cannot compensate for a lack of authority, something that typically requires institutional change within the decision-making structure'.30 This change had already occurred prior to Koizumi's accession to the prime minstership, but, in contrast to his predecessor Mori, Koizumi has taken full advantage of the new system as a mechanism to advance his policy goals.

Second, the Cabinet Office councils are part of the formal policymaking process at the executive level. The assigned duties of the CEFP, for example, are to investigate and deliberate (chōsa shingi).31 It 'decides its agenda for deliberation on prime ministerial initiative. Decisions on this agenda pass through the decisionmaking of the cabinet, which is the ultimate decision organ, and then they become the official policy of the government'.

Third, these councils are composed, by and large, of members of the executive, that is ministers of various sorts. This is vital to the achievement of economic reform because decisions in the CEFP ultimately have to be blessed by cabinet if they are to become government policy.

Fourth, as part of the executive, the Cabinet Office councils are positioned above the mainstream advisory councils (shingikai) attached to the bureaucratic ministries, although their formal functions are the same.38 The most prestigious and long-standing examples of ministerial advisory councils have been the Industrial Structure Advisory Council attached to Ministry of International Trade and Industry (MITI), the Financial System Advisory Council attached to the Ministry of Finance (MOF), the Advisory Council on the Economy attached to the Economic Planning Agency, the Employment Advisory Council attached to the Ministry of Labour and the Social Security System Advisory Council attached to the Ministry of Health and Welfare.34 However, these and similar groupings attached to other ministries have a well earned reputation for being simply mouthpieces and legitimating bodies for ministerial policy proposals.

The coherence of the economic team is also supported by the interleaving of the Cabinet Office and the CEFP to the point where they are almost indistinguishable. For example, with respect to the 'Basic Principles of Budget Formulation', these are 'formulated under the leadership of the Prime Minister and based [sic] on the results of the research and deliberation of the Council
on Economic and Fiscal Policy'. At the same time, the Cabinet Office indicates 'a mid and long-term model of fiscal management and also the basic direction of the next year's budget...[The] Cabinet Office, as the secretariat of the Advisory Council, supports the operation by providing assistance'.

A major source of political strength for the new executive advisory councils is their power of publicity and status. The authority of these bodies is underwritten by the transparency of their proceedings, which are widely disseminated in both printed and electronic form. As Kawakita and Onoue point out, the operating principles of the CEFP are prime ministerial leadership and transparency. These features add to the council's policy influence by publicising the direction in which the administration proposes to go, and forcing other party and bureaucratic elements to react and respond. As Takenaka himself claims,

'[d]eliberations at the Council have been disclosed through publicizing documents and discussion summaries soon after the meetings. This procedure ensures the transparency of the policy formulation process. As a result, various policy formulation processes, including those of budget formulation, are changing to become clearer and more easily understandable for the general public.]

Making public the content of the CEFP's deliberations is also a deliberate tactic on Koizumi's part to try and contain 'behind-the-scenes manoeuvring by central government bureaucrats and Liberal Democratic Party members working on behalf of vested interests'.

In addition to the advisory councils that are formally part of the Cabinet Office, Koizumi has established multiple vehicles through which to advance his reform initiatives. Some of these are private advisory councils like the Advisory Council on the Three Postal Services which is charged with presenting specific plans for privatising the Japan Postal Public Corporation, the Society for Discussions with the Premier which was set up to propose innovative economic and industrial policies, and the Local Government System Research Council, which was established to examine issues relating to the decentralisation of government.

Others are groupings in which Koizumi can personally direct the process of structural reform. They comprise various executive policy headquarters such as the Headquarters for Industrial Structural Reform and Employment Measures, the Urban Revitalisation Headquarters, the Special Public Institutions Reform
Promotion Headquarters, the Municipal Merger Assistance Headquarters, the IT Strategic Headquarters and the Cabinet Headquarters for Administrative Reform. The task of these bodies, on which Koizumi and the relevant cabinet members sit, is to underwrite executive initiative and centralise control of the structural reform process in Koizumi’s hands. The Cabinet Office also has a series of advisory councils attached to it in the manner of other bureaucratic ministries, including the Council for Regulatory Reform and the Social Policy Council.

The significance of previous administrative reforms in creating new components of the executive—the Cabinet Office, ministers of state for special missions, as well as the Cabinet Office councils and other new prime ministerial advisory groups as well as their attached administrative units—is that they have developed alternative and even rival sources of policy information and ideas to the established ministries. The CEFP, for example, draws on the expertise of academics and the private business sector. These bodies have helped to make the Japanese policy-making process more pluralistic and have also injected a greater degree of transparency and accountability into this process.

--- The presence of a technopol

The Koizumi team has a technopol in Takenaka who holds politically responsible office as Minister of State for Economic and Fiscal Policy and who is ‘in charge of steering the Council [CEFP]’. Such an appointment is unprecedented in Japan. Takenaka, a former Professor of Economics at Keio University, was appointed as minister when Koizumi came to power. Koizumi also graduated in economics from Keio University, and not, like so many of his predecessors, in public law. Koizumi is only the second such case of an economics graduate-turned-prime minister, which may help to explain his commitment to market reforms.

Takenaka is Koizumi’s top economic adviser and right-hand man in devising reform scenarios. Previously a strong advocate of privatising the former state monopoly NTT corporation in order to bring competition to Japan’s information technology market, he was handpicked by Koizumi as a key player in his reform initiatives. Takenaka’s views fitted perfectly with Koizumi’s cherished policy goal of privatising the postal services. Moreover, since Takenaka is not a professional politician, he can strive for reform without worrying about special interests.
The details in Table 1.1 attest to the all-encompassing nature of Koizumi's reform program. The comprehensive menu of reforms that the Koizumi administration has adopted is also encapsulated in the rubric of 'structural reform without sanctuary' (seiiki naki kōzō kaikaku), which implies that no special interest will be able to find refuge from the wide-ranging and non-negotiable nature of the reforms. This concept was formally incorporated into the 'Fiscal 2002 Economic Outlook and Basic Stance for Macroeconomic & Fiscal Management' decided by the cabinet on 25 January 2002, which referred to 'Further Promoting the Process of Structural Reform Leaving no Sanctuary Untouched'. The policy document claimed that 'the government has endeavoured to promote a full range of structural reforms covering the economy, the fiscal system, government administration and various aspects of society'. As the Nikkei commented, 'if implemented...[Koizumi's reforms] almost add up to a revolution in corporate management, public finance, administrative system, the education system and so forth'.

Koizumi's approach to structural reform is to talk of reform on every front at once: 'forcing the crippled Japanese banks to write off their huge burden of bad loans...ending pork-barrel construction projects; privatising much of the government; and deregulating the whole economy'. Ben Wada, in response to an observation that there did not seem to be a cohesive link between Koizumi's policies, claimed that Koizumi's ideas made him seem as if he had just come from 'The Planet of the Apes'. Explaining the analogy, he said:

humans walk using two legs, left-right, left-right. But monkeys jump all over the place, to the front, to the back, to the left or to the right, using both legs. He may not cherish the comparison, but Koizumi comes close to that kind of freedom. It must be tough for old-fashioned politicians and bureaucrats to understand his thinking.

In reality, the rubric of structural reform encompasses an agenda that is not only multidimensional but also interlinked. For example, proposals for a drastic overhaul of the social security system, the adoption of a priority policy for long-term public works projects and a whole raft of proposals to reform the fiscal relationship between the central and local governments were integral elements of the CEFP's June 2002 final plan for taxation reform.

Similarly, reforming public corporations and privatising postal services are part and parcel of the same goal. Koizumi's plans to reform public corporations
are linked to his push to privatise the three key postal services (savings, insurance and mail delivery) because this would help arrest the diversion of personal financial assets to prop up expenditure by the public corporations. In an interview with the Financial Times, Koizumi commented that '[adderssing this issue of postal related services is the most effective way of trying to fundamentally reform government corporations'. The total amount of postal savings and postal life insurance funds is ¥360 trillion, 'the world's largest savings pool', and about one quarter of the nation's personal financial assets of ¥1,400 trillion. It places enormous funds at the disposal of bureaucrats as fund managers, distorts capital distribution, generates publicly subsidised competition for private banks and insurance companies, and facilitates the flow of money into inefficient sectors.

The most significant aspect of the postal savings and life insurance system, however, is that it facilitates the use of private funds for public and political purposes. Postal savings and life insurance are the major source of funds for the Fiscal Investment and Loan Program, or FILP (zaitō) which in turn provides financing for public investment in housing, livelihood environment infrastructure, health and welfare facilities, educational facilities, small and medium enterprise, agriculture, forestry and fisheries, land preservation and disaster prevention, roads, transport communications, regional development, industry and technology, trade and economic cooperation, and capital employment. Most of this investment is allocated to loss-making public corporations as low-interest loans for their various government-sponsored enterprises, including the construction of public infrastructure. As Koizumi stated in the Lower House in May 2002, privatisation of postal services was an initial step towards drastically reforming government loans and investment programs as well as public corporations.

Moreover, given the prominence of public works as a target of FILP investment, this funding program doubles as a huge pork barrel for politically strategic distribution by the LDP. This is why privatising postal services is so politically significant. Privatising postal savings and insurance will potentially turn off one of the major public funding taps for the FILP, the public corporations and the LDP. As the Nikkei observes, 'Koizumi has had the ultimate ambition to stop the postal savings system...from funneling money into pork-barrel projects that have bolstered the ruling Liberal Democratic Party'.
Additional supporting policy objectives include fiscal reform, which will reduce the quantities of government funds available to public corporations as direct subsidies, whilst the policy of eliminating public corporations (either through privatisation, mergers or abolition) will reduce the need to divert public funding to these entities either as loans or subsidies. Attacking wasteful public works will also undermine the activities of many of these bodies.

Koizumi's core policy proposals have been fleshed out as action plans, starting with the June 2001 'Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management', which announced seven reform platforms: privatisation and regulatory reforms (including the postal system and public corporations related to roads, cities and housing), support for challengers/entrepreneurs (including relaxing regulations and taxes in growth areas), strengthening the insurance system (including creating individual accounts for social insurance and reforming the pension system), nurturing of human resources (including promoting educational reform, science and technology development, and 5 million jobs in 5 years), renovation of the living environment (including a commitment to solving environmental problems and revitalising urban areas), promoting regional independence, including simplifying the system of grants to local governments and creating more local tax revenue), and correction of rigidity in fiscal policies (including reviewing the use of special-purpose government funds, long-term plans for public works and reducing the share of public works projects in GDP).

Later programs and reform schedules have built on these core proposals. The CEFP's June 2001 'Basic Policies for Macroeconomic Management and Structural Reform of the Japanese Economy' was followed by

- the September 'Reform Schedule', which took the 'Basic Policies' forward, provided a clear timetable for the specific contents of the 'Basic Policies' and demonstrated 'a public road map for reform to the people'
- the October 'Front-Loaded Reform Program' for accelerating the pace of structural reform, which included 'measures for new job creation, safety net formation concerning job security and SMEs, and measures addressing the NPL problems'
- the December 'Immediate Action Program for Structural Reform', which was accompanied by the second supplementary budget for fiscal 2001 and which was designed to accelerate structural reforms and prevent the economy from slipping into a so-called 'deflationary spiral' in which
economic conditions deteriorate at an accelerating pace through the interplay of falling prices and contracting production.\(^5\)

- the January 2002 'Fiscal 2002 Economic Outlook and Basic Stance for Macroeconomic & Fiscal Management' which outlined further steps for dealing with non-performing loans, commitments to regulatory reform and reorganisation and rationalisation of special public corporations incorporated into a "Structural Reform and Medium-term Economic and Fiscal Outlook" which 'showed an ideal economic society Japan aimed to achieve and a future vision of medium-term economic and fiscal management including structural reform to realize it'.\(^6\)

- the February 2002 'Emergency Countermeasures to Deflation'

- the April 2002 'Three Basic Principles for the Formation of the Economic Policy Guidelines to be announced in June 2002'

- the June 2002 'Basic Policies for Economic and Fiscal Policy management and Structural Reform 2002', a prescription according to Koizumi, 'for overcoming deflation and creating a strong economy'.\(^7\)

The June 2002 'Basic Policies' feature what Koizumi has called a 'trinity' of measures: economic revitalisation strategies (keizai kasseika senryaku), basic principles of tax reform and structural reforms in major government expenditures.\(^8\) The next step in Koizumi's reform schedule is the 'Koizumi reform vision', including administrative and fiscal reforms, which will be compiled in early September 2002.

In addition, the other Cabinet Office councils and prime ministerial-sponsored headquarters, as well as the more traditional type of private advisory panels to the prime minister, have generated proposals for specific areas of policy in terms of more detailed recommendations and implementation timetables. They all help to maintain the structural reform 'industry' that the Koizumi administration has initiated.

- External help

Given the dire circumstances of the Japanese economy, external help has taken the form of advice, counsel and support for the Koizumi administration from the United States. President Bush gave Koizumi strong backing during his visit to Tokyo in February 2002, enthusiastically endorsing both his leadership and his reform agenda. The US administration has seen advantage in throwing its considerable weight behind Koizumi as offering the best chance for reform.
In fact, the Bush administration sees Koizumi as the only person who can reform Japan. President Bush remarked that: “Thanks to my friend, the prime minister, Japan is on the path to reform. He is a leader who embodies the energy and determination of his country.” He added that Koizumi was a ‘great reformer’ and that he had ‘great confidence in his ability to lead the country’. He even offered to support Koizumi by bringing the ‘forces of resistance’ to the White House and working on them in order to convince them of the need for structural reform. Although officials in the Bush administration subsequently became more sceptical of Koizumi’s ability to bring off his reforms, they have remained uncritical in public because they want him to succeed.

For the most part, the United States has eschewed traditional-type ‘foreign pressure’ (gaiatsu) as a lever to force the Koizumi administration to deliver more rapidly on structural reform. In the past, gaiatsu has usually targeted changes in Japanese policy and economic structure which are going to be of direct benefit to US interests in terms of increased market access and other gains for US business. This kind of gaiatsu has been effective in inducing Japan to reform some of its economic policies and trade postures. Gaiatsu does this by generating tailwinds for domestic reformers to overcome local opposition, exciting Japanese fears of international isolation by being left out of multilateral agreements, and by implicitly or explicitly raising the spectre of retaliation from economic partners if the Japanese government does not concede on specific demands. This time, the United States has not been seeking narrow commercial advantage for specific industries by issuing a set of official, detailed requests in bilateral negotiations. The tailwind the United States has tried to generate for Koizumi has been to provide positive support and assistance rather than to chide, criticise and pressure, at least at the executive level. To some extent, the US government has been defanged by its need for Japanese support for the war on terrorism, with the Bush administration preferring quiet dialogue to the kind of overt and strident gaiatsu that has characterised the US approach to dealing with Japan in the past on economic and trade issues. As Ayukawa puts it, ‘US officials just want Japan to crawl out of the problem and it does not matter how long it takes’.

In sum, the United States has played a relatively low key role in Japan’s attempts to right its faltering economy. Pressure has been informed by a more general perspective: the health of the Japanese economy is important for the
region as well as for the United States. President Bush commented during his visit to Tokyo that: 'It's important for the world's second-largest economy to grow. It will help the region, and it will help the world'. Japan is the weakest of the world's major economies and there is great concern about the potential fallout from a possible Japanese economic collapse for the United States as well as for the regional and global economies. The United States is also worried that Japanese weakness will ultimately alter the balance of power in East Asia and undermine Japan's leadership in the region. The US administration sees Japan's weakness in strategic terms and is concerned about the rise of China in the context of Japan's decline. The Bush administration has taken the stance that: 'If Japan's zero growth continues for the next 30 years, China will become a veritable big power. However, such a situation is not desirable both for its neighbors and the U.S. in geopolitical terms. The United States hopes for Japan to be strong'.

In this context, Koizumi has faced pressure from the United States to get his reform agenda going and to deal more quickly with some of the more intractable issues like non-performing loans and deflation. Bush has urged action on these issues, although he was 'careful during his visit to avoid prescribing a remedy for Japan's economic ailments, a break from the Clinton administration's policy'.

Other Bush administration representatives have been more pointed in their remarks about the need for the Koizumi administration to deal adequately with the bad loan problem and have, in fact, provided detailed advice and prescriptions for reform. The US Treasury Secretary, who visited Japan in January 2002, laid out a detailed blueprint for how Japan should reform its economy, including aggressive action to clean up bad loans, 'a loose monetary policy to stem deflation, and a comprehensive programme of deregulation to introduce more competition into the country's domestic economy'. Similarly, the Chairman of the US Council of Economic Advisers made calls for specific policy adjustments such as tax cuts. In addition, the American Chamber of Commerce in Japan advocated a course of action that included forcing banks to sell non-performing loans (something that US officials have also recommended), recapitalising the banks and then imposing strict conditions forcing them to lend on the basis of objective financial criteria.

At times, individual US commentators and government representatives have even hectored Japan and from some quarters there has been outright criticism.
Former United States Trade Representative Charlene Barshefsky accused Japan of continuing to prefer short-term comfort over long-term reform and argued that if Japan continued in the same fashion, it would remain on a road characterised by stagnation. She added that ‘if Japan fails to implement reforms, the rest of the world would simply “move on”’. US business executives have also criticised delays in the implementation of Japan’s structural reforms. Whilst Bush was giving his endorsement of Koizumi’s reform drive and expressing confidence in the prime minister’s ability to accomplish his mission, at a meeting of Japanese and American business leaders in the United States, a number of participants gave vent to their frustration over the Koizumi administration’s lack of progress in dealing with the bad debts of the banks. Similarly, the G7 finance ministers and central bank governors meeting in March 2002 grilled Finance Minister Shiokawa about Japan’s inadequate structural reforms and about the banks’ continuing non-performing loan problem, as well as urging the Japanese government to accelerate its economic reforms. The Koizumi administration has also received requests from the other Group of Eight major powers, led by the United States, that it inject public funds into the banking sector.

US policy requests are now more formally incorporated into the Japanese policymaking process through its advisory council system, and especially those bodies that directly advise the prime minister. In October 2001, for example, representatives from the US Embassy attended a meeting of the Cabinet Office Council for Regulatory Reform, and requested that Japan promote competition in its telecommunications and medical services markets. The Japanese and US governments also hold regular vice ministerial-level negotiations to exchange views on deregulation and competitive policy. This is a means for the US representatives to proselytise their model of economic management and to pass on the benefit of their own experience in dealing with economic issues and financial problems. These discussions are most reminiscent of traditional gaiatsu in holding out prospects of direct commercial advantage to US companies in fields through increased access to Japanese markets.

From time to time the Koizumi administration also reverts to an orthodox gaiatsu response in dealing with the United States. For example, it resorted to a form of ‘package diplomacy’ prior to President Bush’s visit to Tokyo in February 2002. Package diplomacy entails the Japanese government coming up with a set of measures it knows will please the United States prior to high-
level leaders' meetings. The February anti-deflationary policy measures announced by the Koizumi administration were motivated by such diplomatic considerations, given President Bush's impending visit. Indeed, the Japanese government was under specific pressure from the US Embassy in Tokyo to deliver something in this area. The US administration reportedly sent a secret letter to Koizumi urging action on the deflation issue immediately prior to Bush's Japan trip. As Masuzoe puts it, the February anti-deflation package was directly due to the gaiatsu of President Bush's visit to Japan: 'Although I had been grappling to put the need for anti-deflation measures across to the cabinet and the Bank of Japan, as a member of the House of Councillors, I had to wait until to wait until gaiatsu, called the US government'.

Similarly, at the G7 finance ministers meeting in Canada in June 2002, Finance Minister Shiokawa spelt out the Koizumi administration's economic revitalisation package. The Japanese press also noted that the June tax reform plan was hastily put together in preparation for the G8 summit in Canada at the end of June. Prime Minister Koizumi took the plan to Canada in order to seek US 'understanding' of Japan's 'efforts' for structural reforms by conveying the details of reform of the tax system incorporated into the 'Basic Policies for Economic and Fiscal Management and Structural Reform 2002'. Pressure from abroad reputedly encouraged a Koizumi about-face on tax cuts because of calls from the United States to stimulate the economy by lowering taxes.

- Compensating losers

In the Japanese case, direct compensation for losers is a standard tactic for facilitating economic reform, particularly in response to gaiatsu. It has been a stock accompaniment of policy changes that expose favoured sectors to restructuring and greater market competition and often ends up delaying the process of reform by merely substituting one form of government benefit for another. Moreover, it represents what is widely recognised in Japan as an outdated 'save the weak' social policy antipathetic to market reforms.

Compensation politics of this type hardly figures on the Koizumi agenda because his structural reforms, and specifically fiscal consolidation, have taken direct aim at the compensation-type policies that have benefited special interests in the past. There have, however, been some measures to relieve the pain of structural reform in the form of unemployment relief and financial support for small and medium-sized businesses. Both sets of measures are linked to bad-
debt disposal by the banks. For example, one of the problems of the banks' bad debts is that lending is falling continuously 'as institutions put all their efforts into provisioning for bad loans'.

One of Koizumi's policy pledges in the race for the LDP presidency was the proposal to prepare for the pain of structural reform by establishing a better unemployment safety net: 'If Japan paid a full year's benefits to 1m new unemployed, at 70 per cent of their current average ¥5m salary, this would 'only' cost ¥3,000bn...[which] is less than the country spends on construction projects each year'. In September 2001, the Headquarters for Industrial Structural Reform and Employment Measures drew up a package of emergency measures designed to prevent the jobless rate from worsening as structural reform proceeded. It aimed for the creation of 5.3 million jobs over five years through deregulation, overcoming the mismatch in labour supply and demand, and establishing a safety net for the unemployed. Expenditure to support some of these measures was incorporated into the first 2001 supplementary budget. The ¥2.99 trillion budget included ¥1 trillion in extra spending mostly to deal with increased unemployment and provide extra funds to support small and medium-sized companies. The funds went to improving safety nets, such as subsidies to companies that hired unemployed workers and implemented job training.

It was followed by the October 2001 'Front Loaded Reform Program' which was designed to strengthen safety nets and generate one million jobs over three years: 500,000 by new types of public services, about 170,000 by supporting employers in newly growing areas; about 190,000 by supporting reemployment; and the rest by utilising internships for the younger generation and through other measures. Furthermore, in the job training area, 80,000 opportunities were provided for displaced workers. Both sets of employment policies were basically market-conforming and in line with the broad thrust of structural reform, rather than buying off customary rent-seeking groups.

The February 2002 anti-deflation package included more financial support to small and medium-sized companies that were suffering as a result of banks unwillingness to extend new loans. The measures offered an expanded safety net guarantee and a loan scheme. This policy meant that the government would step in to keep companies running in lieu of the banks performing their usual function of business lending.
The Koizumi administration's approach to accelerating the gains to winners began with its 2001 fiscal reform program, which endeavoured to redirect the allocation of fiscal resources away from favoured sectors to those that could contribute to the recovery and reform process (such as the IT industry), and public works projects that might enhance efficiency and productivity in the economy. The cabinet guidelines for the formulation of the 2002 budget incorporated the fiscal structural reform program announced in the June 2001 CEFP 'Basic Policy Outline for Economic Reform'. It involved redistribution of some public works spending away from traditional areas like local port development, airport projects and sewage works to information technology and infrastructure projects for urban redevelopment and improvement of living standards.

The January 2002 'Fiscal 2002 Economic Outlook and Basic Stance for Macroeconomic & Fiscal Management' developed this approach further by including measures to promote the development of science and technology. In addition, new industries with potential for growth via deregulation, as well as small businesses that reorganised at the managerial level, were winners from the employment measures package incorporated into the October 2001 first supplementary budget.

These policy strands were subsequently advanced in the technology, new industry development and regional power strategies in the June 2002 'Economic Revitalisation Strategies' (incorporated into the 'Basic Policies for Economic and Fiscal Management and Structural Reform 2002'). The technology and new industry development strategies proposed a greater transfer of resources into life sciences and the promotion of research and development (R&D) as well as encouraging the development of environmental technologies and biotechnology. The regional power strategy focused specifically on advancing deregulation of business. It gave more impetus to the idea of structural reform special zones where, 'government regulations will be drastically relaxed and corporations could be given favourable tax breaks.

Tax reform has also offered some potential gains to winners. It holds out prospects for generating growth by providing incentives for corporations and individuals, including tax relief measures for corporate capital spending in specific arenas. According to Koizumi, his government 'would like to develop
a comprehensive tax system that would help revitalize the economy and reward taxpayers for their efforts, and not merely devise tax cuts or increases'. The June 2002 Agreement between the Government and the Ruling Parties on 'Present Economic Revitalizing Policies' established an R&D promotion tax and a prioritised investment promotion tax as measures to revitalise corporate activities effective as of 1 January 2003.

NOTES
1 See also the discussion on the Cabinet Office in Chapter 6 on 'Policy Stalemate' and other more extended components of Koizumi's 'economic team'.
3 Ibid.
4 The remainder are the Chief Cabinet Secretary, who is also Minister of State for Gender Equality, the Minister of State for Okinawa and Northern Territories Affairs, who is also Minister of State for Science and Technology Policy, and the Minister of State for Disaster Management, who is also Chairman of the National Public Safety Commission. See also Chapter 6 on 'Policy Stalemate'.
6 'Overview of the Cabinet Office—"forum for knowledge" for the Cabinet', <http://www.cao.go.jp/about_cao/page1.html>.
7 See also Chapter 6 on 'Policy Stalemate'.
8 'Interests', p. 48.
9 <http://www.eda-k.net/chokugen/index18.html>.
10 'Overview of the Cabinet Office—"forum for knowledge" for the Cabinet', <http://www.cao.go.jp/about_cao/page1.html>.
11 Takenaka, 'Japan Takes on Challenges', p. 3.
12 'Overview of the Cabinet Office—"forum for knowledge" for the Cabinet', <http://www.cao.go.jp/about_cao/page1.html>.
13 There is also provision for participation by temporary members.
14 'Overview of the Cabinet Office—"forum for knowledge" for the Cabinet', <http://www.cao.go.jp/about_cao/page1.html>.
15 One is Ushio Jirō from Ushio Inc. and the other is the Chairman of the Toyota Motor Corporation, Okuda Hiroshi.
17 Takenaka, 'Japan Takes on Challenges', p. 3.
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19 Ibid., p. 2. See also the comments in Chapter 6 on 'Policy Stalemate'.
21 The Japanese government describes them officially as 'special areas...free from...certain regulations'. <http://www.kantei.go.jp/foreign/policy/2002/0621kouzoukaikaku_e.html>. Examples of the 'structural reform special zone' concept are IT-related Industry Integrated Special Zones with the aim of regional revitalisation by integrating IT-related industries; Bio-Life Science Special Zones for the purpose of creating venture businesses centring on bio-life science; International Exchange-Type Economic Special Zones for the purpose of establishing an integrated region for international distribution, domestic investment and tourism; Industrial Regeneration Special Zones Centring on Ports and Recycling Industries; Inauguration Promotion-Type Economic Regeneration Special Zones; Agricultural Enterprise Creation Special Zones; and Nature Contact Experience Special Zones. See Nishida Jitsuii, 'Kōzo Kaikaku wa Doko Made Susunde Iru no?' ["How Far is Structural Reform Progressing?"] Shūkan Tőyö Keizai, 25 May 2002, p. 87. See also below and Chapter 4 on 'Opportunities Lost'.
22 Nihon Keizai Shinbun, 22 June 2002.
23 Takenaka, 'Japan Takes on Challenges', pp. 1, 2.
24 Takenaka, 'The Economic and Fiscal Policy of the Koizumi Administration', p. 2. See also the comments about these programs below.
26 The Japan Times Online, <http://www.japantimes.co.jp/cgi-bin/getarticle.pl?nn20020621a1.htm>. See also below.
27 See also the comments on this package below.
29 These are councils (kaigi) and roundtable conferences (kondankai) established under prime ministerial sanction or approval (kesai).
31 Naikakufo, p. 37. See also the discussion of the CEFP's role in Chapter 6 on 'Policy Stalemate'.
32 Kawakita and Onoue, Naikakufo, p. 92.
33 This is pointed out by Kawakita and Onoue, who explain that Article 8 of the State Administration Law, which describes the duties of the advisory councils attached to the ministries, and the Cabinet Office Establishment Law which describes the duties of the CEFP, both use the same words, that is, to 'investigate and deliberate'. Naikakufo, p. 37.
The system of ministerial advisory councils was restructured as part of the administrative reforms that came into effect on 6 January 2001.


Ibid.

Naikaku, p. 37.

Personal interview, unnamed ministry official, May 2002.

Takenaka, 'The Economic and Fiscal Policy of the Koizumi Administration', p. 2.


Some of these existed prior to the Koizumi administration, others were established by his administration. Their legal status varies. Some have been established by cabinet decision, others under laws pertinent to their focus of interest.

Takenaka, 'Japan Takes on Challenges', p. 3.

He was previously only an economic advisor to Prime Minister Obuchi.


The other was Hata Tsutomu who was prime minister from April to June 1993.


This is also translated as 'structural reform without sacred cows' mentioned in Chapter 1 on 'The Political Conditions for Economic Reform'. As one commentator wrote 'Few would deny that sacred cows, herds of them, need slaughtering'. The Economist, 4 August 2001.


Ibid.


This was incorporated into the 'Basic Policies for Economic and Fiscal Management and Structural Reform 2002'. See also below.


Financial Times, <http://news.ft.com/ftgx.cgi/ftc?pagename=View&cid=FT3XAVB51D>. At ¥240 trillion, the total amount of postal savings deposits is 50 per cent larger than the total assets of Mizuho Holdings, the largest private bank in Japan. The life insurance service is three times the size of Nippon Life Insurance Co., the largest life insurer. asahi.com, <http://www.asahi.com/english/op-ed/K2002042700288.html>.

Since April 2001, the Postal Services Agency of the Ministry of Public Management, Home Affairs, Posts and Telecommunications has operated a system of self-management for postal...
savings funds. The FILP is still managed by the MOF, but the system for financing the program has been reformed. Prior to April 2001, the money collected from postal savings deposits had to be allocated to the \textit{zaitō}, but from April 2001 there was no such compulsory requirement. The \textit{zaitō} is now financed by the market mechanism: the MOF issues so-called \textit{zaitō} bonds to fund expenditure under the program, while the Postal Services Agency has been able to invest money into this type of bond. Postal savings continue to finance a portion of the \textit{zaitō} because the Postal Services Agency buys a certain proportion of the \textit{zaitō} bonds. The relationship between postal savings and the \textit{zaitō} was transformed, however, into a more indirect one with the creation of the Postal Services Agency in 2001. When the postal public corporation is created in April 2003, it will take over these funds and presumably continue buying \textit{zaitō} bonds, although management will be more independent of the government. This is likely to give rise to pressures for more efficient allocation of \textit{zaitō} funding on the part of the MOF in order to make the bonds more attractive for 'market' purchase. See also Chapter 4 on 'Opportunities Lost'.


59 It has also been reported that postal savings funds are used to prop up falling share prices in what is known as a 'price-keeping operation'. Saikawa Takao, 'Nihon Keizai o Heisei Kyōkō e Meisō Saseru Keizai Kakuryōtachi no Zure' ['The Gap Between Economic Cabinet Ministers Who Let the Japanese Economy Stray into the Heisei Depression'], \textit{Politico}, May 2002, p. 25. See also asahi.com, <http://www.asahi.com/english/op-ed/K2002042700288.html>.

60 He said: 'I want the bills to serve as an initial step toward transforming three kinds of postal services into private businesses and drastically reforming government loans and investment programs and public corporations'. \textit{Daily Yomiuri On-Line}, <http://www.yomiuri.co.jp/newsc/20020522wo03.htm>.

61 8 July 2002.


63 Takenaka, 'The Economic and Fiscal Policy of the Koizumi Administration', p. 1. The 'Reform Schedule' included 'a set of measures for accelerating the disposal of non-performing loans and revitalizing the financial sector'. Takenaka, 'Japan Takes on Challenges', p. 4. It proposed a significant strengthening of the inspection of banks by the Financial Services Agency (FSA), the body which is tasked with exercising regulatory and supervisory authority over private sector banks and which is directly under the Cabinet Office. The FSA 'introduced special inspections, the purpose of which is to ensure adequate loan classification and secure enough loan loss provisions'. (p. 4) The measures also proposed making more concerted use of the Resolution
and Collection Corporation (RCC), the specific-purpose public corporation set up to assist debt-laden banks. The RCC would purchase more non-performing loans from the banks with a view to resolving their massive bad-loan problems in three years. The RCC would ‘purchase NPLs [non-performing loans] more actively because the RCC is now allowed to purchase NPLs at market prices unlike before. The RCC and the Development Bank of Japan will support private investors in establishing deleveraging funds, which will facilitate the restructuring of debt-ridden companies’. (p. 4)


65 Takenaka, ‘The Economic and Fiscal Policy of the Koizumi Administration’, p. 3.
67 Nikkei Weekly, 10 June 2002.
69 Yomiuri Shimbun, 4 July 2002.
71 Ibid.
72 Nihon Keizai Shimbun, 6 June 2002.
73 See, for example, Bruce Stokes’s article in National Journal translated into Japanese by Ayukawa Natsumi as “Koizumi Kaikaku’ e no Beikoku no Kitai ga Shibonde Iku” [‘The Deflation in America’s Expectations of Koizumi’s Reforms’], Fosaito, May 2002, pp. 22–23. Bruce Stokes is Senior Fellow and Director of Trade Programs at the Council on Foreign Relations in New York. He is also a columnist for National Journal.
76 ‘Koizumi Kaikaku”, p. 22.
78 For example, James Kelly, Assistant Secretary of State for East Asian Affairs was quoted as saying that ‘[t]here is a danger that [Japan’s] important leadership role may be undermined if its economy deteriorates further’. Financial Times, <http://news.ft.com/ft/gx/cgi/ftc?pagename=View&c=Article&cid=FT31TAP7TXC&live=true&tagid=ZZZNUAMRAOC>.
79 Nihon Keizai Shimbun, 6 June 2002.
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82 Daily Yomiuri On-Line, <http://www.yomiuri.co.jp/newse/20020305wo11.htm>. Similar sentiments were expressed by a South Korean researcher who said that his country was shifting its attention away from Japan to China and the rest of the world. Because of Japan's reform being all talk and no action, the economy would gradually wither 'if not collapse'. Nikkei Weekly, 15 July 2002.
84 The Japan Times, 2 October 2001.
87 Nikkei Keizai Shinbun, 17 June 2002.
88 Sankei Shinbun, 26 June 2002.
89 A good example is the ¥6.01 trillion compensation package for Japanese farmers consequent upon Japan's accession to the Uruguay Round Agreement on Agriculture.
91 See, for example, The Japan Times, Editorial; 15 May 2002.
94 The package addressed three key areas: promoting industries with potential for growth via deregulation, resolving the mismatch between the skills sought by employers and those that jobseekers possessed, and providing a safety net for those who lost their jobs as a result of corporate restructuring during ongoing economic downturn. Nikkei Weekly, 24 September 2001.
96 Nikkei Weekly, 4 March 2002.
100 Nikkei Weekly, 1 April 2002.