



PRI Discussion Paper Series (No.05A - 11)

The Nature and Role of the Civil Service
in Japanese Government Decision-making

Kazumasa Okubo
Tokyo Medical and Dental University
Policy Research Institute, Ministry of Finance

July 2005

The views expressed in this paper are those of the authors and not those of the Ministry of Finance or the Policy Research Institute.

Research Department Policy Research Institute, MOF
3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8940, Japan
TEL 03-3581-4111

The Nature and Role of the Civil Service in Japanese Government Decision-making

1. Introduction

The nature and the role of the civil service in Japan are sufficiently elusive that analysis of the governmental policy-making process tends to focus on the extremes of party politics or the bureaucratic policy-making process, neither of which, in isolation, can reveal the real decision-making process. Analysis of governmental decision-making must focus more on the relation between politicians and civil servants. To this end, principal-agent analysis is useful, but questions remain as to who is the principal and who the agent. The prevailing assumption is that the Liberal Democratic Party LDP (currently the ruling coalition party) is the principal, and civil servants the agent¹. However, since cabinet members are the masters of civil servants, an argument could be made that the prime minister and cabinet members must necessarily be the principal. This is particularly the case when other members of the LDP oppose the policies of the prime minister and cabinet members. In fact, who is the principal has varied from time to time and from event to event and politicians have always competed with each other to be the real principal to the civil servants agent.

Despite this, there has been a prevailing misunderstanding that civil servants have enormous power to influence politicians and are able to neglect their minister's instructions. By providing an analysis of the historical development and the nature of the civil service in Japan, this paper attempts to present a more accurate picture of the relationship between politicians and civil servants and to describe the role of the civil service in the decision-making process. It also seeks to explain why, despite their role as agent for whatever principal, civil servants are widely regarded as powerful and reliable but also, in some cases, as culpable and blameworthy.

2. General Features of the Civil Service in Japan

(1) Legitimacy as a Political Power

There is a prevailing feeling of public reliance on the government, particularly on the civil service in Japanese society. Any accident, fraud, or unpredictable event creates a public demand for the government to accept responsibility alongside those who directly caused the event. This is one of the reasons why government regulation, though neither strict enough nor properly enforced, pervades every corner of Japanese life. Behind such public reliance lies a recognition of a sort of political legitimacy on the part of the civil service in Japan.

The question is, from where does this legitimacy derive? Politicians are legitimized through elections and corporate managers are legitimized by surviving market competition. Civil servants have to pass a difficult examination at the time of entry, but this alone cannot explain why they maintain such a sense of legitimacy among the Japanese public. We need to look back to the origins of the civil service.

Toward the end of the 19th century, the Meiji government created an authoritarian but modern bureaucratic civil service². Civil servants were required to pass a difficult entrance examination usually after graduation from the University of Tokyo, the most prestigious school in Japan, and were employed solely on the basis of ability, regardless of their social origin, status or birthplace. The first open examination was held in 1888. Originally, in feudal times, civil servants were of the warrior class, hard-working, and possessed of a spirit of self-discipline and self-sacrifice. They were regarded as egalitarians sensitive to local interests and the feelings of the people in the street³.

Since that time, the rightful role of civil servants in Japan has been seen as representing broad national interests in a fair and unbiased manner, while politicians and political parties⁴ have been seen as representing narrow interests in a somewhat self-serving manner. It is in this way that civil servants have come to have a kind of political legitimacy even though they are not elected by popular vote or appointed by politicians.

(2) History and Recent Problems in the Civil Service

Since the start of the modern political system at the end of the 19th century the locus of political dominance has changed frequently. Though initially dominant power lay with civil servants, political parties gradually gained in power in line with developments in democracy until, for a variety of reasons, they collapsed in the 1930s. The chief of these were political corruption and the self-serving nature of party politics which resulted in an inability to promote national interests. After the collapse of the parties, the majority of Japanese strongly backed the military powers and the new type of radical egalitarian civil servant who advocated a planned economy.

After the end of World War II in 1945 when democracy was restored, under the LDP (Liberal Democratic Party) civil servants played an important role in the rapid economic development of the country. However, since the rapid growth of national income to levels of about one and half times those in Europe, the role of civil servants has receded in importance and party politics have become increasingly dominant. It is important to emphasize that although civil servants were indeed central to the rapid economic development achieved after World War II, the pattern of financial and resource allocation advocated by them was in some senses that of a planned economy similar to that created

during the war period and that it worked well only in the restoration period following the war. It is doubtful that industrial policy has in fact served economic development as well as the Ministry of International Trade and Industry (the MITI)⁵ has always insisted.

The civil service in Japan is currently facing a number of problems. First, the policy planning ability of civil servants has gradually declined. It is my belief that the main reason for this decline is that the educational level among civil servants is insufficiently high for policy planning although it is high enough for policy execution and for mediation among politicians. In the past, Japanese civil servants were selected from amongst the most highly educated of their age cohort. Even now they are chosen from among the brightest undergraduates in their early 20s. However, the brightest people are not always the most highly educated if they are not given the opportunity to participate in higher education. Second, civil servants have been traditionally perceived as representing the unbiased national interest and indeed this perception has been a source of legitimacy for civil servants. However, pork barrel politicians as well as some business corporations have gradually captured members of the civil service, eroding both their integrity and legitimacy. The loss of integrity and the growth of bias in the civil service has created disappointment among the general public and has resulted in decreasing levels of popular support. The loss of legitimacy in turn makes political capturing easier and a vicious circle is established. Third, with the development of the private sector, administrative guidance, which was in the past frequently used by civil servants, has decreased in importance and in some cases is regarded as too intrusive. Last but not least, reflecting the political emphasis in the years since World War II during which time the main political agenda in Japan has been domestic economic development rather than international political leadership, the Japanese civil service tends to concentrate on domestic matters and is lacking in sensitivity vis-à-vis international matters. This lack of international awareness is particularly problematical in the context of an increasingly global economy. Language difficulties are a common problem not only for civil servants but also for a wide range of political and business leaders in Japan. Such difficulties have been created by the nature of Japanese education. Whereas in most developing countries outside of Japan a high level of education has not been available in the native language of those countries, in the early 20th century, Japanese universities succeeded in providing a high level of education without resorting to the use of western languages. This achievement has been of great help in preventing the creation of a privileged higher-educated elite and has served to create social solidarity and an equality of social class. At the same time the need for fluency in a foreign language has not been widely appreciated in Japanese society.

(3) Government Structure and Other Features of the Civil Service

Having once joined a ministry, a civil servant will be based in that same ministry for almost all their working life, though opportunities for secondment, that is a temporal work for the other institution with the affiliation of the ministry, are numerous. I personally have experienced five different posts outside the Ministry of Finance (MoF) amounting to a total of twelve out of twenty-five years of service. The civil service exemplifies the typical Japanese style of life-time employment system. Civil servants are promoted selectively but within the limitation of seniority. In practice, the actual retirement age for civil servants is about the early 50s but an *amakudari*⁶ style of re-employment system is in operation as a part of the life-time employment system and this provides a sort of compensation. That is to say that *amakudari* is a necessary contingent of the life-time employment system where employees are required to quit the job before the formal retirement age. The above mentioned “compensation” embraces compensation for the low salary of civil servants compared with the salaries for similarly bright graduates among the same age cohort in other forms of employment as well as compensation for early retirement. *Amakudari* is a matter of huge importance and one that has become very controversial.

The fact that ministries form the management units is one of the reasons why the ministries are relatively independent of each other. The other two major reasons are: 1) The Japanese Constitution is interpreted in such a way as to suggest that each minister shall bear responsibility and that even the prime minister cannot direct other ministers' business⁷. 2) Some important ministries such as the Ministry of Justice and the Ministry of Finance were already established before the constitution was promulgated⁸.

The total number of public employees in Japan, which stands around 4.4 million,⁹ is very small in terms of percentage of population compared with other major industrial countries¹⁰. Due to the relative lack of personnel, “enforcement of law” is of great importance in public administration. For this reason, civil servants often use a strategy whereby administration is done through a self-governing body in each private sector. This practice reduces the need for government staff but often makes regulation self-serving and new entry into the industry more difficult.

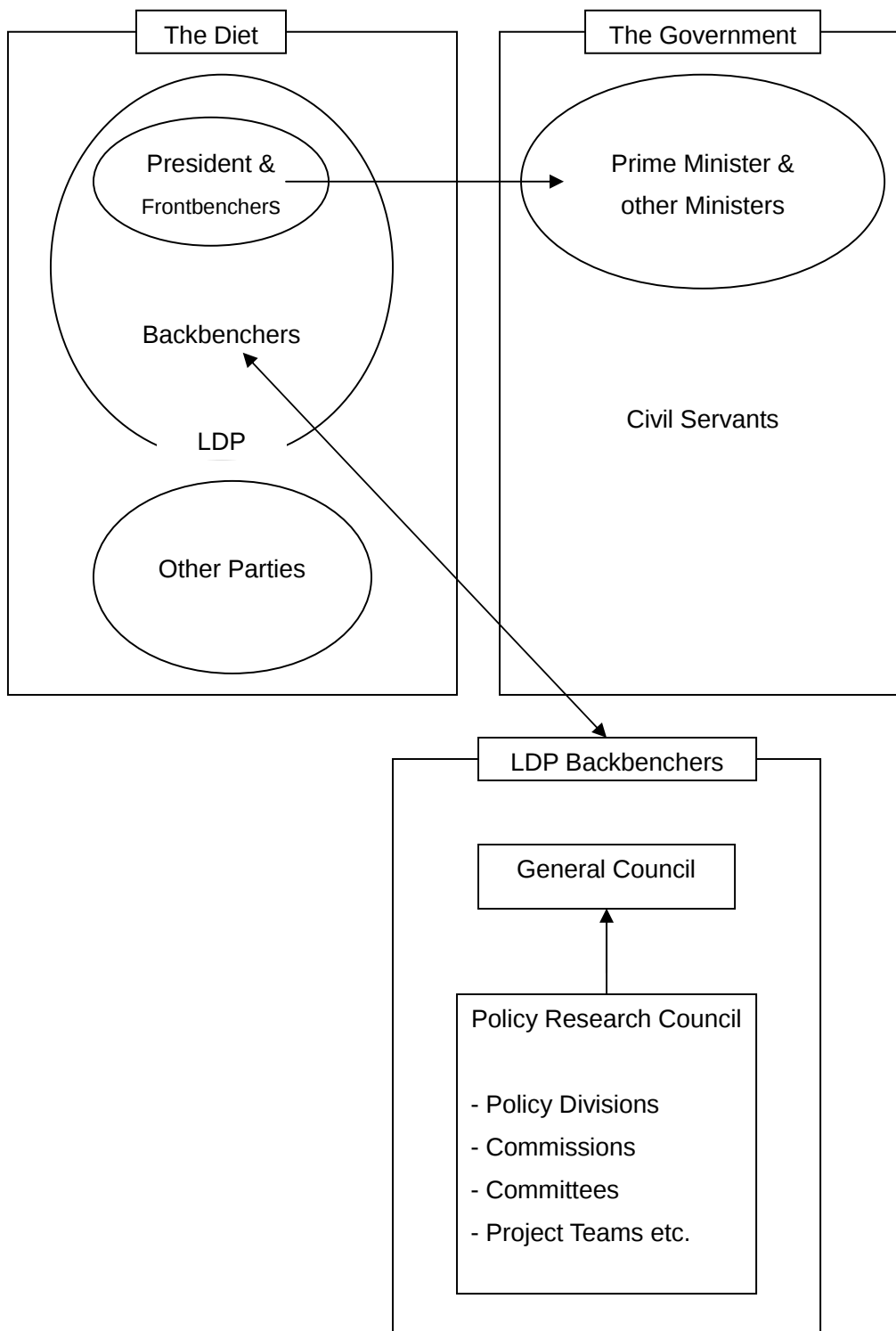
The numbers of civil servants employed in local governments constitute three quarters of the total and outstrip by a large margin those in central government. The “integrated” pattern of central and local public administration in Japan is different from that in the U.S. and the U.K. but similar to that in the European countries.

3. Patterns of Decision-making in Japanese Government

(1) Government-Party Relations

Japan is governed by a Parliamentary Cabinet System under which the political party which has a majority in the House of Representatives in the Diet forms a cabinet. This is similar to the system that operates in the U.K. and different from the Presidential System in the U.S. Since under the Parliamentary Cabinet System the prime minister is the head of the ruling party, decisions made by the prime minister should be supported by the majority of the Diet members and the prime minister should be able to exert strong leadership, as is the case in the U.K. In Japan, however, it is very difficult for the prime minister to exert strong leadership due to the conventional decision-making procedure in the LDP (the Liberal Democratic Party). The LDP has been the largest party in the Diet since 1955 and, except for a short period during the Hosokawa administration in 1993-1994, has always formed the cabinet either by itself or occasionally, in recent years, in coalition with other smaller parties.

We can see the general rules in operation in the LDP's decision-making process by looking at the party homepage which states, "At present, laws, budgets, taxes, or treaty revisions cannot, in principle, be submitted from the cabinet to the Diet as a decision of the ruling part(ies) without first having received the approval of the Party's deliberative bodies (the Policy Research Council's Division(s), Policy Deliberation Commission, and the General Council)."¹¹ This means that the government (or the cabinet) has to obtain the prior approval of the LDP's main policy-making bodies such as the Policy Research Council and the General Council in order to make any proposal to the Diet¹². This requirement means that they will not support the government's proposal in the Diet without the approval of the LDP members. This procedure, called the LDP's Preliminary Review System, actually functions as a right of veto against the prime minister's decisions.



(2) Decision-making Processes in the LDP

The process of decision-making in the General Council and the Policy Research Council is actually collective, that is to say unanimous, but in a sense very democratic because all the members of the LDP can participate and have an equal say. Most importantly the General Council is the final decision maker in the party. However, the head of the LDP who is the prime minister is not involved in this decision-making process since the duty of the prime minister is to dedicate himself to the affairs of the government¹³. The other cabinet ministers are not involved in this process either even though they are important LDP members. The veto power of the LDP's non-cabinet members has the capacity to erode the prime minister's initiative and leadership. In addition the decision-making process in the LDP is not usually open to the public and there is a lack of transparency about the locus of decision-making.

Thus, the real decision makers in government policy are often not the government but the LDP backbenchers¹⁴. Nevertheless, the minister always bears responsibility for the policy and is accountable to the Diet. The separation between decision-making and responsibility gives the decision-maker the real power. It is a historical pattern frequently seen in Japan in, for example, the relationship between an emperor and the former-emperor.

In the UK, the ruling party is dominated by the prime minister and cabinet members. If a parliamentary party member defies government policy as decided by the cabinet, he or she may be punished by withdrawal of the party whip and by de-selection as a candidate by the local party organisation. However, the LDP in Japan is not a party in the sense understood in the UK. The LDP more closely resembles an association of self-employed Diet members. At election time, the LDP actually makes a profit, more than recovering its high campaign costs from the candidate in exchange for the status of formally acknowledged member. The LDP's main strategy is to maximise its Diet membership and to maintain ruling party status since ruling party status is both profitable and makes a member more sustainable in the Diet. This means that whatever their political beliefs a candidate, once successful in an election can join the LDP with the prospect of becoming a future minister. Although the introduction of the single seat election system has made this path to party membership less easy, the inability of the LDP to punish its members by withdrawal of the party whip and de-selection makes party discipline difficult to enforce.

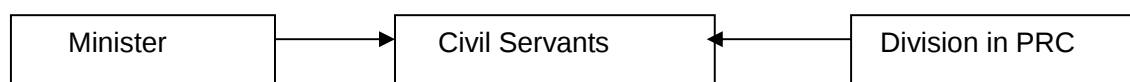
(3) Role of Civil Servants

In the U.K. civil servants are not allowed to meet or engage in direct discussions with the backbenchers in the ruling party. More exactly, civil servants in the UK are not meant to

have direct contact with Members of Parliament (MPs) of whatever political party without the express agreement of their ministers. The “Directory of Civil Service Guidance”¹⁵ issued by the Cabinet Office in the U.K. government stipulates “It is an established principle set out in the Civil Service Code that civil servants should not engage in activities likely to call into question their political impartiality, or to give rise to criticism that people paid from public funds are being used for party political purposes.” So “Civil Servants in their official capacity are prohibited from attending conferences convened by, or under the aegis of, party political organizations,” although with some exceptions. In terms of written briefing materials, “Material provided by civil servants for Ministers may be distributed to backbench MPs provided that it is of a kind that would be released to any *bona fide* enquirer, and that MPs of all parties can have access to it. It would be wholly improper for civil servants to provide a briefing service confined to the backbench MPs of one party.” As a result, backbenchers are deprived of the range of information available to cabinet members and their decisions are not influential. Civil servants in the UK can be said to be independent of politics. In Japan, however, civil servants have to be accountable to any and all Diet members and are therefore heavily involved in politics. Each individual LDP backbencher maintains frequent contact with civil servants in order to compete for timely information that will maximize his or her influence on the policy-making process.

In the Policy Research Council of the LDP there are several Divisions, each corresponding to a Ministry in the government. Each Division consists of influential backbenchers who target the particular Ministry. For civil servants the decision-making powers are separated into two: the Minister and the relevant Division in the LDP Policy Research Council. The LDP Division is sometimes more influential than the minister because the members of the Division are much more numerous and have been and will be serving much longer than the minister.

The competition between a Minister and the Division members in the LDP is the most important factor in the policy-making process in Japan. The existence of such competition is the main reason why cabinet members lack sufficient leadership in policy-making and it is why the civil servants sometimes cannot follow the minister’s policy instructions. It is also the main reason why the Minister has to explain and justify to the public a policy which he or she did not actually determine. One of the most important jobs for the higher civil service is that of mediating between the two.



The LDP represents almost every kind of political and social value along a spectrum from

right to left. Political competition inside the Divisions in the LDP is severe, as is the competition between the prime minister and backbenchers, but ultimately final decisions are produced, without fail, through the mediation of civil servants. By cultivating this mechanism the LDP, as a ruling party, is able to keep a lot of members with very different kinds of opinions inside the fold. On the other hand opposition parties are easily split if they grow in numbers because, unlike the ruling party, they cannot use civil servants as mediators.

The mediation capability of civil servants is a function of their generally superior access to information when compared with politicians. In some cases it is possible for civil servants, by a judicious use of information, to lead the Minister and relevant backbenchers in the direction desired by them. It seems that such a process of mediation is normally only begun subsequent to an agreement with, or at the instigation of, one or more influential politician whether a Minister or backbencher although it is hard to be conclusive due to a lack of information. As in the UK, if backbenchers cannot get enough information from civil servants, they will lose political power. This leads to a constant struggle to obtain as much information from civil servants as possible. Whether a minister has more information than the backbenchers varies from time to time and depends on the particular person.

A minister's power vis-à-vis his civil servants derives from his right to make personnel appointments and to approve or disapprove proposals. Nevertheless, despite the minister's formal rights in this regard, backbenchers also have informal influence and who is the more influential varies depending on the case. Prime Minister Hashimoto carried out administrative reforms intended to strengthen the minister's right to make personnel appointments with the aim of improving the responsiveness of civil servants to the minister's instructions. These reforms are very controversial because of the danger that they will further erode the political independence of the civil service vis-à-vis the ruling and opposition parties.

4. Decision-making in Budget Formulation

(1) The Fiscal Situation in Japan

The budget deficit has constantly increased. As of the end of March 2005, the value of national government bonds outstanding is 505 trillion yen and will be 538 trillion yen in March 2006. Total debt including local government debt was 740 trillion yen in March 2005 and will be 774 trillion yen in March 2006, an amount that equals 151% of GDP. The Japanese fiscal position in terms of General Government Gross Debt as of 1990 was average among the main industrial countries, but it has deteriorated in the last fifteen years

and now Japan stands at the bottom of the rankings.¹⁶

Generally speaking, under a high level of budget debt, debt service expenditure is large. If the interest rate rises, the debt service expenditure will increase in line with the increase in the interest payment. So, the budget deficit will increase as well. This will result in further bond issuing which pushes the interest rate higher. The above vicious circle is usually triggered by capital flight, which results from the lack of credibility in budget financing. However, this is not the case in Japan at least up to now. There are two reasons why capital flight from Japan has not happened. One is that short-term or portfolio investment from overseas has been very small compared with domestic money. The second is that domestic investors are cautious about overseas investment because they have been frequently hurt by the appreciation of the yen.

(2) The Process of Formulating the Budget and its Consequences

In the UK, the Chancellor of Exchequer discloses the next year's budget in his budget speech to the parliament. The preceding internal negotiations inside the government are not disclosed and backbenchers in the ruling political party are not involved in the process. In Japan, however, the internal negotiation process is not only disclosed to the LDP but is also subject to intervention by LDP backbenchers. The details of the budget formulation process are as follows:

(i) In July or August, the Cabinet decides the guideline for the next year's budget. The guideline indicates the ceiling (the upper limit) of the amounts, which each ministry can request from the MoF. It is the civil servants in the MoF who arrange this ceiling with advance approval from LDP backbenchers. LDP approval means approval by the Policy Research Council (PRC), the General Council (GC) and other influential members of the LDP.

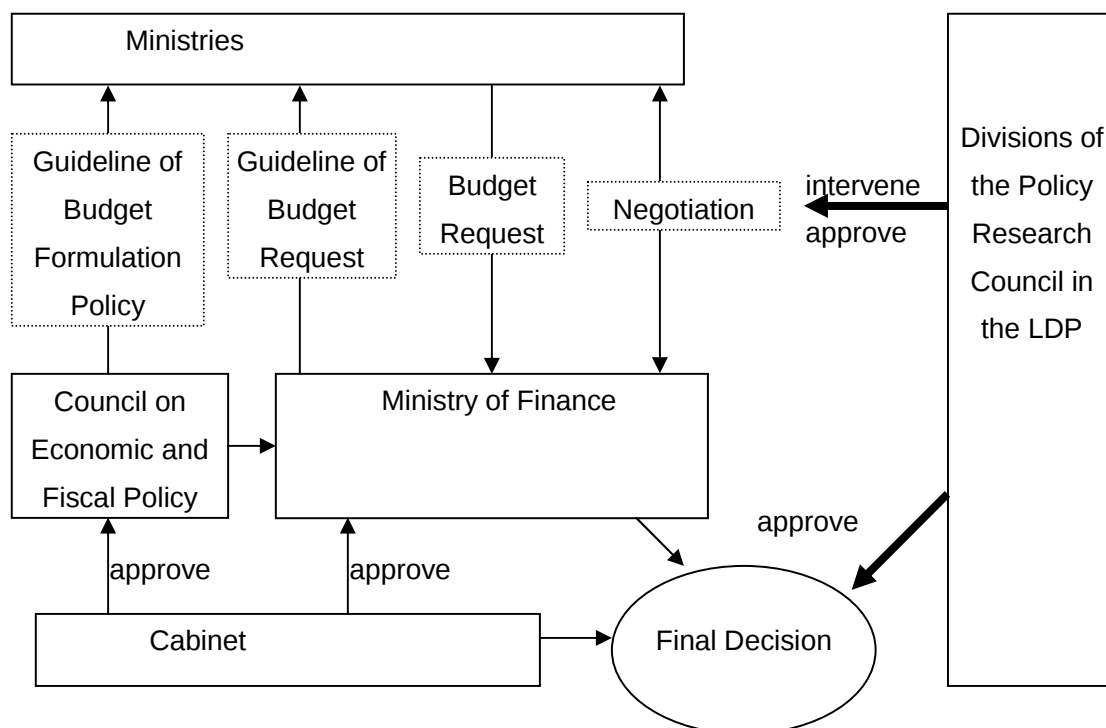
(ii) Each Ministry submits its budget request to the MoF by the end of August. Each Ministry is required to get the advance approval of the corresponding division of the PRC in the LDP.

(iii) The negotiation between each Ministry and the MoF continues until December. LDP backbenchers are free to intervene in this process.

(iv) At the end of December the Cabinet decides the budget draft, which will be submitted to the Diet for discussion. In November just before this decision, the Cabinet decides the guideline of the budget formulation policy. The MoF and each ministry again have to get the approval of LDP backbenchers in advance.

(v) After the formulation of the budget, there will be a process of consultation and discussion in the Diet, but this will raise no problems because all the backbenchers will support the

budget draft.

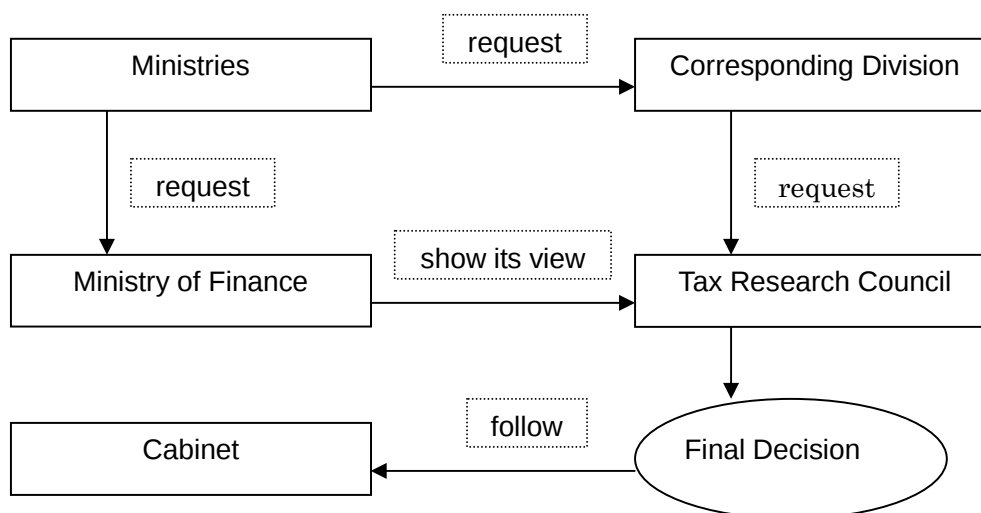


Budget Formulation Process

In the case of tax policy, the LDP plays a more dominant role. The procedure within the government is very similar to that followed in the case of the budget. However, there is a powerful Division of the PRC in the LDP known as the Tax Research Council¹⁷. The Tax Research Council receives requests for tax changes for the following year from the corresponding PRC divisions in the LDP and produces the final decision in the LDP. The Cabinet has to follow this decision. The MoF can only show its own view to the Tax Research Council when it is consulted. Each Ministry may only explain its request to the corresponding PRC division in the LDP.

Neither the prime minister, the finance minister nor the other important cabinet members are involved in any of these processes. The real decision makers are frequently influential LDP backbenchers but nevertheless it is the cabinet members who have to take responsibility for the decisions and be accountable to the Diet. The separation of decision-making and responsibility, along with the closed discussion between the LDP backbenchers and civil servants, makes the process all the more opaque. However, the prime minister and the finance minister can become influential through the mobilization of

public support for their policies. LDP backbenchers are dominant in terms of institutional arrangements, but public support for the prime minister's policies can facilitate a counter attack against them. This is a part of the reason for the relative importance of the results of opinion polls in Japan compared with other major industrial countries.



Process of the Change of Tax Policy

LDP backbenchers individually prefer higher expenditures and lower tax. Heavy intervention by the LDP makes budget cuts very difficult. The MoF is politically very weak compared with the LDP backbenchers. This is the main reason for the growth in the budget deficit particularly in circumstances where the economy has been sluggish but a fiscal crisis has not yet happened. Against this background, possible tactics for the MoF in its attempt to contain the growth of expenditures could be as follows:

- (i) To contain budget requests from the Ministries by setting low ceilings in the guideline. That is, the budget should be contained from the outset before discussion with backbenchers starts.
- (ii) To cut amounts in the same categories by an equal rate.
- (iii) To compile a supplementary budget in exchange for cutting the next year's budget expenditures

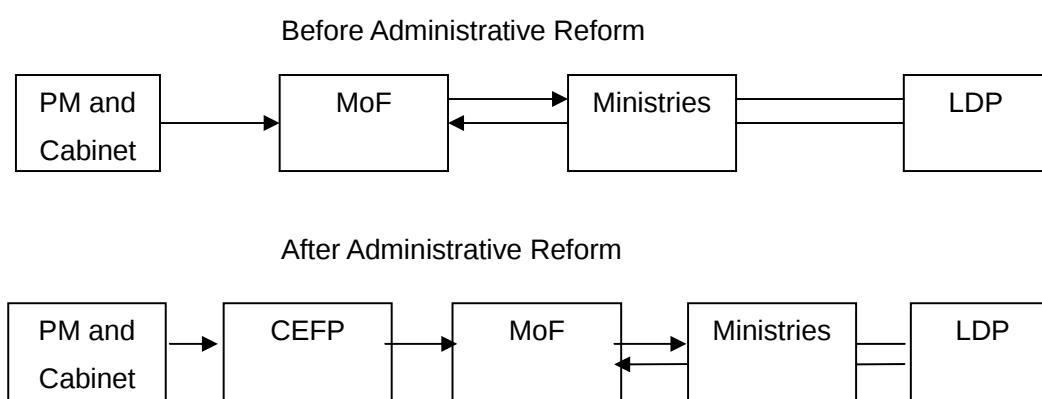
A combination of (i) and (ii) has been frequently used for fiscal consolidation. However, it is not easy to realize radical prioritization where the strategy is to cut the previous year's budget by the same rate for each category. The effectiveness of (iii) lies in the fact that the next year's budget ceiling is measured by the previous year's initial budget excluding the supplementary budgets. However the problem is that this approach is addictive and led to

LDP backbenchers expecting increasingly larger supplementary budgets every year particularly in the 1990's¹⁸.

(3) The Role of the Council on Economic and Fiscal Policy (CEFP)

The CEFP was set up in the Cabinet Office in January 2001. The CEFP consists of relevant ministers including the prime minister, the finance minister and the economic minister as well as some people from the private sector and academic circles. It was intended that the CEFP should take on a leadership role and play an important part in realizing a heavily prioritized budget by instructing the MoF to make deep cuts in unnecessary spending and to reform the fiscal structure, which would otherwise tend to suffer from an increasing deficit. However, the institution has not worked as intended. The reason for this is clear. The CEFP cannot make an impact on the competition between the prime minister and the LDP backbenchers. Even though the prime minister chairs the CEFP, that body's proposals will not be realized unless the LDP backbenchers are in favour.

One of the aims of Prime Minister Hashimoto's¹⁹ administrative reforms in the late 1990's was to increase the prime minister's capacity for initiative by creating the Cabinet Office as a vehicle for directing the other Ministries. This has not worked because the political competition between the prime minister and LDP backbenchers is not intra-governmental, but intra-party.



5. Banking Supervision in the 1990s

(1) Financial Turmoil in the 1990s²⁰

The financial situation has been very volatile for the last 20 years in Japan²¹. The boom in the late 1980's was extremely big and the resulting bust in the 1990's equally dramatic and much longer lasting than expected. The main culprit responsible for the boom and bust was the property market which was driven by financial liberalization and by government

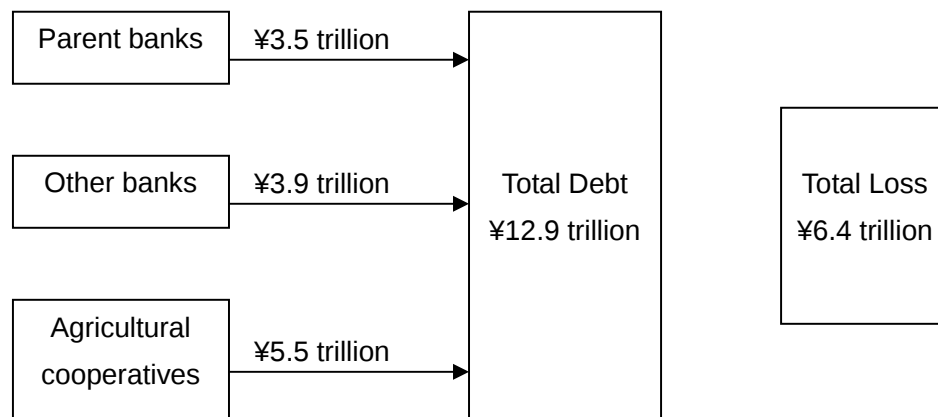
support for a policy of stimulating the domestic economy. See the attached graph of the change in the urban land price index.

The start of the financial crises in Japan was the collapse of two small credit corporations in December 1994, followed by the closure of the so-called “Jusen” in 1996. Government support for these financial institutions was so unpopular that thereafter the government shied away from further injections of public money. However, much more severe financial crises were triggered by the Asian currency crisis. With the lack of financial support by the government, Yamaichi Securities²², one of the big four securities houses, and Hokkaido-Takushoku Bank, one of the big city banks, collapsed in November 1997. The government swiftly changed its policy and introduced a nationalization scheme for big banks in failure. As a result the Long Term Credit Bank of Japan and the Nippon Credit Bank were nationalized in October and December 1998 respectively²³.

The nature of banking supervision was greatly changed as a result of the financial turmoil. The government had traditionally adopted the so-called “Convoy System”, under which competition in the industry had been limited through high entry barriers and restricted branch networks, and any bank on the verge of collapse, could be easily acquired by the big banks. However, increasing liberalization and the resulting stiffening of competition, made it harder to maintain the traditional “Convoy System”. In this situation prudential supervision became increasingly important. However, in 1990, the government had not yet facilitated the implementation of prudential supervision. This was the main reason why the financial bubble had swollen unimpeded and the resulting burst hit the banking sector very hard, in particular as the forbearance policy adopted by the banking sector as well as by the government made the situation much worse. Throughout the 1990s, the government struggled to introduce prudential supervision and to facilitate prompt corrective action. It also introduced a nationalization scheme and tightened accounting practices while at the same time authorizing a controversial government guarantee for all deposits. However, the process was far from easy not least because the financial problem was upgraded from a technical executive matter to a star attraction on the popular political agenda.

(2) Jusen Problem²⁴

“Jusen”, an abbreviation of “Jutaku-kinyuu Senmon-kaisha”, is a kind of housing loan corporation. There were seven Jusen(s) in question, all of which were subsidiaries of the big banks. The total losses suffered by the seven Jusen was estimated to be ¥6.4 trillion out of total debt of ¥12.9 trillion at the end of 1995. The essence of the Jusen problem was how to allocate the huge losses between the banks and the agricultural cooperatives that had made loans.



Western financial observers regarded the resolution of the Jusen problem as a symbol of the government's credibility in dealing with the bad loan problem in Japan. As a result a solution was pursued not through legal procedures, but through mediation by the MoF. The banks agreed to a loss of ¥5.2 trillion which was thought to be the largest amount that the law permitted. However the agricultural cooperatives did not accept any loss because they insisted that the parent banks had verbally guaranteed the loans. The then prime minister, Tomiichi Murayama, leader of the Social Democratic Party, and the finance minister, Masayoshi Takemura, the head of the Harbinger Party (or Sakigake Party) lacked power compared with the LDP backbenchers. At first the dominant LDP backbench Financial Project Team produced a resolution that the agricultural cooperatives should bear the burden of ¥1.2 trillion. The fear that losses on this scale might cause the failure of some agricultural cooperatives led other LDP backbenchers mainly from the Agriculture & Fishery Division in the Policy Research Council to take over the Project Team and to push the Ministry of Agriculture to demand that the MoF should allocate a budget of ¥0.685 trillion to the Jusen with the result that the agricultural cooperatives would only bear a burden of ¥0.52 trillion. The MoF had no other choice but to accede to the demands of the LDP backbenchers. The MoF was also prohibited from explaining the fact that the budget of ¥0.685 trillion was to rescue the agricultural cooperatives.

Great public ire was directed against the MoF in that (1) taxpayers' money was being used, (2) the MoF explanation was inconsistent, and (3) the decision-making process was not clear. The Jusen case was exceptional because there were no deposits in Jusen. Public money was actually used to come to the rescue of some agricultural cooperatives but this fact was not made clear because the MoF was not allowed to explain. In addition, it was not the central bank's money but taxpayers' money that was used and the purpose for which taxpayers' money was used was for the compensation of loss, not for capital investment. The above combination of factors along with the MoF's inconsistent

explanation made the public angrier. Though the LDP backbenchers were at fault it was actually the MoF which was blamed. As a consequence Prime Minister Murayama, Finance Minister Takemura and Vice-Minister of Finance Shinozawa, the top bureaucrat, all resigned. Due to the Jusen incident, the injection of public money and bank rescue became political taboos. This was the main reason why the Hokkaido-Takushoku Bank and Yamaichi Securities were not rescued.

(3) Cracking Down on the MoF²⁵

MoF bashing has intensified since the injection of public money into failing banks was first proposed. The public has continued to show great dissatisfaction with the MoF's policy of injecting public money into the banking sector. As usual in situations like this, the Japanese media tried to uncover or even create a scandal involving the concerned groups instead of debating the policy. The scandal revealed on this occasion was "excessive wining and dining". It is important that the political machinations involved in cracking down on the MoF should be considered alongside the revelations of scandals²⁶.

The relationship between the LDP and the MoF has been regarded as that between a principal and an agent. The relationship has been considered long-term in light of the LDP's long-term grip on power and, in the long-term, the principal (LDP) would gain by protecting the agent's interest to some extent. On the other hand, a small party like the Harbinger Party, which joined the government as part of a coalition, did not need to consider the interests of the MoF, because the relation was thought to be short-term. The Harbinger Party, led by Finance Minister Takemura, was heavily damaged by the Jusen solution and in order to avoid criticism started criticizing the MoF and insisting that the Ministry should be split into two. The LDP was sympathetic to the position of the MoF but, under heavy criticism by the media, the party compromised on several occasions.

The first occasion was during the first half of 1996 when debate on the solution to the Jusen issue was ongoing in the Diet. It was then that the decision was made that the supervisory function of the financial sector be stripped out of the MoF and transferred to the newly set-up Financial Supervisory Agency (FSA). Another was during 1997-98 when the Hashimoto reforms regarding the allocation of central government functions were under discussion. Following a critical campaign by the Harbinger Party and the mass media, the LDP compromised and agreed that the planning function for financial matters should also be transferred to the Financial Supervisory Agency. The final result was that the MoF was deprived of all functions relating to the financial sector except for the function of financial crisis prevention, which should be shared with the FSA.

In essence, in terms of weakening the MoF, the LDP sometimes defied and sometimes compromised with the Harbinger Party and other coalition parties while Prime Minister Hashimoto seemed not to play any significant role.

(4) Tokyo Financial Big Bang²⁷

Prime Minister Hashimoto announced plans for a “Tokyo Financial Big Bang” in November 1996 suggesting that the Tokyo financial market should be made free, fair and global in order to enhance its competitiveness. The details of the plan were announced by the MoF in June 1997. The “Tokyo Financial Big Bang” is a comprehensive financial deregulation plan including free business entry among banks, securities houses, and insurance companies and the deregulation of both international capital movement and of a number of businesses such as brokerages and their fee business. The reforms were mainly introduced in the period from 1998 to 2001.

What was the decision-making process for the Big Bang? Most of the radical financial deregulation plans before Big Bang had been blocked by the financial business circles such as securities houses, insurance companies and some types of banks. In the political world the Budget Division and the Financial Research Committee in the LDP’s Policy Research Council opposed all radical reform plans.

However 1996 was an exceptional period as the general public was furious at the Jusen solution and critical of the financial institutions, the MoF and the LDP. In response to public criticism the Government Reform Promotion Headquarters was established within the LDP. This was in line with the plans of Prime Minister Hashimoto. The Headquarters, organized outside the Policy Research Council, avoided consultations with the PRC and, along with the MoF and backed by the prime minister, initiated a radical deregulation plan. Supported by the general public the plan came to fruition in the face of opposition from the financial circles and some LDP backbenchers in the PRC. This policy-making process was an example of the prime minister tactically avoiding the opposition of LDP backbenchers by cultivating public anger against traditional financial regulation.

6. Conclusion

The conflict between the prime minister and LDP backbenchers, that is to say politics inside the LDP, is one of the most important factors in Japanese politics. The nature and the role of civil service or civil servants should be analyzed within this context.

Some efforts were made by the LDP to correct the way in which civil servants interacted with backbenchers. In January 2002, an influential backbench MP, Mr Muneo Suzuki,

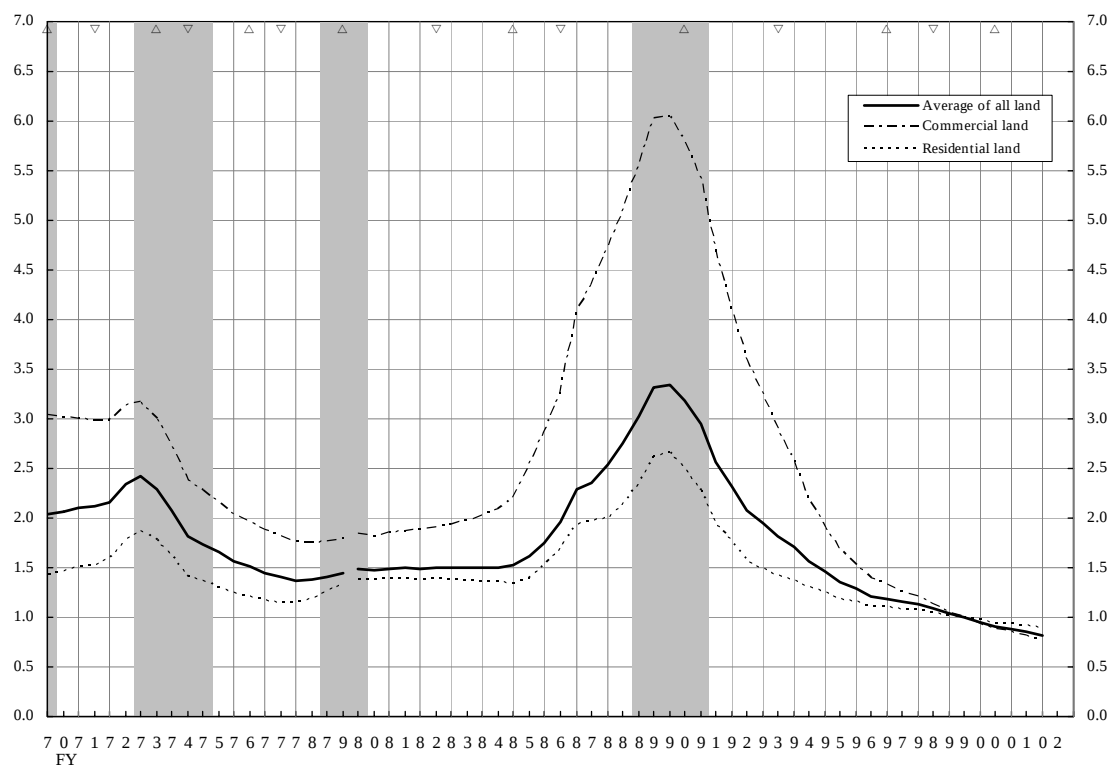
urged the Ministry of Foreign Affairs (MoFA) to veto the participation of certain NGO's in an important international conference on economic restoration in Afghanistan²⁸. When the popular Minister of Foreign Affairs, Ms Makiko Tanaka, learned of the situation through media reports, she urged the top civil servant in the MoFA to allow the NGO's participation. MoFA civil servants failed to follow the Minister's instructions and, moreover, denied that Mr Suzuki's instructions had been instrumental in the decision to veto participation which they ascribed to consideration of the government's interest. As the MoFA originally required the NGO's participation, this turnaround seems curious if we do not take into consideration Mr Suzuki's instructions. The opposition party was able to attack Prime Minister Koizumi's style of government. After several discussions in the Diet Foreign Minister Tanaka was sacked giving rise to popular anger against the administration, particularly among women, as the nature of the reality was gradually revealed. The popularity of the Koizumi administration suddenly fell precipitously. Public anger was further intensified when the public realized the extent of the influence exerted by one backbench MP on the budget of the MoFA and on the appointment of the senior civil servants.

Against this backdrop, on 13 March 2002, the LDP National Strategy Headquarters' Committee for the Formulation of a National Vision, chaired by Mr. Okiharu Yasuoka, put forward a proposal to radically reform the party and relations between politicians and civil servants. The proposed reforms included 1) the launch of a party manifesto at the time of election, 2) the abolition of the Preliminary Review System in the LDP, 3) a shift from a unanimous decision-making system to a majority vote system in the LDP, 4) the strengthening of the power of the prime minister in the government. However the majority of the LDP members opposed radical reform. The final decisions regarding relations between politicians and civil servants were compiled by 'the Discussion Committee of Politicians and Civil Servants' in the LDP on 7 June 2002. The committee suggested only that 1) when a politician intervened in government policy by contacting a civil servant, that civil servant should report the matter to the minister, 2) civil servants should not fail to report even bad news to the minister, 3) when a politician communicated with a civil servant or vice versa, any record of that communication kept by the civil servant should be confirmed by the politician. A cabinet decision on 16 July took a line almost identical to that taken by the committee's report and each ministry followed the cabinet decision and implemented it accordingly. The final decision had little or even negative impact because it failed to prohibit civil servants from contacting backbenchers, or to change the pattern of decision-making inside the LDP. In addition the reforms prohibited civil servants from keeping records of meetings without the confirmation of the politician in question, something which has proved impossible to obtain from influential politicians.

The prime minister's lack of leadership capacity and the failure of civil servants to readily follow ministers' instructions is explicable in light of the conflict between the prime minister and LDP backbenchers. Nevertheless, the nature of public reliance on the civil service has meant that it has been possible for the people to be easily misled by a media, which has not only failed to understand the situation properly itself, but has attacked civil servants instead of the real political decision makers not least because an attack on civil servants is both less risky for the media and more effective in creating public resentment.

Urban Land Price Index

(Divided by nominal GDP index; times; semi-annual)



- Notes: 1. Urban Land price index (6 large urban areas, second half of fiscal 1999 <end of Mar. 2000>=100) /Nominal GDP index (second half of fiscal 2000=100)
2. Data until second half of fiscal 1979 = 68SNA basis
 Data from first half of fiscal 1980 = 93SNA basis

Source: Tokiwa Sohgo Service Co., Ltd "Economic and Financial Data on CD-ROM", the data supplied by the Bank of Japan

References

- Cabinet Office in the U.K. Government (2000) *"Directory of Civil Service Guidance Volume 2: Collected Guidance"*,
http://www.cabinetoffice.gov.uk/propriety_and_ethics/civil_service/civil_service_guidance.asp
- Harada, Katsuhiro (2002) *"NGO Kyohi"* Gendai Jinbunsha
- Hiwatari, Nobuhiro (2000) "Reorganization of Japan's Financial Bureaucracy: The Politics of Bureaucratic Structure and Blame Avoidance" In Hoshi, Takeo & Patric, T. Hugh *"Crisis and Change in the Japanese Financial System"*, Chap.5, Kluwer Academic Publishers
- Inoguchi, Takashi (2003) *"Nihonseiji no Tokui to Huhen"* NTT Shuppan
- Kawai, Masahiro (2004) "Japan's Banking System: From the Bubble and Crisis to Reconstruction" Discussion Paper Vol. 03A-28, Policy Research Institute, Ministry of Finance, <http://www.mof.go.jp/jouhou/soken/kenkyu/ron080.pdf>
- Liberal Democratic Party "The Organization of the LDP: A Brief Overview"
<http://www.jimin.jp/jimin/english/overview/index.html>
- Ministry of Finance (2004) "Highlights of the Budget for FY2005",
<http://www.mof.go.jp/english/budget/e20041224a.pdf>
- Mizutani, Mitsuhiro (1999) *"Kanryo no Hubo: Nihon no Kindai 13"* Chuokoron-Shinsha
- Muramatsu, Michio & Yanagawa, Noriyuki (2002) "Sengo Nihon niokeru Seisakujisshi: Seito to Kanryo", In Muramatsu, Michio & Okuno, Masahiro *"Heisei Bubble no Kenkyu"*, Chap.10, Toyo Keizai Shinposha
- National Personnel Authority (2000) *"Handbook on Japan's Civil Service Statistical Overview"*, <http://www.jinji.go.jp/english/japan/japan.htm>
- National Personnel Authority (2004) *"Heisei 15 Nendo Nenjihoukokusho"*, <http://clearing.jinji.go.jp:8080/wp/jsp/search/IndexBodyFrame.jsp?sd=jine200402>
- Nishimura, Yoshimasa (1999) "Kinyu Gyosei no Haiin", Bungei Shunju
- Tett, Gillian (2003) *"Saving the Sun"*, Harperbusiness
- Toya, Tetsuro (2000) "The Political Economy of the Japanese Financial Big Bang: Institutional Change in Finance and Public Policy Making" Dissertation paper for the Graduate School of Humanities and Sciences, Stanford University

¹ We can see the same assumption in Muramatsu & Yanagawa (2003).

² See National Personnel Authority (2004: Chapter 1, Section 1) for a brief survey of the development of the civil service in Japan.

³ The main features of civil servants were described as follows: i) serving the national government, but not the local countries inside Japan which had been dominant, ii) being employed on the basis of ability, iii) being of the warrior class in feudal times, iv) being highly educated, v) hardworking with the spirit of discipline and self-sacrifice, vi) being egalitarian, vii) being sensitive to local interests and the feelings of the people in the street, viii) being regarded as representing all national interests in a fair and unbiased manner. Inoguchi (2003: Chapter 1) describes the same basic features among the Japanese civil servants.

⁴ Political parties were established almost at the same time as the civil service in anticipation of the promulgation of the Meiji Constitution and the first general election in 1890. However, politicians were mainly those who wanted to but were unable to participate in the government and who were critical of it.

⁵ The name was changed to the Ministry of Economy, Trade and Industry (METI) in 2001.

⁶ The direct meaning of “*Amakudari*” is the descent (of gods) to the earth. It refers to the re-employment of civil servants in the private sector after retirement from the civil service.

⁷ The Constitution stipulates in article (65) Executive power shall be vested in the Cabinet and in article (66) (1)The Cabinet shall consist of the Prime Minister, who shall be its head, and other Ministers of State, as provided by law, (3)The Cabinet shall, in the exercise of executive power, be collectively responsible to the Diet. When a minister persists in an opinion which differs from that of the prime minister the prime minister has the option to sack the minister and appoint a new minister with more acceptable views but this tends to damage the cabinet's reputation.

⁸ According to Mizutani (1999), Ministry of Finance was established in 1869, Ministry of Manufacture in 1870, Ministry of Justice and Ministry of Education in 1871, Ministry of Army and Ministry of Navy in 1872, Ministry of Home Affairs in 1873, and Ministry of Agriculture and Commerce in 1881, while the Meiji Constitution was promulgated in 1889.

⁹ According to the National Personnel Authority's homepage (<http://www.jinji.go.jp/english/intro.htm>) the breakdown of the 4.4 million as of 1997 was as follows:

Local public service employees	74%
Government enterprise employees	7%
Special service employees (the Defense, the Diet, the Courts, etc.)	7%
National civil servants in the regular service	12% (0.5 million)

¹⁰ According to the National Personnel Authority (2000), the number of public employees per one thousand population as of 1998 was:

Japan	36 (38)
UK	76 (81)
France	87 (97)
US	67 (75)
Germany	59 (65)

The figure inside the parenthesis is the number including defense forces.

¹¹ “The Organizational Components of the Liberal Democratic Party and Its Policymaking Processes” in the LDP's homepage: <http://www.jimin.jp/jimin/english/overview/07.html>

¹² The Secretary-General and the chairpersons of the GC and PRC are the three most important members in the LDP and are known as “Tou-san-yaku” in Japanese. When he forms his cabinet, the Prime Minister appoints these three LDP members first and then appoints cabinet members in consultation with them.

¹³ “The Organization of Liberal Democratic Party Headquarters” in the LDP’s homepage states, “The President is the Party’s highest-ranking official, its chief representative, and is responsible for overseeing its operations. However, it is important to bear in mind that because of the duty the LDP President also has to dedicate himself as prime minister to the affairs of government, it is the LDP Secretary-General who functions as the actual supervisor of Party operations.” (<http://www.jimin.jp/jimin/english/overview/03.html>)

¹⁴ “Backbencher” is not a word in common usage in Japan. I use it here to indicate a Diet member of the ruling party who holds no official position in the government such as minister or vice-minister.

¹⁵ See Cabinet Office in the UK Government (2000) in the reference list. You can find the quoted sentences in the section ‘Briefing for and attendance at events run by organizations with party political links’ pp15-17 of the guide.

¹⁶ See Ministry of Finance (2004) for the detailed figures of the budget situation.

¹⁷ The Tax Research Council is called “Zeisei-chousa-kai” in Japanese. There is also another body by the same name in the government. The LDP council is known popularly as Tou-zeichou and the government council as Seifu-zeichou. The government council is an advisory committee to the prime minister. Discussions by that body have had an influence on public opinion but it has been obliged to follow the final decision of the LDP.

¹⁸ The guidelines for the budget for the last three years, 2003-05, were not in line with the traditional pattern. The original idea of the guideline was as follows:

(i) public investment: 3% cut

(ii) discretionary expenditure: 2% cut

(iii) non-discretionary expenditure: consolidate as much as possible

However, at the suggestion of the CEFP, the first two categories were modified to a 20% increase of the above amounts in order for the MoF to be able to examine the proposals and cut them radically to prioritize. The traditional way in the past was to cut specific amounts from all the expenditures equally and then to make additions to specific areas. This was the other way round. The MoF was afraid that it lacked the power to get the approval of LDP backbenchers to a 20% cut. The ministries, which understand the situation very well, were also fearful so they submitted requests with an element of unimportant and politically non-sensitive expenditures for the MoF to cut easily.

Even so, political pressure from LDP backbenchers and other interest groups apropos the budget for FY 2003 was greater than originally expected particularly in the area of public investment expenditures. The prime minister consequently compromised and accepted a supplementary budget for FY 2002, which included 4 trillion yen of additional expenditures. However, the power of backbenchers has been adversely affected by the scandal after the budget for FY 2004.

¹⁹ Ryutaro Hashimoto was the prime minister from 11 January 1996 to 30 July 1998.

²⁰ See Kawai (2004) for the general situation in the banking sector in this period and Nishimura (1999) for the supervisory policy intentions in this period.

²¹ Nikkei Index of the stock market was as follows:

¥10,000	in Jan 1984
¥30,000	in Dec 1988
¥38,915	in Dec 1989
¥15,000	in Aug 1992
¥22,000	in Apr 1996
¥12,879	in Oct 1998
¥20,833	in Apr 2000
¥ 7,607	in Apr 2003
¥12,000	in Mar 2005

Foreign exchange rate (\$1=) was as follows:

¥263.05	in Feb 1985
¥138.10	in Apr 1987

¥100	in Jun 1994
¥ 79.75	in Apr 1995
¥146	in Jun 1998
¥105	in Mar 2005

²² Yamaichi Securities was acquired by Merrill Lynch, the US investment bank.

²³ After the nationalization, the Long Term Credit Bank resumed business under the name of “Shinsei Bank” and the Nippon Credit Bank under the name of “Aozora Bank”. See Tett (2003) for a narrative description of the political and economic development of the Long Term Credit Bank.

²⁴ See Muramatsu & Yanagawa (2002) for the details of political developments in the Jusen problem.

²⁵ See Hiwatari (2000) for the details of political developments in the reorganization of the MoF.

²⁶ The chronology of the MoF bashing was as follows:

1995 May	Two MoF senior staff were punished and resigned due to the scandal
1996 Feb.	Project Team for the reform of the MoF was established in the LDP
Dec.	Three government parties agreed that the financial supervisory role be stripped out of the MoF.
1998 Jan.	Two MoF employees were arrested for excessive wining and dining and so Financial Minister Mitsuzuka and Vice-minister resigned.
Mar.	Another two MoF employees arrested and some senior staff of the MoF were punished.
Mar.	A Bank of Japan employee was arrested for excessive wining and dining and so BoJ Governor Matsushita resigned.
Apr.	98 BoJ employees were punished and 112 MoF employees were punished for wining and dining
May	A BoJ Director-General committed suicide.
Dec.	Financial Rehabilitation Commission inaugurated.
2000 Jul.	Financial Services Agency inaugurated.

²⁷ See Toya (2003) for details of the political economy in the Tokyo Big Bang.

²⁸ Refer to Harada (2002) for the details of the story.