

1

THE POLITICAL CONDITIONS FOR ECONOMIC REFORM

PREDICTING JAPAN'S ECONOMIC FUTURE

If permanent high growth characterised the Japanese economy in the 1980s and permanent recession in the 1990s, then no one can predict what paradigm will capture the dominant economic trends in the first decade of the 21st century.¹ At the end of the 'lost decade' of the 1990s, the debate about Japan's economic future polarised into two contending schools of thought: the 'structural pessimists' (or 'Japan's sun is setting' school) and the 'techno-revivalists' (or 'Japan's sun is rising') school. The structural pessimists argued that Japan's inability and unwillingness to engage in fundamental economic reform condemned its economy to low or no growth and diminishing international influence.² In contrast, the techno-revivalists asserted that the Japanese economy had reached a turning point and would soon ride the wave of burgeoning IT industries to recovery.³

With the techno-revivalists discredited by Japan's continuing economic malaise, the debate shifted to disagreement between those who remained uniformly pessimistic about the future of the Japanese economy⁴ and those who were cautiously optimistic.⁵ In 2001–02, economic trends in Japan tended to favour the pessimists. In December 2001, the Japanese prime minister admitted that: 'The Japanese economy is still experiencing a period of concentrated adjustment and the severe conditions will continue, with zero

growth projected for FY 2002'.⁶ Only three months later, however, the Minister of State for Economic and Fiscal Policy claimed that economic growth would move to the plus side in the second half of 2002.⁷ This positive outlook was later endorsed by the Minister of Finance who claimed that the nation's protracted economic slump had bottomed out, citing evidence of a business recovery, a growth in exports, stabilisation of consumer prices and the unemployment rate, as well as other positive indicators.⁸ Evidence of a cyclical upturn prompted some commentators to hope that improving economic conditions might solve some of the long-term problems besetting the Japanese economy.⁹ The prediction that the economy had bottomed out was supported by official June 2002 figures for real GDP growth of 1.4 per cent in the January–March quarter.¹⁰ The economic turnaround was attributed to 'the huge growth in exports led by the recovery of the U.S. economy and other external factors'.¹¹

The question now is how sustainable the Japanese economic recovery will be in the light of continuing deflation (a continuous downward trend in price levels),¹² financial system instability,¹³ and other negative factors for GDP growth. The economic situation remains severe in spite of slight signs of recovery.¹⁴ The government's 'Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002' acknowledges that the economy has 'entered the bottom stage in its cyclical changes [but also cautions that] business investment remains weak, employment and income conditions continue to be severe, and recovery in household consumption...[is] delayed and hovering'.¹⁵ Even the cautious optimists argue that the 'much-hoped-for recovery will likely be fragile, unless economic fundamentals are strengthened'.¹⁶ Others emphasise the need to get public policy settings right as well as improving corporate governance.¹⁷ In short, most concede that the key to sustainable recovery is economic reform.

Understanding the likely success or failure of Japan's current reform program is, therefore, important to assessing the future of the Japanese economy. It is in this context that the dynamics of the so-called 'Koizumi revolution' loom so large.

KOIZUMI'S 'STRUCTURAL REFORM' REVOLUTION

In April 2001, Prime Minister Koizumi Junichirō stepped into the political limelight with a bold slate of reforms to rescue the Japanese economy. Since that time, he has attracted a great deal of comment in both the academic and

popular press.¹⁸ Much of the discussion has focussed on his unconventional leadership style and on his mission to change Japan.

Koizumi has adopted the mantra of 'structural reform' (*kôzô kaikaku*) to encapsulate his agenda and to signal his commitment to radical change. 'Structural reform' is a rather rubbery concept that means different things to different people. In a general sense it involves fundamental changes that have the effect of altering the fixed characteristics of economic, political, social and administrative systems.¹⁹ As Sawa comments, "structure" means a mechanism that does not easily change, so changing that mechanism is "structural reform". For example, the systems and practices that define the mechanisms of Japan's economy are "structures" because they do not easily change'.²⁰

In economic policy, structural reform means market-oriented reform, that is, moving economies in the direction of freer and more transparent markets by introducing or strengthening the market mechanism. In more general policy contexts, structural reform encompasses not only the idea of market reform, but also notions of smaller and more efficient government. In addition to reforms such as deregulation, trade liberalisation, strengthened competition policy and financial sector restructuring, it also includes reforms of the state sector such as privatisation, fiscal and tax reform, and welfare and pension reform.²¹ In sum, it refers to a package of interrelated policy 'correctives' aiming at more efficient resource allocation, higher productivity and increased growth prospects for states.

Koizumi's structural reform program embraces all these dimensions. In his first major policy speech in the Diet in May 2001, he reiterated his pledge to institute 'economic, fiscal, administrative, social and political structural reforms'.²² Structural reform in Koizumi's view encompasses a raft of changes designed to drive the economy in a more market-liberal direction, shrink the public sector, make processes of policymaking more transparent and accountable, and create a society that supports individual choice and creativity.²³ The 'Basic Stance for Macroeconomic & Fiscal Management in Fiscal 2002' commits the government 'to the fundamental reform of existing social and economic structures and the construction of a new social and economic framework that will lead to the full realization of Japan's potentialities'.²⁴ In July 2002, Koizumi called on six of his economic ministers to submit reform proposals for regulatory reform, privatisation, outsourcing and private finance initiatives from the perspective of transferring responsibilities from the

government to the private sector; specific proposals to promote regional independence and reform of systems to create employment opportunities in newly growing fields and facilitate the movement of labour; measures to promote a transition from policy means based on public works projects to those that do not depend on public works projects; and reviews of the involvement of central government through subsidies.²⁵ Koizumi draws deliberate parallels between his reforms and those of Margaret Thatcher and Ronald Reagan,²⁶ suggesting that he is belatedly trying to introduce the neo-liberal economic agenda to Japan. George Bush shares a similar understanding of Koizumi's program: 'Japan has embarked on a new restoration—a restoration of prosperity and economic growth, through fundamental reform and the full embrace of competition'.²⁷

The fact that Prime Minister Koizumi peppers his public pronouncements with the term *kôzô kaikaku* does not mean, however, that structural reform will automatically follow. The Japanese political system is not known for engineering rapid change or fundamental transformations of existing systems. In fact it is renowned for precisely the opposite: for delivering 'reform' that represents 'no change'²⁸ and for suffering a kind of structural paralysis or policy immobilism.²⁹

In this context, two fundamental questions arise in relation to Koizumi's structural reform revolution. First, how do Koizumi's *bona fides* as a reformer compare with those of his predecessors? Is he a politician in the traditional mould, or is he breaking that mould? Second, to what extent is Koizumi delivering real change? Are his reforms little more than rhetoric, or is he effecting substantial transformations in Japan's institutional and economic structures?

KOIZUMI AND THE TRADITION OF PRIME MINISTERIAL 'REFORMERS'

Koizumi's use of the term 'structural reform' as the battle-cry of his administration is rather typical of prime ministerial sloganeering in Japanese politics. For Ikeda Hayato it was the 'income doubling decade', for Nakasone Yasuhiro it was 'settlement of the postwar accounts', and for Takeshita Noboru it was *furusato* ('hometownism'). In fact, most administrations have been associated with an overarching policy theme. The question is whether such slogans embellish constructive policy initiatives or merely substitute for them.

Every Japanese prime minister from the mid 1990s onwards has pronounced himself a champion of reform. Prime Minister Hashimoto Ryûtarô promised

to 'walk through flames' to achieve his reform goals. Prime Minister Obuchi Keizō vowed to 'launch major reforms with the hand of the devil and the heart of Buddha' while Prime Minister Mori Yoshirō committed himself to something called 'Japan's economic rebirth'.³⁰ Again, the question arises whether these catch-phrases are just rhetoric or declarations of a commitment to genuine reform.

Japanese prime ministers are prominent as putative reformers because their office and long incumbency normally gives them the luxury of a relatively safe seat in the Diet and predisposes them towards adopting a national interest perspective on issues.³¹ Prime ministers have been more likely to pursue policy causes like deregulation (*kisei kanwa*), administrative reform (*gyōsei kaikaku*), privatisation (*mineika*), internationalisation (*kokusaika*) and market liberalisation (*shijo jiyūka*), which benefit the national interest at the expense of special interests. This has generally been in response to various pressures, including fiscal and international pressures. Prime ministers have also led the charge to subject the notoriously entrenched Japanese bureaucracy to stronger political control and to strengthen the position of the prime minister as the leader of the government.

Several of Koizumi's predecessors attempted key reforms. Prime Minister Nakasone Yasuhiro (1982–87) privatised the Japan National Railways (JNR) public corporation, the Japan Tobacco & Salt Public Corporation and the Nippon Telephone and Telegraph Public Corporation (NTT) as well as sponsoring a program of internationalisation that facilitated further opening of Japanese markets. A decade later, the Hashimoto administration pursued six major reforms (*rokudai kaikaku*): administrative reform, fiscal structural reform (*zaisei kōzō kaikaku*), economic structural reform (*keizai kōzō kaikaku*), financial system reform (*kinyū seido kaikaku*), social security system reform (*shakai hoshō seido kaikaku*) and educational reform (*kyōiku kaikaku*).³² Amongst Hashimoto's greatest achievements were the so-called financial 'Big Bang' and the passage of the Fiscal Structural Reform Law (*Zaisei Kōzō Kaikakuhō*).³³ His administration also laid the groundwork for the path-breaking administrative reforms that came to fruition in January 2001 when Hashimoto was serving as Minister of State for Administrative Reform, Okinawa Development and Northern Territories Affairs in the second Mori Cabinet. These reforms reorganised the central ministries and agencies, streamlined the administration, and strengthened the executive leadership of the prime minister and cabinet.³⁴

In many cases, prime ministers have used private advisory councils to provide them with constructive proposals for policy change, to generate public impetus for reform and to circumvent institutions and groups resistant to change. 'Council politics' began in a big way with Prime Minister Nakasone and has been continued by most of his successors. Hashimoto, for example, used the Administrative Reform Council (Gyōsei Kaikaku Kaigi), which he chaired and directly controlled, as a vehicle for beginning the work of bureaucratic reorganisation.³⁵

Advisory councils have also been used as window dressing to put a 'reformist' gloss on traditionalist leaders, like Prime Minister Obuchi. During the Obuchi administration, three high-profile national commissions were set up to recommend reforms—the Economic Strategy Council, the Industrial Competitiveness Council and the Commission on Japan's Goals in the 21st Century. Their reports contained numerous proposals for positive change in existing policies. However, council members complained that their creativeness was not backed by political will, resulting in 'no clear timetable or milestones to implement major elements of these proposals in a speedy and concrete way'.³⁶ Obuchi and his successor Mori largely operated in the shadow of the Hashimoto administration. They both implemented Hashimoto-initiated reforms, while themselves generating little more than reformist rhetoric to disguise their advancement of traditional LDP policies.³⁷

As a reforming prime minister, Koizumi differs from his predecessors in two principal ways. First is the nature and significance of his reform program. Table 1.1 provides some indication of its scope and scale. It shows clearly that the course on which Koizumi has embarked amounts to a structural reform revolution. He is attempting to move across many fronts at once, touching on some of the core problems of Japan's economic structure: its banking institutions and problem loans, the fiscal deficit and wasteful public works spending, a bloated public enterprise sector, and a welfare and pension system inadequately equipped to meet the demands of Japan's aging society. None of Koizumi's predecessors have attempted such a reform revolution.

Second, in pursuing his reforms Koizumi has set his sights on the vested interests that underlie his own party and the bureaucracy and has made them a specific target of transformation. Koizumi's structural reform agenda has thrown down an extraordinary challenge to the politico-economic *status quo* in

Japan by specifically targeting those groups with a vested interest in the established order. Koizumi's immediate targets are vested interests associated with the construction of public works projects, public sector enterprises and the provision of postal and medical services. Koizumi sees the wholesale diversion of private savings into 'notoriously inefficient public works projects'³⁸ through the state-run postal savings and insurance system as symbolic of the distortions, inefficiencies and rigidities in the economy. The *tsunami* of public debt that threatens to overwhelm future Japanese governments and their public expenditure programs also demands a strong focus on fiscal and public sector reform involving abolition or privatisation of public enterprises and cuts in public expenditure and public works. In Koizumi's view, Japan can no longer afford to subsidise loss-making public corporations or wasteful public works spending, which represent an inefficient use of the nation's resources and which selectively benefit rural and regional residents at the expense of city dwellers.

The implication is quite radical: the vision that Koizumi represents calls into question the entire politico-economic system that has predominated in postwar Japan. As the Managing Director of the Foreign Press Centre in Tokyo comments: 'No ruling party leader has so forthrightly and unequivocally called for putting an end to that system'.³⁹ Koizumi's policies place him outside the mainstream policy consensus that has held sway within the LDP and the bureaucracy for decades.⁴⁰

This is all the more surprising given Koizumi's conventional background and career track record in the LDP. The explanation lies in Koizumi's distinctive *modus operandi* as a politician. In spite of his LDP credentials, Koizumi is the antithesis of the archetypal LDP politician who uses positions in the party, in the cabinet and in the Diet to obtain benefits for special interests in exchange for votes and money. Hashimoto, for example, may have pursued reform as a prime minister, but he retained his long-time connections with the specific sectional interests that had backed him as an LDP politician. In contrast, Koizumi has shown little interest in collecting money or building up a base of support amongst specific industries and interest groups.⁴¹ He is not the standard LDP special-interest Diet member. His perspective cuts across sectional interests and challenges the pockets of vested interest lying within sectoral divides cosseted and protected by LDP. This has given him both freedom and flexibility in pursuing his reform program.

POLITICAL CONDITIONS INFLUENCING REFORM OUTCOMES

To gauge whether Koizumi's structural reform revolution is likely to succeed, one needs not only a more general understanding of the political conditions that are conducive to economic reform across states, but also an evaluation of the prevailing political conditions in Japan and whether these are facilitating or obstructing economic reform under the Koizumi administration. In all the popular and scholarly discussions of Koizumi's reform efforts, no systematic explanation has yet been offered to account for his policy achievements (or lack of them). Nor has there been any attempt to examine the experience of Japanese economic reform under Koizumi in the context of more general theorising about the political conditions for economic reform.

A specific literature in political economy has targeted the politics of economic reform.⁴² Based on a series of case studies and cross-national comparisons, researchers have identified the political conditions associated with failed, partial and successful economic reform in countries endeavouring to effect a shift from a high degree of state control to more market-based systems. A major focus of this research has been the issue of political resistance to economic reform and the conditions under which such resistance can be overcome. Much of the analysis is based on standard political science assumptions about the interaction of institutions and group interests. More formalised theory-building has relied on approaches derived from economics, such as collective action theory and institutional economics, which reduce political behaviour to incentives faced by self-interested individuals.⁴³

Drawing on a series of separate country studies, Williamson and Haggard have devised a set of testable hypotheses that posit the political conditions for economic reform in states making the transition from what they call 'the old model—typically *dirigiste*, statist, overly protectionist and inward-looking, and often suffering from unsustainable macroeconomic policies—to the new—with greater macroeconomic discipline, market-friendly, and outwardly oriented'.⁴⁴ The hypotheses are based on a set of loose empirical generalisations about what kind of political conditions have been conducive to economic reform in a number of countries of varying political types.⁴⁵ No strong claims are made for the hypotheses in terms of robust theory-building. The conditions that are necessary for reform to occur are not distinguished from those that are merely advantageous. The hypotheses do not claim to specify the necessary and

sufficient conditions for reform. Nor do they make any claims to being exhaustive or mutually exclusive. Nevertheless, when taken together, the hypotheses form a useful analytical framework for studying the politics of economic reform in a particular case.

The following section builds on the work of Williamson and Haggard to develop a set of hypotheses encompassing the political conditions for economic reform which are elaborated and applied to Japan under the Koizumi prime ministership.⁴⁶ Japan provides an ideal test case for these hypotheses because Koizumi's pro-active structural reform agenda specifically targets 'old model' characteristics of the Japanese economy and is designed to induce 'new economy' characteristics through processes such as privatisation, public sector reform and deregulation.

HYPOTHESISING THE POLITICAL CONDITIONS FOR ECONOMIC REFORM

In an ideal world, politicians would choose economic policies that serve the collective good, defined by John Stuart Mill as 'the greatest happiness of the greatest number' and by economists as 'maximising aggregate welfare'. In the real world, as every economist (and political scientist) knows, it is politics that more often than not determines what economic policy options can be taken up and implemented. In short, many 'economic problems boil down to political problems'.⁴⁷ Moreover, whole theoretical superstructures have been built around the overblown generalisation that politicians, interest groups and voters are driven exclusively by rational calculations of self-interest.⁴⁸ In short, political self-interest and political expediency all too often 'distort' economic policy choice.

In spite of the strictures imposed by the economic theory of politics, there are times when politicians can rise above considerations of short-term political expediency and think beyond the electoral cycle. Sometimes, for example, government leaders can become objectively convinced of the merits of economic reform for national interest reasons or are simply committed to reform on ideological grounds, even at the risk of their own political skins. For these politicians, the main task becomes convincing others in policy communities that reform is needed and, in democracies, convincing interest groups and the wider public of the same thing. Successful reform in the face of the inevitable

political obstacles puts a premium on making the right moves and adopting the right strategies in order to maximise the chances of successfully implementing policy change.

Hypothesising the political conditions for economic reform assumes that there are circumstances in which government leaders, policy élites, special interests and the public can be more easily persuaded of the need for economic reform. Similarly, it assumes that there are types of politico-institutional structures which are more effective in delivering reform, and that following certain types of political and economic strategies will be more likely to deliver reform by helping to overcome the diverse political obstacles that stand in the way. These are the kinds of political conditions that need to be examined for particular states undergoing economic reform processes. Some of the variables in the political environment can be manipulated by reformist governments, such as choice of economic advisers and clever policies. Others are givens, such as the structure of political institutions in which reformist leaders operate, although even these may in some cases be adjusted or manipulated to some extent.

The problem that all political leaders face in embarking on a program of economic reform is that there will be winners and losers. Anticipated change will thus unavoidably bring forth political cost-benefit analyses as well as economic cost-benefit analyses. Losers are those who obtain economic benefits under the 'old economy' and who stand to forgo these benefits under the 'new economy'. In the parlance of political economists, they will bear the 'concentrated costs' of reform and therefore have a strong incentive to mobilise against reforms and punish politicians who introduce them. The winners from market reforms, on the other hand, are not usually specific groups, but large social collectivities like consumers and taxpayers, who will gain diffuse benefits like cheaper prices for food. But the gains from reform are not sufficiently certain, identifiable or significant on an individual basis to spur collective action for reform on the part of these more amorphous social groupings. The imbalance in economic costs and gains across communities thus poses a dilemma for policymakers. Are the economic gains of policy reform worth the inevitable political risks and costs? This question lies 'at the heart of the politics of economic reform'.⁴⁹ It is what makes understanding 'the political conditions that permit successful policy reform'⁵⁰ so critical. In the Japanese case the dilemma of policy reform is presented particularly starkly given the predominance of one party

(the LDP) and the special interests that back it, as well as the strong tradition of economic interventionism by a powerful state bureaucracy. These characteristics have intermingled to produce a 'vested interest state' which makes the task of economic reform singularly difficult.

Nevertheless, as Haggard has observed, in the light of the broad global shift towards the market, approaches that emphasise resistance to reform from special interest groups are inadequate to explain a process that is ineluctably taking place.⁵¹ The growing literature on the politics of economic reform is an attempt to explain this worldwide phenomenon, including the conditions under which reform-minded governments can overcome the vested interests that have grown up around existing benefit programs. The following section elaborates the hypotheses that posit the political conditions that contribute to successful market-oriented reform in democratic societies.

– *A background of economic crisis*⁵²

Economic crisis can be a powerful motivator for governments to pursue economic reform because dire economic circumstances can radically alter political conditions by creating an environment in which a window of opportunity for reform opens up.⁵³ Crisis delivers a shock to the existing system, generating widespread public demand for changes to policies that have patently failed, prompting wholesale reviews by governments of traditional policy settings, inducing intense debate in policy communities about the best policy options to overcome the economic emergency, and justifying cuts in entitlements to favoured sectors because of the pressing national need for change. Crisis can be seized by political leaders as an opportunity to enact a pre-existing reform agenda by giving them greater credibility and justification for pursuing their reform goals. Crisis can also reduce political resistance to reform by altering the preference ordering of political actors and by temporarily knocking off balance specific interest groups who would normally block change. The weakening of the power of particular interest groups and even changes in their policy preferences may be sufficient to clear a long-standing logjam blocking reform.⁵⁴ Crisis can thus relax or remove the usual political constraints, enabling reforms to take place.⁵⁵ *In extremis*, crisis can create an opening for so-called 'extraordinary politics' or 'abnormal politics', where the customary rules of politics can be temporarily suspended in order to devise an appropriate response to an emergency situation.⁵⁶ One manifestation of this is 'a greater willingness

during times of crisis for legislators and publics to expand the discretionary authority of the executive'.⁵⁷ In short, it is from crisis-induced political ferment that fundamental policy transformations often arise.

– *A political honeymoon*

Reformist leaders enjoy the greatest freedom of manoeuvre for a period immediately after they come to power because high levels of popular support give them the latitude they would not normally enjoy to make difficult and unpopular decisions. Honeymoons provide an opportunity to initiate new programs and enact reforms before opponents have a chance to dig themselves in to defend their interests. Other positives for new administrations are the advantage of not having to face the electorate again for some time and, in some cases, being able to blame economic problems on their predecessors. The impact of electoral victories can compound the honeymoon effect, empowering governments and giving them a strong mandate for policy change.⁵⁸ On the other hand, the major problem of political honeymoons is that they do not last and their durability differs from administration to administration. Leaders need to move quickly to capitalise on the wave of public popularity that accompanies their accession to power because the judgement of the public and the rest of the policy community is temporarily suspended. The imperative for quick action is particularly strong if reforms are difficult and face entrenched obstacles.⁵⁹

– *Strong and visionary leadership*

Because economic reforms often entail fundamental change to established policies, norms and structures, the need for leadership is greater. Indeed, economic reformers have to offer strong and visionary leadership to bring a program of reforms successfully to fruition, because only this kind of leadership has the capacity to bring others along behind it in support of new policy directions. Above all things, political leaders 'need...a strong determination to change history, as well as the power of imagination and action...A grand plan is needed—to move mountains instead of small hills'.⁶⁰ Thus, leadership capacity needs to be complemented by strong political will and a degree of personal conviction to effect change. The greater the resistance to reform, the

more robust leadership needs to be. Decisive leadership can be an advantage in producing the necessary firm action on the part of government. It can compensate for the absence of public support for reform and it is imperative in helping to stare down the opposition.

– *A social consensus*

While strong leaders may have the luxury of being indifferent to their political environments, in general reforms cannot move forward without at least 'some degree of social consensus around the need for reform'.⁶¹ Although governments should not be constrained by the need to obtain majority support for all their initiatives, there is no doubt that a substantial body of public support provides a solid political base on which reform-minded governments can advance their programs. Reform potential is optimised in cases where there is 'a coherent and determined government with adequate political support'.⁶² A social consensus can empower leaders and help to neutralise pockets of resistance amongst special interest groups. Moreover, the existence of a social consensus on the desirability of reform can be a powerful factor driving policy adjustments and making them stick.⁶³ Even if no prior consensus exists in favour of reform, the effort in building such a consensus usually repays political leaders in terms of assisting the process of consolidating reforms through greater public acceptance.⁶⁴

– *Use of the media*

Reformers need to make effective use of the media in order to mould, manipulate, educate and mobilise public opinion in favour of reform. Using the media correctly can help to build public support for reform, or at least carry it along. Conversely, failing to make a convincing public case for reform via the media may 'nurture...public antipathy'.⁶⁵ Resorting to the media involves 'taking the case for reform to the general public, over the heads of the politicians with their vested interests and the professional journalists with their hostility to serious economic argument'.⁶⁶ Through the media, the government can vocalise the interests of the 'silent majority', who stand to gain from reform but whose diffuse interests are otherwise unrepresented through the interest group process.

– *A fragmented and demoralised opposition*

A reformist government will be able to proceed further and faster if the opposition is in disarray rather than presenting a concerted and well organised counterforce in parliament. Generally speaking, 'a weak and divided opposition...[makes] the task of a reforming government easier'.⁶⁷ The absence of strongly mobilised opposition parties can also help to compensate governments for lack of general public support for a reform program.⁶⁸ The government can proceed without criticism or the need to expend effort and resources in countering arguments from their opponents. Conversely, a well mobilised opposition can potentially serve as a pivot around which more generalised resistance to reform can organise. It can vie competitively for the support of undecided groups as well as of disgruntled groups bearing the concentrated costs of reform who might normally support the government.

– *A coherent economic team*

The prospects of economic reform being implemented are greatly enhanced by the existence of 'a coherent and united economic team'.⁶⁹ As Williamson and Haggard argue, 'a good and united team is a precondition for reform to have a chance'.⁷⁰ Moreover, '[i]n the early phase of a reform, key decisions about the design of policy and political and legislative strategy are usually taken by the president or prime minister on the basis of counsel from a hand-picked team of advisors...usually operating outside normal bureaucratic channels'.⁷¹ However, what is decisive in carrying reform through to the implementation stage is 'support from the rest of the government that was needed to be able to act effectively',⁷² and institutional reforms that strengthen 'the political position of the team *vis-à-vis* interest groups, competing ministries, the legislature, and even the rest of the executive, to a point where the team was capable of launching and sustaining reforms'.⁷³ In other words, the 'competence of the economic team cannot compensate for a lack of authority, something that typically requires institutional change within the decision-making structure'.⁷⁴

– *The presence of a technopol*

It is advantageous for reform if the coherent and united economic team is led by a 'technopol', that is, an economist-turned politician or, in the Williamson and Haggard definition, an economist/technocrat who has accepted a position

of political responsibility.⁷⁵ In this context, it is important to distinguish between a technocrat (an economic adviser responsible to the executive) and a technopol (an economist who exercises independent political authority). As Williamson and Haggard point out, it is 'important to successful reform to have economists in positions of political responsibility, rather than merely serving as technical advisers'.⁷⁶ Although there is no guarantee that a technopol will apply mainstream economics once in office,⁷⁷ it can be generally assumed that 'technopols would have a positive influence on economic policymaking and performance were their advice to be followed'.⁷⁸

– *Rapid and comprehensive reform*

Prospects for successful reform are considerably enhanced if 'reformers...design a comprehensive program capable of rapid implementation'.⁷⁹ A comprehensive program of reform enables its various elements to be mutually reinforcing which has the effect of accelerating the process of economic change. The optimal strategy may be a 'Big Bang'-type reform, which 'makes reversion to the old order infeasible'.⁸⁰ The advantage of speed is that there is insufficient time for an anti-reform coalition to mobilise effectively. Rapid reforms may also yield concrete benefits quickly to the public and to specific interest groups, which may help to build a pro-reform coalition and which may present a political impediment to any reversal of reforms.⁸¹ In addition, 'acting swiftly at the outset of an administration allows the government to absorb transition costs prior to the next electoral contest and increases the likelihood that politicians will be able to profit from recovery'.⁸²

– *External help*

External help in the Williamson–Haggard schema is conceived as strong external support in the form of intellectual help and (conditional) foreign aid. Intellectual help manifests in the form of intellectual influences from abroad and the generalised wave of pro-market, pro-liberalisation models that can be found around the world. It also extends to the positive growth impact of economic reform on states which exerts a demonstration effect. Another form of external help which can be important is the training of home-grown economists overseas. These individuals become inculcated with pro-market attitudes in Western universities and in international organisations like the IMF and World Bank. Some of them may later rise into the upper echelons of government where they

can have a direct role in making policy as technocratic advisers or even as technopols.⁸³

The impact of foreign aid can chiefly be felt in terms of strengthening the hand of reformers through the securing of external resources, reinforced by conditionality which mandates certain reforms as an incentive and/or reward for instituting pro-reform policy measures.⁸⁴ Conditionality may also help to arrest the diversion of external resources to economically non-productive goals, or to the politicised or personalised interests of government leaders.⁸⁵

– *Compensating losers*

The chances of successful reform increase if potential losers can be bought off with compensation. Compensation has the effect of facilitating reform by helping to neutralise resistance from groups whose interests would be most disadvantaged by reform or by even engendering their support for it. As Haggard elaborates, 'if a reform will raise aggregate welfare but harm certain groups, compensatory schemes can transform the reform into a Pareto-improving one'.⁸⁶ On the other hand, compensation carries the risk of undermining the very reform programs governments are endeavouring to accomplish if it prevents the losers from making the necessary adjustments. Compensating losers is exactly the kind of strategy that ends up not reforming at all because it involves 'buying out rent seekers, or at least rent receivers',⁸⁷ when in fact economic reform is supposed to be 'an attempt to move away from a rent-seeking society'⁸⁸ and 'to get away from favouring specific groups altogether'.⁸⁹ It is important, therefore, that compensatory measures mitigate the impact of reform on specific groups, but at the same time harmonise with the overall direction of economic reform and generate positive benefits of their own.⁹⁰ As Haggard concludes, the 'key issue is guaranteeing that pork is distributed in a relatively efficient way'.⁹¹

– *Accelerating the gains to winners*

In contrast to direct compensation, which simply switches the kind of benefits paid to customary rent receivers, accelerating the gains to winners ensures that quick benefits accrue to those sectors and groups in society which are most likely to benefit from liberalisation, deregulation and other kinds of market reforms. The idea is to hasten the emergence of winners by instituting pro-active market-conforming policy gestures. Such an approach can be useful politically because it helps to build support for reform by demonstrating that

there are positive aspects to the economic transformation process. In this way, an expanded coalition of supporters who are beneficiaries of reform can be created. The existence of such a coalition may assist the process of economic reform by allying with the government to facilitate the spread of reforms to other groups.

– A solid base of legislative support

If reform has proceeded beyond the technical-administrative stage and requires enabling legislation, then parliamentary approval is mandatory. As Haggard points out, 'legislatures must ultimately pass the supporting legislation to ratify reform decisions and guarantee that they are implemented and sustained over time. In many cases, even the initiation of reform requires legislation, and thus support from some coalition of legislators'.⁹² A reforming government therefore needs a majority in the national political assembly to enact new laws or amendments to existing laws. The stronger this majority, the stronger the base on which to legislate its reform program.

KOIZUMI'S SCORECARD

Table 1.1 provides the empirical data on which an objective assessment of Koizumi's policy intentions against his policy delivery can be based.⁹³ Koizumi's goals include

- privatising postal services
- cleaning up the banks' non-performing loans
- radically reforming the taxation, medical care and public pension systems
- reducing wasteful spending on public works
- redirecting expenditure into areas that will support economic growth and enhance efficiency in the economy
- reining in public debt by limiting new government bond issues to ¥30 trillion in 2001–02
- eliminating the practice of earmarking special tax revenues (petroleum, LPG and motor vehicle weight taxes) for specific projects (road construction)
- granting local governments more autonomy over revenue raising and expenditure
- freezing the remaining work on the national expressway project
- restructuring (abolishing, privatising or converting into independent

administrative agencies) 163 special public corporations (*tokushu hōjin*) and approved public corporations (*ninka hōjin*)

- deregulating the Japanese economy to encourage the growth of new industries.

Table 1.1 reveals, by any reckoning, that the fruits of Koizumi's structural reforms after more than a year in office have fallen far short of his original goals. They are limited to

- moderate fiscal consolidation (a 1.7 per cent cut in the 2002⁹⁴ General Account budget)
- a cut in budgetary outlays on public works by 10 per cent in 2002
- the shifting of some public works funding to seven priority areas designed to facilitate structural reform and more efficient allocation of expenditure
- reducing government subsidies to public corporations by 20 per cent or ¥1 trillion in 2002
- freeing up some road funding for general revenue purposes
- nominal observation of a ¥30 trillion ceiling on the annual issuance of government bonds in 2001
- accelerated bad-debt disposal by the banks
- several changes to health care policy such as cuts in doctors' fees, a lowering of pharmaceutical price schedules, raising the co-payments of salaried employees for medical bills and an increase in premiums for public health insurance.

More changes are anticipated or are in the pipeline, such as

- introducing a pension-indexing system that ties pension levels to prices, resulting in cuts to pension payouts to subscribers of the state-run pension scheme
- restructuring seven special public corporations through merger and abolition⁹⁵
- reviewing the national highway project
- continuing fiscal consolidation (limiting the 2003 General Account budget to below 2002 levels by holding down policy spending and tax grants to local governments)
- preserving the ¥30 trillion cap on the issuance of government bonds
- consolidating priority spending into four areas
- further cuts in public works expenditure and transfers of tax revenue resources to local governments

- implementing scheduled tax cuts and new corporate tax incentives
- converting the Postal Services Agency (Yūsei Jigyōchō)⁹⁶ into a public corporation in April 2003 to run the three postal services comprising postal savings (*yūcho*), postal life insurance (*kanpo*), and mail collection and delivery⁹⁷
- privatising mail delivery services.

On the other hand, many reforms remain at the recommendation rather than implementation stage such as full-scale reform of the taxation system and the transfer of fiscal powers from central to local governments. Others like the cleanup of non-performing loans are widely regarded as insufficient.⁹⁸ Furthermore,

- no comprehensive strategy for combating deflation has been put in place⁹⁹
- non-tax revenue sources have been used to support budget expenditure¹⁰⁰
- maintaining the ¥30 trillion cap on the issue of new national bonds is a very limited goal in fiscal structural reform terms but, at the same time, it is an extremely large sum given the parlous state of Japan's public finances¹⁰¹
- there have been no significant reductions in fiscal spending
- the diversion of road taxes to road construction and maintenance goes on
- no visible progress has been made toward creating jobs and nurturing new industries through deregulation¹⁰²
- the social security reforms fall far short of the major overhaul that economists argue is necessary
- most of the budget remains unreconstructed in terms of abolishing rigid spending frameworks and redirecting expenditure to more economically efficient projects
- the terms under which the new postal corporation will operate and mail delivery services will be privatised are highly restrictive and fall well short of full privatisation of postal services
- the second supplementary budget for fiscal 2001 as well as some elements of the February–March 2002 anti-deflationary packages and the June 2002 economic revitalisation package¹⁰³ have simply been disguised economic stimulus packages,¹⁰⁴ including public works spending.¹⁰⁵

The record shows unequivocally that the initially high expectations of Koizumi's ability to effect a radical economic transformation are not being realised, or if they are, only in a partial and piecemeal fashion. Some observers have been scathing, claiming that Koizumi's policy achievements amount to

little or nothing. Japanese political analyst Morita Minoru, for example, comments that: 'It won't take long to reveal the true character of the Koizumi administration, which does a good job of creating the illusion of reform, but not the reality'.¹⁰⁶ Another Japanese journalist describes Koizumi as a 'sheep in wolf's clothing', intimating that Koizumi gives the appearance of being a radical reformer, while in practice being a tame underperformer.¹⁰⁷ The Western press is hardly more flattering: to 'many advocates of reform...the prime minister has achieved little in his first year save frittering away his political capital'.¹⁰⁸ Gerald Curtis has come up with the label 'Mr NATO'—that is, 'No Action; Talk Only'—to describe Koizumi's accomplishments. Others have put Koizumi on a par with former Prime Minister Mori: 'Even though Koizumi says "I will do it, I will do it" (*yaru yaru*)—meaning structural reform—he has realised almost no policies, and in this there is virtually no change from the Mori Cabinet'.¹⁰⁹ The President of Itochû, Niwa Uichirô, commented that 'the outcome of Koizumi's first year is zero. If he were a manager of a private company, he would be fired'.¹¹⁰

In May 2002, Moody's Investors Service downgraded Japanese government bonds to A2 from Aa3, the lowest amongst major industrialised nations and below Botswana and Chile,¹¹¹ because, as one Japanese newspaper put it, 'there has been little progress in structural reforms'.¹¹² In the same month, the Japanese media were universally in agreement that the Koizumi administration had 'lost momentum' with 'the open seam in the Koizumi reform agenda...spreading wider'.¹¹³ On balance it would appear that Koizumi's credibility as a reformer is based more on good intentions (what the Japanese call 'making efforts') and on generating reform proposals rather than on concrete policy performance. Certainly the Koizumi administration is big on reform rhetoric, but its actual accomplishments come up somewhat short.

Such an outcome is paradoxical. Japan under Prime Minister Koizumi, particularly during the first 10 months of his administration, met most of the political conditions for economic reform either partially or completely (many of which not been met before. Why have apparently positive political conditions under Koizumi not produced the desired economic reforms? Is the Japanese case anomalous? If so, why? Are there necessary political conditions for reform that the Koizumi example has thrown up which are not covered by the Williamson–Haggard schema?

THE ARGUMENT

The book argues that the outcome of the Koizumi revolution as a case of only limited, partial or indeed 'failed' reform is entirely predictable. The explanation for the mismatch between Koizumi's policy intentions and his policy delivery lies in a more nuanced understanding of Japanese political conditions, particularly the difficulties Koizumi faces in overcoming structural obstacles in the policymaking process. These obstacles can be found in what I call Japan's 'traditional policymaking system', a dual structure of institutions comprising the ruling LDP and the bureaucracy. In this system, the executive—namely, the prime minister and cabinet—is relegated to a subordinate, rather than a superordinate role in the policymaking process. In this respect, the Japanese policymaking system represents a clear deviation from the Westminster model on which it is based.

Koizumi's difficulties are compounded by the fact that forces opposed to reform are embedded in these traditional policymaking structures. Moreover, they form the core of wider coalitions of anti-reform interests amongst industries and sectors that stand to bear the concentrated costs of structural reform. Koizumi has been unable to build a countervailing coalition of pro-reform interests to counterbalance and ultimately defeat the anti-reform coalition. As leader of Japan's executive, he does not exercise sufficient power to overcome the opponents of reform and enact his program.

The book further argues that, with the passage of time, some of the political conditions for economic reform which were previously positive have turned negative. The upshot is that Japan under Koizumi is meeting fewer and fewer of the political conditions for reform. The fact that the political road to reform is becoming harder, not easier, will cement the failure of Koizumi's structural reform revolution.

IMPLICATIONS FOR THE ANALYTICAL FRAMEWORK

The major conclusions of the book have a number of implications for the Williamson–Haggard framework. First and foremost, they highlight the importance of what Haggard calls 'the constitution of executive authority'.¹¹⁴ A reforming executive must have authority sufficient to override not only the resistance to reform that can be expected from particularistic interest groups who stand to lose benefits, but also to overcome the 'barriers to

reform...[within] the state apparatus itself: the political leaders, bureaucrats, and party functionaries that loom...large'.¹¹⁵ It is assumed in much of the literature on the politics of economic reform that opposition to reform resides exclusively in interest groups and electorates and therefore the solution lies with 'stronger' government and more decisive leadership that can 'subdue' opposition through resolute action. In the Japanese case, however, the most formidable obstacles to reform lie within the very structures of the state—in the ruling party and in the bureaucracy.¹¹⁶ This puts a premium on the strength of the executive. For radical reform to occur, the executive has to be able to exercise sufficient authority to neutralise the forces of resistance within the governing apparatus itself.

The weakness of the executive also highlights the importance of informal political conventions: the way in which political institutions actually operate irrespective of constitutional attributions of power. Informal political conventions may in practice impose procedural requirements on policymakers and thus present so-called 'veto points' (or what Haggard calls 'veto gates') for reformers which are not immediately apparent to outside observers. While political system type will clearly influence economic reform processes,¹¹⁷ formal institutional arrangements are not necessarily indicative of the actual power distribution amongst different political structures. In democratic systems, certain formal policymaking procedures are mandatory, such as parliamentary approval of legislation, yet other processes may also be mandatory and in practice be more important than the formal requirements of the legislative process. Understanding the political conditions for economic reform therefore needs a more sophisticated appraisal and understanding of the actual power relationships amongst various structures within the governing apparatus.

The case of attempted economic reform under Koizumi throws up two additional political conditions for economic reform that are underdeveloped in the original Williamson–Haggard model.¹¹⁸ The first political condition is the construction of a strong pro-reform coalition. Koizumi has not achieved what Haggard has identified as the sufficient (if somewhat tautological) political condition for economic reform: 'a minimum winning coalition and the defeat, or at least acquiescence, of those groups opposed to reform'.¹¹⁹ Apart from Koizumi and some other elements of his economic team, the Cabinet Office Council on Economic and Fiscal Policy (CEFP) for example, the institutions

at the centre of Japanese power consist of groups opposed to reform. In contrast, groups in favour of reform, such as big business, have had their political and organisational clout significantly weakened, while consumers and middle class salary earners are amorphous groupings and politically under-represented (and in some cases relatively disenfranchised). Salary and wage-earning consumers in the cities have provided much of the popular support that Koizumi has tried to 'leverage' to push through his economic reforms,¹²⁰ but they do not amount to a minimum winning coalition.

The second political condition is an executive with sufficient authority to push reforms forward through to the implementation stage. As Haggard comments, 'centralized executive authority plays a pivotal role in overcoming the collective action problems and distributive conflicts associated with the initiation of comprehensive economic reforms'.¹²¹ Japan's fatal flaw is the absence of strong executive authority, which is a necessary condition for reform in Japan because of the *de facto* power of the LDP and bureaucracy, institutions that in theory should be subordinate in a parliamentary cabinet system. Normally the acquiescence of these institutions to executive-led reforms can be taken for granted in Westminster systems. Where executives are weak in these systems, it is typically because of coalition cabinets and unstable coalition majorities in the parliament. However, the constraints and limitations on executive power in Japan come from unexpected quarters. They lie in those aspects of the political system whose compliance in a parliamentary democracy can normally be taken for granted, namely the bureaucracy and ruling party. In the Japanese case, the LDP and bureaucracy form completely separate political structures that are informally empowered to block change. They typify exactly the kind of 'multiple veto gates...divided government and policy deadlock'¹²² characteristic of examples of failed reform. In other words, they represent additional veto gates to those that one would normally expect in a parliamentary democracy centring on the legislature and the configuration of parties within it.¹²³ Issues of strategy and tactics—that is, 'how quickly to reform, how to build support from winners, and how to compensate, or finesse losers'¹²⁴—count for little in the face of such institutional obstacles, unless reform strategies somehow target these institutions themselves. These observations suggest a problematic conclusion for Japan: economic structural reform is predicated on prior reform of political structures.

The following chapters of the book apply the analytical framework outlined above to Koizumi's attempted structural reform revolution. Each chapter groups a number of interrelated hypotheses drawn from the framework under a common heading: Koizumi's power base; Koizumi's reform team, its policies and approach; opportunities lost; party-bureaucratic government; policy stalemate; and team weaknesses, tactical flaws and policy defects. The analysis reveals that, in spite of all his shortcomings, Koizumi genuinely intends to achieve a structural reform revolution in Japan. This alone marks him out as different from his predecessors. In terms of outcomes, however, the Koizumi administration is not all that different from those that have gone before. Explaining this puzzle is the rationale of the book.

TABLE 1.1 SUMMARY OF MAIN KOIZUMI ECONOMIC AND FISCAL POLICY INITIATIVES AND OUTCOMES

Content of policy pledge	Relevant policy documents/source	Policy commitments and achievements
Privatisation of postal services (savings, insurance and mail delivery) [law requiring postal services to be transferred to a public corporation in 2003 already passed in 1997 by Hashimoto administration]	Koizumi policy pledge; June 2001 CEFP Basic Policy Outline for Economic Reform; December 2001 Immediate Action Program for Structural Reform	Limited achievement: transfer of three postal services—mail, postal savings and insurance—from Postal Services Agency to a new postal public corporation on 1 April 2003. Simultaneous privatisation of mail collection and delivery business but under highly restrictive conditions. No provision for eventual privatisation of the postal public corporation and other postal services.
Banking reform: accelerate the disposal of non-performing loans [ongoing issue from previous administrations]	June 2001 CEFP Basic Policy Outline for Economic Reform; September 2001 CEFP Reform Schedule; January 2002 Basic Stance for Macroeconomic and Fiscal Management in Fiscal 2002; February 2002 CEFP Report; February 2002 Emergency Countermeasures to Deflation; Koizumi's April 2002 policy speech to the Japanese Diet	Limited achievement: stop-gap policies to expedite the disposal of non-performing loans; 2–3 years as an 'adjustment period' in which to clear bad bank debts; expansion of the role of the Resolution and Collection Corporation (RCC) to resolve banks' bad-loan problems by the end of 2003 (that is, March 2004) and measures for the rehabilitation of corporations through the RCC; special FSA inspections in order to encourage financial institutions to categorise borrowers appropriately; undertake write-offs and generate sufficient reserves; resolve the bad loan problem in fiscal 2004 (that is, by March 2005).

Banking reform: withdraw government's full guarantee on term deposits and demand deposits at banks [prior commitment under 1996 Deposit Insurance Law]	Koizumi commitment to carry out the scheduled reforms	Partial achievement: deposit insurance cap of ¥10 million placed on term deposits on 1 April 2003; deposit insurance cap of ¥10 million on demand deposits scheduled for 1 April 2004, but deposits may place funds with new non-interest-bearing accounts that will attract a full government guarantee.
Tax reform [scheduled introduction of the consolidated taxation systems in fiscal 2002]	June 2001 CEEP Basic Policy Outline for Economic Reform; December 2002 Government Tax Commission Report for FY 2002 Tax System; April 2002 CEEP proposed schedule for tax reform; May 2002 CEEP tax reform draft (Heisei Tax Reform—Fairness, Vitality and Simplification); June 2002 CEEP final tax reform policy plan; June 2002 Tax Commission reform blueprint; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002; Koizumi proposal to CEEP	Not achieved: proposal for tax reform to be initiated in fiscal 2003 and completed in fiscal 2006 covering income, residential and corporate taxes from the viewpoint of pursuing 'broad, thin and simple' taxation (that is, more people should pay tax, but the burden on each taxpayer should be lighter); Proposal for January 2003 ahead-of-schedule tax reform embodying tax incentives to promote corporate R&D expenditure and capital investment (starting with IT), and a reduction in inheritance and gift taxes for individual taxpayers; proposal for tax cuts of more than ¥1 trillion in 2003–04 balanced by tax increases in later years.
Medical system reform	Koizumi plan; June 2001 CEEP Basic Policy Outline for Economic Reform; CEEP December 2001 Immediate Action Program for Structural Reform; Guidelines for Formulation of the FY 2002 Budget; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002	Cost savings only: cuts in reimbursement payments to medical service providers; 1.3 per cent reduction in doctors' consultation fees; lowering of price schedules for pharmaceuticals; fixed rate (10 per cent) co-payment system adopted for medical services for the people aged 70 or older from October 2002; co-payment for wealthy seniors aged 70 or older raised from 10 to 20 per cent from October 2002; review of ceiling on amount of co-payment for extremely expensive medical treatments; raising health insurance premiums for

members of corporate-sponsored insurance schemes in April 2003 but based on total annual income including bonuses; lowering the rate of increase in health insurance premiums scheduled to begin in 2003 for individuals belonging to government-run health insurance programs; raising the proportion of medical care expenses borne by salaried workers, public servants and their family members aged 3–69 from 20 to 30 per cent in April 2003.

Partial achievement: introducing a pension-indexing system linking pension levels to prices, resulting in cuts to pensions paid from the state-run scheme; reduction in unemployment benefits; planned reform of pension system in 2004.

June 2001 CEFP Basic Policy Outline for Economic Reform; Guidelines for Formulation of the FY 2002 Budget; Fiscal System Council 'Basic Views on Compilation of Fiscal 2003 Budget'; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002

Pension system reform

Partial achievement: 2002 (General Account) budget cut by 1.7 per cent on 2001 initial budget; general expenditure (policy-related spending) cut by 2.3 per cent to ¥47.5 trillion, but government used non-tax revenue sources to support level of budgetary expenditure; 2003 (General Account) budget and general expenditure to be held at or below 2002 levels, although budget guidelines allow an increase in general expenditure of 1.3 per cent to ¥48.1 trillion.

Koizumi policy pledge; June 2001 CEFP Basic Policy Outline for Economic Reform; January Basic Stance for Macroeconomic and Fiscal Management in Fiscal 2002; Koizumi directive to CEFP; MOF new target for fiscal management in 2003; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002

Fiscal structural reform: cut overall public expenditure and make government spending more efficient

Fiscal structural reform: reduce government dependence on the issuance of government bonds	Koizumi policy pledge; June 2001 CEEF Basic Policy Outline for Economic Reform; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002	Partial achievement: the issuance of government bonds limited to below ¥30 trillion in total 2001 budgetary outlay (that is, the initial and supplementary budgets). Honoured in first 2001 supplementary budget; nominally observed in second supplementary budget but only by using 'hidden borrowing', that is, using non-bond sources of funds; tax cuts in 2003 funded by sales of government bonds, effectively lifting the ¥30 trillion cap.
Fiscal structural reform: reduce (wasteful) spending on public works	Koizumi slogan; June 2001 CEEF Basic Policy Outline for Economic Reform; Guidelines for Formulation of the FY 2002 Budget; 2003 budget appropriation guidelines	Partial achievement: in 2002 budget, public works outlays reduced by 10.7 per cent or roughly ¥1 trillion; but 2001 second supplementary budget devoted to public works for economic stimulus purposes; spending on public works in the 2003 budget cut by 3 per cent on 2002 fiscal year.
Fiscal structural reform by tackling the problem of rigid spending frameworks: review spending on public works	June 2001 CEEF Basic Policy Outline for Economic Reform; Guidelines for Formulation of the FY 2002 Budget; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002	Partial achievement: prioritisation in public investment—funding allocated to priority areas indicated in June 2001 CEEF Basic Policy Outline for Economic Reform. 2002 budget identified as 'Budget Committed to Reform' with bold measures taken to shift budgetary allocations in order to promote the transformation of the economic structures; 2002 budget includes decreasing budget allocation by ¥5 trillion in non-priority fields while increasing the allocation to seven priority fields by ¥2 trillion, as a 'special quota for structural reforms' to promote efficient use of funds. Priority given to development of waste disposal facilities, improvement of urban infrastructure, investment in

universities and other national research facilities, nursery and childcare facilities, and nursing homes for the elderly. Conversely, review of public investment in water works, sewerage development projects, flood and landslide control, public housing, local port projects, local airport projects, trunk road development, and agriculture, forestry and fisheries. But 90:10 ratio for engineering projects versus building of facilities not changed; adopt a priority policy for long-term public works projects. In 2003 budget, seven priority areas reorganised into four areas—science and technology, urban and rural communities, measures to deal with the aging society and declining birthrate, and the environment. Make public works more prioritised and efficient; review existing projects and long-term public works plans

Partial achievement: 2002 budget diverts ¥224.7 billion out of ¥672 billion in automobile weight taxes to general revenue (that is, budget General Account expenditure); review all earmarked fiscal resources together with with long-term public works plans

Not accomplished: Ministry budgets remain divided between public works and non-public works expenditure.

CEPP June 2001 Basic Policy Outline for Economic Reform; Guidelines for Formulation of the FY 2002 Budget; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002

Koizumi proposal

Fiscal structural reform by tackling the problem of rigid spending frameworks: eliminate the practice of earmarking special tax revenues (that is, petroleum, LPG and motor vehicle weight taxes) for specific projects (that is, road construction)

Fiscal structural reform by tackling the problem of rigid spending frameworks: abolish the fixed distinction in ministry allocations between public works and non-public works

Fiscal structural reform by tackling the problem of rigid spending frameworks: grant local governments more autonomy over revenue raising and expenditure; streamline central government grants to local governments	Koizumi proposal; June 2001 CEPP Basic Policy Outline for Economic Reform; Guidelines for Formulation of the FY 2002 Budget; CEPP December 2001 Immediate Action Program for Structural Reform; May 2002 CEPP proposal; June 2002 Prime Minister and Economic Ministers' Agreement; June 2002 Koizumi Statement; Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002	Not achieved: 2002 budget cut the total amount of expenditures to local government, but reforms remain at proposal stage only—proposal to transfer ¥5.5 trillion worth of tax revenues to local governments; review of expenditures in Local Fiscal Plan; review of State Subsidies and Local Transfer Tax with a view to encouraging autonomous and discretionary fiscal management by local governments; cut in specific purpose subsidies of several trillion yen and transfer of tax revenue resources to local governments in 2003 budget; possibility of a cut in local tax grants in 2003 budget; eliminate ¥14 trillion fund shortage faced by local government and establish local government fiscal independence thereafter; cut central government subsidies to local governments by several trillions of yen by fiscal 2006.
Eliminate wasteful spending on public works: freeze remaining work on the national expressway project	Koizumi slogan	Partial achievement: freeze downgraded to 'review' of entire ongoing expressway construction program (2,400km yet to be completed), but no decision whether to cancel the New Tōmei Expressway; cost-benefit analyses of planned expressways and prioritisation of projects according to importance; state-administered road construction projects to be considered during annual budget compilation process; independent committee to make recommendations on future road construction.
Restructure (abolish, privatise or convert into independent administrative agencies) 163 public corporations (77 special public	Koizumi proposal; June 2001 CEPP Basic Policy Outline for Economic Reform; September 2001 CEPP Reform Works Schedule; December 2001	Partial achievement: slightly more than ¥1 trillion cut in fiscal disbursements to special public corporations in 2002; in 2003, planned merger of

corporations, or <i>tokushu hōjin</i> and 86 approved public corporations, or <i>minka hōjin</i>) [December 2000 plan proposed a thorough review of 78 special public corporations with a view to their abolition, privatisation or conversion into independent public organisations by 2005] [April 2001 Hashimoto proposal to review 160 public corporations with a view to downsizing and privatising them within five years beginning in fiscal 2002]	Reorganisation and Rationalisation Plan for Special Public Corporations	38 public corporations into 36 independent administrative institutions (entities whose operating costs will be borne by the government—still eligible to receive funds from the Fiscal Investment and Loan Program, or FILP and other public funds); in principle abolition of 17 public corporations; in principle privatisation of 45 public corporations
Merge then privatise four road construction special public corporations (Japan Highway Public Corporation, Metropolitan Expressway Public Corporation, the Hanshin Expressway Public Corporation and the Honshū–Shikoku Bridge Authority); terminate annual ¥300 billion (\$2.5 billion) in fund transfers to finance construction of nationwide expressway system administered by four corporations; debt repayment period of road corporations limited to a maximum of 30 years	November 2001 Direction of Advanced Reforms for the Seven Special Public Institutions; December 2001 Administrative Reform Promotion Headquarters (Basic Administrative Reform Plan)	Prospective achievement: privatise road corporations by 2005; from 2002, annual ¥300 billion in budgetary transfers to corporations terminated leading to a 40 per cent reduction in planned highway projects; terminate government funding to Japan Highway Public Corporation reducing outlays by 40.8 per cent to ¥305.2 billion in 2002; debt repayment period of road corporations limited to a maximum of 50 years, but privatised body will build more highways by borrowing from the FILP; independent committee established under legislation to draw up plans by end of 2002 on privatisation of four road corporations.

Abolish Housing Loan Corporation, Housing and Urban Development Corporation and Japan National Oil Corporation (JNOC).	November 2001 Direction of Advanced Reforms for the Seven Special Public Institutions: Administrative Reform Promotion Headquarters December 2001 Basic Administrative Reform Plan	Prospective achievement: JNOC will stop developing oil fields and storing oil in 2003 while limiting its operations to liquidating and supervising its assets; eight oil-stockpiling corporations operating under the JNOC umbrella closed; JNOC's financial function of extending loans to assist oil-field development transferred to Japan Bank for International Cooperation, a public corporation; almost all of JNOC's other operations, including support for oil-field development and stockpiling integrated into the Metal Mining Agency of Japan under the jurisdiction of METI. But the special oil account—the corporation's primary source of money—will be retained. Housing Loan Corporation's lending business scaled back in stages, termination of ¥300 billion in government transfers to corporation annually to help repay its debts, corporation abolished within five years, but new firm set up to help securitise loans; Housing and Urban Development Corporation's new leased-housing projected halted, corporation dismantled by 2005, but new corporation established to handle urban renewal projects
Review of eight financial special public corporations, including Development Bank of Japan	Koizumi proposal	Put off until CEEP considers proposal in late 2002
Deregulation	Koizumi policy pledge; September 2001 Headquarters for Industrial Structural Reform and Employment Measures Emergency Jobs Package; December 2001 First Report Regarding Promotion	Recommendation stage only: proposals for deregulatory reform (including the entry of private sector firms) in 15 fields (priority areas are medical services, elderly and child care, personnel training

of Regulatory Reform from the Council for Regulatory Reform; May 2002 CEFP deregulation plan; June 2002 Koizumi economic revitalisation proposal; June 2002 Council for Regulatory Reform outline of July interim report; July interim report

and employment, education, the environment, revitalisation of urban areas, agriculture, and energy and finance) 'shall be respected as far as possible', and are included in the March 2002 'Three-Year Program for Promoting Regulatory Reform' which each ministry will be required to implement; establishment of 'structural reform special zones' aimed at easing or scrapping regulations in designated areas; establish a basic law in order to materialise the special zone initiative; set up a special body in the Cabinet Secretariat to promote the initiative; revitalise government-controlled markets by permitting the entry by private jointstock companies into the medical services, welfare, education and agricultural sectors based on the principle of consumer sovereignty; open 64 government-controlled sectors to private firms

Sources: *Asahi Shinbun*, 21 November 2001, 21 December 2001, 5 February 2002, 7 March 2002; [asahi.com](http://www.asahi.com/english/politics/K20020900389.html), <<http://www.asahi.com/english/politics/K20020900389.html>>; <<http://www.asahi.com/english/politics/K2002032800392.htm>>; Cabinet Office, Government of Japan, <<http://www5.cao.go.jp/keizai1/2002/0125mitoshi-e.html>>; *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/news/20020106wo02.htm>>, <<http://www.yomiuri.co.jp/news/20020509wo31.htm>>, <<http://www.yomiuri.co.jp/news/20020612wo03.htm>>, <<http://www.yomiuri.co.jp/news/20020614wo11.htm>>; Heizō Takenaka, 'Japan Takes on Challenges', pp. 4–5; *Japan Times Online*, <<http://www.japantimes.co.jp/cig-bin/getarticle.p15?ab20020325b5.htm>>; Kimura Takeshi, "Nichigin" "Kinyūchō" Warui no wa Dotchi Da' ["The Bank of Japan", or the "Financial Services Agency": Which is the Bad Guy?], *Bungei Shunjū*, October 2001, pp. 118–25; *Nihon Keizai Shinbun*, 12 June 2002; 14 June 2002, 7 June 2002; *Nikkei Weekly*, 1 April 2002, 25 February 2002, 6 May 2002; Prime Minister of Japan and his Cabinet, 'Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002 (Summary)', <http://www.kantei.go.jp/foreign/policy/2002/0621kouzoukaikaku_e.html>; <http://www.kantei.go.jp/foreign/policy/2002/0125mitoosi_e.html>, <http://www.kantei.go.jp/foreign/policy/2001/1127kaikaku_e.html>, <http://www.kantei.go.jp/foreign/policy/2001/1211kisei_s_e.html>, <http://www.kantei.go.jp/foreign/policy/2001/1204yosan_e.html>, <http://www.kantei.go.jp/foreign/policy/2001/1127kaikaku_e.html>, <http://www.kantei.go.jp/foreign/policy/2001/1218kaikaku_e.html>; *The Japan Times*, 27 June 2001, 9 August 2002; *Yomiuri Shinbun*, 21 November 2001, 22 May 2002, 7 June 2002, 9 July 2002.

NOTES

- ¹ Jesper Koll has characterised the 1980s as the 'permanent high-growth paradigm' and the 1990s as the 'permanent recession paradigm'. See his comments in *The Daily Yomiuri*, 4 April 2002.
- ² See Aurelia George Mulgan, 'Japan: A Setting Sun?', *Foreign Affairs*, Vol. 79, No. 4, July/August 2000, pp. 40–52. In this essay, I argued that Japan was unable to engage in fundamental reform of its economy because interests opposed to change were institutionalised in various political and bureaucratic structures and practices like politicians' personal support groups (*kōenkai*) and hereditary politics, the special interest cliques or policy 'tribes' (*zoku*) in the LDP, and the 'descent from heaven' (*amakudari*) of bureaucrats into the institutional infrastructure of economic intervention constituted by government-affiliated agencies, including public corporations.
- ³ See Diana Helweg, 'Japan: A Rising Sun?', *Foreign Affairs*, Vol. 79, No. 4, July/August 2000, pp. 26–39. In arguing that the IT revolution would prompt economic recovery, writers such as Helweg have failed to take into account that the IT contribution to Japan's economic growth only stands out because other sectors are not doing their share, and that IT does not have such a large effect in Japan because of the need for more deregulation and greater corporate effort. *Nikkei Weekly*, 15 January 2001. As the Japan Research Institute Chairman has emphasised, the government needs to institute policies to support the IT revolution like deregulation. *Nikkei Weekly*, 8 January 2001.
- ⁴ Aurelia George Mulgan, 'Can Koizumi Save Japan', paper prepared for the Office of National Assessments Roundtable on Japan's Economy and Its Impact on the Region, Canberra, 28 September 2001. See also Paul Sheard, *Japan: Crisis or Reform—Or Both?*, Center on Japanese Economy and Business/Columbia Business School, 20 February 2002, pp. 2–6. Another pessimist is Okue Kunji, Senior Economist and Managing Director at Dresdner Kleinwort Wasserstein (Japan) Ltd., who said in April 2002 that 'foreign investors view the Japanese economy as hopeless, as the government has failed to turn it around'. Quoted in *Nikkei Weekly*, 1 April 2002. Japanese economist Morinaga Takurō has argued equally pessimistically that the Japanese economy is in a terminal stage of illness and therefore economic medicine with side effects will be unavoidable. Morinaga Takurō, 'Seifu no Sōgō Taisaku de Defure wa Tomaru ka?' ['Will the Government's Comprehensive Policies Stop Deflation?'], *Gendai*, May 2002, p. 44. See also works by David Asher, 'The Bush Administration's Japan Problem', American Enterprise Institute, March 2001, <<http://www.aei.org/oti/oti12763.htm>>, *Could Japan's Financial Mount Fuji Blow its Top?*, MIT Japan Program, April, 2000, and *Japan's Key Policy Challenges for the 21st Century*, John Hopkins, SAIS, 1998 <<http://www.sais-jhu.edu/pubs/policyforum/asher.html>>. For regular commentary on the terminal state of the Japanese economy, see the briefs compiled by George Friedman for <stratfor.com>.

- ⁵ Japan's Council on Economic and Fiscal Policy (CEFP) attached to the Cabinet Office approved a mid-term economic and fiscal outlook in November 2001 which provided policy visions for five years through fiscal 2006. It predicted that the Japanese economy would show near-zero growth for the following two years, but said growth of about 1.5 per cent in real terms could be achieved in fiscal 2004 and thereafter.
- ⁶ Prime Minister of Japan and his Cabinet, <http://www.kantei.go.jp/foreign/koizumi/photo/2001/12/19keizai_e.html>. A similar view was expressed by the Minister of State for Economic and Fiscal Policy, who in a December 2001 speech said: 'As the intensive adjustment period continues in FY 2002, it is unavoidable that prolonged severe economic conditions will persist'. Heizō Takenaka, 'The Economic and Fiscal Policy of the Koizumi Administration: Achievements of the Council on Economic and Fiscal Policy and Policies Ahead', Reference, 27 December 2001, p. 4.
- ⁷ Takasugi Ryō, 'Takenaka Keizaisō wa Gaishi no Tesaki ka?' ['Is Takenaka, the Minister of State for Economic and Fiscal Policy, a Tool of Foreign Capital?'], *Bungei Shunjū*, May 2002, p. 126.
- ⁸ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newsc/20020515wo12.htm>>.
- ⁹ Australian Broadcasting Corporation, Newsradio, 13 May 2002.
- ¹⁰ The statistical method used by the Cabinet Office inflates the GDP figure. According to the NLI Research Institute, 'the main reason the upcoming [June 2002] report will show a spike in economic growth is that the government's method for calculating GDP data is flawed. NLI Research questions the reliability of the data the government uses, and argues that the method for making seasonal adjustments is also flawed'. *Nikkei Weekly*, 3 June 2002. The 1.4 per cent rise in the GDP figure for the first quarter of 2000 was described by one economic commentator as not 'rubbery', but 'rubbish', and the trend was a 'respite' not a 'real recovery'. Australian Broadcasting Corporation, Newsradio, 7 June 2002. In August 2000, the Japanese government adopted a new GDP calculation method which reduced the 1.4 per cent first-quarter growth to zero.
- ¹¹ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newsc/20020608wo11.htm>>.
- ¹² The Japanese frequently use the term 'deflation recession' (*defure fukyō*) to describe their economic state.
- ¹³ See, for example, the remarks by Glenn Hubbard, Chairman of the US Council of Economic Advisers, reported in *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newsc/20020613wo11.htm>>.
- ¹⁴ Editorial, *Nihon Keizai Shinbun*, 18 June 2002.
- ¹⁵ Prime Minister of Japan and his Cabinet, 'Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002 (Summary)', <http://www.kantei.go.jp/foreign/policy/2002/0621kouzoukaikaku_e.html>.

- ¹⁶ Takenaka Heizô, 'Japan Takes on Challenges of Structural Reform', Speech delivered to the National Economist Club, Washington, DC, 7 January 2002, p. 2. Elsewhere he was quoted as saying: 'As far as cyclical movement is concerned, we are going in the right direction, but the real problem is the fundamental growth trend, or the potential growth'. *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=Article&cid=FT3OGVY6BZC&live=true>>.
- ¹⁷ This was the view of James K. Glassman, who delivered the 2002–03 Mansfield American–Pacific Lecture, jointly sponsored by the Keizai Kôhō Center in Tokyo on 4 April 2002. He argued that: 'Improved corporate governance at Japanese firms coupled with better public policy can "lead to a magnificent revival" in the country's economy'... He added... that he is an optimist and that there is no serious impediment to a revival'. *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?nb20020408a1.htm>>.
- ¹⁸ In the academic press, see for example, Shinichi Kitaoka, 'Can Koizumi the Demagogue Become a True Leader?', *Japan Review of International Affairs*, Vol. 15, No. 4, Winter 2001, pp. 278–90, and Gerald L. Curtis, 'The Koizumi Administration: Its Significance and Prospects', in the same issue, pp. 291–303. See also Clyde Prestowitz and Ed Lincoln, 'Abandoning the Old Guard: Helping Koizumi Out of the Box', *Asian Wall Street Journal*, 5 April 2002, p. A9, and David Kruger, 'Japan: A Political Phenomenon', *Far Eastern Economic Review*, 2 May 2002, <http://www.feer.com/articles/2002/0205_02/p017region.html>.
- ¹⁹ It has also been equated with 'systemic reform' (*seido kaikaku*). See Kanbara Eiji, 'Koizumi Honebuto Kaikaku wa Hassan Shita!' ['The Big-Boned Koizumi Reforms were Bankrupt!'], *Bungei Shunjû*, April 2000, pp. 94–110.
- ²⁰ Professor Sawa Takamitsu, Professor of Economics, Kyoto University, quoted in *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticles.p.15?eo20020204ts.htm>>.
- ²¹ <<http://www.unm.edu/~russian/structuralreform.html>>.
- ²² BBC News | ASIA–PACIFIC | Koizumi outlines vision for reform <http://www.bbc.co.uk/hi/english/world/asia-pacific/newsid_1317000/1317045.stm>.
- ²³ This last aspect of Koizumi's structural reform program refers to reform of the Japanese education system, which will not be the specific focus of analysis in this book.
- ²⁴ Cabinet Office, Government of Japan, <<http://www5.cao.go.jp/keizai1/2002/0125mitoshi-e.html>>.
- ²⁵ Intensive Discussion on the Reform of Systems and Policies—Prime Minister's Instruction, Informal Cabinet Meeting, 19 July 2002, <http://www.kantei.go.jp/foreign/koizumispeech/2002/07/19siji_e.html>.
- ²⁶ Opening Statement by Prime Minister Junichirô Koizumi at the Press Conference on the Passage of the fiscal 2002 Budget, 27 March 2002, <http://www.kantei.go.jp/foreign/koizumispeech/2002/03/27kaiken_e.html>.
- ²⁷ asahi.com, <<http://www.asahi.com/english/politics/K2002022000611.html>>.

- ²⁸ This is starkly illustrated in highly supported and protected sectors such as agriculture, where a spate of agricultural 'reforms' in the 1990s failed to alter the underlying principles of intervention and the bureaucratically-mediated framework of agricultural support and protection. See my forthcoming volume, *Japan's Interventionist State: MAFF and the Agricultural Policy Regime*. Vogel has also commented that Japan 'structured regulatory reform to maintain critical government capacities and protect valued institutional arrangements'. Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries*, Ithaca and New York, Cornell University Press, 1996, p. 256.
- ²⁹ See the author's forthcoming article entitled 'Japan's Un-Westminster System' in *Government and Opposition*, Winter 2003. For a discussion of Japan's policy immobilism, see J.A.A. Stockwin et al., *Dynamic and Immobilist Politics in Japan*, London, Macmillan, 1988; and Robert W. Compton Jr., 'Political Culture as a Source of Japanese Immobilism', in Robert W. Compton Jr. (ed.), *Transforming East Asian Domestic and International Politics: the Impact of Economy and Globalisation*, Aldershot, Ashgate, 2002, pp. 68–82.
- ³⁰ This was embodied in the 'Policy Package for New Economic Development towards the Rebirth of Japan', promulgated by the Mori administration in October 2000.
- ³¹ Stockwin, for example, refers to the exercise of prime ministerial 'leadership able to think about the national interest unconstrained by special interests'. J.A.A. Stockwin, 'A Comparative Perspective on Japanese Politics', paper presented to the Tokyo Club, 25 September 2001, p. 6.
- ³² The cabinet that launched the reforms was known as the 'Reform Creation Cabinet' (*Kaikaku Sōzō Naikaku*).
- ³³ According to Hashimoto's former private secretary, Eda Kenji, for the first one and a half years after his appointment as prime minister, Hashimoto was 'brimming with desire' to reform economic and social systems. Eda Kenji, 'Koizumi Shushō, Hashimoto Seiken Tōkaku no Wadachi o Fumu na' ['Prime Minister Koizumi, You Must Not Fall Into the Same Rut as the Hashimoto Administration'], *Gendai*, May 2002, p. 128. Based on his experiences, Eda, together with journalist Nishino Tomohiko, has written a book on the parallels between the Koizumi and Hashimoto reform agendas and why the Hashimoto administration ultimately failed in accomplishing its full reform program. See Eda Kenji and Nishino Tomohiko, *Kaikaku Seiken ga Taoreru Toki* [*When Reform Administration Falls*], Tokyo, Nikkei BPsha, 2002. Eda was also a failed LDP candidate in the 2000 Lower House elections.
- ³⁴ The laws effecting these administrative reforms were actually passed in 1999 by the Obuchi Cabinet, which succeeded the Hashimoto Cabinet.
- ³⁵ Kawakita Takao and Onoue Yukio, *Naikakufu* [*The Cabinet Office*], Tokyo, Intamedia, 2001, p. 96.
- ³⁶ *The Japan Times*, 5 February 2000.

- ³⁷ Mizuno, for example, comments that 'the Obuchi and Mori administration only instituted recession countermeasures without giving any consideration to structural reform'. Mizuno Takanori, 'Takenaka Daijin no Nanatsu no Daizai' ['Minister Takenaka's Seven Major Offences'], *Politico*, May 2002, p. 13.
- ³⁸ *Nikkei Weekly*, 26 March 2001.
- ³⁹ Ishizuka Masahiko is a regular writer for the *Nikkei*. See *Nikkei Weekly*, 13 May 2002.
- ⁴⁰ Stockwin also talks about this 'mainstream consensus over policy', which he traces back to the 1950s. 'A Comparative Perspective', p. 8.
- ⁴¹ Endô Kôichi, in 'Koizumi Seiken no Shin no Teikô Seiryoku wa Kokumin de aru' ['The People are the Real Resistance Forces of the Koizumi Administration'], *Seiron*, No. 5, May 2002, p. 244. At the same time, Endô argues that what Koizumi is trying to do is definitely not epoch-making. It is only a copy of what previous cabinets have tried to do. (p. 247)
- ⁴² John Williamson and Stephan Haggard, 'The Political Conditions for Economic Reform' in John Williamson (ed.), *The Political Economy of Policy Reform*, Washington, DC: Institute for International Economics, pp. 527–96; Anne Krueger (ed.), *Economic Policy Reform: The Second Stage*, Chicago and London, University of Chicago Press, 2000; Julian Weiss, 'Structural Economic Reforms: What Strategies Really Work?', <<http://www.cipe.org/ert/e01/3/jweiss.php3>>.
- ⁴³ See, for example, the exposition of theoretical approaches in Stephan Haggard, 'Interests, Institutions, and Policy Reform', in Krueger (ed.), *Economic Policy Reform*, pp. 21–57.
- ⁴⁴ Williamson and Haggard, 'The Political Conditions', p. 532.
- ⁴⁵ The countries were Turkey, Brazil, New Zealand, Peru, Poland, Australia, Chile, Colombia, Korea, Mexico, and Indonesia, but not Japan.
- ⁴⁶ Not all the Williamson–Haggard hypotheses are utilised because they are not applicable to Japan, for example, 'voodoo politics' and 'an authoritarian regime'.
- ⁴⁷ *Nikkei Weekly*, 13 May 2002.
- ⁴⁸ See the vast rational choice literature, for example.
- ⁴⁹ Williamson and Haggard, 'The Political Conditions', p. 531.
- ⁵⁰ *Ibid.*, p. 529.
- ⁵¹ 'Interests', p. 36.
- ⁵² Williamson and Haggard posit the 'crisis hypothesis' as an 'economic condition' of reform, but their discussion of this hypothesis is all about the political effects of economic crisis, and hence it should be considered as one of the political conditions for economic reform. See their discussion in 'The Political Conditions', pp. 562–65.
- ⁵³ Williamson and Haggard, 'The Political Conditions', pp. 562–63. See also Haggard, 'Interests', p. 22 *et passim*.
- ⁵⁴ Haggard, 'Interests', p. 36.

- ⁵⁵ Anne Krueger, 'Introduction', in Krueger (ed.), *Economic Policy Reform*, p. 6.
- ⁵⁶ Williamson and Haggard, 'The Political Conditions', p. 593.
- ⁵⁷ Haggard, 'Interests', p. 41.
- ⁵⁸ Ibid., p. 41.
- ⁵⁹ The former South Korean Ambassador to the United States observed of his country's experience of economic deregulation that 'political leaders should not confuse support for their administrations with the popularity of their reform programs. Since popularity is often short-lived, "the iron should be hit while it's hot"'. Quoted in *The Japan Times*, 19 October 2001.
- ⁶⁰ These are the words of former Japanese Prime Minister Hosokawa Morihiro, quoted in *The Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getted.p15?eo20020520mh.htm>>.
- ⁶¹ Williamson and Haggard, 'The Political Conditions', p. 575.
- ⁶² Ibid., p. 574.
- ⁶³ Ibid., pp. 574–75.
- ⁶⁴ Ibid., p. 576.
- ⁶⁵ Ibid., p. 587.
- ⁶⁶ Ibid., p. 586.
- ⁶⁷ Ibid., p. 574.
- ⁶⁸ Ibid., p. 574.
- ⁶⁹ Ibid., p. 578.
- ⁷⁰ Ibid., p. 579.
- ⁷¹ Haggard, 'Interests', pp. 40–41.
- ⁷² Williamson and Haggard, 'The Political Conditions', p. 579.
- ⁷³ Ibid., p. 579.
- ⁷⁴ Ibid., p. 579.
- ⁷⁵ Ibid., p. 527.
- ⁷⁶ Ibid., p. 580.
- ⁷⁷ Ibid., p. 581.
- ⁷⁸ Ibid., p. 528.
- ⁷⁹ Ibid., p. 583.
- ⁸⁰ Ibid., p. 529.
- ⁸¹ Ibid., pp. 528–29.
- ⁸² Haggard, 'Interests', p. 41.
- ⁸³ Williamson and Haggard, 'The Political Conditions', p. 566.
- ⁸⁴ Ibid., p. 567.
- ⁸⁵ The foreign aid factor in the Williamson and Haggard schema arises because much of the focus of the economic reform literature is on developing countries.

- ⁸⁶ 'Interests', p. 36. For the uninitiated, a 'Pareto-improving' reform means one in which no one is worse off.
- ⁸⁷ Williamson and Haggard, 'The Political Conditions', p. 587.
- ⁸⁸ Ibid., p. 587.
- ⁸⁹ Ibid., p. 587.
- ⁹⁰ Haggard, 'Interests', p. 36.
- ⁹¹ Ibid., p. 48.
- ⁹² Ibid., p. 44.
- ⁹³ A few of Koizumi's policy plans are holdovers from previous administrations and others that have been implemented were already in the pipeline.
- ⁹⁴ For all policy measures, years are fiscal years.
- ⁹⁵ The seven special public corporations are the Japan National Oil Corporation (JNOC), Housing Loan Corporation, Housing and Urban Development Corporation, Japan Highway Public Corporation, Metropolitan Expressway Public Corporation, the Hanshin Expressway Public Corporation and the Honshu-Shikoku Bridge Authority.
- ⁹⁶ This is an agency of the Ministry of Public Management, Home Affairs, Posts and Telecommunications.
- ⁹⁷ The corporatisation of postal services had already been scheduled for five years hence by the Hashimoto administration in 1997. See Table 1.1.
- ⁹⁸ The Japanese economic press points to the declining confidence of financial markets in Japanese financial authorities because of the continuing rise in the amount of bad loans at banks, which stood at ¥36.8 trillion at the end of September 2001, up ¥3.1 trillion from six months earlier. *Nikkei Weekly*, 1 April 2002. The same source also reported that 'fresh bad loans worth over 10 trillion yen emerged when 13 leading banks settled their accounts in the quarter ending in March 2002'. *Nihon Keizai Shinbun*, 12 June 2002. By April 2002, the official figure for non-performing loans in the banking system was put at ¥43 trillion. Private economists put the real figure much higher. *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=Article&cid=FT3YCU43RZC&live=true>>. The explanation for the continuing bad debt problem of the banks is beyond scope of this study. Moreover, not all its causes result from policy failures of the Koizumi government. For examples of contemporary journalistic analysis see Kobayashi Keiichirô, 'Fukyô Dasshutsu ni wa Nijûnen Kakaru' ['It Will Take 20 Years to Get Out of the Depression'], *Bungei Shunjû*, May 2002, pp. 198–207. See also Sheard's comments in *Japan: Crisis or Reform*, p. 4, and Mizuno, 'Takenaka Daijin', pp. 12–15. Mizuno argues that Koizumi is postponing radical bad debt management because he is afraid of the financial crisis that might result from dealing with the problem. p. 14.

- ⁹⁹ As Eda points out, the cause of deflation is simple, it is a demand shortage and a supply surplus. 'Koizumi Shushō', p. 126.
- ¹⁰⁰ The cap of ¥30 trillion on the annual issuance of government bonds for fiscal 2001 was honoured in the first supplementary budget passed in November 2001, but a second supplementary budget of ¥2.5 trillion for fiscal stimulus purposes was funded by budgetary sleight-of-hand tactics including the sale of government assets.
- ¹⁰¹ Koizumi himself has been quoted as saying that 'this fiscal year we have approved a budget that allows for ¥30,000bn issuance of JGBs while tax revenues are only about ¥50,000bn. So if you look around and see a country that issues ¥30,000bn of new bonds, while tax revenues are no more than ¥50,000bn, how could that country be criticised for being austere? We could perhaps be criticised for being too lax'. Quoted in *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&cid=FT34KSFO51D>>.
- ¹⁰² Eda Kenji comments that in contrast to the Hashimoto administration, which announced several major deregulatory reforms, those envisaged by the Koizumi administration are 'small', such as deregulation of outsourcing companies. 'Koizumi Shushō', p. 126.
- ¹⁰³ This was part of a total package entitled the 'Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002'.
- ¹⁰⁴ The government's comprehensive package to counter deflation announced in late February was dismissed by one Japanese economic analyst as simply 'a stopgap measure to prop up share prices before book-closing at the end of March'. Quoted in *Nikkei Weekly*, 1 April 2002. The June 2002 revitalisation package included economic stimulus measures such as 'a system to link such technologies as biotechnology to commercial uses'. *Nihon Keizai Shinbun*, 22 June 2002.
- ¹⁰⁵ The second supplementary budget contained ¥4.1 trillion in expenditure for the construction of social infrastructure (that is, public works spending) designed, in Takenaka's view, to 'facilitate structural reforms'. 'Japan Takes on Challenges', p. 2. Elsewhere he was quoted as defending the public works spending as necessary because: 'We have to take countermeasures to prevent the economy from plunging in the short term'. *Japan Times Online*, <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?nb20020126a7.htm>>.
- ¹⁰⁶ Quoted in *Nikkei Weekly*, 22 October 2001.
- ¹⁰⁷ *Daily Yomiuri On-Line*, <<http://www.yomiuri.co.jp/newse/20011220wo01.htm>>.
- ¹⁰⁸ *Financial Times*, <<http://news.ft.com/ft/gx.cgi/ftc?pagename=View&cid=FT34KSFO51D>>.
- ¹⁰⁹ Okamoto Susumu, "'Sutemi" de 7gatsu Kaizan Da' ['A July Dissolution with a "Burning One's Boats" Strategy']', *AERA*, 29 April–6 May 2002, p. 10.
- ¹¹⁰ Quoted in Kawano Shōichi, 'Dete koi! Shinriidai' ['Come Out! New Leader'], *AERA*, 29 April–6 May 2002, p. 15.

- ¹¹¹ Moody's justified the downgrading by stating that it reflected 'the conclusion that the Japanese government's current and anticipated economic policies will be insufficient to prevent continued deterioration in Japan's domestic debt position'. It added that 'Japan's general government indebtedness will approach levels unprecedented in the postwar era in the developed world and the country will be entering "uncharted territory"'. *Nikkei Weekly*, 3 June 2002.
- ¹¹² *Mainichi Shinbun*, 1 June 2002. Moody's stated: 'We have reached the judgment based on the fact that Japan's debts have reached a level unprecedented among industrialised countries and that Japan has yet to implement economic measures in a fully fledged manner'. *Yomiuri Shinbun*, 4 July 2002.
- ¹¹³ *Nihon Keizai Shinbun*, 26 May 2002.
- ¹¹⁴ 'Interests', p. 37.
- ¹¹⁵ *Ibid.*, p. 38. He assumes that these political structures only loom large 'in authoritarian settings' (p. 38), but as the Japanese case under Koizumi demonstrates, they can also loom large in ostensibly democratic systems by operating as countervailing power structures to the executive.
- ¹¹⁶ Haggard gives examples of this phenomenon in efforts to reform socialist systems, and 'in authoritarian governments with strong "crony", patrimonial, or clientelist structures', 'Interests', pp. 38, 39.
- ¹¹⁷ The impact of different political system 'types' has in fact been analysed in the literature. See, for example, Haggard, 'Interests', pp. 21–57. Haggard draws a contrast between systems that have the advantage of concentrated authority and 'insulation' or 'autonomy' of government as opposed to those that 'provide for multiple veto gates ("checks and balances") and consultation of various sorts'. 'Interests', p. 22.
- ¹¹⁸ This political condition is more highly developed in Haggard, 'Interests', pp. 37–41.
- ¹¹⁹ *Ibid.*, p. 22.
- ¹²⁰ Anon., Introductory remarks to *Japan: Crisis or Reform*, p. 1.
- ¹²¹ 'Interests', pp. 40–1.
- ¹²² *Ibid.*, p. 42.
- ¹²³ As Haggard comments, 'the more veto gates, the more difficult policy is to change'. *Ibid.*, p. 40.
- ¹²⁴ Krueger, 'Introduction', p. 5.