

# Contents

|                                   |     |
|-----------------------------------|-----|
| <i>Foreword by Nick Oliver</i>    | x   |
| <i>Acknowledgements</i>           | xi  |
| <i>Acronyms and Abbreviations</i> | xii |

## Part I The System

|  |           |
|--|-----------|
| <b>1 Introduction</b>  | <b>3</b>  |
| Chartered Corporations   | 6         |
| Window of opportunity for structural reforms                                 | 6         |
| In name only   | 7         |
| Why reform?  | 8         |
| Maintaining territory  | 10        |
| Japan's foreign direct investment and the implications of <i>amakudari</i>   | 10        |
| The image of reform  | 12        |
| The image of reform: privatization of the Japan Highway Corporation          | 13        |
| The image of reform: dissolution of the Japan National Oil Corporation       | 16        |
| The image of reform: <i>amakudari</i>  | 17        |
| Koizumi's legacy: privatization of Japan Post                                | 19        |
| Koizumi's legacy: 2004 reform of the State Social Security System at a price | 21        |
| Social Insurance Agency: Special Corporations/IAI                            | 22        |
| Koizumi's legacy: an increase in public debt                                 | 25        |
| Koizumi's legacy: what fiscal policies perpetuated                           | 25        |
| Conservatism according to Abe: Japan Inc. prevails                           | 28        |
| Accessing the real story: research methodology                               | 32        |
| The book's objectives  | 37        |
| <b>2 The Development of the System</b>                                       | <b>39</b> |
| The 'ruling triad'   | 39        |

# PROOF

## viii Contents

|   |           |
|---|-----------|
| The Meiji Period (1868–1912): in the beginning  | 40        |
| Ministerial cooperation with family-owned oligopolies ( <i>zaibatsu</i> )   | 45        |
| Taisho period: the age of liberalism  | 48        |
| The Showa period and the empowerment of bureaucracy: an enduring relationship with the oligopolies and the development of industrial policy | 51        |
| Second World War: the intensification of ministerial powers   | 54        |
| Social welfare and corporate culture  | 55        |
| <b>3 The Elite Bureaucracy: The Image of Reform</b>   | <b>57</b> |
| Japanese-style democracy: a one-party system  | 61        |
| Ministerial policies 1971: the system continues   | 64        |
| Ministerial policies 1974–: the system continues  | 65        |
| <b>4 <i>Amakudari</i>: The Ties that Bind the Bureaucracy with the Private and Public Sectors and Politics</b>                              | <b>69</b> |
| Ministerial manipulation of <i>amakudari</i> in Special Corporations/IAIs   | 71        |
| <i>Amakudari</i> to research institutes   | 72        |
| <i>Amakudari</i> to central government advisory panels  | 73        |
| <i>Amakudari</i> to public office   | 73        |
| <i>Amakudari</i> to the private sector  | 74        |
| <i>Amakudari</i> and ‘administrative guidance’  | 75        |
| <i>Amakudari</i> and ‘window guidance’: non-performing loans  | 76        |
| The bureaucracy and bid-rigging: Special Corporations/IAI’s at the centre   | 79        |
| The post-war system sustained   | 80        |
| <b>5 Interpersonal Networks in the ‘Ruling Triad’</b>   | <b>83</b> |
| Pork-barrel patronage in the prefectures  | 84        |
| The bureaucracy, big business and the LDP   | 86        |
| The BOJ and the private sector  | 87        |
| The bureaucracy and big business: the Ministry of Defence and trading companies   | 89        |
| The bureaucracy and bid-rigging   | 92        |
| The bureaucracy and big-business: METI’s network with retailers and manufacturers   | 93        |

**Part II Inside the System**

|          |   |            |
|----------|---|------------|
| <b>6</b> | <b>The Elite Bureaucracy: Prisoners of the System</b>                                       | <b>103</b> |
|          | The rigorous path of the elite  | 105        |
|          | Escape from the system: temporary relief from<br>constant pressure from peers and superiors | 106        |
|          | The asset-inflated economy spurs expansion abroad   | 108        |
|          | Escape from their system  | 111        |
|          | Perspectives about America from inside the system   | 112        |
| <b>7</b> | <b>The Interviews</b>   | <b>114</b> |
|          | Impressions of America during childhood   | 116        |
|          | Education about America   | 119        |
|          | Initial exposure to foreigners  | 121        |
|          | Introduction to American society  | 122        |
|          | American society/Japanese society   | 124        |
|          | Media coverage of Japan and the United States   | 131        |
|          | Japan–US trade relations  | 133        |
|          | Why can't the Japanese internationalize?  | 135        |
|          | In summary  | 136        |
| <b>8</b> | <b>Conclusion</b>   | <b>139</b> |
|          | Too little too late: what ministerial policies have wrought                                 | 139        |
|          | At the root of the problem: institutional paralysis   | 143        |
|          | Why can't Japan reform?   | 145        |
|          | Conservatism according to Koizumi and Abe:<br>the Kishi connection                          | 145        |
|          | The future: resignation and fear?   | 147        |
|          | <i>Notes</i>  | 150        |
|          | <i>Select Bibliography</i>  | 161        |
|          | <i>Index</i>  | 163        |

PROOF

**Part I**

**The System**

PROOF

## 1

## Introduction

Elite officials may have lost the ability to run an advanced industrial economy, but they continue to be masters of creating a façade of change. Perhaps no regime in the world history has been as accomplished in the use of diversionary tactics to deflect pressure for a fundamental realignment of power.

(Mikuni and Murphy, 2002)<sup>1</sup>

In 2003 the author published *Special Corporations and the Bureaucracy: Why Japan Can't Reform*.<sup>2</sup> The book concerns the public corporations that were established by Japan's national ministries in the 1950s and 1960s to aid in the restoration of Japan's war-devastated economy. It was the first book in English that focused on these organizations as the vehicles during Japan's post-war years that have served to perpetuate a rigid and ingrown system of government administration of the political economy, which can no longer accommodate the pressures of a rapidly changing social political economy.<sup>3</sup> Indeed, Special Corporations are at the heart of government administration because they effectively are extensions of the national ministries. Furthermore, the corporations, along with their subsidiaries, have come to serve as the route which ministry officials can use to migrate to upper-management positions in private industry after their retirement from their agencies.

Until the late 1990s there were few books in Japanese regarding this subject. It may seem surprising that very little was written about

# PROOF

## 4 *Why Japan Can't Reform*

them prior to this time, but the paucity of literature is related to several factors:

1. Until the Law Concerning Access to Information Held by Administrative Organs was enacted in 1999 there was a minimum of information regarding how public corporations operated in terms of annual expenditure, how the corporations used their budgets, and the sources of the funds.<sup>4</sup> In other words, operations were concealed from public scrutiny. The information available to the public is still scanty because the organizations are not required to reveal how they receive funds other than tax revenue. Also, accounting systems used by public corporations differ from private corporations.
2. The efforts of academics and journalists to access comprehensive and reliable data about Japan's political economy is complicated by the insularity of organizations and their reticence to open their doors to either Japanese or non-Japanese observers.<sup>5</sup> The Japanese social political system is relatively opaque compared to Western industrialized nations, and gaining a solid understanding of a given environment can be difficult and time-consuming. This is particularly true of ministerial operations, because the ministries are very protective of their territory and control the flow of information tightly. Mikuni and Murphy related in their book *Japan's Policy Trap* that scholars and analysts find that accessing reliable data concerning bureaucratic policies is problematic because there are no records of court cases, debates, or hearings.<sup>6</sup>

Nevertheless, since the early 1990s as Japan's recessive economy continued unabated, public demand for structural reform of the public sector saw a significant increase of books and articles by Japanese commentators and politicians calling for the dissolution of public corporations because they advanced the vested interests of the ministries as well as an obsolete civil service system.

Special Corporations (*tokushuhajin*) are types of large public corporations supported primarily by large corporate funding from the Postal Accounts Agency, the state-run banking system and the Financial Investment Loan Program (FILP), often referred to as

Japan's secondary budget. FILP was established in 1953 as a big financial conglomerate operated in the public sector. The largest part is postal savings and another part is the public pension fund.<sup>7</sup>

The government has had difficulty defining the exact characteristics of Special Corporations other than that they have assisted the government in promoting national interests. Nevertheless, they can be viewed as being corporations based on a national law, which has been approved by the National Diet. Special Corporations were established according to special establishing procedures through a special law, the Law of Establishment Act, Article 4–11 subject to the Ministry of General Affairs (renamed in 2001 the Ministry of Public Management, Home Affairs, Posts and Telecommunications). The law was neither civil nor corporate.

The corporations were established after the Second World War to aid in the reconstruction of infrastructure destroyed during the war to resuscitate Japan's industry. The corporations are linked to the industrial sectors under the administrative jurisdiction of each ministry. For example, the former Ministry of Construction (renamed in 2001 the Ministry of Land, Infrastructure and Transport) established the Japan Highway Corporation in 1956 to award contracts to construction companies to rebuild highway networks.

The Ministry of International Trade and Industry (MITI) (renamed the Ministry of Economy, Trade and Industry or METI in 2001) established the Japan Finance Corporation for Small Business in 1955 to give long-term, low-interest loans to small businesses. The Ministry of Finance established the Japan Development Bank (JDP) in 1953 to aid in Japan's economic recovery. Special Corporations that have international recognition are giant organizations such as the Japan Broadcasting Company (NHK) and the now partially privatized Japan Telephone and Telegraph (NTT).

Throughout the post-war era numerous subsidiaries ('children corporations') and subsidiaries of these subsidiaries ('grandchildren corporations') were established by ministry officials. Special Corporations, their 'children' and 'grandchildren' corporations and branch offices of Special Corporations effectively serve to place officials from the national ministries throughout Japan. The branches of subsidiaries can also provide posts for local government officials as well.

## **Chartered Corporations**

Chartered Corporations are another type of large public corporation that are managed at the national level, such as the Central Bank of Japan (BOJ), the Japan Red Cross and the Chamber of Commerce and Industry. Unlike Special Corporations, Chartered Corporations were not subject to evaluation by the Cabinet or the National Diet. Before 1970, Japanese connected to private industry established Chartered Corporations with consent from the ministries. However, from 1968 onwards, the ministries began to establish such corporations at their discretion (namely by ministerial ordinance), and by 1978 there were 99 Chartered Corporations.

## **Window of opportunity for structural reforms**

In 1992, the recession and the acknowledged need for action to ignite Japan's lagging economy triggered a struggle for power among factions in the Liberal Democratic Party (LDP), the party that had controlled Japan's post-war National Diet. Some disillusioned members defected to form two new progressive parties. Besides reform of the electoral system in 1994, reform of the public sector also was initiated, which included the dissolution of a few insolvent Special Corporations. By 1999, the number had decreased from 96 to 84 corporations, which had received ¥256 billion in subsidies from the National Treasury. But despite the decrease in numbers, by 2000 the amount of subsidies rose to ¥258 billion. In 2001 the government granted subsidies to Special and Chartered Corporations, totalling a whopping ¥5 trillion (\$42 billion). This sum did not include loans from FILP or Postal Savings. Also, due to losses incurred, the government had to invest another ¥11 trillion.

When Koizumi Junichiro assumed the office of prime minister in April 2001 there were 163 Special and Chartered Corporations remaining. A ultra-conservative career politician and the president of the Liberal Democrats (LDP), the party that has controlled the Japanese Diet since 1955 (with the exception of 1992–96), Koizumi's top priority was to deal with non-performing loans and to reform the finance sector.

In order to cut public spending that had climbed to 130 per cent of annual GDP in 2001, increasing to 140 per cent the following year,

Koizumi's platform also focused on reform of the state sector. The reforms included the downsizing of FILP, the privatization of the Postal Account Agency, the reform of the Social Security system, and cutting government funding to Special Corporations by one-third or ¥1 trillion (\$8.3 billion). In an effort to streamline the bureaucracy, he intended to reform 109 of the 163 Special and Chartered Corporations through the integration of insolvent with solvent corporations, through privatization or through dissolution.

Another objective of the Prime Minister's reform measures was to strengthen the executive office by weakening the bureaucracy, the most powerful arm of Japan's government. The dissolution of Special Corporations would effectively block one of the main routes through which retired bureaucrats migrate to upper-management positions in private industry, allowing the bureaucracy more influence over the economy and, as importantly, over the executive office.

### **In name only**

In 2003, 32 Special Corporations were renamed Independently Administrative Institutions (*dokuritsu gyosei kiko*) or IAI to signal that some reforms were being initiated. Koizumi's government devised a scheme that converted 38 of the Special Corporations and Chartered Corporations, whose numbers by 2001 had decreased to 87, through dissolution, privatization or consolidation, into IAIs with the expectation that eventually, financing from tax revenues would no longer be necessary. Similar to the 'law for the establishment of Special Corporations', the Incorporated Administrative Law, which was implemented on 13 December 2002 for the establishment of independently administrative institutions, is neither a civil nor a corporate law.

The Ministry of Public Management, Home Affairs and Telecommunications released an explanation in English that outlines the concept of the new IAI system:

The IAI System lies on the basic concept of public welfare, transparency, and autonomy of activities as Article 3 of the Law of the general Rules provides that (i) the IAIs must make efforts for just and effective operation under the consideration that the fulfilment of their undertakings is indispensable to people's lives, society

and the economy; (ii) the IAIs must make efforts to open to the public the status of their organizations and the operations by such means as the announcement of the content of their activities as provided under this law: (iii) the autonomy of each law must be respected in accordance with the application of the Law and the laws establishing the IAIs.

Although the number of Special Corporations has been reduced from 77 to around 53, there has been, so far, no evidence that Koizumi's plans have proven successful. More significantly, the reforms have not served to cut public funds to IAIs nor have they served to inhibit the migration of retired civil servants to the private sector since these corporations have subsidiaries. A survey conducted by the Lower House in 2007 revealed that ¥4.89 trillion in subsidies was provided to these entities and 27,882 former bureaucrats from the central ministries and agencies were working at 4576 public-interest and government affiliated corporations.

Known as *amakudari* ('descent from heaven'), the scheme is a part of the civil service system and under the jurisdiction of the National Personnel Agency. *Amakudari* refers to the practice of bureaucrats taking post-retirement positions in public and private corporations. The retired officials receive full salaries from their new organizations along with their civil service pensions.

The National Public Service Law stipulates that bureaucrats cannot, for a period of two years, legally move directly to positions in private companies attached to the sectors their ministries regulate. However, they can move immediately to Special Corporations, other types of public corporations, industrial associations or research institutes supported by their ministries, where they linger for two years on salary before going on to the private sector. It should be noted that tenure in public corporations does not serve to inhibit contact between retired civil servants and the private sector.

### Why reform?

Japanese commentators take the perspective that the duties the government assigned to public corporations in the 1950s and 1960s, such as the allocation of funds for contracts for public works projects, the issuance of long-term, low-interest rate loans to small and

medium-size businesses and low-interest rate mortgages should be done directly by the government or private institutions. They express particular concern that Special Corporations also breed subsidiaries which can provide post-retirement positions for civil servants and act as the main vehicles facilitating the smooth entry of civil servants into the private sector, thus perpetuating the link between business and government, and that they are the key mechanisms that serve to bind the political and economic system together, thus preventing structural reform.

In October 2001, the strongest opposition party, the Democratic Party of Japan (DPJ), together with the Socialist Party and the Free Party, called not only for sweeping reforms of *amakudari* in both public and private corporations, but also for restrictions on retired civil servants becoming members of corporate advisory boards.

Iishi Koki, a member of the DPJ who held a seat in the House of Representatives of the National Diet, was assassinated by a right-wing sympathizer in Tokyo on 25 October 2001. Iishi, whose concerns centred on political and administrative misconduct, contended that Special Corporations and other types of public corporations should be the focal point of structural reforms. In 1999, Iishi published a book about *amakudari* entitled *Bureaucratic Heaven: The Bankrupting of Japan (KanryoTenkoku Nihon Hassan)*. He followed this in 2001 with a book on public corporations entitled *The Parasites That Are Gobbling Up Japan: Dismantle All Special Corporations and Public Corporations! (Nihon wo Kuitsuku Kisiechu Tokushu Hojin Koeki Hojin wo Zenhaiseiyo!)*.<sup>8</sup> He claimed that the 76 Special Corporations in operation in 1999 had 2000 subsidiaries. Although his book may appear to be an effort by his party to weaken the bureaucracy and loosen the ministries' ties with the LDP, his report posed pertinent questions concerning the rapid escalation of public corporations that have been established through Special Corporations and government agencies, and the employment opportunities they offered to elite bureaucrats.

Iishi maintained that before structural reforms could progress, Special Corporations and public corporations must be dismantled. He believed that there had been little movement towards reform of any kind. The reluctance of the ministries to reform these corporations, thereby preserving their territory, symbolized the rigidity of Japan's political economic system.

## Maintaining territory

Ironically, the reform of Special Corporations, including the migration of officials to Special Corporations, is being administrated by the ministries, the very agencies that are determined to maintain their corporations.

By 1972, Japan had achieved a 10 per cent annual GDP to become the world's third largest economy in the world (following the United States and the Soviet Union) and, realistically, many of the Special Corporations were no longer needed to support economic development and should have been dismantled. However, the ministries had come to rely on their corporations, because not only did they provide post-retirement positions for officials, but they also served to extend ministerial powers and increase administrative jurisdiction (namely 'territory'). The connections established between the ministries' officials posted in Special Corporations, their subsidiaries and their branch offices throughout Japan effectively link the ministries to the private sector. Additionally, through their officials posted at branches of Special Corporations and their subsidiaries, the national ministries can monitor local government policies and guide the planning of local policies.

## Japan's foreign direct investment and the implications of *amakudari*

Japan's post-war economic development was supported by mercantile policies and protectionist measures that successfully limited foreign competition with domestic industries. However, Japan was fully industrialized by the late 1960s and the continuation of policies that frustrated foreign businesses entry into domestic markets also served to hinder the development of a domestic market and created a society that was heavily reliant on the state for subsidisation of both industry and the public sector, resulting in government debt that has climbed to approximately 180 per cent of annual GDP<sup>9</sup>, the highest of the 30 members in the Organization of Economic Cooperation and Development (OECD). Mikuni and Murphy stated:

In the past decade, Japan has appeared to have emerged as today's paradigmatic example of the ultimate bankruptcy of mercantile policies.

(2002)<sup>10</sup>

Figures released by the OECD in 2006 reveal that Japan has the lowest rate of inward investment of the members of the Organization For Economic Cooperation and Development.<sup>11</sup> Government statistics released in September 2007 showed that direct investment was 3 per cent of the annual gross domestic product or ¥15.4 trillion (\$144.8 billion). It recommends further deregulation of markets and the reduction of entry barriers to service and agricultural industries.

All governments protect domestic markets through the levy of tariffs and through regulations known as non-tariffs, but in Japan, as well as in those economies that are nurtured by government through protectionist industrial policies, there are invisible barriers to foreign direct investment and these are the most difficult to deal with because they can be the consequence of interpersonal networks between domestic business and government. Japan's civil service system effectively provides domestic industry with a convenient method of lobbying ministries that administrate their sectors. Companies are encouraged to hire retired elite civil servants, thereby forging effective pipelines with the ministries that administrate their sectors and lobbying their interests effectively through these officials. Since retired ministry officials receive retirement benefits from their agencies, they retain a sense of loyalty to their former colleagues.

In his book *Troubled Times*, Edward J. Lincoln agreed:

The *amakudari* system provides substantial reason to be sceptical of the extent of deregulation and the unilateral market opening in Japan because of the manner in which this practice establishes a broad web of personal ties between government and Japanese firms.

(1999).<sup>12</sup>

Amid the concerns of foreign investors about Japan's current economic environment and about the reticence of the ministries to further deregulate markets, in January 2008 Prime Minister Fukuda Yasuo promised that reforms would continue. Japan's Council on Economic and Fiscal Policy also advised in January that reforms in the tax system and regulations and more transparency in regulatory procedures were necessary to encourage inward investment. The Council also advised more bilateral free-trade agreements between the United States and the EU.<sup>13</sup> In 2006, Foreign Direct Investment

(FDI) in the United States and South Korea was 13.5 per cent and 8.8 per cent respectively. The recommendations were announced on 31 January, the same day that Japan's biggest banks announced that the losses incurred from the US subprime mortgage crisis had topped ¥529.1 billion.<sup>14</sup>

### **The image of reform**

During Japan's post-war history, elite civil servants have been given powers to administrate Japan's economic development. Mikuni and Murphy published *Japan's Policy Trap* in 2002, analysing the reasons for Japan's continuing recessive economy and the inability of the government to pursue extensive structural reforms. Tracing elite rule back a thousand years to when an aristocracy governed Japan, they stated that elite bureaucrats are today's policy makers, operating independently of legal sanctions and thus enjoying unlimited power.<sup>15</sup> Indeed, prior to 1867 and the overthrow of the military regime that had ruled Japan since 1603 (known as the Tokugawa Era), marking the end of feudalism, the Japanese had relied consistently on an emperor or a military regime to govern them. Even after the fall of the military, a new power took its place – namely a bureaucracy.

During Prime Minister Hashimoto Ryutaru's coalition government administration from 1996–2001, there was an effort to reform the national ministries by merging some of the ministries and integrating some of the minor agencies into the ministries, while making some of the agencies that previously had been connected to the ministries independent agencies. However, the mergers did little more than change the names of various ministries. As an example, since January 2001 the Ministry of Construction has merged with the Ministry of Transport, the National Land Agency and the Hokkaido Development Agency to form the Ministry of Land, Infrastructure and Transport. Prior to the merger, the Ministry of Transport had managed 849 public corporations. The Ministry of Education, which operated 1811 public corporations, merged with the Science and Technology Agency to form the Ministry of Education, Culture, Sports, Science and Technology. The Ministry of Home Affairs merged with the Ministry of Management and Coordination and the Ministry of Posts and Telecommunications to form the Ministry of Public Management, Home Affairs, Posts and

Telecommunications. As noted before, the Ministry of International Trade and Industry (MITI) underwent a name-change. MITI is now known as METI or the Ministry of Economy, Trade and Industry to signify that the ministry is now planning policies for regional economic development.

The following examples illustrate the Executive Office's struggle to wrest territory (e.g., power) from the ministries through the downsizing of Special Corporations, the vehicles that perpetuate the *amakudari* system, encourage the contact between ministry officials and business, and promote the central bureaucracy's control over the planning of local government policies.

### **The image of reform: privatization of the Japan Highway Corporation**

Koizumi first planned to abolish within five years the Japan Highway Corporation (JH), the Japan National Oil Corporation (JNOC), the Housing Loan Corporation and the Urban Development Corporation. These corporations were chosen for initial reform efforts because the organizations were debt-ridden due to the gross mismanagement of public funds.

The JH was established in 1956 by the former Ministry of Construction to handle and manage the construction of highways networks throughout Japan. Its president, vice-president and directors were traditionally elite retired officials from the Ministry of Construction who received retirement allowances while they served in the JH (the usual practice for civil servants who assume posts in public corporations). It had over 60 subsidiaries throughout Japan. FILP supplied the major funding. In theory, the JH repaid FILP loans with revenue collected from highway tolls, but these tolls were not enough to repay the loans. In Japan the highway and bridge tolls can be more expensive than bus and ferry fares and many commuters opt to use public transport.

Furthermore, since the JH distributed contracts to the construction companies, bid-rigging which involved large construction companies was commonplace. On 29 September 2005, the Fair Trade Commission ordered 45 Japanese steel bridge builders to cease the bid-rigging of bids for contracts from government and from the JH. The FTC alleged that 20 former officials in the JH, including former Vice-President Uchida Michio and a former executive board

member Kaneko Tsuneo, had received jobs in 45 companies due to their engagement in the bid-rigging. Among the 45 firms named were Mitsubishi Heavy Industries Ltd., Ishikawajima-Harima Heavy Industries Co. and Kawasaki Heavy Industries Ltd. The FTC announced that the contracts procured through illegal bid-rigging were worth approximately ¥260 billion. Former JH officials who were employed in the bridge construction companies had accessed unpublished information in the JH regarding toll road bridge construction projects.<sup>16</sup>

Consequently, Uchida, and Kaneko, along with officials from 26 corporations and ten of their officials, were indicted on 8 December 2005 for bid-rigging. Some of the officials had been officers in the JH before their employment in the corporations. Besides the companies listed above, other corporations accused of bid-rigging included Mitsui Engineering and Shipbuilding Co., Sumitomo Heavy Industries Ltd, Hitachi Zosen Corporation and Nippon Steel Corporation. Uchida and Kaneko were charged with instructing subordinates to carve up contracts for an elevated highway bridge in Shizuoka Prefecture in May 2004. The contracts inflated the JH's costs by ¥47.8 million. Uchida was arrested on 25 July 2005 and later fired from his position as vice-president of the JH on 22 August. Kaneko was arrested on 1 August.<sup>17</sup>

On 17 December 2005, they entered a plea of not guilty to charges, but the corporations pleaded guilty.<sup>18</sup> On 7 December 2007, Kaneko was found guilty of violating the Anti-Monopoly Law and sentenced to a two-year prison term. But it was suspended for three years.<sup>19</sup> At the time of writing, Uchida's trial is still in progress.

Koizumi had originally planned to privatize the JH by fiscal 2005 through the consolidation of three other debt-ridden public corporations – the Hanshin Expressway Corporation, the Metropolitan Expressway Corporation and the Shikoku-Honshu Bridge Authority, which carried massive debts. In total, the accumulated debt of these entities was ¥40 trillion. He intended that the single entity would repay the outstanding loan within 30 years. He also wanted to stop 40 per cent of future highway construction since the government spent ¥300 billion annually on highway construction. But the vested interests of LDP lawmakers, who relied heavily on contributions from their constituencies, who depended on public works projects for contracts and employment, and the bureaucrats, who relied upon

post-retirement positions in construction-related businesses, opposed Koizumi's objectives. Koizumi's administration was pressured to produce a watered-down version of the original package that Koizumi was determined to get through the National Diet.

The original bill called for the repayment of the debt within 45 years, but the diluted version only focused on the completion of a 9342 km expressway, courtesy of a proposal from the Ministry of Land, Infrastructure and Transport. The costs are estimated to be ¥20.6 trillion. The repayment of the debt is doubtful. Two of the five-member advisory panel, who Koizumi appointed to review the reform and who had prioritized repayment of the debt, resigned on 23 December 2003 in protest, accusing the prime minister of failing to keep his promise. They stated that the new version of the bill contradicted the purposes of the original bill, which favoured repayment of debt over construction. But the revised bill would permit the continuation of state involvement in wasteful road construction and delay debt repayment.<sup>20</sup>

The last president of the JH was Fujii Haruho who was dismissed by the Land Minister Ishihara Nobuteru<sup>21</sup> after a highly publicized heated confrontation with Ishihara, who accused him of not cooperating in the process of privatization. Fujii assumed the post in 2000 after retiring as Vice-Minister of the Ministry of Construction. During the period he was in both offices, Fujii was popular among LDP politicians because he had expanded highway networks considerably and because of his close relationship with road construction firms.

The four public corporations were privatized on 1 October 2005. But instead of one entity, there are three; East Nippon Expressway Co. Ltd. (NEXCO East Japan), Central Nippon Expressway Co. Ltd. (NEXCO Central Japan) and West Expressway Co. Ltd. (Nexco West Japan). Nevertheless, the Ministry of Land, Infrastructure and Transport still engages in the management of highway networks.<sup>22</sup>

On 14 April 2004, Ishihara replaced Fujii with a LDP colleague, Kondo Takeshi, who was a member of the House of Councillors. Kondo had previously been an executive of Itochu Corporation, a major trading firm. Other directors appointed by Koizumi were former senior executives from Nippon Steel Corporation, Kobe Steel Ltd., Sumitomo Trust & Banking Co. and Tokio Marine & Nichido Fire Insurance Co. Kondo, who retired in April 2006, was

succeeded by Yano Hironori, who was a former CEO of Toshiba Europe and a director at *Keidanren* (Japan Federation of Economic Organizations).

### **The image of reform: dissolution of the Japan National Oil Corporation**

The privatization of the Japan National Oil Corporation (JNOC) is a second example of the determination of the ministries to maintain their corporations. METI's initial plans to dismantle the corporations were ambiguous regarding the sections to be liquidated and the sections to be sold, as well as the issue of *amakudari* in the organization.

The Japan National Oil Corporation was established in 1967 by the Ministry of International Industry and Trade (now METI) for the purposes of oil exploration and mining. The Japanese must import 99 per cent of their fossil fuel. METI oversees the energy-producing industries, among them oil. The ministry controls its imports and exports and refining through federations of oil importers. These federations connect METI to the oil refiners, who distribute to retailers. The domestic companies cooperate with foreign oil companies to engage in exploration, production and refining of crude oil, with foreign firms usually holding the larger share of the investment. JNOC had 142 affiliates and in August 2003 declared a net loss of ¥154.2 billion for fiscal 2002 and an accumulated debt of ¥770.1 billion due to the failure of its subsidiary, the Japan Oil Development Co.<sup>23</sup>

Traditionally, the president had been an elite official from the ministry, while retired officials from MOF filled other top management positions such as vice-president or director of finance. One of the major complaints lodged against the JNOC was that MITI officials took temporary positions for two years and forged relationships with both foreign and domestic companies, which led to permanent post-retirement positions in these companies.

Although JNOC was abolished, a major entity, Indonesia Petroleum Exploration (INPEX), that was established in 1966, merged with Teikoku Oil in March 2006 to form INPEX Holding Inc. The government owns 36 per cent. METI continues to be involved in operations even though it stresses that the company is partially private.<sup>24</sup>

### The image of reform: *amakudari*

METI agreed to the discontinuation of *amakudari* in JNOC, but only if the system was allowed to continue in the Japan External Trade Organization (JETRO), a METI Special Corporation. It was a coup for METI since JETRO's operations had been receiving negative press in Japan and in the United States about its operations since 1995. JETRO maintains 73 offices in 54 countries and 36 branches in Japan. The corporation employs 830 staff in its domestic offices and 860 staff in its foreign branches.

JETRO was originally established in 1956 by the Ministry of International Trade and Industry to function as a promoter of Japanese small business exports, but has come to function as a vehicle that increases the territory, and consequently, the power of the establishing ministry. By 1972, the Japanese economy ranked as the third largest in the world behind the United States and the Soviet Union. By 1975, JETRO was operating 24 trade centres and 54 offices in 55 countries, testimony to the fact that not only had Japan become a major player in world markets, but also that MITI was planting roots overseas. Besides the JETRO offices, MITI officers were also posted to Japanese consulates, embassies and Japan Chamber of Commerce offices (a Chartered Corporation established by MITI) located around the world.

MITI used the JETRO offices as listening posts, keeping track of foreign trade regulations, foreign and domestic policies that would affect the import of Japanese goods, industrial and environmental standards, and government patent applications in anticipation that new inventions could be applicable for Japanese businesses. JETRO staff also collected macroeconomic data and surveyed foreign markets on behalf of Japanese businesses.

By the early 1980s, Japan, whose economy was export-driven, was showing a marked trade surplus with its trading partners, namely the United States, and there was significant pressure from the American government to deregulate domestic markets and raise import quotas for such goods as agriculture, electronic, motor vehicles and car parts. Realistically, JETRO's role as a promoter of Japanese exports was no longer as relevant to Japanese businesses as it had been in the 1960s and 1970s. Also, JETRO's role as a surveyor of foreign markets and a collector of economic and political data

had, in part, become extraneous, because such research was being conducted by large Japanese multinationals and research institutes and by MITI commercial officers posted in embassies and branches of the Chamber of Commerce and Industry.

However, MITI was determined to continue operating an organization that had effectively resulted in creating more territory and more jobs for its officials. As a gesture of compliance with US demands to open markets, MITI began the process of re-orchestrating JETRO's functions so that the organization would serve as a promoter of foreign imports and foreign investment, a function which JETRO continues to provide. Nevertheless, the Japanese press in January, June and July 1995 took JETRO to task for no longer serving its original function. The *Asahi News*, a major daily, claimed that the ministries were changing the objectives of their organizations by contriving new roles. The newspaper called this 'skill at disguising' (*henshin no gijutsu*), pointing to JETRO as an example of a Special Corporation that had been established in 1956 for the purpose of promoting Japanese exports, but which now promotes imports.<sup>25</sup> The *Sankei News*, an ultra-conservative major daily, contended that JETRO was an underground MITI and that, in fact, it had become the Number Two Ministry of Foreign Affairs.<sup>26</sup> The monthly political magazine *Sentaku*<sup>27</sup> claimed that the CIA and FBI were keeping the directors of industrial research (METI) in JETRO New York under surveillance when they visited other JETRO offices in the US because they were suspected of industrial espionage.<sup>28</sup>

In the 16 June issue of *U.S. News and World Report*, William J. Holstein continued to probe JETRO's authenticity as an import promoter. He contended that JETRO America did not serve to promote imports into Japan, but rather was a sophisticated commercial intelligence-gathering agency. He suggested that the promotional materials served to disguise the true reason for JETRO's presence. In the article, Holstein quoted Edward Lincoln: 'At best the Japanese are being disingenuous when they say that JETRO's primary job is promoting American exports.' Lincoln also stated that JETRO's 'core mission' was to collect American technology and political intelligence.<sup>29</sup>

At a press conference on 22 November 2002, Cabinet State Minister of Administrative and Regulatory Reform Ishihara Nobuteru announced that he would like Diet members to realize that the

continuation of Special Corporations was problematic and that a detailed review was necessary. Pointing to JETRO as an example, Ishihara said that he as well as the Minister of Trade and Industry were astonished to learn that the organization was advertising import promotion. Ishihara was implying that the importation of foreign goods should no longer be a primary concern because of Japan's recession and the contraction of the domestic market.

Although JETRO became an IAI on 1 October 2003, METI continues to operate the corporation and a retired METI official is the president. JETRO remains the primary government-supported organization that promotes imports and foreign direct investment. Nevertheless, as was previously stated, Japan's inward investment still ranks the lowest of the industrialized countries at 3 per cent of annual GDP.

### **Koizumi's legacy: privatization of Japan Post**

Koizumi's pet project was the privatization of Japan Post, a government-run corporation offering postal and package delivery services, banking services and life insurance. It is the nation's largest employer with 400,000 employees (one-third of all government workers) and a nationwide network of 27,700 post offices.

The Postal Accounts Agency, the banking division of the Postal Service, is the world's largest bank. The state-run bank is the world's largest postal savings system as well as the world's largest holder of personal savings. Many Japanese prefer to put their savings into Postal Savings because the agency offers slightly higher interest rates than do private banks. They also feel more secure because government manages the institution. The bank manages 25 per cent of Japan's personal assets with ¥230 trillion (\$1.7 trillion) in savings deposits and ¥120 trillion (\$1.3 trillion) in insurance. The privatization of the agency will make it the world's largest commercial bank, outstripping Citigroup (\$2.22 trillion) and Mitsubishi UFJ (\$1.76 trillion).<sup>30</sup>

The government uses the Postal Accounts to fund public works projects, to provide long-term, low-interest-rate loans to small and medium-size firms, to offer long-term, low-interest mortgages and so forth. The funds are distributed through the Special Corporations.

FILP is partially funded by the Postal Accounts. The collection agency is the Ministry of Public Management, Home Affairs, Posts and Telecommunications. The dispersing agency is the Ministry of

Finance. However, Japan Post also holds ¥140 trillion in debt through government bonds. Koizumi contended that a privatized Japan Post would serve to curb government spending and the growth of public debt. The proponents of privatization claimed that privatization would help to eliminate a large source of corruption and pork-barrel patronage as well as allow greater efficiency and flexibility in the use of company funds.

But Koizumi's reform efforts met with stiff opposition, including members of his own political party, the Liberal Democrats. MPs rely on the postal office's significant resources to fund the public works projects. Many of the MPs' constituencies in rural regions were concerned about reduced services and loss of jobs. The rural postmasters traditionally have collected substantial funds from depositors in the postal Accounts for MPs' campaign coffers and have drummed up support for LDP candidates.

Koizumi's bill was initially voted down in the upper house of the National Diet in August 2005. Determined to get the bill passed, the prime minister dissolved the more powerful Lower House and called for a snap election. As the president of the LDP, he also kicked out 13 members of his party, who were opposed to the privatization, and successfully persuaded friends in the private and public sectors who were popular in the media to run for the election.

Nationwide elections for the House of Representatives were held on 11 September and Koizumi won the election with a majority. One of Koizumi's newcomers was Horie Takafumi, the flamboyant entrepreneur and president of the Internet portal operator Livedoor. Although Horie ran as an independent in the Hiroshima Sixth District, he received full support from the LDP. Horie lost the September election and his fortunes continued to decline when he was arrested on 23 January 2006 for securities fraud. He was released the following April on bail but after a lengthy trial beginning in September, he was convicted and sentenced to two and a half years in prison on 17 March 2007.

The privatization bill was passed in October 2005. Two years later in October 2007, the Postal Service was divided into four firms – mail, savings, insurance and network operations – all placed under a government-controlled holding company. By 2017, the holding company will dispose of its shares of savings and insurance companies, which these entities can repurchase. Similar to the case in the

privatization of JNOC, the government will possess at least one-third of the shares. In other words, the world's largest bank will be partially controlled by the Japanese government.

Among the issues raised regarding the future of the Postal Accounts Agency as the largest private bank in the world (or, at least, quasi-private) is whether the Japanese mega-banks will remain competitive in domestic and global markets since the bank receives support from the state.<sup>31</sup> In expectation of the privatization, the Postal Bank in 2005 began selling investment trusts, currently offering nine funds that are managed by fund houses with sales predicted to total in 2007 at ¥1,100 billion. It is predicted that the bank will surpass the 50 per cent share that private financial institutions now hold.<sup>32</sup>

### **Koizumi's legacy: 2004 reform of the State Social Security System at a price**

Public opinion polls during the Koizumi years revealed that the electorate would have preferred that Koizumi tackle the Social Security System, which also funds FILP. In 2004, some reforms of the system were enacted but at taxpayers' expense.

The Japanese have developed an abiding mistrust of their Social Security System for a number of reasons:

1. The low fertility rate is causing major concern since 25 per cent of the population is over 65 and the longevity rate is the highest in the world. In 2005, Japan began to lose population and the National Institute for Population and Social Security Research predicts that the proportion of the population aged 65 and older will rise to 27.8 per cent in 2020, while the population of those aged 15 to 64 will fall to 60 per cent. With little immigration and birth-rate that is below replacement (at 1.32), the population of 127 million has already started to shrink.
2. Pension and health-care payouts are swelling as the number of elderly increases.
3. The productive population is shrinking and premium payments are decreasing.

The Social Security System is comprised of pension and health insurance. The Universal (nationwide) Pension System was established

in 1961 to cover the self-employed and to include the existing Employees' Pension and various mutual aid pensions. Wage-earners had been insured during the Second World War under the 1944 Employees' Pension Law. The Basic Pension (BP) provides universal coverage and individual benefits are based on the number of years of contribution to the system, regardless of income.

In 1986, the National Pension System was reorganized into two tiers: the BP with fixed benefits and a second tier of remuneration-based benefits to replace the Employees' Pension Insurance (EPI). There were also corporate pension plans that offered more options. Part-time workers are covered by BP, but the state is the insurer.

Public pension costs in 2001 rose to 8 per cent of annual GDP. The 2004 reforms called for tax revenues, equal to one-third of the BP benefits, to be transferred to BP and, in order to cut state spending, to increase patients' share of the costs to 30 per cent because the average stay in hospital in Japan is longer than in other developed countries. It is estimated that by 2025 benefits will be twice that of 2004.<sup>33</sup> The accumulated liabilities or the amount of benefits are said to be approximately ¥570 trillion or 105 per cent of GDP.<sup>34</sup>

The sustainability of this system depends upon how the Japanese view the increases of premiums and the decreases of benefits and how their government's leaders manage the system. The series of scandals involving the National Pension Scheme and the Social Insurance Agency since 2004 that are related here illustrate the deterioration of the system and the difficulties government will experience trying to convince the Japanese to trust the system.

### **Social Insurance Agency: Special Corporations/IAI**

The mutual aid pensions were administrated by three Special Corporations under the administration of national ministries. Due to huge deficits, the three corporations were consolidated in 1997 into one Special Corporation, the Social Insurance Agency. It is one of the world's largest with over 70 million members and \$1.3 trillion in reserves.

In 2002, as a part of Koizumi's reform of the public sector, the pension systems of farm, forestry and fishery personnel were consolidated into a single Special Corporation or IAI.

In April 2004 a major scandal erupted when the prime minister, seven cabinet ministers, the leader of the Democratic Party of Japan, and 113 Diet members admitted that they had skipped payment to the National Pension scheme. Prime Minister Fukuda Yasuo, who was the Chief Cabinet Secretary at the time, resigned from Koizumi's Cabinet when it was revealed that he had also withheld payments. Former Prime Minister Koizumi also admitted to missing payments.<sup>35</sup>

The fact that even the highest officials in government had failed to contribute to the National Pension System aggravated the concerns among Japanese that paying into the pension scheme would not necessarily give them full benefits upon retirement simply because there would be fewer young people to contribute.

In May 2007, during Prime Minister Abe Shinzo's administration, the strongest opposition political party, the Democratic Party of Japan (DPJ), revealed that the Social Insurance Agency had lost the records of 50.95 million individuals' payments to the state pension programmes, that 4.3 million records had not been entered into the Social Insurance Agency's computer system and that 280 local governments in charge of collecting the data had destroyed all of the records,<sup>36</sup> triggering an even bigger scandal and Abe's subsequent resignation. The debacle was attributed to massive bureaucratic incompetence. Abe scrambled to restructure the agency, breaking it up into six entities as SIA staff began a mass exodus from the agency. Although 19 retired officials from the Welfare Ministry who were employed in the SIA through *amakudari* returned their summer bonuses to take responsibility, six former officials from the ministry and two former chiefs of the SIA refused. Public outrage escalated when it was revealed in October 2007 that agency employees and local government officials had embezzled ¥400 million from 1966–2006.<sup>37</sup>

Although on 11 July an independent panel was set up to try to assess the credibility of all of the claims, most have not been cleared. The consensus opinion was that it would be difficult to identify 38.5 per cent of the records and that the former heads of the SIA and former welfare ministers were to blame for the mishap. On 14 March 2008, government admitted that the percentage of unidentified public pension accounts that had yet to be matched had risen to 20 million or 40 per cent.<sup>38</sup>

The SIA scandal again emphasized both the motivations of the ministries to establish public corporations in order to provide

post-retirement positions for bureaucrats and the ways that Social Security revenue is used to fund public projects. In an interview with the *Japan Times* in July 2007, journalist Iwase Tatsuya, who published two books about the pension problems in 2003 and 2004, claimed that the former Ministry of Health and Welfare had established the pension system in 1961 for the purpose of creating organizations that would provide *amakudari* jobs. He pointed to the Greenpia resorts as one of these organizations that was funded by the Government Pension Investment Fund.

According to the 2006 DPJ Manifesto, the Government Pension Investment Fund diverted pension premiums totalling ¥370 billion to the construction and operation of the resorts, which are located throughout Japan. The resorts were built in the 1980s, but abolished in 2005 due to massive debts.

In 2000, the corporation had amassed a debt of ¥2.3 trillion. The state purchased the land and built the facilities and paid for upkeep, while the Pension Resort Association together with private and public sector companies were the operators. Many bureaucrats became executives in the resorts' operators after their retirement.<sup>39</sup> The government tried to persuade local government to purchase the resorts in order to alleviate taxpayers of the ¥190 billion investment in construction, but to no avail. Government expected to recover only ¥1 trillion through the sale of the resorts, leaving a debt of ¥1.3 trillion.<sup>40</sup>

The manifesto also claimed that pension premiums had been used to purchase golf and massage equipment for SIA officials.

The 2007 DPJ Manifesto pointed to the SIA as an example of how the ministries used Special Corporations for post-retirement positions, contending that 27,882 central government bureaucrats were re-employed in 4576 Special Corporations, independent administrative institutions and other public corporations.

Public funds disbursed to corporations that accept these *amakudari* bureaucrats came to 6 trillion yen in a six-month period. Moreover, improper payouts to the bureaucrats themselves continue with no end in sight. One example is the many past director-generals of the Social Security Agency who cross over to various related public service corporations after they retire, in some cases receiving close to 300 million yen in salary and retirement benefits.

### **Koizumi's legacy: an increase in public debt**

Although Koizumi's reforms centred on the public sector, outstanding government debt had climbed from 140 per cent of annual GDP in 2003 to 180 per cent of annual GDP or ¥546,700 billion at the time of writing. Ultimately, Koizumi was engaged in a tug-of-war with the ministries over territory, in an effort to weaken the bureaucracy and bring more power to the executive office. Despite Koizumi's efforts to dissolve Special Corporations and to cut public funding to all public corporations, the bureaucracy remained in charge of these reforms.

Special Corporations and Independent Administrative Institutions are at the heart of government administration because they perpetuate *amakudari* and the existing civil service system. The interpersonal networks between the ministries and big business encourages bid-rigging for public works projects and, indeed, reports of bid-rigging involving the larger construction companies and the public corporations that distributes contracts for infrastructure works are still common in Japan.

In 1999, J. A. A. Stockwin wrote that *amakudari* is:

an entrenched institution, driven by structural bureaucratic interests, and also it is a central feature of the way that politics and government work in Japan.<sup>41</sup>

Although it has appeared that Japan has been experiencing social and political changes during the past 15 years as consequences of the bursting of the asset-inflated bubble economy and the ensuing recession, the reality is that the implementation of structural reforms that would serve to promote a stable economic and social system has yet to be realized.

### **Koizumi's legacy: what fiscal policies perpetuated**

Koizumi vowed to cut government spending and he did. But the result is a lopsided economy where contradictions abound. Although trade with China has given Japan's economy a push, only the larger corporations benefit, while small companies continue to languish. Japan's economic malaise has been well documented by both

Japanese and Western media. Bloomberg reported in February 2008 that consumer confidence was at a four-year low. Since wages experienced their biggest fall in three years, retailers are concerned that consumers will prefer to save rather than spend (50 per cent of GDP is generated by consumerism).<sup>42</sup>

Business sentiment among both big and smaller businesses is pessimistic with a 6.3 per cent increase in corporate bankruptcies in 2007 from 2006 (14,091); 99 per cent of the firms were small- and medium-size firms (SMEs). The credit research company Tokyo Shoko Research Ltd. reported on 8 April 2008 that the number of corporate bankruptcies for the fiscal year ending 31 March 2007 was 14,366, with debts that climbed to 6.14 per cent, totalling ¥5.80 trillion. This was the second consecutive year that bankruptcies had increased and the first time in seven years that the remaining debts had increased.<sup>43</sup>

According to a survey conducted by the Shinko Research Institute Co., released on 7 February 2008, over 100 listed companies, including Sony, lowered their predicted earnings for 2007 due to the slowdown in the American economy, the appreciation of the yen and rising oil prices. Since Japan's economy is export-driven, exporters of home electronics and audio-visual equipment were particularly concerned about the economic woes of the United States, which is its largest market.<sup>44</sup>

SME owners are very pessimistic about the future despite the efforts by politicians to access public works contracts and new support programmes (e.g., subsidies and low-interest-rate loans) by METI, the ministry that administrates SME. SMEs, which employ 70 per cent of the workforce, plan to cut capital investment by 10.5 per cent in 2008. Wages at SMEs have fallen 1.9 percent, the fastest rate in 3 and a half years, as smaller companies, burdened with rising costs of materials and oil, were unable to increase winter bonuses.<sup>45</sup> Although a rise in capital investment from large corporations is predicted, in order to trim costs, firms are outsourcing services that previously had been performed in-house by staff under the life-time employment system.

The consequence of cuts in government spending is that regional disparities are widening. In the past many of the prefectures' economies were supported by tax revenue generated by SMEs whose business was dependent primarily upon public works projects.

As businesses continue to fail, Japanese are migrating from rural to urban areas to find work. *Kyodo News* reported on 25 January 2008 that the Internal Affairs and Communications Ministry had released its Basic Resident Register migration statistics, revealing that in 2007, 40 prefectures lost population while only seven prefectures were experiencing a marked increase.<sup>46</sup> Tokyo, the seat of central government, attracted 94,500 migrants from other prefectures because of better job opportunities and Kanagawa received 32,474. Aichi Prefecture, Toyota's headquarters and manufacturing base in Japan, also saw a large inflow of migrants. The largest population outflow was from Hokkaido with 20,267, and Aomori and Nagasaki with 10,272 and 10,064 respectively.

For only the third time in Japan's post-war history, the central government is allowing local governments to issue deficit-covering bonds because of the significant decrease in tax revenue in 2007.<sup>47</sup> The first time was in 1975 when Japan went into recession following the first oil shock, and the second time was in fiscal 2002 after the bursting of the Dot.com bubble in 2001. Eighty local governments who would otherwise experience a deficit will issue bonds totalling ¥180 billion. In previous years, local governments were permitted to release bonds for construction projects only.

Osaka Prefecture, once the financial centre of Japan, is burdened with a ¥5 trillion public debt. As large corporations leave Osaka for Tokyo to gain closer contact with central government, corporate tax revenue has decreased substantially. Experiencing debt for a consecutive nine years, the prefectural government issued ¥200 billion in government bonds in order to continue operating. Governor Hashimoto Toru vowed when he was elected to office on 29 January 2008, that he would reduce the debt by cutting personnel and salaries for prefectural government workers, police officers and teachers.<sup>48</sup> On 6 February, the former lawyer and TV personality met with 500 prefectural workers, telling them that they were effectively working for a bankrupt company.<sup>49</sup> He also had pledged during his campaign to stop the release of government bonds and that the prefecture's budget would not exceed revenue. However, after only one month in office, the new governor was pressured by the prefectural bureaucracy to revise his stance on issuing bonds. In June Hashimoto acknowledged that issuing at least ¥10 billion worth of bonds was necessary to shore up the 2008 fiscal budget.<sup>50</sup>

Government's on-going struggle to trim public spending and government debt is proving to be fruitless. Although on 29 June 2006 former Prime Minister Abe's coalition government pledged to cut spending by ¥11.4 trillion over a five-year period, the Lower House of the National Diet overrode the objections of the Upper House, voting in a ¥1.78 trillion supplementary budget for fiscal 2007. This was the first time since 1993 that a supplementary budget was approved despite the rejection of the Upper House.<sup>51</sup>

On 28 March 2008, despite the rejection by the Upper House, which is controlled by opposition parties, the Diet passed a ¥83 trillion state budget for fiscal 2008. The budget indicates that public debt would inevitably increase, primarily because the LDP is heavily dependent on votes from constituencies in the rural areas which have traditionally relied on public works projects and government subsidies. In the second year of the five-year effort to reduce public debt, public spending will ostensibly be reduced by 3.1 per cent. Since local tax revenue is insufficient, general expenditures will increase by 0.7 per cent in an effort to support regional economies. It had been predicted that regional growth would increase by 16.5 per cent in 2007. Instead, it is a mere 0.2 per cent.<sup>52</sup>

### **Conservatism according to Abe: Japan Inc. prevails**

When Abe Shinzo became prime minister on 26 September 2006, there were high expectations that he would continue to proceed with reforms. But instead of surrounding himself with reformers, he barricaded his office with a clique of old-school LDP conservatives in the image of his grandfather, Kishi Nobusuke, a wartime official in the Ministry of Commerce, Japan's third post-war prime minister and one of the founders of the Liberal Democratic Party.

Abe avoided dealing with reform issues and economic policies, preferring to concentrate on the bills that had been introduced by his predecessors. During his term in office, Abe managed to push through the National Diet a School Education Law the following November that included a provision to instil patriotism in students as well as an amendment that required teachers to renew licences every ten years. The Japan Business Federation (the consolidation of Japan Federation of Economic Organizations and the Japan Federation of Employees Association in 2002) supported these revisions.

However, critics, academics among them, claimed that the bill would give the state control over both public and private educational institutions. Abe also succeeded in upgrading the Defence Agency to a full Ministry of Defence.

The Abe government tried to tackle *amakudari* but met with stiff opposition, not only from the ministries, but also from politicians in both the LDP and the DPJ. The human resource's anti-*amakudari* agency that was established in 2000 arranged re-employment for only one official, despite a \$584,700 budget to install a computer system and to publish materials to publicize the agency.<sup>53</sup> Abe abandoned his attempts at civil service reforms only a few months after he tried, but failed to push through the Diet a bill to reform the *amakudari* system. The Internal Affairs and Communications Ministry reported in April 2007 that from 2004 to 2006, approximately 1968 bureaucrats had been assisted by their ministries and agencies to find jobs in companies that had close links to their organizations and that over 500 bureaucrats were from the land ministry, the ministry that administrates the construction industry.

*Amakudari* for local government officials in both private and public corporations is also common, which promotes bid-rigging for public works contracts at the local level.<sup>54</sup>

During the following year, Abe's administration was dogged by a succession of six scandals involving members of his cabinet, forcing four ministers to resign amidst charges of misappropriation of political funds. The SIA scandal dealt the final blow. After only a year in office, Abe resigned and Japan's economy continued to contract. Deflation remained a key concern among economists.

On 25 September 2007, Fukuda Yasuo assumed the office of Prime Minister. Fukuda, who was 71, is the first prime minister whose father was also a prime minister. An OB in LDP politics and a conservative but one who was considered to be more dovish than Abe, Fukuda focused energies on foreign relations and defence. Like his father Takeo, Fukuda's ties to the ministries were strong.

Abe's book *Toward a Beautiful Country* was published in 2006, shortly before he assumed the post of prime minister. It was a best seller. Abe promoted his ultra-conservative ideology and his intent to perpetuate a national pride through the reconsideration of the chronicling of events of Japan's engagement in Asia during the Second World War, post-war period and the revision of the pacifist

constitution in order to allow Japanese military participation in peacekeeping operations abroad. In his book, Abe contended that the term 'conservatism' was regarded negatively and the term 'liberalism' was considered positively. He took refuge in the fact that in recent years, the number of conservative journalists and commentators who espouse nationalism was on the increase.

Abe contended that the Japanese have been a conservative nation for several thousand years and that their society is a conservative system. Abe is correct. In *Special Corporations and the Bureaucracy*, the author quoted a section of a speech that an elite civil servant gave to an audience at Georgetown University Law Center on 7 April 1994, after he was dismissed from the Ministry of International Trade and Industry in December 1993 for creating a job for a former vice-minister's son in MITI, thus enhancing his chances of winning a seat in the National Diet. Naito Masahisa was only the second high-ranking official to be dismissed from MITI since 1952 and the scandal sent shock waves through the ministry. The bursting of the bubble, political turmoil, together with the Naito incident and other scandals in the early 1990s involving elite officials from the Ministry of Finance (MOF) and the Ministry of Construction, sparked public recognition that their system of government administration of the economy was ingrown and corrupt, and that there was a dire need for structural reform of the public sector. But the Japanese cannot reform because of the organic reticence of bureaucrats, businessmen and politicians to initiate changes that would fundamentally change the structure of their system.

Naito had been targeted to become the next Vice-Minister of MITI, the highest post in the ministry, before his dismissal, which was the unfortunate result of a long-standing feud with a former MITI colleague, Kumagai Hiroshi, who, as the Minister of Commerce, Trade and Industry in the Hosokawa Cabinet, had demanded his resignation. After leaving MITI, Naito moved to Georgetown University in Washington, DC, to take a professorship as a participant in the Asia Policy Studies programme. The chair was funded by Marks & Murase, an American law firm that did significant business with Japanese firms and acted as a consultant to the ministries.

In his speech, Naito reflected on the motivations of ministry officials who worked during Japan's rapid economic growth period and who seemed inspired by their roles as the administrators of Japan's

economic rebirth. He lamented about the change in attitudes of today's bureaucrats, who, he felt, had become inward and 'turf-conscious', working to protect their ministries' territory rather than making policy to deregulate markets.

Naito told the audience that the Japanese people, who had relied for centuries on either an emperor or a military regime to govern them, did not want to take the initiative to plan their own destiny, but preferred to entrust the responsibility to a bureaucracy. He explained that the submission to bureaucratic rule gave the ministries much power, which was further enhanced by the close contact between bureaucrats and businessmen, who feared retribution if they did not comply with guidance.

Naito did not include the fact that the ministries had extended power over the political economy through their public corporations and the *amakudari* system, and indeed, Naito himself was a part of this system, as is the case for the majority of elite civil servants. Naito was reinstated to MITI in June 2004 as a consultant.

The Japanese view their elite bureaucrats and politicians as separate from themselves. In general, most voters tend to vote for personalities rather than for issues. In the early 1990s, there was a concerted movement by politicians during the Hosokawa and Murayama administration towards political reforms that could have slowed down the further deterioration of Japan's economy, but the momentum for change stopped when the LDP came back to dominate the DIET in 1996.

Ultra-conservatism, along with the system of administration, plays on with the election of Prime Minister Fukuda. The elements explicit to this system are:

1. A rigid hierarchical socio-political system with a bureaucracy invested with the powers to plan and implement Japan's post-war economic growth without being subject to legal sanctions.
2. The close cooperation between business, the bureaucracy and the National Diet that began in the late nineteenth century during the Meiji Restoration. The finely tuned relationship continued before and after the Second World War. Known as the 'iron triangle', it is one of the dominant features in the governing system.
3. A conservative political party that has supported the bureaucracy's policies consistently during Japan's post-war period.

4. The network of former bureaucrats and present bureaucrats throughout business and government that is perpetuated by the *amakudari* system, which greatly enhances bureaucratic power to enforce policy at both the national and local government levels.
5. Significant social pressure to accept bureaucratic policies and guidance.

### **Accessing the real story: research methodology**

The efforts of academics and commentators to access reliable information is complicated by the insularity of organizations and their reticence to open their doors to outside observation by both Japanese and non-Japanese. The Japanese social political system is relatively opaque compared to Western industrialized nations and gaining a solid understanding of a given environment can be difficult and time-consuming. This is particularly true of ministerial operations, because the ministries are very protective of their territory and control the flow of information tightly.

Foreign observers are confronted by the language barrier. Both private and public corporations prefer to use special representatives, who are fluent in English, to communicate with researchers. Many of them have been sent to universities abroad not only to study but, more importantly, to learn how to interact with foreigners so that they can develop the skills to protect and promote their organizations' interests, and to fend off criticism. Japanese observers who are not participants in the organizations they wish to observe will also be accommodated by these representatives.

Japanese and foreign journalists experience difficulties accessing primary data. All journalists covering government activities are assigned to press clubs (*Kisha clubs*) which are offices that are set up to gather news from major organizations such as the ministries, the prime minister's office, political party headquarters, local parliament and police headquarters, as well as consumer, entertainment and sports organizations. Each reporter and journalist from domestic and foreign media is assigned to one club. Accessing a story distributed by other press clubs where they are non-members is problematic and since there are no records of court cases, debates or hearings, they also have difficulties accessing reliable data regarding bureaucratic policies.

The Japan Broadcasting Company (NHK), Nippon Telephone and Telegraph (NTT<sup>55</sup>), Special Corporations/IALs administered by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, along with Japan Railroad (JR) operate their own press clubs. NHK, like the BBC, is government funded and all viewers are required to pay an annual fee.

There are approximately 1000 press clubs throughout Japan. The membership in each club is approximately 15–20, with the major Japanese dailies regarded as regular club members, although the Diet Club can have as many as 5000 members.

In a Japan Policy Research Institute (JPRI) Working Paper, Laura Freeman discussed the competition for accessing information. The Japan Newspaper Editors and Publishers Association (JNEPA) and the Japan Magazine Publishers Association (JMPA) has access to these clubs but it is common for newspapers and magazines, including the foreign press, to pay members of clubs where they do not have access to leak data or to write stories for publication. Freeman stated:

The journalists gain a source of extra income and an outlet for some of the information they have obtained but cannot write due to club embargoes and other tacit agreements with members of the club or sources.

Freeman concluded that, although this arrangement benefits both the procurer and the supplier, the public suffers the consequences:

Under this arrangement, because the magazine has gotten such information second or third hand, it either gets written as a rumor, or because it is written anonymously and/or does not include an attribution of sources (a practice followed by club members and non-members alike), its news value and believability are seriously diminished.<sup>56</sup>

The European Commission in Japan in October 2002 issued *Priority Proposals for Regulatory Reform in Japan*, which called the press clubs 'serious barriers to the free trade of information'. The report stated:

With the exception of a limited number of wire services (which, if they are members at all, often have only associate membership

and therefore can listen but have no right to ask questions), membership is denied to journalists from foreign media organizations. It is worth noting that *shukan-shi*, or mass-circulation weekly magazines as well as other weekly, monthly or bi-monthly magazines are also excluded, as well as specialized press covering sectors other than those directly related to the host body.

The report delineated the root of the problem of accessing reliable data, which is cited here:

1. Officials and the hierarchy of the *kisha* club have the means to prevent the spread of information they may consider disadvantageous, on pain of exclusion of the offending journalist from the club. The system thus acts against the public interest, since it may deny or delay access to important information, including, for example, information of direct relevance to public health and safety. Reporting the case of BSE in point.
2. By giving both officials and journalists a vested interest in maintaining the exclusivity of a story, the system encourages over-reliance on a single source of information and a lack of cross-checking, thus diminishing the quality of information available to the wider public.
3. The system encourages the widespread and undesirable practice of split briefings for domestic and foreign journalists, increasing the potential for information to be tailored to one or the other audience by the briefing party, and exacerbating the risk of spreading inaccurate and biased information about Japan.

The commission threatened to raise the problem with the WTO. Although the JNEPA refuted the statement, made in its reply to the accusations, Etienne Reuter, a representative of the commission stated at a December 2003 news conference:

We reject the statement that our proposals are based on misunderstanding, cultural biases and misconception of facts.

The JNEPA acquiesced to the pressure in February 2004 and agreed to allow foreign journalists easier access to government information. Nevertheless, according to Adam Gamble in his book *A Public Betrayed*

(2004), the 2004 reforms are superficial at best. He interviewed journalist Tatsuya Iwase, who condemned the press club system:

But the Japanese Press Clubs are nothing more than transfer devices. They function and will continue to function as mouth-pieces for those interests that hold power in the country because all they [press club journalists] do is a route transfer of the information they are provided by news sources. This is assured, because that is the way they are able to remain close to the power they work with...<sup>57</sup>

Bill Whittaker, who was chief correspondent for CBS Television News from 1989 to 1993, agreed with Freeman's assessment when he was interviewed by the author in 1994 regarding the difficulties in accessing information from Japanese government agencies:

I do think that the bureaucracy controls the information, not that they manipulate the story but what they choose to reveal and when they choose to reveal it. They play it close to the vest. If they do not want it to get out, it pretty well won't get out. I think that if the bureaucracy decides that the information stays within the bureaucracy, my god, that's where it stays! What I found, also, when it came to the bureaucracy, for the press clubs that operated in different bureaux, if the Secretary [of the particular bureau] said, 'No, you're not going to get that information', that was about the end of it. From what I understood, if a journalist fell into disfavour within his club and its Secretary, he would get even less information the next go-around.<sup>58</sup>

On the other hand, Japanese reporters posted in the United States have expressed that it can be a struggle accessing information from organizations they claim are closed to foreign journalists, particularly in the financial industry. Morinaga Koki was the NHK chief financial correspondent in New York in 1994 when the author interviewed him about his perspectives of the United States and accessing information. He spoke about the barriers that foreign journalists may encounter:

There are two big forces on Wall Street. One is Jewish. The other is WASP. I struggle to enter their circle. I can catch some

information but it is extremely difficult to enter this silent circle. They are closed. Sometimes I am able to get an interview but in order to get good information I must have a friend among them. I must be a friend to some of them. This is my burden of my assignment here. There are people who control not only the economy but also the politics in the United States. When American journalists cover America they have the advantage. Japanese journalists have the advantage in Japan because perhaps we have many friends in Japan. It is natural that both countries have some barriers. We must get rid of these barriers but it's not a good idea to jump to a conclusion about which country is a more closed society.<sup>59</sup>

It should be noted that NHK correspondents posted abroad will collect data for Japanese government agencies.

Unreliable statistics of macro- and micro-economic data due to the methods of collection and analysis by the ministries can also frustrate research. Eight ministries conduct 55 surveys and statistical research, but the data does not include the service industries and changes in current economic conditions. The Internal Affairs and Communication Ministry submitted a bill in January 2007 that would revise the statistics law that was enacted 60 years ago in 1947.<sup>60</sup> However, there have been a number of efforts since the late 1990s to reform the methods of gathering official data. The research by Japanese scholars is often funded through public corporations administered by the national ministries and the research regarding such subjects as Special Corporations has been considered to be politically indiscrete.

Bill Whittaker succinctly pointed to a fundamental reason why Western commentators have misinterpreted the characteristics of Japan's model of administration:

I think what fools you, what is seductive but on the surface is that it looks familiar. You've got tall buildings, freeways, subways and Western dress and all sorts of things that can lull you into feeling that you can relate to it and understand... But if you're there for a while, you begin to realize that it is just a thin veneer, that the real Japan is behind or beneath that thought, that Western thought.

The author chose work in specific organizations that afforded the opportunity to experience as fully as possible Japan's corporate environment, government administration of the private and public sectors and Japan's media coverage of foreign affairs, in order to access information that would promote a more realistic, and also a more objective assessment of the Japanese system. The effort to achieve objectivity requires integration into these sectors. The research culminated in an analysis that is based principally on the Japanese perspective of their system and their continuing dilemma.

### **The book's objectives**

The following chapters in Part I examine the institutional factors in the Japanese system of government administration that have paralysed the decision-making process and prevented the system from adapting to the ever-changing demands on the domestic front and in the global political economy. There is discussion both of the development of the current system of government administration of the political economy from a historical perspective and the socio-political factors that perpetuate the intimate relationship between bureaucracy, business and politics. Chapters 4 and 5 illustrate the interpersonal networks in the 'ruling triad' through the *amakudari* system, which binds the bureaucracy with business and which enhances bureaucratic control over the implementation of policies at both the national and local levels.

Part II focuses on the ministerial system, including the training of the elite ministry officials and how they cope with their system. Excerpts from interviews the author conducted in 1994 with civil servants from the central ministries and prefecture governments on loan to a Special Corporation in the United States provide rare insights of how bureaucrats regard themselves in the civil service system and how they perceive America, Japan's protector in the Pacific and largest trading partner until China forged ahead as Number One in 2008.

The interviews are extremely relevant to the economic dilemma that the Japanese are facing currently due to Japan's dependency on the United States. The interviews reveal a significant degree of defensiveness regarding Japan's relationship not only with the United States, but also Japan's position in the global political economy in

general. Although 15 years have passed since the interviews were conducted, the mind-set of Japanese ministerial officials towards the United States remains the same and parallels can be drawn with their approach to other economic powers, namely China, South Korea and Russia, and how economic and foreign policies may be planned in the future.

In a deeper sense, the interviews provide an invaluable insight into why the Japanese have yet to integrate into the international community.

## Index

- Abe Shinzo, 23, 28–32, 44–5, 63, 81, 87, 139–40, 145, 146
- administrative guidance policy  
tool, 53, 70, 75–6
- Allied Occupation, 57–60
- amakudari*, 8, 9
- administrative guidance and,  
75–6
- attempts to reform, 29, 80–2, 103
- bid-rigging and, 79–80
- bureaucratic power and, 32
- bureaucratic views on, 144
- to central government advisory  
panels, 73
- criticism of, 107–8
- implications of, 10–12
- ministerial manipulation of, 71–2
- perpetuation of, 25
- political economy and, 70
- to private sector, 74–5
- to public office, 73–4
- reform of, 17–19
- to research institutes, 72
- ‘window guidance’ and, 76–7
- America, *see* United States
- American society  
compared with Japanese society,  
124–31
- introduction to, 122–4
- annual GDP, 10
- anti-foreign sentiment, 149
- Anti-Monopoly Law, 60
- Arab Oil Embargo, 39, 65
- Article 9, 58
- asset-inflated economy, 108–11
- authority, deferral to, 147
- automobile exports, 67
- banking crisis, of 1920, 49
- banking system, 43–4, 55, 60
- Bank of Japan (BOJ), 6, 54, 60  
establishment of, 43  
private sector and, 87–9
- bankruptcies, corporate, 26
- Basic Education Law, 145–6
- Basic Pension (BP), 22
- bid-rigging, 79–80, 92–3
- Bretton Woods System, 64–5
- bubble loans, 93
- bureaucracy, 39  
alliance between business,  
government and, 51–3, 69
- bid-rigging and, 79–80, 92–3
- elite, 57–68
- empowerment of, 51–3
- extra-legal authority of, 56
- institutional paralysis in, 143–5
- LDP and, 86–7
- Meiji Restoration and, 40–5
- post-WWII, 57–60
- power of the, 31, 44, 57–60, 145
- reform proposals for, 99–100
- bureaucratic policies, lack of  
information on, 4
- bureaucrats, 39, *see also* civil  
servants
- interviews with, 114–38
- number of, 104
- persona of, 44
- post-retirement positions of, *see*  
*amakudari*
- business  
alliance between bureaucracy,  
government and, 31, 51–3, 69
- LDP and, 86–7
- Cabinet system, establishment of, 44
- Calder, Kent, 74–5
- Central Bank of Japan (BOJ), *see*  
Bank of Japan (BOJ)

- central government advisory panels, *amakudari* to, 73
- Chamber of Commerce and Industry, 6
- Chartered Corporations, 6
- childhood impressions, of United States, 116–19
- children corporations, 5
- China, 47, 48, 53, 134, 135, 148–9
- CIA, 62–3
- civil servants, *see also* bureaucrats  
 education of, 45, 104–5  
 interviews with, 114–38  
 overseas assignments for, 106–13  
 persona of, 44  
 post-retirement positions of, 8, 9, 11  
 powers of, 12
- Civil Service Appointment Ordinance, 44
- civil service entrance exam, 45, 104
- civil service system, 29, *see also* *amakudari*
- civil service tradition, 104
- Cold War, 58
- collusion, 79–80
- Commerce and Industry Liberation Council, 51–2
- Communist threat, 58
- conservatism, 28–32, 63, 145–7
- constitution, 44, 58
- constitutional monarchy, 42, 58
- consumer confidence, 26, 140
- corporate bankruptcies, 26
- corporate culture, 55–6
- corporate foreign investments, 108–11
- corporations, overseas offices of, 109–11
- currency reevaluations, 64–5
- Daiei Inc., 95–7
- data, difficulty accessing, 32–7
- debt, public, 25, 140
- deficit-covering bonds, 27
- DeJonquieres, Guy, 45–6
- demilitarization, 58
- Democratic Party of Japan (DPJ), 9, 139–40, 147–8
- democratic reforms, 58
- democratic system, 61–4
- developmental states, 46
- domestic markets, protection of, 10–11, 39–40
- DPJ Manifesto, 24
- economic development, post-war, 10
- economic downturn, post-WWI, 49
- economic growth, 39  
 bleak outlook for, 140, 141–3  
 post-WWII, 63–4  
 during WWI, 48
- economic malaise, 25–6
- economic policies  
 external shocks affecting, 64–8  
 of Koizumi, 25–8  
 during Meiji era, 42–3  
 post-WWII, 63–4  
 in Tokugawa Era, 41
- education  
 about U.S., 119–21  
 overseas, 106–7
- educational system, Japanese, 127–8
- education bill, 145–6
- Ehime Prefecture, 73–4, 84–6
- electronics exports, 67
- elite bureaucracy, 57–68
- elite officials  
 interviews with, 114–38  
 overseas assignments for, 106–13  
 perspectives of, on U.S., 112–38  
 power of the, 104  
 as prisoners of the system, 103–13  
 seniority system and, 105–6
- elite rule, 12, 31, 39, 44
- Emergency Capital Allocation Law, 54
- Employees Pension Insurance Fund, 56
- expansionist policies, 47–8
- Export-Import Commodities Emergency Measure Law, 54

- exports, 67  
 external shocks, affecting economic policies, 64–8  
 family-owned oligopolies  
   holding companies of, 49  
   ministerial cooperation with, 45–7  
 Financial Investment Loan Program (FILP), 4–5  
 first Oil Shock, 39  
 First World War, 48  
 fiscal policies, *see* economic policies  
 fixed exchange rates, 64–5  
 food prices, 127  
 Foreign Access Zone (FAZ), 85  
 foreign competition, limiting of, 65–6  
 foreign direct investment, 10–12  
 foreigners  
   initial exposure to, 121–2  
   mistrust of, 149  
 foreign investments, 108–11  
 foreign journalists, 33–5, 35–6  
 foreign multinational corporations,  
   retired bureaucrats in, 74–5  
 foreign occupation, 45  
 foreign universities, 106–7  
 Freeman, Laura, 33  
 free-trade agreements, 11  
 Fujii Haruho, 15  
 Fukuda Yasuo, 11, 23, 29, 87, 99, 139  
 Fukui Toshiko, 87–9  
 future outlook, 147–9  
 Gamble, Adam, 34–5  
 General Mobilization Law, 54  
 Germany, 48  
 gold standard, 64–5  
 government  
   alliance between business,  
     bureaucracy and, 45–7, 69  
   spending cuts, 28  
 government ministries, *see*  
   ministries  
 grandchildren corporations, 5  
 Great Depression, 53  
 Great Kanto Earthquake, 50  
 Greenpia resorts, 24  
 Hashimoto Ryutaru, 12  
 Hashimoto Toru, 27  
 hierarchy, 105–6, 110  
 holding companies, 49  
 Holstein, William J., 18  
 Honda, 67  
 IBM Japan, 75  
 Iga Sadayuki, 84–5  
 Iishi Koki, 9  
 Imperial Japanese Army, 44  
 Important Industries Control Law,  
   52–3  
 import substitution policies, 43  
 Incorporated Administrative  
   Law, 7  
 Independently Administrative  
   Institutions (IAIs), 7–8  
   *amakudari* and, 71–2  
   bid-rigging and, 79–80  
 individualism, 127–8  
 Indonesia Petroleum Exploration  
   (INPEX), 16  
 Industrial Bank of Japan (IBJ), 47,  
   55, 60, 63, 77–8  
 industrial development, 47, 48  
 industrial espionage, 18  
 Industrial Patriotic Societies, 56  
 industrial policy, 51–3, 65–6  
 industrial rationalization, 51, 52  
 Industrial Revitalization  
   Corporation of Japan (IRCJ),  
   93–9  
 Industrial Structure Council, 52  
 information, difficulty accessing,  
   32–7  
 institutional paralysis, 143–5  
 institutional structures, 105–6  
 insularity, of organizations, 4, 32  
 interest rates, 140  
 international expansion, of  
   corporations, 108–11  
 internationalization, problem of,  
   135–6

- interpersonal networks
  - impact of, 103
  - LDP and, 86–7
  - pork-barrel politics and, 84–6
  - in ruling triad, 83–100
- Inukai Takayuki, 53
- Ishihara Nobuteru, 15, 18–19
- Ishihara Shintaru, 78, 117
- Iwakura Mission, 42
- Iwakura Tomomi, 42
- Iwase Tatsuya, 24
  
- Japan
  - annual GDP of, 10
  - foreign direct investment by, 10–12
  - insularity of, 135–6, 149
  - media coverage of, 131–3
  - place of, in global economic community, 137–8
  - problems facing, 139–49
  - relationship between U.S. and, 137
- Japan Broadcasting Company (NHK), 5, 33
- Japan Democratic Party, 62
- Japan Development Bank (JDP), 5
- Japanese Business Federation, 28
- Japanese social political system, opaqueness of, 4, 32
- Japanese society, compared with American society, 124–31
- Japan External Trade Organization (JETRO), 17–19, 107, 109–13
- Japan Finance Corporation for Small Business, 5
- Japan Highway Corporation (JH), 5
  - privatization of, 13–16
- Japan Inc., 69, *see also amakudari*
- Japan Magazine Publishers Association (JMPA), 33
- Japan National Oil Corporation, dissolution of, 16
- Japan Newspaper Editors and Publishers Association (JNEPA), 33, 34–5
- Japan Post, privatization of, 19–21
- Japan Red Cross, 6
- Japan's Policy Trap* (Mikuni and Murphy), 4
- Japan Telephone and Telegraph (NTT), 5
- Japan-US trade relations, 133–5
- JETRO, 107–9
- JETRO branch offices, 109–13
- Johnson, Chalmers, 46, 52
- journalists, 33–5
  
- Kanebo, 97–9
- Kaneko Tsuneo, 14
- Katayuki Satsuki, 61
- keiretsu* system, 50, 55, 60
- Kennedy assassination, 124
- Kisha* clubs, 32–6
- Kishi New Party, 62
- Kishi Nobusuke, 28, 52, 62
- Kobayashi Keiichiro, 93
- Koizumi Junichiro
  - elections called by, 61
  - fiscal policies of, 25–8
  - legacies of, 25–8
  - pension system reforms by, 22–4
  - privatization of Japan Post and, 19–21
  - reform measures of, 6–7, 14–15
  - shrine visits of, 145–6
  - Social Security System reforms and, 21–2
- kone, 83
- Korea, 47, 148
- Korean War, 58, 60
- Kurashige Yuichi, 93
- Kuroshima Bridge, 85–6
  
- labour unions, 50, 58
- Land Tax Reform, 43
- language barriers, 135
- Law Concerning Access to Information Held by Administrative Organs, 4
- Law of Establishment Act, 5

- League of Nations, 48
- Liberal Democratic Party (LDP), 6,  
61–4, 69–70, 139  
bureaucracy, big business and,  
86–7
- liberalism, during Taisho period,  
48–50
- Lincoln, Edward J., 11
- loans, non-performing, 76–9, 93–9
- Long-Term Credit Bank, 60
- MacArthur, Douglas, 57
- machinery production, 47
- magazines, 33
- Manchuria, 47, 48
- Manchurian Incident, 53
- market economies, 46
- media coverage, 131–3
- Meiji Restoration, 31, 40–5
- mercantile policies, 39–40, 66–7,  
68, 134
- Mikuni Akio, 66
- militarism, 53
- military occupation, 57–60
- military rule, 40–1
- ministries  
administration of Special  
Corporations by, 10  
appeal of working in, 104  
cooperation between business  
and, 31  
cooperation by, with family-  
owned oligopolies, 45–7  
difficulty accessing information  
on, 32–7  
efforts to reform, 12–13  
institutional paralysis in, 143–5  
institutional structures, 105–6  
intensification of powers of, 54–5  
mergers of, 12–13  
opaqueness of, 4  
political economy and, 70
- Ministry of Agriculture and  
Commerce (MAC), 43, 47, 51
- Ministry of Commerce and Industry  
(MCI), 51, 52, 54
- Ministry of Construction, 5
- Ministry of Defence, 29, 88–92, 146
- Ministry of Economy, Trade and  
Industry (METI), 5, 13, 16,  
93–9
- Ministry of Finance (MOF), 5, 54–5
- Ministry of Foreign Affairs, 106
- Ministry of General Affairs, 5
- Ministry of International Trade and  
Industry (MITI), 5, 13, 39–40,  
59, 64–8
- Ministry of Munitions (MM),  
54, 58
- Ministry of Public Management,  
Home Affairs, Posts and  
Telecommunications, 5
- Ministry of Public Works, 43
- Mishima, Yukio, 117, 158
- Mitsubishi Corporation, 49
- Miyauchi Yoshihiko, 87
- Miyazaki Motonobu, 90–2
- Mizuno Tatsuya, 67
- mono-culture, 147
- Moriya Takemasa, 90–2
- Morinaga Koki, 35–6
- munitions firms, 54–5
- Munitions Industrial Mobilization  
Law, 54
- Murakami Yoshiaki, 87–9
- Murphy, R. Taggart, 66
- mutual obligation, 83
- Naito Masahisa, 30–1, 40, 147
- national banks, 43–4
- National Diet, cooperation between  
business and, 31
- National Employment Agency, 70
- nationalism, 145–6, 148, 149
- National Pension System, 22, 23–4
- National Public Service Law, 8
- neo-nationalist philosophy, 148
- New History Textbook*, 146–7
- newspapers, 33
- Nippon Credit Bank, 60
- Nishimura Masao, 78
- Nissan, 49

- Nixon, Richard, 64  
 non-performing loans (NPLs), 76–7  
   IBJ and, 77–8  
   IRCJ and, 93–9  
   Shin Ginko Tokyo, 78–9  
 North Korea, 148
- Oil Shock, 39, 65  
 Okubo Toshimichi, 42, 43  
 oligopolies, family-owned, 45–7, 49  
 one-party system, 61–4  
 Organization of Economic  
   Cooperation and Development  
   (OECD), 10  
 organizations, insularity of, 4, 32  
 Osaka Armoury, 47  
 Osaka Prefecture, 27  
 overseas assignments, 106–13
- Pacific Islands, 48  
 pacifists, 148–9  
 passivism, 147  
 Pension Resort Association, 24  
 pension system, 22–4  
 People's Political Association, 86–7  
 Perry, Matthew, 41  
 personal connections, 83  
 petroleum industry, 86–7  
 political contributions, 86–7  
 political struggles, 6  
 political system  
   one-party, 61–4  
   opaqueness of, 32  
 pork-barrel politics, 69–70, 84–6  
 Postal Accounts Agency, 4, 19–21  
 post-retirement system, *see*  
   *amakudari*  
 post-war economic development,  
   10, 41, 49, 50  
 prefectures, pork-barrel politics in,  
   84–6  
 press clubs, 32–6  
 private sector  
   *amakudari* to, 74–5  
   BOJ and, 87–9  
   institutional structures of, 105–6  
   privatization  
   of Japan Highway Corporation,  
     13–16  
   of Japan Post, 19–21  
   protectionist policies, 65–6  
   public corporations, *see also* Special  
   Corporations  
   calls for dissolution of, 4  
   Chartered Corporations, 6  
   duties assigned to, 8–9  
   information on, 4  
   need for reform of, 8–9  
   public debt, 25, 140  
   public office, *amakudari* to, 73–4  
   public officials, image of, 40, *see also*  
   bureaucrats  
   public sector  
   demand for structural reform  
     of, 4  
   structural reform of, 6–7  
   public works projects, 26, 69–70  
   Puritanism, 126–7
- racial discrimination, 124–5, 129  
 racism, 148  
 recession, 51  
   post-WWI, 49  
   threat of, 140, 141–2  
 recession cartels, 51, 65–6  
 reform image, 12–13  
 reforms  
   to *amakudari*, 17–19  
   dissolution of Japan National Oil  
   Corporation, 16  
   journalistic, 34–5  
   to pension systems, 22–4  
   privatization of Japan Highway  
   Corporation, 13–16  
   to Social Security System, 21–2  
   as too little too late, 139–43  
 regional disparities, 26  
 regulations, 11  
 research, funding of, 36  
 research institutes, *amakudari* to, 72  
 research methodology, 32–7  
 residents of foreign descent, 148

- ruling triad, 39–40, 147
  - interpersonal networks in, 83–100
- rural areas, migration out of, 27
- Russia, 47
- Sagers, John, 42
- Samuels, Richard, 62
- samurai*, 41, 44
- San Francisco Peace Treaty, 58
- scandals
  - bid-rigging, 92–3
  - involving public officials, 29, 30, 40, 76–7
  - in main banks, 76–7
  - Ministry of Defence, 88–92
  - SIA, 22–4
- School Education Law, 28
- secondary budget, *see* Financial Investment Loan Program (FILP)
- Second World War, 54–5
- seniority system, 50, 105–6
- Shandong Province, 48
- Shin Ginko Tokyo, 78–9
- Shinto shrine, 145
- shipbuilding industry, 47, 49
- Shogun*, 40–1
- Showa period, 51–3
- shukko*, 71–2
- Sino-Japanese War, 47
- small- and medium-sized firms (SMEs), pessimistic outlook for, 26–7
- Social Insurance Agency, scandal, 22–4
- social market economies, 46
- Social Security System, reform of, 21–2
- social values, 129–30
- social welfare, 55–6
- socio-political system
  - opaqueness of, 4, 32
  - rigid hierarchical, 31
  - ruling triad, 39–40
  - under Showa, 51–3
- Sogo Company, 77–8
- South Korea, 134
- Special Corporations
  - administration of, by ministries, 10
  - amakudari* and, 71–2
  - bid-rigging and, 79–80
  - criticism of, 107–8
  - defined, 4–5
  - dissolution of, 7, 16
  - establishment of, 5
  - examples of, 5
  - need for reform of, 9
  - privatization of, 13–16
  - renaming of, 7–8
  - role of, 3
  - subsidiaries of, 5
  - subsidies to, 6
- spending cuts, 28
- standard of living, 125
- state-run banking system, 4
- statistics law, 36
- steel production, 47
- stockmarket crash, 49, 53
- Stockwin, J.A.A., 25
- structural reforms
  - public demand for, 4
  - window of opportunity for, 6–7
- subprime mortgage crisis, 140–1
- subsidiaries, 5
- subsidies, 6, 8, 86–7
- Supreme Commander of the Allied Powers (SCAP), 57–60
- System of Financial Institution Authorized to Finance Munitions Companies, 55
- Taisho period, 48–50
- Takamatsu Masahiko, 92–3
- Takashi Hara, 49–50
- Takeo Hanazawa, 56
- Tanaka Giichi, 53
- tariffs, 11
- Tatsuya Iwase, 35
- Temporary Industrial Rationalization Bureau (TIRB), 52

- Tokugawa Era, 12, 40–1  
 Tokyo University, 45, 104–5  
*Toward a Beautiful Country* (Abe),  
     29–30, 63, 145, 146  
 Toyota, 67  
 trade deficits, 43  
 trade relations, 133–5  
 trade surplus, 66–7  
 trade treaties, 41  
 trade unions, 55  
 trading companies, Ministry of  
     Defence and, 88–92  
 Tsutsumi Azusa, 107–8  
 Twenty-One Demands, 48  
  
 Uchida Michio, 13–14  
 ultra-conservatism, 29–32, 63, 148  
 unemployment, 141  
 union activities, 55–6  
 United States  
     barriers to foreign journalists in,  
         35–6  
     childhood impressions of, 116–19  
     corporate expansion to, 109–11  
     dependence on exports to, 67,  
         131–3  
     education about, 119–21  
     introduction to society of, 122–4  
     media coverage of, 131–3  
     military presence of, 57–60  
     overseas assignments to, 106–8,  
         109–13  
     perspectives on, 112–38  
     relationship between Japan and,  
         137  
     role of, in political system, 62–3  
         subprime crisis in, 140–1  
         trade relations between Japan  
             and, 133–5  
     universal suffrage, 50  
     universities, foreign, 106–7  
     university graduates, 104  
     urban migration, 27  
     US-Japan Security Treaty, 58, 63  
  
 Versailles Peace Conference, 48  
  
 Wall Street Stockmarket  
     Crash, 53  
 wealth discrepancies, 141  
 Werner, Richard, 77  
 white Anglo-Protestant population  
     (WASPs), 122–4, 128  
 Whittaker, Bill, 35, 36  
 ‘window guidance,’ 60, 76–7  
  
 xenophobia, 149  
  
 Yamada Corps, 91  
 Yamagata Aritomo, 44  
 Yamamura Kozo, 65–6  
 Yano Hironori, 16  
 Yasukuni Shrine, 145, 146  
 Yawata, 47  
 yen, appreciation of, 67  
*yokosuberi*, 71, 74–5  
 Yoshida Shigeru, 62  
 Yoshino Shinji, 52  
  
*zaibatsu*, 45–7, 49, 55  
     dismantling of, 58  
     post-WWII, 59–60