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OPPORTUNITIES LOST

As the previous two chapters have argued, the Koizumi administration has enjoyed many of the political conditions that are widely accepted as contributing to processes of economic reform in societies seeking to make the transition from being interventionist to market-liberal economies. Koizumi's apparent lack of success in engineering such a transition is, therefore, paradoxical. Surely, given the combination of Koizumi's commitment to a genuine program of reform and a favourable political environment, he should have much more to show for his efforts? The discussion in this and subsequent chapters will provide an extended explanation of that paradox. It shows how Koizumi failed to capitalise on opportunities for reform that were initially present and identifies those policy choices that might have provided positive impetus for reform. It also isolates political conditions that should have been conducive to reform but which turned out to be negative or became negative over time. Finally, it attributes the major cause of Koizumi's lack of success to a set of critical political conditions that are necessary for economic reform to occur in Japan, but which have been almost entirely absent under Koizumi and which are not likely to be present under any future prime minister.

— Japan's economic crisis has not produced a state of 'extraordinary' or 'abnormal' politics

The key to the political effectiveness of an economic crisis is that it produces a sense of crisis amongst those in government, the broader policy community

and the general public. The Koizumi administration has tried to exploit a sense of crisis to effect its radical reform programs. However, as 2001 turned into 2002 and the much-anticipated 'March crisis' in Japan's financial system did not materialise,¹ the government's sense of crisis dissipated and it relaxed its reformist zeal.² The modest rise of stock prices³ and other good news also dulled policymakers' sense of urgency.⁴ The more upbeat view was bolstered by signs of an economic turnaround in April and May, confirmed by the June GDP figures for the first quarter of 2002.

Economic crisis opened a window of opportunity for reform in Japan by making the public more receptive to the Koizumi phenomenon, but it did not bring about an equivalent political crisis. It made the Japanese people feel disillusioned with the government's ability to revive the economy, but it did not produce the widespread social unrest that might have prompted those in positions of power in the LDP and in the bureaucracy who are committed to the *status quo* to be more open to innovative policy solutions or to share Koizumi's commitment to change. Nor did the economic crisis discredit existing power structures sufficiently to undermine their authority.⁵ Although the executive led by the prime minister has endeavoured to seize the policy initiative and enact broad-ranging reforms, it has continued to face obstruction from resilient and well-entrenched power centres that actively resist change. Crisis may, therefore, provide political leaders with a strong rationale to overturn existing systems, but it does not necessarily incapacitate traditional power centres.

LDP 'RESISTANCE FORCES'

LDP politicians, whom Koizumi has labelled 'resistance forces' (*teikô seiryoku*), are actively campaigning against those elements of his economic reform program which most directly impact on their political interests.⁶ They are being led by the largest faction in the LDP—the Hashimoto faction—which will not follow Koizumi's leadership. The split between Koizumi and the Hashimoto faction is an open rift that has unfortunate policy consequences. As it plays out through party policymaking processes,⁷ it is a major factor preventing Koizumi from implementing his reform plans.

The resistance forces continue to push for economic stimulus measures, to frustrate banking reform and deregulation, to protect publicly owned businesses from privatisation and to demand that public works spending be maintained. Their influence can be seen in numerous policy battlegrounds where Koizumi

and the anti-reform forces have locked horns. For example, in the wake of the terrorist attacks on the United States in September 2001 and the synchronised global economic slowdown that followed, Koizumi was placed under tremendous pressure from members of his own party to abandon his pledge to limit the issue of new government bonds to ¥30 trillion in 2001 and to change his priorities from structural reform policies to measures to revive the economy. Koizumi managed to maintain the cap, but only by using non-bond sources of funding for the second supplementary budget.

Similarly, the proposals to free up taxes used exclusively to fund road construction for general revenue purposes and to cut road construction programs have been openly attacked by various LDP politicians who use government expenditure on roads as a huge pork barrel for obtaining votes and political funding linked to road construction. Two days after Koizumi announced his road policy initiative, Diet members representing road construction interests (the so-called road 'tribe', or *dôro zoku*)⁸ rallied more than 2,000 local government leaders in a hall near the party's headquarters in Tokyo.⁹ This *ad hoc* 'National Conference for Promoting Road Expansion' condemned Koizumi's plans, claiming that they would hurt local government independence. Many of the politicians belonged to the Hashimoto faction which specialises in road policy and in representing road-related interests. Nonaka Hiromu, Secretary-General of the Hashimoto faction, former LDP Secretary-General, and former Chief Cabinet Secretary under the Obuchi administration,¹⁰ also installed himself as chairman of an important LDP policy committee on highways¹¹ from where he could directly influence party policy on road construction reform. The efforts of the LDP's internal road lobby prevented the Koizumi Cabinet from undertaking a thorough review of the allocation of revenue from road-related taxes for road construction and maintenance scheduled for early 2002.¹²

This group continues to battle Koizumi's attempts to freeze highway construction and privatise the four road-related public corporations,¹³ including the Japan Highway Public Corporation (see Table 1.1). Koizumi agreed under pressure to establish an independent committee to supervise the privatisation process, but the LDP road tribe is pushing behind the scenes for their own privatisation program that 'would take the teeth out of Koizumi's initiative'.¹⁴ As a group of young DPJ Diet members observed, in spite of the existence of a third-party committee to oversee the process of privatisation, in reality the success of the reform remains in the hands of the *dôro zoku*.¹⁵ The major issue

to be discussed by the committee is the fate of a 2,400 kilometre portion of the planned 9,342 kilometres of highways that have not yet been built. The committee is due to report by November 2002. On its report hang a considerable number of potential pork-barrel projects which the road 'tribe' can use to please their supporters.¹⁶ In late July 2002, the road tribe established its own league of parliamentarians to promote the construction of highways.¹⁷ Nonaka, who has been made an influential advisor to the league, commented: 'We can never give in to the prime minister's assertion that construction of highways be frozen and tax revenues now earmarked specifically for road construction be widely used'.¹⁸

The road corporation issue is part of a much larger battle over privatising public corporations. The initial vehicle for the resistance forces' campaign against privatisation was a special-purpose task force on administrative reform established within the party, which conducted its own review of public corporations. It was stacked with anti-reform politicians led by Hashimoto. Ironically, as State Minister for Administrative Reform in the last Mori Cabinet of 2001, Hashimoto took exactly the opposite tack, saying that all special public corporations should either be dissolved or privatised.¹⁹ In April 2001, he unveiled a set of criteria for reforming public corporations. They affected some 160 special corporations and their 1,200 subsidiaries and were almost identical to those later used by the Koizumi administration. Given Hashimoto's record as an administrative reformer, his about-face on this issue suggests an act of pure political expediency. Narrow political purpose (undermining Koizumi with a view to replacing him with a member of the Hashimoto faction) has overridden larger policy purpose. Hashimoto's behaviour epitomises the fact that policy has always come a poor second to politicking in the LDP, particularly when it comes to securing factional fortunes.

In November 2001 an even more overt anti-reform LDP lobby took shape in the form of the 'Alliance to Save Japan' with well over 55 members. The group pulled in politicians from several different LDP factions with a view to presenting its own proposal for the reform of public corporations to counter Koizumi's proposals.²⁰

In December 2001, another informal lobby—this time consisting of Upper House members—mobilised against Koizumi's plan to privatise postal services. The group, which organised Diet members from both the LDP and opposition parties, boasted a membership of 146, more than half the total complement of

247 Upper House members. It was led by former Minister of Justice, Jinnouchi Takao, a member of the Hashimoto faction, which also has strong links to postal interests. Later in May 2002 a 'Postal Services Roundtable Conference' (Yûsei Jigyô Kondankai)²¹ was established inside the LDP to oppose the four bills to reform postal services submitted to the Diet in April–May 2002.²² As the leader of LDP Diet members who support and are supported by postal service interests, Nonaka chaired the grouping. The bills included a law defining requirements to be met by private corporations seeking to enter the mail collection and delivery business, and another to establish and define the organisational structure of a new public corporation (the Japan Postal Public Corporation, or Nihon Yûsei Kôsha) to take over from the Postal Services Agency²³ in April 2003.²⁴ No provision was made in the bills for the eventual privatisation of the new postal public corporation.

Koizumi has also had to fight hard against LDP Diet members representing the health care lobby within the party, who tried to force him to give up his deadline of April 2003 for introducing a new policy requiring salaried workers to increase their contribution to medical treatment costs from 20–30 per cent.²⁵ The so-called welfare 'tribe' (*kôsei zoku*) resisted the date because of doctors' fears about losing patients because of the hike.²⁶ Although Koizumi succeeded in overcoming the opposition on this issue, he won at the price of putting off tackling the serious structural problems in the medical care industry such as reforms to the health insurance system and the cost of medicine.²⁷

In late 2002, the battle shifted to the Koizumi administration's prior commitment under the 1996 Deposit Insurance Law to abolish the full-deposit protection for demand deposits at banks (that is, ordinary deposits, cheque accounts and other types of liquid savings) on 1 April 2003. An internal lobby group entitled the Select Commission on Policies for Deflation (Defure Taisaku Tokumei linkai) took up the issue. Its chairman, Aizawa Hideyuki, teamed up Asô Tarô, the LDP's policy research chief, to push for the guarantee to be extended indefinitely. Their political interests were shaped directly by concerns for the fate of the smaller banks and credit unions that might be exposed to a flight of deposits in the event that the government's full guarantee on total savings amounts was removed. This might in turn create further difficulties in the small business lending market. Their call was backed directly by the Second Association of Regional Banks and the National Association of Small Savings (Shinkin) Banks. Ranged against these groups were the prime minister, his

senior cabinet aides and the Financial Services Agency, all of whom were committed to the plan in order to encourage further bank consolidation and management reforms as well as to avoid the potential fiscal costs of bank rescues. The pressure from the party was sufficient to force Koizumi to propose a loophole in the reform plan allowing for a new type of non-interest-bearing account that would be fully protected by the government.²⁸

BUREAUCRATIC OBSTRUCTIONISM

In addition to well-mobilised anti-reform lobbies in the LDP, Koizumi also has to contend with strong resistance from the bureaucracy.²⁹ His initial proposal to restructure 163 special and approved public corporations elicited the classic bureaucratic rejoinder that almost all such corporations 'would be difficult' to privatise or abolish. Favourable responses such as 'would abolish' or 'would study abolishing' were offered for only three special public corporations which were already slated for integration into other organisations.³⁰ This number was expanded to seven (see Table 1.1) through political negotiations involving the administration, LDP policy executives and the ministries, a figure that fell far short of Koizumi's original objective.

Similarly, the severe conditions surrounding the issue of postal privatisation reflect not only the objections of the LDP but also the demands of the Ministry of Public Management, Home Affairs, Posts and Telecommunications, which battled Koizumi over how extensively the postal services should be privatised.³¹ The ministry imposed such highly restrictive terms and conditions under which the privatisation of mail services would take place in April 2003 that it put itself in the position of effectively sabotaging the intention of the bill by making it virtually impossible for private sector companies to participate. As the *Nikkei* commented,

[u]nder the bills, only businesses with approval from the ministry and the postal corporation would be allowed to deliver postal mail as well as all other types of mail. But to win approval, companies would have to offer uniform services nationwide,³² something some private parcel firms deem impossible.³³

The concept of 'universal service' was code for a highly restrictive privatisation regime requiring companies to install mailboxes throughout the country,³⁴ and provide the same services in city and rural areas. Such a move was intended to make their participation much less profitable and therefore much less likely.

Koizumi also caved into demands that the Minister of Public Management, Home Affairs, Posts and Telecommunications appoint the president and vice-presidents of the new postal public corporation,³⁵ and that the corporation's employees would be public servants. Finally, the ministry retained the right to define exactly what constituted postal mail after the postal services legislation passed the Diet, so that it could effectively determine the rules under which private companies would participate and thus stack the conditions in favour of the new postal corporation.

In spite of all the bureaucratically-imposed strictures, Koizumi told the Lower House that 'government regulations on private mail-delivery businesses would be limited to minimal levels. "I've instructed the public management minister to ensure that private firms will be able to enter the mail-delivery market by any means"'.³⁶ He also made the assurance that at least one private company would enter the 'privatised' postal business. However, none of the private delivery companies in fact showed

...any interest in launching full-scale letter delivery services...private companies have many concerns with the government's plans...In particular, they are worried that the Public Management Ministry, which would be linked to the envisioned public postal corporation, would regulate their operations.³⁷

Japan's largest parcel delivery company, Yamato Transport, was considered the most likely candidate, but its president reiterated that his company had already decided against participation. He objected to the 'overregulation' of private sector entry into the mail delivery business³⁸ and to the prospect that private corporations entering the business would be 'under the government's thumb'.³⁹ Meanwhile, some motorcycle delivery companies showed interest in breaking into the express mail delivery market, which would exempt them from having to set up mailboxes.⁴⁰ Concerns were raised, however, that government rules and guidelines would inevitably burden them with other costs, potentially wiping out their profits.⁴¹ When the postal bills finally passed the Diet in July 2002, critics were unanimous in condemning the bills as 'a setback for both the liberalization of the mail business and the privatization of the postal services'.⁴²

Public corporation reform and privatisation of postal services are not the only issues over which bureaucratic ministries have dug in their heels. The Ministry of Public Management, Home Affairs, Posts and Telecommunications is highly resistant to the notion that public-investment subsidies to local

government should be cut, whilst the Health, Labour and Welfare Ministry (Kōsei Rōdōshō) has objected to the proposal that part of the government-managed pension program for corporate employees should be privatised.⁴³ It has also opposed the idea of constraining social security spending through pension reform. In June 2002, Minister Sakaguchi Chikara stressed that his ministry would only grant conditional agreement to the MOF/CEFP proposal to index pensions, which would enable them to fall in line with price declines. As part of a strategy to block the proposal, which was strongly opposed by ministry officials, the ministry demanded a simultaneous cut in the salaries of government employees.⁴⁴

The structural reform special zones that pose a particular threat to the interventionist authority of the bureaucracy have also elicited objections from various ministries. They have argued against the concept to the Council for Regulatory Reform, which failed to find any common ground with the bureaucracy in its July 2002 interim report on deregulation.⁴⁵ Specifically the Health, Labour and Welfare Ministry and the Education, Culture, Sports, Science and Technology Ministry (Monbu Kagakushō) objected to the prospect of deregulated areas where existing laws, ordinances and administrators' discretionary authority would be curtailed.

Other recommendations in the council's interim report drew similar opposition from the ministries concerned. The report called for the restrictions on private companies entering certain fields—medical treatment, welfare, education and agriculture—to be lifted. The council's view was that diversified management bodies would increase options for consumers and lead to improved quality of services and lower costs. The relevant ministries' responses were immediate. The Health, Labour and Welfare Ministry rejected the idea of corporate access to the medical service area, the Education, Culture, Sports, Science and Technology Ministry was opposed to the notion of private companies running schools, and the Ministry of Agriculture, Forestry and Fisheries, or MAFF (Nōrinsuisanshō), raised a number of objections to corporations running farms.⁴⁶

ANTI-ADJUSTMENT INTEREST GROUPS

Economic crisis has not made interest groups who stand to bear the concentrated costs of reform any more willing to contemplate it. Crisis has not, as Haggard puts it, silenced 'the distributional demands coming from anti-adjustment

interest groups'.⁴⁷ Organisations representing various kinds of sectional interests have not been knocked off balance by economic crisis but have organised their defences and are still vetoing change.

Representing Japan's doctors, the Japan Medical Association (JMA),⁴⁸ has campaigned against Koizumi's plan to reform the medical care system. Not only has the JMA come up with its own healthcare reform plan, but it has strongly objected to specific medical reform proposals presented by the Koizumi administration. For example, it opposed a suggested new system for managing the increased rate of medical expenses for the elderly with the result that Koizumi abandoned the proposed reform.⁴⁹ Koizumi's medical reform package also yielded to pressure from the JMA in abandoning the plan to narrow the gap between the amounts charged by large hospitals and small clinics for repeat visits, which favours private practitioners.⁵⁰ Similarly, the proposal from the Council for Regulatory Reform that private, profit-seeking shareholder firms be allowed to enter areas such as medical care was rejected by the JMA.⁵¹

In contrast, Koizumi has been more successful in medical system reform where he has been able to put more of the financial burden on to patients rather than on to medical service providers. Koizumi successfully obtained the JMA's consent to his proposal to raise the out-of-pocket burden for medical care on salary earners from 20 to 30 per cent, although the JMA objected to the deadline of 1 April 2003 for the reform.⁵²

In the postal sector, several organisations are leading the charge against privatisation. The most politically influential is *Taiju no Kai*, the group representing retired postmasters (so-called 'OBs', or 'Old Boys') and their families from the 19,000 specially designated post offices (*tokutei yûbin kyoku*) nationwide.⁵³ These post offices are located in rural and often remote areas and are operated as a side-business by retailers and others under contract to the government. *Taiju no Kai* is the largest occupational grouping backing the LDP.⁵⁴ It has organisations in each prefecture, boasts 240,000 registered LDP members, reputedly mobilises around 1 million votes⁵⁵ and generates large quantities of funds for election candidates. These resources provide the basis for bureaucrats from the former Ministry of Posts and Telecommunications, or *Yûseishô* (now Ministry of Public Management, Home Affairs, Posts and Telecommunications), to stand for election in the National Constituency of the Upper House on an LDP ticket, because *Taiju no Kai*'s members are

conveniently scattered throughout Japan.⁵⁶ The group that styles itself the 'postal services family' (*yūsei ikka*) opposes privatisation of postal operations because it argues that such a move would lead to the scrapping of many post offices in sparsely populated rural areas.⁵⁷ In reality, privatising postal services would abolish the privileged status of the postmasters of government-designed post offices and diminish the means of their influence over the LDP, as well as potentially eradicating an important social institution in rural areas.

Other organisations opposing postal services privatisation are the labour unions that organise postal workers. For these unions, the mantra of 'universal service' represented the main battleground over the privatisation issue.⁵⁸

– The honeymoon effect has worn off and the social consensus in favour of reform is fracturing

The honeymoon effect that Koizumi was able to employ greatly to his advantage in the early days of his administration to maintain public support for his structural reform program and to silence critics of his reform policies has evaporated. The Koizumi bubble burst in February 2002, following his dismissal of popular Foreign Minister Tanaka Makiko. Koizumi's public approval ratings plummeted overnight by about 30 percentage points to more 'normal' levels in the range of 40–50 per cent. In dramatic fashion, the so-called 'Koizumi boom' bust. As Eda puts it, with the dismissal of Tanaka, the public's feeling of distrust towards Koizumi became extraordinarily strong. Up to that point, the public had believed Koizumi shared their perspective, but following the Tanaka dismissal, they thought Koizumi had reverted to the traditional LDP view of politics.⁵⁹ This was the principal cause of Koizumi's 'approval deflation spiral'.⁶⁰ Because Tanaka stood for reform, Koizumi implicitly adopted an anti-reform stance in dismissing her.⁶¹ Even Koizumi complained that he was regarded as having become a member of the LDP 'resistance forces'.⁶²

In May 2002, a public opinion poll showed that the Koizumi Cabinet's non-support rate topped its support rate for the first time since its inauguration in April 2001, with a disapproval rating of 47.7 per cent and an approval rating of 41.8 per cent.⁶³ In the light of this trend, Hatoyama Yukio of the DPJ commented that 'the Koizumi Cabinet has become just an ordinary Cabinet'.⁶⁴ Inoguchi went even further, observing that 'after losing public support, his strongest political weapon, the Koizumi cabinet is only one step

away from being a lame duck'.⁶⁵ Ensuing political scandals did not help, including that involving Kato Kôichi, Koizumi's closest political ally,⁶⁶ 'giving the public the impression that Japanese political circles...[were] handcuffed to tradition and that nothing...[had] been changed by Koizumi's reform drive'.⁶⁷

So while Koizumi began with a large quantity of political capital or political stock, some of it was subsequently dissipated or squandered. Koizumi had a full 10 months to move quickly and efficiently to enact a radical reform agenda. His honeymoon period was longer than the norm for new administrations in Japan. As Curtis observes, with these skyhigh approval ratings, Koizumi 'could have gone far'.⁶⁸ Because such levels of support turned out to be unrecoverable, a premium was placed on Koizumi's moving quickly to achieve radical reform.

The question that Koizumi now faces is whether his diminishing public support provides a sufficient political base from which to enact fundamental reform. Koizumi does have some political capital left. A 40 per cent support rate for a cabinet is acceptable by Japanese standards and may possibly provide a political base from which to move forward. Koizumi's predecessor, Mori, was lucky to get into double figures. As Endô points out, amongst the 20 administrations since Prime Minister Kishi Nobusuke, only 10 cabinets secured more than a 40 per cent approval rate 10 months after inauguration and approval ratings were often irrelevant in terms of what these cabinets were able to accomplish. In short, public popularity and cabinet capability are not necessarily directly linked.

The cabinets that were capable of relatively more significant policy achievement, however, were those led by prime ministers with a strong power base within the party, who were thus able to impose changes on the populace regardless of their popularity.⁶⁹ The more successful prime ministers have been willing to play the party power game in order to get their policies successfully implemented. Koizumi, in contrast, is a maverick independent who refuses to play by the party rules. Indeed, he has endeavoured to push his policies through by going outside party processes and using his executive power as prime minister.⁷⁰

Koizumi is, therefore, vulnerable because he operates without a strong, personal base of support inside the LDP and because he has never really tried to build one. He once declared: 'I don't want to become a follower and I don't want anyone else to become my follower'.⁷¹ His only power base has been his

public popularity, which he has tried to use as an instrument within his own party to move his reforms forward. As Curtis comments: 'His only hope was to leverage his eighty percent public support to force feed policies down the throat of his own party that did not want to swallow them'.⁷²

In the longer term, this approach has turned out to be one of Koizumi's key weaknesses. It has left him exposed in the event that his public support rate came crashing down. Any leader that only relies on public opinion becomes vulnerable and ineffective when the people desert him. As Endô argues, Koizumi put too much faith in public opinion as the driving force (*gendôryoku*) of his administration. He was too reliant on public opinion for taking on LDP resistance forces, instead of concentrating on achieving his reform program regardless of public opinion. Following a results-based strategy would have produced greater achievements, and this, in turn, would have brought public opinion in behind him. Instead of building public support through action, however, Koizumi showed excessive consideration for public opinion, which made him servile and diminished his determination to complete his structural reforms.⁷³ As Endô concludes, what a nation needs from its leader is to demonstrate outstanding leadership, not to share banal interests with the common people. The citizens are the people politicians should trust least but want to trust the most. A leader must have the courage of his own convictions and act accordingly. He must persuade the people to his view and have the courage to confront them.⁷⁴

In an effort to retain public support and his political credibility, Koizumi insists that he will continue with his reforms regardless of his approval ratings. However, what was possible with 80 per cent support may not be possible at lower levels.⁷⁵ Koizumi could have strengthened his power base in the party had he acted to dissolve both houses of the Diet early in the piece. A resounding electoral victory might have enabled him to construct a strong mandate for reform and build a basis for a longer term administration.⁷⁶

As time has passed, the slide in Koizumi's approval ratings has shown no sign of halting, with levels of support in the 30–40 per cent range emerging in June 2002. One report claims that 'the Japanese people seem to have given up on Koizumi. The viewing rate for the live Diet session broadcast by NHK has decreased to half the amount of time at the start of his administration'.⁷⁷ Likewise, the circulation of the Koizumi Cabinet Mail Magazine on the internet has dropped to around one-third of what it was at the beginning of his administration.

Without the armour of his public popularity, Koizumi is more vulnerable to attacks from his opponents. The decline in his popular support has emboldened those LDP politicians who were temporarily disarmed by fears that attacking Koizumi would undermine their own public standing. Indeed, some of the support Koizumi enjoyed amongst members of his own party was purely opportunistic. It was due solely to Koizumi's public support and to the calculations of many of his fellow LDP Diet members that Koizumi was good for the party's popularity. Koizumi's high public standing thus had a bandwagoning effect inside the LDP itself. With 'clear public support for change, Koizumi...won time and the benefit of the doubt'.⁷⁸ As Curtis observes,

Koizumi...[was] in a fight against time to act while his opponents in the LDP...[were] on the defensive. They could not say anything against him during or immediately after the July Upper House election, when his popularity was at its zenith. Now, however, these opposition forces are becoming increasingly bold in speaking out against him and in opposing his policies.⁷⁹

Koizumi is surviving largely by default both from the perspective of his party and the Japanese people. Rival factions do not seem to have any obvious candidates to replace him⁸⁰ and public opinion polls reveal that the public only supports Koizumi because they perceive the likely alternatives as worse. Factional manoeuvring is constantly going on in the background, however, and Koizumi's ability to last remains one of the big question marks hanging over his administration. Four veteran politicians from different factions who have each been elected to the Diet seven times and who can be considered the group 'most likely' to succeed as prime minister at some point, meet regularly: Koga Makoto, former LDP secretary-general, Asô Tarô, Koizumi's rival for the LDP presidency in the 2001 race, Hiranuma Takeo, Minister of Economy, Trade and Industry, and Kôamura Masahiko, former Foreign Minister.

Koizumi's popular support is likely to dissipate even more quickly in the absence of immediate and palpable payoffs from his economic reforms. Koizumi simply has not delivered sufficiently to convince the public that he is able to achieve reform.⁸¹ Indeed, profound public disillusionment and even a sense of betrayal are setting in. Koizumi's credentials as a reformer and his commitment to reform are being questioned, while his reform policies are also losing their credibility. Public opinion polls in early 2002 indicated that very few respondents believed that government measures would help the economy recover.⁸² In one survey, 46 per cent of those who did not back the Koizumi Cabinet said that it had not achieved enough to warrant public support.⁸³ In

May 2002, 41 per cent of those who said that they did not support the Koizumi Cabinet gave their reason as 'its failure to achieve noticeable result', whilst 65 per cent thought the Prime Minister could not carry out his structural reform plans.⁸⁴ Of those who did not support the Koizumi Cabinet in June 2002, 47 per cent said that the prime minister lacked leadership.⁸⁵ The Japanese economic press described Koizumi's impending fate in ominous terms: 'Faith in his ability to carry out structural reforms wanes, his power base within the coalition crumbles and his previous political weapon, public support, heads south on the bullet train'.⁸⁶

In the light of his dwindling popularity ratings, Koizumi attached great importance to pushing the four bills to reform postal services through the Diet. Privatisation of postal services was not only Koizumi's signature platform but the successful passage of the postal bills became a crucial test of his ability and commitment to reform. As one Koizumi insider commented, 'the prime minister emphasises his appearance, but he does not have a political philosophy. His own policy is only privatisation of postal services'.⁸⁷

The longer Koizumi stays in power without restoring Japan to growth, the shakier his political position will become. The social consensus in favour of reform is fracturing because the Japanese economy continues to stagger along without the promised gain being realised by Koizumi's reforms. Moreover, the problem with a weak economy is that structural reform is harder because its side-effects, such as intensifying deflation and rising unemployment, are potentially more serious.⁸⁸ What was achievable under previous administrations is now more difficult because of the considerable deflationary risks and the possibility that structural reform might set off a deflationary spiral. Key pillars of Koizumi's structural reform agenda—fiscal contraction and disposal of non-performing loans—are inherently deflationary. In the view of some commentators, Koizumi's fiscal reforms have already aggravated the so-called 'deflationary recession' (*defure fukyō*).⁸⁹ If structural reform proceeds unhindered, the prospects are for considerable short-term pain (from bank collapses, higher unemployment, larger numbers of corporate bankruptcies and depressed consumer spending) for little immediate benefit.⁹⁰ Economic revival and structural reform in this environment may be mutually exclusive. For example, deflation renders the financial rehabilitation of companies more difficult and hence makes dealing with banks' non-performing loans significantly more troublesome. The cure for deflation is an increase in demand, but this requires,

amongst other things, tax cuts and tax breaks, which make fiscal consolidation more difficult.⁹¹ The result is that the Koizumi administration oscillates between mutually irreconcilable goals: between being tough on structural reform and providing not so covert economic stimulus. This gives an overall impression of vacillation, indecision and under-achievement.

Economic stimulus helps to explain the second supplementary budget for fiscal 2001 which, according to Takenaka, was to 'cope with...short-term demand shortage'⁹² resulting from the post September 11 global economic downturn and accelerated write-downs of non-performing loans. The additional government expenditure had 'a positive impact on GDP growth by about 1 per cent'.⁹³ It involved public works spending designed to boost demand and simultaneously facilitate structural reform.⁹⁴ Unlike the first supplementary budget, it focused on public works projects relating to urban renewal, the environment and social welfare. In reality, however, these amounted to structural reform in name only, and, as public works, they risked being hijacked by special-interest politicians for their own purposes. Moreover, because they were widely perceived as archetypal pork-barrel projects, the credibility of Koizumi's fiscal reform program was open to question. Such a move was bad politics because Koizumi's public support rested on his reformist stance and on his commitment to fiscal rehabilitation, including cuts in government expenditure on public works.

A covert economic stimulus goal also helps account for the 'anti-deflationary' packages of early 2002, which were designed to exert a positive effect on GDP figures in the first half of 2002. As Japanese commentators observed, after George Bush's visit to Japan in February 2002, the Koizumi cabinet appeared to place more emphasis on preventing the economy from falling into a deflationary spiral.⁹⁵ The economic revitalisation strategies announced in June 2002, including proposed tax cuts, were also seen as potentially giving the economy a shot in the arm. As Takahashi observes, Koizumi 'is now leaning toward stressing economic revitalization rather than true reforms including fiscal reconsolidation, which would be painful in the immediate term'.⁹⁶

Each of these moves appears to reflect a weakening of Koizumi's resolve to accomplish his structural reform program regardless of the pain it might inflict. Takenaka has rationalised the change in emphasis by describing the first year of the Koizumi administration as a preparation period for structural reform, but the second and third years as a period of concentrated adjustment in

which emphasis will be placed on economic revitalisation. The required policies during this latter period are deflation countermeasures in order to strengthen the financial system and measures to establish the foundation for the Japanese economy to return to a stable growth track. For revitalisation purposes, tax and regulatory reforms will be tackled along with the provision of measures to encourage the employment of talented people working in domestic IT and other industries.⁹⁷

When the first-quarter 2000 figures of 1.4 per cent growth in GDP were released, Takenaka said: 'The statistics underscore our understanding that the economy has hit bottom. Compiling and sticking to solid guidelines for tax reform and other policies on the economy and fiscal management will help the economy energize'.⁹⁸ The Koizumi administration thus signalled its intention 'to use the tax system to reinvigorate the economy'.⁹⁹ Koizumi himself observed that: 'Tax reform is vital for economic revitalization and has become a major concern of the public'.¹⁰⁰ Takenaka also acknowledged: 'We all agree on the necessity for tax reform that stimulates economic activity'.¹⁰¹ The CFP 'plans to recommend tax reforms in three time frames—short-term steps to rejuvenate the economy, medium-term for more radical changes and long-term to regain sound fiscal health'.¹⁰² In short, it emphasises the positives up front and leaves the harder parts for later.

In July, in response to continuing concerns about the overall direction of the economy and corporate earnings, particularly in the wake of a sharp drop in the stockmarket, Koizumi moved towards an even more aggressive tax-based economic stimulus strategy. He directed the CFP to consider tax cuts of more than ¥1 trillion in 2003 which would be financed by special government bonds and which would be revenue neutral over three years, but which would violate the principle of revenue neutrality on a year-by-year basis.¹⁰³ Hitherto, the Koizumi administration's flexibility on tax reform had been thought limited because of the ¥30 trillion cap on the annual issuance of government bonds, which had restricted the potential for tax cuts.

The July tax cut proposal and its subsequent incorporation into the CFP's overall budget outline is indicative of the premium the Koizumi administration is now placing on maintaining the recovery trend within government growth forecasts in the second half of fiscal 2002. It also suggests that the goal of reviving the economy is gradually displacing the structural reform goal as Koizumi's top priority, although he maintains that his 'passion for structural

reform has not cooled by even one degree'.¹⁰⁴ Moreover, he still genuflects to his original fiscal structural reform objective by stating that the tax cuts will be accompanied by expenditure curbs 'aimed at correcting fiscal imbalances'.¹⁰⁵ This is code for cuts in public works spending and other areas of past LDP profligacy.

Nevertheless, the implication of the tax cuts is a lifting of the ¥30 trillion cap on annual bond issuance because the cuts will be financed by sales of government bonds. The 2003 budget guidelines approved by the Koizumi Cabinet reflect a similar retreat from his 2002 position. They call for a mere 3 per cent cut in public works spending (compared with 10.7 for the 2002 budget) and push neither for structural reform nor fiscal consolidation.

Economists doubt that policies like tax reform are the panacea for the ailing economy that Koizumi and Takenaka claim. In some respects, such measures should be perceived as a default option—a substitute for some of more needed but more politically fraught structural reforms like drastic deregulation, privatisation and a slimming down of the public sector.¹⁰⁶ These were the policies adopted by the United Kingdom and United States in reviving their economies in the 1980s.¹⁰⁷ Nor does tax reform do anything to solve the issue of non-performing loans, perhaps the most critical issue facing the Japanese economy today. Tax reform under these circumstances 'is nothing but a desperate measure taken under the pressure of necessity... Why is the government rushing to debate how to jazz up economic activities while scores of companies and banks are still bogged down with a pile of dud debts and nonperforming loans?'¹⁰⁸

Reorienting policies more towards economic stimulus also poses political as well as economic risks for Koizumi, because the various policy measures can be hijacked by vested interests. In some cases, LDP groups have been only too willing to see political benefit in those aspects of Koizumi's reform program that suit their own interests. For example, tax cuts are supported by LDP executives as a surrogate economic stimulus policy.¹⁰⁹ They are a more popular form of 'structural reform', because they hold out the potential for direct benefits for individuals and businesses.

The displacement of the structural reform goal by the economic revival goal is largely politically inspired. Koizumi is seeking to shore up his stocks amongst the Japanese public in the wake of the dive they took in early 2002. As the Koizumi administration becomes more unstable politically, it has become just

as important to grow the economy as to reform it. In fact Koizumi's slogan 'no growth without structural reform' is increasingly being perceived both inside and outside the administration as 'no growth with structural reform'. Koizumi has shifted to a 'recovery first' mode, which has reversed his initial position which trumpeted a structural reform approach over the LDP's traditional economic stimulus approach to fixing the economy. Polls reveal that the vast majority of Japanese think that 'economic boosting' is the priority task for the Koizumi administration.¹¹⁰ Thus, turning around the GDP figures is being attempted as much for its political effect as for its economic significance.

— Using the media cannot substitute for the right political and policy strategies

Koizumi's reliance on public support to leverage his reforms through the policymaking process and his growing need to husband popular support have placed a premium on skilful political communication and getting the right message across to the public. As time has gone by, however, Koizumi's policy explanations in both the Diet and in press conferences have become more and more vague, which gives the impression that he is both feeble and untrustworthy. He has even been accused of sounding just like former Prime Minister Mori and criticised for responding to serious questions about policy detail with just his customary slogans about 'no economic revival without structural reform'.¹¹¹ Sloganeering can no longer substitute for constructive and reasoned arguments about the various steps and stages needed to achieve structural reform and how each of Koizumi's structural reform goals will contribute to Japan's economic recovery. Koizumi has been criticised for shouting about 'structural reform without sanctuary' but in practice lacking the ability to explain the way forward logically and in detail, and for taking no account of process.¹¹² As Eda observes, compared with former Prime Minister Hashimoto, who held twice as many ministerial portfolios as Koizumi and prided himself on his policy expertise, Koizumi is known to be weak on details.¹¹³ His policy explanations have been insufficient to dispel public fear and uncertainty about the fate of the Japanese economy, sentiments that are compounded by Koizumi's unvarnished truth about the need for the Japanese people to endure the pain of reform associated with the destruction of the old order. Although such assertions contribute to Koizumi's reputation for honesty, he still needs to convey to the general public a clearer message about the link between structural reform and economic revival, and what they can expect under the new order,

in short, his 'ultimate vision after reform...[and the] concrete policies to achieve it'.¹¹⁴ Only the

pain associated with reform has been emphasized in public...Prime Minister Koizumi should talk more about his vision after reform to the general public in his own plain words...[i]t is important to make it clearer how such a vision is related to certain concrete policies. Especially important is to clarify the relationship among tax reform, fiscal reform and comprehensive social security reform.¹¹⁵

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Moreover, even if the prime minister successfully 'sells' his policies to the public through the media, as Masuzoe puts it, he still has to deal with party politics. This makes the deployment of professional politicians' techniques like building a consensus (*nemawashi*) and adjusting interests mandatory. Such skills became even more necessary after Koizumi's approval rate went down and the level of opposition to his policies in the party went up because he could not rely on media techniques as before.¹¹⁶

– There has been limited compensation to losers and little acceleration of gains to winners

The Koizumi administration finds it extremely difficult to provide funds to sectors hurt by impending reform because reductions in public spending are an integral part of its structural reform program. The potential for substantial compensation to losers has been restricted by moderate fiscal consolidation, by declines in tax revenue and by the need to redirect budgetary spending into areas that are designed to assist the structural reform process. Even where the Koizumi Cabinet has made attempts to soften the impact of structural reform, the measures have been criticised as insufficient. For example, the February 2002 anti-deflation package, which instituted various measures to encourage the speedier disposal of banks' non-performing loans, was criticised as falling short in the area of measures to deal more positively with side-effects such as unemployment from corporate bankruptcies and to assist with the liquidation or rehabilitation of troubled companies.¹¹⁷ Koizumi himself is said to 'lack recognition that employment measures are a social safety net'.¹¹⁸ As the Chairman of Fuji Xerox commented, the 'strengthening of the employment

safety net can be appreciated, although it is not yet sufficient...I made an appeal to the Koizumi cabinet to strengthen the social safety net because I was convinced that reform could not be advanced without a sense of security among the public'.¹¹⁹

Company managers also complain that the government has provided no support to companies through the budget or the taxation system to assist their restructuring efforts.¹²⁰ In their view, the government's efforts to ease the pain, such as retraining and developing new industries to absorb the jobless, have been woefully inadequate.¹²¹

The Koizumi administration has also been criticised for placing insufficient importance on public investment and improvement of R&D to help emerging industries that would create new jobs.¹²² Some corporate executives and the economic press have argued for allocations to give more money to growing industries as a priority.¹²³ The *Nikkei* has proposed a review of corporate taxes to allow for accelerated depreciation, tax incentives for R&D spending and tax initiatives to encourage start-ups.¹²⁴ In June 2002 it also pushed for tax breaks to bolster the international competitiveness of companies by lowering corporate tax rates.¹²⁵ The general evaluation of Koizumi's tax reforms, however, is that the gains in this area are too slow, too insubstantial and yet to be realised. For example, the tax incentives to boost R&D expenditure by companies due for implementation in January 2003 will in practice allow corporate taxpayers only to reap the benefits in fiscal 2003 and after.¹²⁶ Many other tax reforms that will provide gains to companies and individuals are only on the drawing board or at the recommendation stage and face a fraught policymaking process in which contending interests will effectively block reforms.¹²⁷

At a more general level, the administration has not been able to accelerate the gains to winners significantly because insufficient reforms have been implemented and because the reforms that have been accomplished, and even those envisaged, will take too long to deliver meaningful gains to the economy. Most of the potential gains to winners are simply proposals rather than economic reality.

Where gains to winners might have been delivered most expeditiously and without the need for fiscal outlays is in the area of deregulation. The Japanese economic press has repeatedly stressed that deregulation and microeconomic policies are needed to support business fields with growth potential.¹²⁸ This view is generally shared by Japanese economists, who argue that deregulation

is central to strengthening Japanese industry. However, the Koizumi administration has not achieved sufficient deregulation to help create new industries and businesses that would provide jobs to those made unemployed as a result of corporate restructuring and increased deflationary pressures.¹²⁹ As Eda observes, Koizumi does not have any ideas for 'non-budget-using deregulation'.¹³⁰ As he elaborates,

three or four big deregulation items could have been expected from the Council for Regulatory Reform's 'First Report Regarding Promotion of Regulatory Reform' in December 2001. However, Ishihara just listed small reforms. Minister Ishihara Nobuteru in charge of administrative reform and regulatory reform stated 'anything already coordinated in each ministry and agency is good enough'. Even though regulatory reform takes time, economic policy and structural reform without depending on the budget should become the centre of Koizumi's reforms. For example, 10 years ago, deregulation allowing mobile phone over-the-counter sales created a ¥10 trillion industry, and a 2 per cent rise in GDP.¹³¹

One of the June economic revitalisation proposals—establishing structural reform special zones¹³² under which specific areas for deregulation and business revitalisation will be created in regional areas—is an implicit acknowledgement that Japan has a 'managed' or 'controlled' economy, in the same way that communist countries created 'special economic zones' where experiments in capitalism could be conducted without 'contaminating' the rest of the economy. The structural reform zones are restricted areas where experiments in deregulation can be conducted whilst keeping the 'old economy' quarantined. They represent an attempt to achieve simultaneously the 'dual targets of opening a hole in the hard wall to regulatory reform and activating the economy'.¹³³ Their rationale has been explained in terms of 'front-loading deregulation and showing the results of structural reform to the opposition through local experiment'.¹³⁴

The idea smacks of the failed schemes to create 'new industrial cities' and technopolises which were just another excuse to pump public money into economic and social infrastructure and which relied heavily on government financing and tax incentives to attract industry.¹³⁵ Indicatively, the special reform zone concept was positively supported by one of the LDP's official policy groupings, the Cabinet Division (Naikaku Bukai).¹³⁶ The Cabinet Office and CERP also 'received a blizzard of inquiries from ruling party members who...[were] willing to establish such a special zone on their home turfs'.¹³⁷

The LDP subsequently established a Structural Reform Special Zones Promotion Committee (Kôzô Kaikaku Tokku Shinkô linkai) to advance the idea. Local governments have also jumped on the bandwagon as a means of getting central government support to revive local economies.¹³⁸

The question whether the zones will receive any kind of financial assistance from the central government is shaping up as yet another battle ground between the Koizumi administration and the LDP. Although the structural reform special zones are predicated on the easing of various regulations and restrictions, they may become just as heavily dependent on government financing and favourable tax treatment.¹³⁹ The risk is that they will evolve into 'money-scattering (*baramaki*) regional economic promotion measures'.¹⁴⁰

Because of the state of government finances, Koizumi wants to avoid the use of conventional fiscal measures in setting up the zones. The final draft of an interim report on regulatory reform issued by the Council for Regulatory Reform in July 2002 categorically states that the basic guidelines for the regulatory reform zone system will not include state-funded assistance such as tax breaks and subsidies.¹⁴¹ The LDP, on the other hand, thinks that financial assistance to local governments is essential in materialising the zones. It held its first meeting of the Structural Reform Special Zones Promotion Committee in July 2002. Chairman of the committee, Norota Hôsei, 'blasted the prime minister, with the comment that 'Giving no assistance to special structural reform zones is unreasonable'.¹⁴² As the *Nihon Keizai Shinbun* comments: 'A deregulatory plan that lacks principles and power might turn into a timely prey for the forces that are trying to protect their vested interests. The plan was initially aimed to take away vested interests from the government and bureaucratic circles but could lead to producing new interests'.¹⁴³ Moreover, the proposals will take years to come to fruition and will hardly assist Japan's economic state in the short term. Put simply, spending government money has always been easier than reforms that reduce assistance and protection to favoured industries because it obeys the political logic of the LDP.

The lack of quick gains to winners from a very partial and incomplete structural reform process has meant that Koizumi has had to resort to bolstering his reform credentials by exaggerating the importance of his modest achievements and by continuously churning out new reform proposals and economic measures. This explains the veritable reform proposal industry to

which his administration is prone. New ideas for reform are constantly being advanced before those already on the books have been accomplished. Koizumi began with a heavy emphasis on public sector reform, particularly reducing wasteful government spending on public works and public corporations. He then shifted the focal point of his priorities to the privatisation of postal services. Subsequently, he touted reform of the taxation system as a panacea for the ailing economy, particularly because of the opportunities it provides for economic stimulus in the name of structural reform. The focus of his reformist zeal thus shifts from one policy objective to another.

The overall impression is that of a scattergun being constantly fired without hitting its desired target. As Takagi comments,

Koizumi is torn on policy, maybe because of his sagging popularity. He sends trial balloons flying with plenty of fanfare, but before you know it, he brings them down again. People are getting more displeased with him because they have little idea about what he wants to accomplish. And the more his ratings drop, the more desperate he'll get to float more trial balloons, but he won't deliver. It's a vicious circle.¹⁴⁴

— The opposition party forces are poised to take on Koizumi as his approval ratings slide

As Koizumi's public support has flagged, the opposition parties have regrouped and judge that there is more scope for disparaging Koizumi's lack of policy delivery. They have become much more critical of the administration because Koizumi's sliding popularity means that they can attack him without becoming the object of public antipathy themselves. For example, Kan Naoto has likened Koizumi's cabinet to a 'reform restaurant' which has a big sign outside declaring that 'we are a good restaurant', but inside no food is served.¹⁴⁵

Following Tanaka's dismissal, Koizumi was no longer able to play the DPJ card as effectively against the New Kōmeitō because the DPJ made it clear it would squarely confront the Koizumi administration over scandals in the Foreign Ministry.¹⁴⁶ After months of tacit support, the DPJ, sensing a shift in the political wind, 'shifted its efforts toward toppling the Cabinet'.¹⁴⁷ At the fourth anniversary of the DPJ's founding in April 2002, Hatoyama said in a speech 'Mr. Koizumi, you've failed to carry out reforms. We had hope for a year. But now we are strongly disappointed and convinced that Japan can't revive in a real sense without a change in government'.¹⁴⁸ The DPJ had cooperated with Koizumi because of the divisions in the LDP which left some opening for the DPJ to portray itself

positively as a reformer. But when Koizumi compromised with resistance forces in dismissing Tanaka, the DPJ switched to a strategy of confrontation with the LDP.¹⁴⁹ The Japan Communist Party also adopted a more confrontational stance against the Koizumi Cabinet, noting that '[t]he failure of Koizumi politics is now apparent. His responsibility for deceiving the public is heavy'.¹⁵⁰ The opposition camp thus strengthened its efforts to face up to the ruling bloc, which, in the DPJ's case, has meant withdrawing its cooperation from various pieces of legislation, thus hindering the smooth conduct of Diet business.

NOTES

- ¹ There were fears that the end of full government protection of deposits in banks on 31 March might precipitate such a crisis.
- ² Former Prime Minister Hosokawa Morihiro commented at the time that 'politicians, bureaucrats and the general public go about their business without a sense of crisis'. *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/geted.p15?eo20020520mh.htm>>. Cf. the comments by Anatole Kaletsky quoted in Chapter 2 on 'Koizumi's Power Base'.
- ³ The stockmarket was stabilised by a clampdown on short selling in the second anti-deflation package.
- ⁴ Editorial, *Nikkei Weekly*, 1 April 2002.
- ⁵ This occurred during the financial crisis of 1997–98, which, as Amyx argues, contributed directly to the attack on the MOF's financial supervisory powers as well as giving rise to the 'extraordinary' politics of a group of coalition-opposition policy entrepreneurs circumventing policymaking norms and implementing their own solution to problems in the banking system. See Jennifer Amyx, 'From Breakdown to Breakthrough: Passage of the Financial Revitalization Law and the Emergence of a New Policymaking Mechanism in Japan', unpublished ms, 2000, pp. 18–24.
- ⁶ See also Chapter 5 on 'Party-Bureaucratic Government'.
- ⁷ See Chapter 5 on 'Party-Bureaucratic Government'.
- ⁸ For a discussion of the role of *zoku* in the LDP and in policymaking, see Chapter 5 on 'Party-Bureaucratic Government'.
- ⁹ The Japanese press reported that only the governors of large urban prefectures, such as Tokyo, Osaka and Aichi (Nagoya) supported the Koizumi initiative. *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?ed20010605a1.htm>>.
- ¹⁰ Nonaka was well known at the time as the 'power behind the throne' because of his ability to wheel and deal in the party in order to get policy agreement.
- ¹¹ This was the Highways Investigation Committee. See Chapter 5 on 'Party-Bureaucratic Government'.

- ¹² *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020425wo01.htm>>. The failure to redirect the total amount of these taxes to general revenue was also due to Koizumi's realisation that diverting the taxes into general revenue would lower the rate at which the taxes could be levied and therefore the government's total tax take would fall.
- ¹³ See also Chapter 5 on 'Party-Bureaucratic Politics'.
- ¹⁴ Editorial, *Nikkei Weekly*, 17 June 2002.
- ¹⁵ Asao et al., 'Sayônara Koizumiryô Kaikaku', p. 101. In the event, Japan Business Federation Chairman, Imai Takashi, was chosen as chairman of the committee and a number of pro-reform spokespersons including Inose Naoki were picked as members of the committee. Inose is the author of the volume *A Study of Japan* [*Nihon Koku no Kenkyû*] which is highly critical of public corporations. See also his article entitled 'Dôro Kôdan "Kaitai" o Isoge' ['Hurry the "Dissolution" of the Road Corporations'], *Bungei Shunjû*, October 2001, pp. 104–16.
- ¹⁶ *Nikkei Weekly*, 24 June 2002.
- ¹⁷ This group consists of about 300 members, which is around two-thirds of the total number of LDP and Conservative Party Diet politicians.
- ¹⁸ *Nihon Keizai Shinbun*, 8 August 2002.
- ¹⁹ See also the comments on Hashimoto as a reformer in Chapter 1 on 'The Political Conditions for Economic Reform' and references to his administration in Table 1.1.
- ²⁰ stratfor.com, <http://www.stratfor.com/standard/analysis_view.php?ID=201188>.
- ²¹ According to one source, 80 per cent of LDP Diet members belong to this group. stratfor.com, <http://www.stratfor.com/premium/analysis_view.php?ID=204539>.
- ²² See also below, Chapter 5 on 'Party-Bureaucratic Government', Chapter 6 on 'Policy Stalemate' and Chapter 7 on 'Team Weaknesses, Tactical Flaws and Policy Defects'.
- ²³ This body was created in January 2001 to operate postal services when the Ministry of Posts and Telecommunications was reorganised into the Ministry of Public Management, Home Affairs, Posts and Telecommunications.
- ²⁴ The four bills were the Mail Delivery Bill (*Shinshobin Hôan*), the Mail Delivery Execution Bill (*Shinshobin Shikkô Hôan*), the Postal Public Corporation Bill (*Nihon Yûsei Kôsha Hôan*) and the Postal Public Corporation Execution Bill (*Nihon Yûsei Kôsha Shikkô Hôan*).
- ²⁵ *Asahi Shinbun*, 5 February 2002.
- ²⁶ asahi.com, <<http://www.asahi.com/english/politics/K200200900389.html>>.
- ²⁷ Asao et al., 'Sayônara Koizumiryô Kaikaku', p. 101. See also below.
- ²⁸ In September 2002, under pressure from the LDP and small and medium-sized banks, the FSA proposed to coordinate a plan with the LDP to delay for one year abolition of the full-deposit protection scheme.
- ²⁹ See also Chapter 5 on 'Party-Bureaucratic Government'.

- ³⁰ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20010904wo02.htm>>.
- ³¹ *The Japan Times*, 7 December 2001.
- ³² The rules stipulate 'that a private firm must provide the same standard service through the country, including setting the minimum postage at no more than ¥80. Delivery must be made six days a week and within three days of dispatch...Firms seeking to provide mail services only in particular areas will be required to charge at least ¥1,000 per piece of mail and to make deliveries within three hours of receipt'. *Nikkei Weekly*, 1 April 2002.
- ³³ *Nikkei Weekly*, 17 June 2002.
- ³⁴ For example, private companies planning to enter the mail collection and delivery business will be required to install some 100,000 special mailboxes evenly throughout the entire country, according to the ministry.
- ³⁵ Koizumi later said he would appoint the new head of the public corporation and that he would select a candidate from the private sector. In August, he chose Ikuta Masaharu, Chairman of Mitsui O.S.K. Lines Ltd., who styles himself as 'a 100% private-sector man raised on market principles'. *Nikkei Weekly*, 2 September 2002.
- ³⁶ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020522wo03.htm>>.
- ³⁷ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020613wo14.htm>>.
- ³⁸ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020519wo03.htm>>.
- ³⁹ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020613wo14.htm>>. In an article published in *Bungei Shunjū*, the Executive Director of the Yamato Welfare Foundation (funded by Yamato Express) explained why he thought Koizumi's postal reforms were 'stupid' and why Yamato Express had decided not to enter the mail delivery market. Ogura Masao, 'Koizumi Yūbin Kaikaku wa Gu no Kocchō: Koizumi Sōri o Azamuita Zoku Giin. Yakunintachi no "Warujie"' ['Koizumi's Mail Reform is the Height of Folly: The "Guile" of the "Tribe" Diet Members and Bureaucrats Has Deceived the Prime Minister'], *Bungei Shunjū*, July 2002, pp. 106–12.
- ⁴⁰ The Mail Delivery Law classifies mail delivery operators into two groups: 'general' and 'special', with the 'special' group including motorcycle couriers. Only those companies falling into the 'general' category are required to introduce uniform national postal rates, to provide mail delivery services at least six days a week, and to establish 100,000 mailboxes throughout the country. *Sankei Shinbun*, 25 July 2002.
- ⁴¹ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020613wo14.htm>>. One firm running motorbike deliveries has stated that it intends to enter postal services in the Tokyo metropolitan area. It is required to file an application for its entry with the ministry. *Yomiuri Shinbun*, 30 May 2002.
- ⁴² *Nikkei Weekly*, 15 July 2002. See also Chapter 5 on 'Party-Bureaucratic Politics' and Chapter 7 on 'Team Weaknesses, Tactical Flaws and Policy Failures'.

- ⁴³ *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?ed20010605a1.htm>>.
- ⁴⁴ *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?nb20020622a4.htm>>. See also Chapter 5 on 'Party-Bureaucratic Government'. It was subsequently announced in August 2002 that the National Personnel Authority might issue a recommendation to lower the basic wages of national government employees for the first time ever. *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020802wo02.htm>>.
- ⁴⁵ *Yomiuri Shinbun*, 28 July 2002.
- ⁴⁶ *Nihon Keizai Shinbun*, 24 July 2002.
- ⁴⁷ 'Interests', p. 45.
- ⁴⁸ The JMA has about 152,000 physician members, which is a 74 per cent membership rate. It advocates its own structural reform plan for healthcare, which it claims embraces radical reform of the social security system and reform of the entire health care structure. It has declared that it would like to contribute to the reorganisation of the social security system. Eitaka Tsuboi, President of the Japan Medical Association, <<http://www.med.or.jp/english/basic.html>>.
- ⁴⁹ asahi.com, <<http://www.asahi.com/english/politics/K2001120400638.html>>.
- ⁵⁰ asahi.com, <<http://www.asahi.com/english/politics/K2002022100329.html>>.
- ⁵¹ The proposal would allow business enterprises to run hospitals, for example.
- ⁵² asahi.com, <<http://www.asahi.com/english/politics/K2001120400638.html>>.
- ⁵³ These comprise about 80 per cent of the total number of post offices nationally.
- ⁵⁴ Because postmasters are public servants, they are not permitted to engage officially in election activities.
- ⁵⁵ Its electoral prowess seems to have declined of late. Although the Taiju no Kai's candidate in the 2001 Upper House election for the National Constituency, Kôso Kenji, was the second highest vote winner for the LDP and outpolled any other candidate backed by an industry organisation by winning 479,585 votes, this number was something less than half the Taiju no Kai's tally in the 1980 election, at more than a million votes. *Mainichi Interactive*, <<http://www.mainichi.co.jp/eye/feature/article/koizumi20010806-6.html>>.
- ⁵⁶ Kôso Kenji formerly headed the Kinki Postal Administration Office. He reported revenues of ¥74.6 million for 10 supporters' organisations in 2000. Nearly 40 per cent of this money was provided by Taiju no Kai groups. Kôso subsequently resigned his Diet seat under suspicion of electoral law violations. <<http://www.kyodo.co.jp/kyodonews/2001/kouso/news/20010914-42.html>>.
- ⁵⁷ *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?nn20010725b4.htm>>.

⁵⁸ *Zentei Shinbun*, 11 May 2002, <http://www.zentei.or.jp/currentnews/zenshinbun/20022396/2396_zenkokudkaigi.htm>.

⁵⁹ 'Koizumi Shushō', p. 123.

⁶⁰ Ibid.

⁶¹ According to Eda Kenji, the same phenomenon occurred under former Prime Minister Hashimoto, whose administration had some remarkable parallels with the Koizumi administration. Both proposed structural reform, both began with very high approval ratings because of public perceptions that they were strong, reformist leaders (in Hashimoto's case his administration's initial public approval rating was in excess of 70 per cent), and both underwent a dramatic loss of popularity because of problems with cabinet personnel affairs. In Hashimoto's case it was his appointment under pressure from LDP elders of Satō Takayuki as Director-General of the Management and Coordination Agency. Satō was previously convicted for his involvement in the Lockheed scandal. Although Satō resigned in the face of the popular uproar, Hashimoto's credibility as a reformer was severely dented in the public's eyes. In their view, if Hashimoto could not withstand pressure from the LDP, then he could not accomplish any reform. Moreover, once his approval rate went down (it plummeted 20 percentage points from 60 to 40 per cent), resistance forces within the LDP started to criticise his policies, although when his approval ratings were high, they could not say anything against him. The decisive factor was his declining public support. Everything changed when his approval ratings dropped. 'Koizumi Shushō', p. 124. Elsewhere, Eda has made unfavourable comparisons between Hashimoto and Koizumi as structural reformers. In his view, Hashimoto was much better placed than Koizumi for pulling off his reforms because of a number of alleged Koizumi shortcomings. According to Eda, Koizumi does not listen to other people very much and he has had half as many ministerial portfolios as Hashimoto and therefore does not have as much policy expertise. He is also known for being weak on details. These remarks were made by Eda at a 'Benkyōkai' held in Tokyo in June 2002, as reported to the author by Llewelyn Hughes, PhD candidate at the Massachusetts Institute of Technology. Eda's comments about Koizumi have been partially endorsed by Okamoto, who commented that: 'Since he does not like studying, he lets other people handle issues'. 'Sutemi', p. 10.

⁶² asahi.com, <<http://www.asahi.com/column/hayano/eng/K20020304-646.html>>.

⁶³ *Yomiuri Shinbun*, 28 May 2002.

⁶⁴ *Asahi Shinbun*, 4 March 2002.

⁶⁵ *The Australian*, 8 February 2002.

⁶⁶ Katō, along with Koizumi and LDP Secretary-General Yamasaki Taku, were all members of the so-called YKK (Yamasaki-Katō-Koizumi) group within the LDP. Katō was another former prime

ministerial aspirant and also former secretary-general of the LDP. He resigned from the LDP and the Diet in the wake of revelations that he had diverted public funds (to pay for his policy secretary) for his own use.

⁶⁷ *Nikkei Weekly*, 1 April 2002. In an April 2002 public opinion poll, 82 per cent of those surveyed did not believe that Koizumi had adequately dealt with the political scandals. *Yomiuri Shinbun*, 23 April 2002.

⁶⁸ Gerald Curtis, *Japan: Crisis or Reform*, p. 8.

⁶⁹ Endô, 'Koizumi Seiken', p. 250.

⁷⁰ See also the discussion in Chapter 5 on 'Party-Bureaucratic Government', Chapter 6 on 'Policy Stalemate' and Chapter 7 on 'Team Weaknesses, Tactical Flaws and Policy Defects'.

⁷¹ Quoted in Endô, 'Koizumi Seiken', p. 244.

⁷² *Japan: Crisis or Reform*, p. 7.

⁷³ Endô, 'Koizumi Seiken', pp. 251–2.

⁷⁴ *Ibid.*, pp. 252–3.

⁷⁵ 'The Koizumi Administration', pp. 299–300. Virtually the same comment was made by an unnamed diplomat in Tokyo who commented: 'What can he possibly achieve with 40 per cent popularity that he failed to get through with 80 per cent?' Quoted in the *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=FT3XAVB751D>>.

⁷⁶ Endô, 'Koizumi Seiken', pp. 245–46. Endô cites the example of Nakasone who did just this with his great victory in the elections of 1986, which delivered the LDP 304 seats in the Lower House and which resulted in an extension of Nakasone's term of office. In Endô's view, Koizumi should have followed Nakasone's example in using an early dissolution—while his approval ratings were high—to expand his influence in the party. Instead, he has followed the example of former Prime Minister Miki Takeo who began with public opinion strongly on his side because he criticised the LDP. When Miki's public support deserted him, he could not use his right to dissolve the Lower House to his advantage, and so he had to step down (p. 246).

⁷⁷ Kawano, 'Dete koi!', p. 13.

⁷⁸ *Far Eastern Economic Review*, 9 August 2001.

⁷⁹ 'The Koizumi Administration', p. 300.

⁸⁰ The bastion of resistance forces—the Hashimoto faction—has no obvious candidate for LDP president at present. Ishihara Shintarô, Governor of Tokyo Prefecture, is the wild card in the jockeying for who will succeed Koizumi.

⁸¹ In an opinion poll in late April 2002, 40.9 per cent of respondents said that they did not support the Koizumi Cabinet, and, of these, 42 per cent said that this was because the cabinet had made no remarkable achievements. *Yomiuri Shinbun*, 23 April 2002.

⁸² *Asahi Shinbun*, 4 March 2002.

- ⁸³ This was revealed in a *Yomiuri Shinbun* survey in November 2001.
- ⁸⁴ *Yomiuri Shinbun*, 28 May 2002.
- ⁸⁵ *Nihon Keizai Shinbun*, 4 June 2002.
- ⁸⁶ *Nikkei Weekly*, 1 April 2002.
- ⁸⁷ Okamoto, "Sutemi", p. 10.
- ⁸⁸ *The Economist*, 4 August 2001.
- ⁸⁹ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020425wo01.htm>>.
- ⁹⁰ Nobuchi argues, for example, that there is a trap in structural reform which prevents economic recovery because it focuses on the supply side-reforms, but for these to be effective, recovery of the demand side is also necessary. Structural reform is effective in a period of high demand but, in a depression, it increases unemployment and worsens the economy. In fact, Japan faces a 'deflation gap' in which there is much higher supply than demand. Therefore structural reform needs to be accompanied by an economic policy that increases demand. There is no structural reform that has a stimulus effect in two to three years. Noguchi Akira, 'Kozo Kaikaku de Honto ni Keiki wa Yoku Naru ka?' ['Will Structural Reform Really Make the Economy Better?'], *Gendai*, May 2002, pp. 40–42.
- ⁹¹ Some economists (and LDP politicians) also argue that it requires additional fiscal spending, but this point is hotly contested. There is no doubt that resorting to quick boosts to the economy with fiscal stimulus has been eschewed by the Koizumi administration because it flies in the face of his desire to curb spending for the purpose of fiscal rehabilitation.
- ⁹² Quoted in *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=Article&cid=FT3OGVY6BZC&live=true>>.
- ⁹³ *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=Article&cid=FT3OGVY6BZC&live=true>>. This is notwithstanding the proviso about calculating changes in Japan's GDP mentioned in Chapter 1 on 'The Political Conditions for Economic Reform'.
- ⁹⁴ According to Takenaka, the second supplementary budget aimed to boost demand 'by allocating 4.1 trillion yen (US\$34 billion) to social infrastructures that will facilitate structural reform'. 'The Economic and Fiscal Policy of the Koizumi Administration', p. 3.
- ⁹⁵ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020425wo01.htm>>.
- ⁹⁶ Takahashi Susumi, Chief Economist at the Japan Research Institute, quoted in *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/geted.p15?nb20020622a1.htm>>.
- ⁹⁷ This is a summary of Takenaka's observations on prospective economic policies under the Koizumi administration in Takenaka Heizô, 'Sore de mo Kaikaku wa Kasoku Suru: Koizumi Naikaku Ninenme no Mokuhyô' ['But the Reforms Accelerate—Koizumi Cabinet Goals in the Second Year'], *Chûô Kôron*, June 2002, pp. 99–101.
- ⁹⁸ *Nikkei Weekly*, 10 June 2002.

- ⁹⁹ *Daily Yomiuri On-Line*, <<http://yomiuri.co.jp/newse/20020614wo11.htm>>. Koizumi has been quoted as saying that 'the nation must carry out "a bold reform of the tax system for the rebirth and reinvigoration of the Japanese economy"'. *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020405wo13.htm>>.
- ¹⁰⁰ Quoted in *Nikkei Weekly*, 1 April 2002.
- ¹⁰¹ Quoted in *Nikkei Weekly*, 1 April 2002.
- ¹⁰² Editorial, *Nikkei Weekly*, 1 April 2002.
- ¹⁰³ *Nikkei Weekly*, 29 July 2002.
- ¹⁰⁴ *Ibid.*
- ¹⁰⁵ *Ibid.*
- ¹⁰⁶ The Council for Regulatory Reform, for example, advocates stimulation via deregulation. *Nikkei Weekly*, 29 July 2002.
- ¹⁰⁷ This is the view of Yumoto Kenji, Chief Senior Economist at the Japan Research Institute quoted in *Nikkei Weekly*, 1 April 2002.
- ¹⁰⁸ *Nikkei Weekly*, 1 April 2002.
- ¹⁰⁹ See also Chapter 7 on 'Team Weaknesses, Tactical Flaws and Policy Defects'.
- ¹¹⁰ *Yomiuri Shinbun*, 28 May 2002. Approximately two-thirds of respondents in public opinion surveys in 2002 think that economic recovery is the priority task for the Koizumi Cabinet.
- ¹¹¹ Editorial Department, "'Koizumi wa 41 ten': Kisha 108 nin ga Kotaeta' ['41 Points for Koizumi': 104 Journalists Answered]", *Bungei Shunjū*, July 2002, pp. 95, 97.
- ¹¹² *Ibid.*, p. 100.
- ¹¹³ Eda Kenji, Luncheon speech, Tokyo, 11 June 2002. Observations kindly provided to the author by Llewelyn Hughes.
- ¹¹⁴ Yōtarō Kobayashi, 'The Koizumi Administration One Year After: Evaluation and Future Expectations', <http://www.glocom.org/opinions/essays/200206_kobayashi_one_year/index.html>.
- ¹¹⁵ *Ibid.*
- ¹¹⁶ Masuzoe, 'Koizumi Junichirō', p. 112–13.
- ¹¹⁷ *Nikkei Weekly*, 4 March 2002. Amyx also argues that, although the Koizumi administration has emphasised fiscal austerity, there needs to be a surge in spending on unemployment measures and social safety nets in order to facilitate corporate restructuring and bankruptcies consequent upon a resolution of bad loans at the banks. At the present time, the necessary social safety net is not in place. The LDP 'old guard' is also opposed to this policy as they do not want companies to go bankrupt in the first place. Other changes required are large-scale adjustments to the labour and tax laws. Jennifer Amyx, 'Japanese Financial Governance: Changed Processes But

Elusive Results', seminar presented to the Department of Political and Social Change, Australian National University, 29 July 2002.

¹¹⁸ Masuzoe, 'Koizumi Junichirō', p. 108.

¹¹⁹ Kobayashi, 'The Koizumi Administration', <http://www.glocom.org/opinions/essays/200206_kobayashi_one_year/index.html>.

¹²⁰ It has, however, provided a reformed bankruptcy law (the Corporate Rehabilitation Law) which significantly speeds up the process of restructuring ailing companies.

¹²¹ *Nikkei Weekly*, 6 August 2001.

¹²² *Yomiuri Shinbun*, 13 November 2001.

¹²³ Ibid.

¹²⁴ *Nikkei Weekly*, 1 April 2002.

¹²⁵ *Nihon Keizai Shinbun*, 18 June 2002.

¹²⁶ *Nihon Keizai Shinbun*, 17 June 2002.

¹²⁷ See also Chapter 6 on 'Policy Stalemate' and Chapter 7 on 'Team Weaknesses, Tactical Flaws and Policy Defects'.

¹²⁸ Editorial, *Nikkei Weekly*, 4 March 2002.

¹²⁹ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020515wo12.htm>>.

¹³⁰ 'Koizumi Shushō', p. 126.

¹³¹ Ibid.

¹³² This concept is inclusive of 'regulation reform special zones' (*keisei kaikaku tokku*), although Nishida distinguishes between structural reform special zones and regulation reform special zones. He states that regulation reform special zones do not get financial support from the central government while financial support for the structural reform special zones has not yet been denied. 'Kōzō Kaikaku', p. 87. See also below.

¹³³ *Nihon Keizai Shinbun*, 26 May 2002.

¹³⁴ Nishida, 'Kōzō Kaikaku', p. 87.

¹³⁵ *Mainichi Shinbun*, 14 May 2002.

¹³⁶ See Chapter 5 on 'Party-Bureaucratic Government'.

¹³⁷ *Nihon Keizai Shinbun*, 26 May 2002.

¹³⁸ Major local governments that have come up with plans for special zones are Kita-Kyushu City: international special distribution zone, Kobe City: international harbor special economic zone, Miyagi Prefecture: Miyagi special IT zone, Hachioji City, Tokyo: metropolitan vicinity information special industrial zone, Wakayama Prefecture: special green economic zone, Hyogo Prefecture: special advanced science and technology zone, Aomori Prefecture: special environmental and energy industry creation zone, Hyogo Prefecture: special environmental and recycling zone,

Kawasaki City: special international environment zone, Ibaraki Prefecture: special intellectual zone, Saitama Prefecture: special free education zone, Yokohama City: special exchange zone, Gifu Prefecture: special health and beauty resort zone, Osaka: special international exchange zone. *Nihon Keizai Shinbun*, 12 June 2002.

¹³⁹ For details, see Nishida, 'Kozo Kaikaku', p. 87.

¹⁴⁰ *Yomiuri Shinbun*, 27 June 2002.

¹⁴¹ *Yomiuri Shinbun*, 9 July 2002.

¹⁴² *Yomiuri Shinbun*, 26 July 2002.

¹⁴³ 26 May 2002.

¹⁴⁴ Takagi Masaru, Professor of Economics at Meiji University. Quoted in *Nikkei Weekly*, 10 June 2002.

¹⁴⁵ Kan Naoto, 'Kono Naikaku wa Watashi ga Taosu' ['I am the Person to Overthrow this Cabinet'], *Bungei Shunjū*, July 2002, p. 334.

¹⁴⁶ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020407wo03.htm>>.

¹⁴⁷ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020426wo01.htm>>.

¹⁴⁸ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020429wo01.htm>>.

¹⁴⁹ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20020429wo03.htm>>.

¹⁵⁰ *Mainichi Shinbun*, 7 June 2002.