

The Finance Diet of 1998

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As long as the so-called 1955 system of political domination by the Liberal Democratic Party (LDP) prevailed, the relationship of politicians and bureaucrats was characterized by the leadership of bureaucrats. Politicians concentrated on coordinating the vested interests of those parties affected by bureaucrat-drafted legislation. As the system became entrenched, certain politicians established vertical ties with officials in the various ministries and agencies, allowing the politicians to serve as representatives of the vested interests related to each organ of the bureaucracy. These politicians became known as *zoku giin* or special interest groupings of Diet members. Each ministry and agency associated with such groupings of politicians, whom the bureaucrats used to lobby for the protection and expansion of their own interests in the parliamentary arena. There thus developed a mutually advantageous system of give and take.

This way of organizing public affairs started to collapse around 1993. Until then, Japan's period of rapid expansion had seen the steady growth of the pie that was divided up among rival interests. The LDP then found itself having to rely on other parties to stay in power, and it became increasingly clear that a fundamental review of the political system was necessary.

Today, with no new modus vivendi in place between politicians and bureaucrats, the necessary policies are not being executed quickly enough. In this chapter, I look back at the events of the Finance Diet of 1998 that gave rise to talk of a new breed (*shinjinrui*) of policymakers, and consider both what conclusions might be drawn from the roles of politicians and bureaucrats and what outstanding issues emerge from a reading of their behavior at the time. On the basis of my analysis, I make recommendations for improving the relationship between the two branches of government.

PREVAILING CONDITIONS

The extraordinary Diet session held in the summer and fall of 1998 became known as the Finance Diet because the key issue was how to deal with the anxiety triggered by uncertainty over the outlook for the Long-Term Credit Bank of Japan (LTCB). This session was marked by an event unprecedented in Japanese parliamentary history: A bill submitted by the government was rejected, debate was relaunched on the basis of a bill drafted by the opposition (principally the Democratic Party of Japan [DPJ]), and the opposition-inspired bill was passed into law.

Three main factors influenced this unusual course of events. First, the ruling LDP had just suffered a major defeat in the House of Councillors election, held immediately before the Diet session opened, and had lost its majority in the upper chamber of the Diet. Emboldened by this result, three opposition groups—the DPJ, the Peace and Reform coalition in the House of Representatives (composed of the New Peace Party, now known as the New Komeito, and the Reformers' Network Party), and the Liberal Party—formed a parliamentary alliance that was strong enough to prevent the government and LDP from passing any legislation, other than the budget, without their consent.

Second, this Diet session was convened at a time of economic crisis: Stock prices were at the lowest levels since the collapse of the bubble economy, and fears were being openly expressed that Japan's troubles would trigger a global depression. Hence, restoration of stability to the financial system was considered a matter of overriding importance and urgency. The government, under the late Obuchi Keizo, was the target of intense criticism at home and abroad and was even prepared to accept in their entirety opposition proposals if the proposals could thereby resolve the financial troubles and keep the government from being pushed out of office.

Third, some officials and media observers believed that the bill proposed by the opposition was better than the original government bill. More theoretically sound and practicable, slight modification would allow its stipulations to be carried out quite quickly.

Under the 1955 system, the main opposition party—the Japan Socialist Party

(JSP)—had either flatly opposed bills proposed by the governing LDP or demanded partial modification, but had very seldom proposed full-scale alternative legislation of its own.

However, the collapse of the 1955 system strengthened the view that opposition parties should be constructive and propose alternative bills. The DPJ in particular, being the largest opposition party, was and remains keen to demonstrate its ability to function as a governing party by putting maximum effort into preparing alternative legislation. As a result, it put forward a bill, related to the highly specialized field of financial policy, that was sufficiently complete and detailed for its precepts to be applied.

The changed circumstances also saw the emergence of the new breed of policymakers: young policy specialists who together thrashed out the issues and produced a revised bill that was eventually passed. The Finance Diet created a new image of politicians and prompted a reevaluation of the relationship between politicians and bureaucrats.

GOVERNMENT AND RULING PARTY ATTEMPTS TO DEAL WITH FINANCIAL PROBLEMS

Besides their basic socioeconomic role of accepting deposits and extending loans, financial institutions such as banks and securities houses had previously also facilitated economic growth by regulating the balance between savings and investment. After the economic bubble burst, however, these institutions stumbled under the weight of massive bad loans and, in November 1997, the bankruptcy of such big-name organizations as Sanyo Securities, Yamaichi Securities, and Hokkaido Takushoku Bank (HTB) effectively brought to an end the so-called convoy system of administrative regulations and guidance, by which the authorities had sought to keep institutions afloat.

A new approach was required to deal with failed organizations and dispel anxiety about the increasingly frail-looking financial system. The government's initial response came in the form of a pair of bills submitted to the ordinary Diet session in January 1998. The first was designed to reform the Deposit Insurance Law; the other was the Financial Function Early Strengthening Law. The bills were passed into law the following month. The measures included ¥30 trillion worth of public investment to aid financial institutions, comprising ¥17

trillion for the processing of failed institutions (¥7 trillion in government bond-funded subsidies, ¥10 trillion in government debt guarantees) and ¥13 trillion to shore up the surviving financial institutions' capital by such measures as underwriting their preference shares (¥3 trillion in government bond-funded subsidies, ¥10 trillion in government debt guarantees).

Prior to these bills, officials at the Ministry of Finance (MOF) considered it taboo to use public money to settle the affairs of failed institutions. This largely stemmed from the severe criticism the officials received for having proposed similar measures during the 1996 Diet session that had dealt with the failed housing loan corporations (*jusen*). Although the shocking series of financial-sector bankruptcies in November 1997 blew away that taboo, there was a limit to how deeply involved the ministry could become in policymaking given the public criticism of the MOF for various scandals, many relating to the lavish hospitality accepted by its officials from institutions they were supposed to be regulating.

The government's two bills had a number of serious flaws:

- (1) They failed to provide a basic mechanism for processing bankruptcy procedures, such as a receivership system for failed financial institutions or a bridging bank to take care of their outstanding business. A large amount of public money was simply set aside for use in financial-sector bankruptcy processing.
- (2) They left unclear the question of how to deal with failed institutions when no other organization could be found to take over their business, as was the case with HTB.
- (3) The capital injections they made available to healthy institutions failed to address the responsibility of management and shareholders, thereby encouraging the window-dressing of accounts.
- (4) The standards and principles governing injections of public investment were left vague, as a result of which all key decisions were left to the Financial Crisis Management Committee (known as the Sazanami Committee after its chairperson, Meikai University Professor Sazanami Yoko).

So it was that in June 1998, just three months after Japan's major banks had been declared healthy and given injections of public money, the LTCB started to exhibit signs of

serious financial weakness. Its share price collapsed, dragging down the shares of other banks, triggering a general stock market decline, and causing the value of the yen to fall on foreign exchange markets.

With the existing measures collapsing, the government and LDP drew up a new policy, the Comprehensive Plan for Financial Revitalization (the so-called Total Plan). This plan was produced by the Government–Ruling Party Conference to Promote the Comprehensive Plan for Financial Revitalization and included a bill to set up a bridging bank. However, the new policy was not designed to deal with the failure of a megabank like the LTCB but, rather, was directed at continuing the practice of finding merger partners for failed banks. The government, accordingly, sought to broker a merger between the LTCB and Sumitomo Trust & Banking. Hence, the six government bills relating to the Total Plan that were submitted to the Diet in early August did not include measures for dealing with megabank failure. At this point, the government still clung to the principle that major banks could not be allowed to fail.

THE DPJ'S RESPONSE TO THE FINANCIAL PROBLEMS

Those in charge of financial policy at the DPJ had realized quite early that the nation's financial problems were extremely serious and that a megabank failure was a real possibility in the near future. The perception became stronger still after the Yamaichi and HTB bankruptcies in November 1997. It was the view within the DPJ that the troubles which had brought Yamaichi and HTB down would eventually spread to megabanks. Accordingly, the party perceived an urgent need to establish a system for dealing with megabank failure that would prevent panic spreading throughout the financial sector even were one of the biggest banks to fail. The DPJ energetically pursued the issue in an attempt to find workable countermeasures and conducted hearings at which were expressed the opinions of academics and market players familiar with domestic and foreign financial affairs.

In the course of debate, two conflicting opinions emerged. Some in the DPJ felt that further handouts of public money to the banks should not be countenanced, while others felt there should be a bold application of public investment to properly and rapidly sort out the

bad-loan problem. Gradually, those who saw the need for urgent measures using public investment were able to gain the understanding of the party. In the end, it was decided to use an approach that had been used in Sweden to deal with megabank failure: temporary nationalization. Although this was a most irregular procedure, it had the merit of being flexibly applicable to bank failures of any scale. Accordingly, in May 1998, the party began work on the drafting of a financial revitalization plan, including a policy for failed institutions incorporating the use of the temporary-nationalization concept. By the end of June, the DPJ Financial Phoenix Plan was unveiled.

Encouraged by the results of the July House of Councillors election, DPJ leader Kan Naoto instructed that the Phoenix Plan should be turned into a concrete parliamentary bill. Work on the project went ahead, with the assistance of the Legislative Bureau of the House of Representatives. The most contentious problem encountered in drafting the bill was the compulsory purchase of shares in failed banks. The Legislative Bureau opposed this position because of concern that it might be seen as infringing on Article 29 of the Constitution guaranteeing the right to private property. In the end, the provision was retained on the basis that it was for the courts rather than legislators to interpret the Constitution.

Having made this political decision, the DPJ took the draft bill to the other opposition groups—the Peace and Reform coalition, and the Liberal Party—which had proposals of their own. By early September, a bill that included features of all three proposals had been hammered out. The resulting Bill Concerning Emergency Measures for the Revitalization of the Functions of the Financial System (Financial Revitalization Bill) was presented to the Diet as a joint opposition party bill.

PARLIAMENTARY DEBATE

The government and LDP flatly refused to accept that the LTCB was bankrupt and sought to ride out the crisis by merging the LTCB with Sumitomo Trust & Banking and injecting a large amount of public funds into the merged institution. The opposition parties argued that the artificial prolonging of the bankrupt LTCB's life, without any careful audit of assets and

liabilities, would not eliminate the existing financial uncertainty. They called for a strict audit, a recognition of the bank's bankruptcy based thereon, and rule-based bankruptcy proceedings. While the two sides continued to argue over their positions, share prices continued to fall and the possibility of a global financial panic being triggered by Japan seemed increasingly plausible.

The deadlock was finally broken when DPJ leader Kan stated that he would not seek to make political capital out of the nation's financial problems, and Prime Minister Obuchi steeled himself to accept the opposition proposal in its entirety. The two leaders met and an agreement was reached on September 18. Work was promptly started on the bill's revision, based on the opposition draft, that entailed a series of working-level meetings between the LDP and DPJ, after which the negotiators would take the latest developments back to their respective party executives for approval. The initial meetings involved no bureaucrats, their role being limited to commenting on the draft bill brought back to the LDP executive from the meetings.

The relatively junior Diet members who participated in these working-level meetings became known as the new breed of policymakers—their discussions being very different from the horse-trading that had usually gone on at meetings between the parties' Diet affairs committees. The policymakers began with a theoretical discussion of the policy rules to be agreed upon, making it relatively easy for the frontline negotiators on both sides to establish a shared awareness of the issues; reaching agreement was then straightforward. However, since the upper echelon of the LDP still had some old-fashioned Diet members who did not understand this new kind of policymaking, time and again a DPJ-LDP agreement would be reached only to have an LDP executive send the draft back for further discussion. It took a lot of time and work to achieve a final agreement.

When the bill passed into law as the Law Concerning Emergency Measures for the Revitalization of the Functions of the Financial System (hereafter the Financial Revitalization Law), some within the LDP called for the creation of a scheme to deal with ailing financial institutions prior to bankruptcy. The LDP brought before the Diet another bill—the Financial Function Early Strengthening Bill (hereafter the Early Strengthening Bill). Both the Peace and

Reform coalition and the Liberal Party, which had been in the DPJ camp for deliberations on the Financial Revitalization Law, aligned themselves with the LDP on this bill, which was consequently passed with only minor revisions.

A number of factors lay behind the change in political alignments. Ozawa Ichiro, leader of the Liberal Party, was keen to use the nation's financial problems as a weapon to bring down the Obuchi administration in a single blow, and was not pleased with Kan's declaration that he would not make political capital of the issue. Meanwhile, the LDP leadership was alarmed at the prospect of its younger legislators wandering dangerously close to the DPJ way of thinking during the working-level negotiations. So, while the young Turks were absorbed in negotiations on the Financial Revitalization Bill, the leadership reportedly was quietly applying the time-honored techniques of parliamentary deal-making to bring the Peace and Reform coalition and Liberals over to their side. In their zeal to pursue pure policymaking, the new breed of politicians exhibited some naiveté with respect to matters of political stagecraft. The situation mirrored a remark made by Miyazawa Kiichi regarding fellow former Prime Minister Takeshita Noboru: "Although reason seemed to be on my side, somehow things always seemed to go Takeshita's way." The Takeshita brand of realpolitik seems to have been at work with regard to the Early Strengthening Bill. In this case, the new breed of politicians grabbed the political initiative in the form of the Financial Revitalization Bill, only to have it snatched away from them in connection with the Early Strengthening Bill. In this respect, the Finance Diet cast in sharp relief the new and the old faces of Japanese politics.

REMAINING ISSUES

Diet deliberations on financial legislation require specialized knowledge. These deliberations are not as susceptible to the ideological solutions that tend to emerge from political debate and, in fact, have little connection with the usual issues of political debate. In the past, the drafting of this type of legislation has been left almost entirely to the bureaucrats. During the 1998 Finance Diet, however, politicians took the lead in lawmaking. The Diet session symbolized a shift from government led by bureaucrats to government led by politicians. In a

sense, this is evidence of the extreme gravity of the situation in the financial sector: The situation had become a political issue. The shift to a government led by politicians also signaled an improvement in the quality of Japanese politicians, who were now capable of debating financial problems. But the shift also reflected Japanese people's loss of faith in bureaucrats who had made the financial sector their fiefdom while displaying a paucity of policy ideas and a propensity for corruption as revealed by numerous embarrassing scandals.

This is not to say that the Finance Diet was an ideal model of politician-led politics. Far from it. Rather, the Finance Diet served to demonstrate just how many problems needed to be overcome before a truly healthy system of politician-led politics could be established.

Market-Influenced Financial Problems

Due to market-driven considerations, the Finance Diet session ended with the governing and opposition parties coming to an agreement that satisfied neither side. Protracted discussions were pushing down share prices and, with all the talk about fears of a Japan-triggered global depression, it seemed apparent that the markets would not permit further political conflict.

The need to respond rapidly to market trends was one of the reasons that financial policy often had been relegated to bureaucrats. The democratic process of political debate and consensus formation is not suited to policy challenges in which daily—indeed hourly—fluctuations in market trends are a material factor.

Nevertheless, when financial policy entails saddling the general public with the burden of supporting private-sector financial institutions, key political decisions must be based on a democratic process. The country's citizens are becoming increasingly less willing to trust civil servants to use the taxpayers' money as they see fit without some system of checks.

In order to resolve this apparent contradiction, a new division of labor between politicians and bureaucrats is required. When dealing with issues that demand a high level of specialized knowledge and a rapid policy response, a division of labor is needed that can generate policy which leads markets and is not merely led by them.

The Need for a Shared Perception

If policy discussions are to be productive, it is essential that participants have a shared perception of the existing state of affairs. In the case of the Finance Diet, there was a substantial perception gap among participants regarding the seriousness of the financial crisis confronting Japan.

Because those on the government side were not prepared to envision the collapse of such megabanks as the LTCB and Nippon Credit Bank (NCB), they had not considered procedures to deal with bank failures on that scale. Even LDP Diet members who could envision the possibility of megabank failures tended to hope that a solution to the LTCB problem could be negotiated by way of a merger with Sumitomo Trust & Banking, while the government's response to other failures could be framed after the Diet had passed a bill to set up a bridging bank. As a result, among the LDP Diet members there was relatively little sense of urgency. Moreover, the government stance was that, since a rapid disposal of bad loans could damage the economy, it would be better to deal with the problem gradually.

On the opposition side, some of the DPJ Diet members were conscious of the extreme danger posed by the financial uncertainty and of the destructive power of the markets that threatened to bring down one of Japan's megabanks at any time. The critical need for a safety net, to prevent panic from spreading even should the worst-case scenario come to pass, led to the proposal for a framework that would facilitate a bold, swift clean-up of financial institutions. Some of the DPJ Diet members were convinced of the need for the highly irregular procedure of temporary nationalization as a scheme to deal with a worst-case scenario. They also sought to compel banks to set aside greater reserves against losses stemming from bad loans and to undertake capital reductions and accept injections of public investment if they lacked sufficient capital. Their plan contemplated the transformation of the Japanese financial system in just two years.

The perception gap between the government and LDP on the one hand, and the opposition DPJ on the other, gradually narrowed in the course of deliberations. As a result of compromise, in the final legislation no obligation was imposed on the banks to create reserves

against losses, and the Early Strengthening Bill was passed with its provision for voluntary acceptance of capital injections. The DPJ's view was that if strict audits were carried out at all the banks and the banks were compelled to make reserves at a fixed rate against losses from bad loans, virtually all banks would be found insolvent or nearly so. The banks could then be dealt with under the provisions for dealing with failed institutions as specified in the Financial Revitalization Bill. The party saw no need, therefore, for the Early Strengthening Bill aimed at institutions not yet declared insolvent. However, in the course of revising the Financial Revitalization Bill, the compulsory measures disappeared. As a result, nearly all banks could be categorized as technically not yet insolvent and this created a need for the Early Strengthening Bill. This perception gap was the main reason that the DPJ had failed to adequately focus on the pre-insolvency processing of financial institutions, and was thus unable to muster an adequate response to the suddenly unveiled Early Strengthening Bill.

The complex and contradictory nature of the information available at the time was largely to blame for the difference in perceptions. Depending on one's source of information, one could have alternatively concluded that all the banks were absolutely solvent, that all of them were effectively bankrupt, or that their situation lay somewhere in between. On the Tokyo Stock Exchange, however, banking shares continued to sell in a manner reflecting the most pessimistic reading of the situation.

Even today it is impossible to state with confidence what might have constituted the most correct reading of information in 1998. It is no exaggeration to say that there were then no adequate standards for information disclosure, and that there was little available in terms of objective information. These days, how one goes about collecting and screening information in the process of forming political positions is a matter of great and growing importance. It is essential that we establish a system of information disclosure and supply that will enable politicians to make correct decisions on the basis of information that is as objective and accurate as possible.

Defects in the Policymaking Process

During the Financial Diet, the LDP's policymaking process differed from its usual approach, according to which bureaucrats would draft a bill, related LDP subcommittees would discuss it, and the party's Executive Council would then formally adopt it as party policy. This time, however, the draft for the Financial Revitalization Bill was drawn up not by bureaucrats, but by LDP Diet members in working-level consultations with opposition Diet members. The results of these consultations were then reviewed by the party's Policy Research Council executives and bureaucrats. Under the 1955 system, consultations between government and opposition parties had seldom focused on substantive policy issues, rather they had been exercises in gamesmanship in which each side struggled to lose as little face as possible. In that sense, the substantive cross-party discussions during the Finance Diet were a significant break with the past. Moreover, since bureaucrats were forbidden to engage in direct contact with opposition Diet members, they were unable to pull any strings backstage during the revision process—something that they were accustomed to doing even with bills submitted by Diet members.

The new approach led to confusion as the LDP attempted to establish its position, greatly slowing down the process of achieving consensus at the consultations since, as earlier mentioned, agreements reached at working-level talks were repeatedly overturned by the LDP leadership upon review by the party. This problem underlined the difference in organization between a bureaucratic institution and a political party, the latter lacking a clear-cut hierarchy.

In a bureaucracy there are general rules about what level and type of decision can be made at each level in the hierarchy. When a matter goes beyond an official's jurisdiction, he must consult his superiors before a decision can be made. Senior and junior officials work as a team, constantly exchanging information and coordinating views. This means that there is seldom any major difference of opinion between higher and lower levels in the hierarchy. Politicians, by contrast, tend to act according to their own agendas, and the relations of seniority and subordination are far less clearly defined than in a bureaucracy. Hence, it is unclear just what decision-making rights and responsibilities rest with those members of the Diet directly engaged in inter-party negotiating. On top of this, the very real differences of opinion among LDP Diet members involved with financial policy added further confusion to the decision-

making process.

In the end, the LDP executive found it could not tolerate all the confusion over the consultations to revise the Financial Revitalization Bill, and resorted to old-style politics. A traditional backroom deal was cut to bring the Peace and Reform coalition and Liberals over to the LDP's side. The LDP Diet members who had been on the working team discussing the Financial Revitalization Bill with the DPJ were replaced on the new team that worked on the Early Strengthening Bill. This change of personnel was part of the reason for the basic difference in the thinking involved in the two bills.

Inadequate Opposition Strategy and Structure

The passing of a bill based on an opposition party's draft, in the highly specialized field of financial policy, after government-opposition consultations and in the form of a bill submitted by Diet members, was a turn of events entirely without precedent. This enabled opposition parties to demonstrate to the general public that, unlike opposition parties of the past, they had the ability to draft policies that could apply in the real world. It was also a sign that the DPJ had the ability to draft legislation, and represented a first step toward a future change of administration. Even so, the manner in which the opposition went about proposing policy left a number of problems unresolved.

First, the policy compromises that were necessary for the opposition parties to form a united front resulted in some imperfections in the execution of the policy. The original DPJ draft bill was governed by the principle that strict rules should be established and that accountability was necessary in order to stabilize the financial system in a stroke and within in a short period of time. However, the need to present the draft bill as a joint bill by three opposition groups required some policy compromises. These compromises were necessary because without the joint opposition campaign, the Financial Revitalization Bill, with its radical provision for temporary nationalization remaining intact from the original DPJ draft, would probably not have passed. Still, these compromises and others added in the course of government-opposition negotiations resulted in some problems in the application of the law.

A second problem centered around the issue of responsibility for the new law. Since the opposition was involved in drafting the legislation, it also had to bear a measure of responsibility for the way the law was implemented. In the case of the Financial Revitalization Law, a number of defects became apparent at the implementation stage, including the issue of who should bear the burden of secondary losses arising from the application of the law. Some of the defects increased the economic burden on the general public, leading to criticism of the opposition parties, especially the DPJ, as the original authors of the bill. The LDP and its governing coalition partners were especially vocal in condemning the DPJ on this point. However, it is the governing parties that have responsibility for running the administration and which should bear the blame for problems resulting from the legislation. After all, the government carries executive responsibility. If it finds defects in a new law, it should take measures to correct them. Instead of taking such measures, the LDP chose only to heap opprobrium on the DPJ as its original author—rather like a dangerous driver who causes an accident and blames the car.

A third problem involved the shortage of manpower. A total of six opposition Diet members, with only four or five assistants, drafted policy in the highly technical field of finance, worked out the fine details, and prepared the policy to become law. Apart from some technical assistance from the House of Representatives Legislative Bureau in drafting the bill, they received no outside help.

Absorbed in the Financial Revitalization Bill, and exhausted by the effort devoted to it, the DPJ Diet members and their staff were quite unprepared to deal with the sudden appearance of the Early Strengthening Bill. They did not have a chance to examine the bill until after it had been submitted by the LDP. With little time and a fracture in the opposition groups' united front, the DPJ did not have the energy to come up with an alternative blueprint that it could use to force the government to accept as the party had done with the Financial Revitalization Bill. The end result was that the Early Strengthening Bill was passed without having been subjected to sufficient debate.

The DPJ's frustration over this incident should be channeled into positive action. Stronger party machinery could improve the party's capacity to draft policy and turn it into

legislation, preparing the party for the day it takes over the reins of government. To accomplish this goal, the staff of the party's Policy Research Council should be reinforced, and the party should build networks with outside specialists in every field who can provide assistance should an issue require special expertise. To this end, establishing the party's own think tank would be one possible option.

Antagonism between Politicians and Bureaucrats

Distrust of bureaucrats on the part of politicians led to the complete exclusion of the former from consultations between the government and opposition during the Finance Diet. Marking a clear break with an era when politicians relied on bureaucrats to think for them, the Finance Diet represented a first step toward a new style of politics in which politicians would claim the leading role. The bureaucrats grumbled for some time about details of the legislation, which led to a rupture with politicians. Consequently, the bureaucrats declined to point out deficiencies in the legislation. It was these deficiencies that, once discovered during the implementation stage, placed an extra burden on the general public.

Because the politicians refused to trust the bureaucrats, they were obliged to check the legislation themselves—including the very technical details. Distracted by the fine print, the politicians failed to clearly articulate a clear expression of intention on the big-picture issues that really mattered, such as whether to aim for a hard or soft landing for the financial sector, and how soon to aim for stabilization of the financial system. All told, this was a classic instance of how the failure of politicians and bureaucrats to cooperate worked to the detriment of the nation. Since bureaucrats cannot be eliminated, politicians must make sure they are put to work in the public interest. Distrusting bureaucrats and so excluding their contributions to the policymaking process can hardly be described as responsible political leadership.

FUTURE RELATIONS BETWEEN POLITICIANS AND BUREAUCRATS

The age of bureaucrat-led politics is over. No longer will bureaucrats monopolize information

and be involved in every phase of the policymaking process. However, even if it is recognized that the bureaucracy has lost its ability to wield executive power—to decide the future course and strategy of the nation, and realize that strategy through policymaking—and may not even be an appropriate agent to take on such a role, the fact remains that these functions are vital to the governance of the nation. Someone, or some group of individuals, must perform those functions if the country is to avoid the fate of an airplane that, with its pilot incapacitated, is heading for disaster with a cabin full of passengers. Whether politicians should take over the cockpit is open to debate. Clearly their role has grown in recent years, but given the present political system, there is a limit to how much of the executive function they can handle.

Regarding the issue of who should exercise executive power, it may be useful to consider two basic questions: What is democracy? What is the essence of democracy? As one model of state governance, few would deny that the objectives of democracy lie in the promotion of public welfare and socioeconomic development. It follows that a government, entrusted with safeguarding the livelihood, property, and rights of its people, has an obligation and responsibility to make decisions that are conducive to the well-being of the nation.

The essence of democracy that can meet these objectives is based on two key principles: (1) National (government) leaders are elected by the people and can be brought down by the will of the people; and (2) different ideas about how the rules governing issues should be decided lead to differing conclusions on the relative roles of politicians and bureaucrats.

While recognizing that both the above principles are present in democracy, the emphasis should be placed on the former, that is, on democracy as a set of rules determining how the authority to decide the will of the nation is generated. It is essential that the government should have the means and ability to decide an appropriate direction and strategy for the country, and to realize that strategy in the form of policy. While elections embody the democratic principle of majority rule, and politicians chosen through this process have democratic legitimacy, they do not guarantee that all the politicians have the ability and skill to run the government. Nor do democratic elections necessarily guarantee that each of the decisions made by politicians, through majority vote in parliament, will protect the livelihoods, property, and rights of the people, and be generally conducive to furthering the

public interest.

Rather, the central role of the national parliament and its member politicians should be both to produce a government that can be entrusted with the livelihoods, property, and rights of the people, and to monitor the government and its legislative powers to ensure the government engages in self-regulation. It follows that if the government makes decisions that run contrary to the public interest, the parliament and its members can work through the medium of a democratic election to produce a new government.

Japan's bureaucrats, who are not at risk of being removed from their seat of authority by suffering electoral defeat, have not correctly fulfilled the role expected of them. On the contrary, their misuse of authority has led to a series of scandals that have blown away the old myth that Japan's well-being is assured by the excellence of its public servants.

Originally, public servants' positions were guaranteed so as to ensure their impartiality, since the main role of the administrative branch of government is to implement laws. Conversely, those who exercise executive power should not have their positions of authority guaranteed, since their role entails deciding the direction and strategy of the nation and turning abstract concepts into concrete policy.

The problems now confronting Japan would thus appear to stem from the failure of the cabinet to fulfill its executive function and adopt the correct organizational structure to fulfill its role. These failures have, indeed, left Japan appearing like a jumbo jet without a pilot. Hence the directionless drift of Japan through the aptly named "lost decade" of the 1990s. Japan urgently needs to break out of drift mode and progress in a clearly defined direction, to which end the cabinet must be reorganized so that it can properly use its executive powers. This was made abundantly clear by the case of the Finance Diet.

Japan urgently needs a cabinet that has democratic legitimacy along with a sufficient specialist knowledge to deal with academics and other experts. This cabinet needs to make decisions of principle and policy that are in the public interest. Under the current legal structure, the first requirement is that the ruling party (or parties) and the government be unified, as is the case in the United Kingdom. In the LDP governments to date, the government and ruling party have been spoken of as if unified, whereas in fact there has been

a dual power structure—the government, particularly the cabinet wielding power, as well as the governing party (or parties), most often the LDP. The business of deciding policy has entailed parallel processes of coordinating opinion within the government and within the LDP. This has led to a blurring of the issue of responsibility between the two power centers, and the net result has been that both centers have been able to evade responsibility.

Once a party has been elected to office, it should unify its policymaking process with that of the cabinet. Party officials with policymaking duties—which, in the case of the LDP, means the head of the Policy Research Council and the chairs of its subcommittees—should be placed in the cabinet, and the ruling party's policy decision making must be focused on all the organs of government, especially the cabinet. This will make it clear that executive authority rests with the government, with the cabinet at its heart, and politicians will be able to proceed with drafting policy with a clear understanding of their powers and responsibilities.

In addition, adequate numbers of politically appointed staff members should be allocated to appropriate government positions. It is impossible to exercise control over the bureaucracy under the present staffing system, with each minister assisted only by a senior vice minister and a parliamentary secretary. It is necessary to increase the number of politically appointed staff members. It is important that these politically appointed staff members be able to work together under the direction of the cabinet team. Quite a large team would be needed, posing some logistical difficulty in bringing together all the members of the team after an administration comes to power and in making them work together as a team—even supposing one were able to draw them together. It follows that a political party aspiring to take office must form a team with its sights on the future before it actually comes to power. In particular, the party needs its own think tank to draft policy and foster policymaking talent.

Looking now at the internal workings of government, a clear division of labor needs to be established between bureaucrats and politicians (here meaning political appointees as well as elected politicians). Politicians should decide the basic policy principles and directions, after which they instruct bureaucrats to flesh out their proposals. Here it is important that politicians should have the ability to determine whether or not the detailed policies drafted by

bureaucrats conform to the basic principles that they, the politicians, have specified. Politicians should also be responsible for explaining policy once it has been finalized. They should explain to the opposition parties, media, and public. Politicians must become responsible communicators, ensuring that people understand what the government is trying to do. Up until now, bureaucrats have fulfilled a large part of this function. In future, the U.K. approach, which bars bureaucrats from contact with politicians other than those who are members of the government, should, perhaps, be adopted in principle. The job of publicly explaining policy must lie with politicians who are in the government, and the job of bureaucrats should be defined as serving the politicians who govern. Once these roles have been clearly delineated, the key question of who bears responsibility for executing policy should also become clear.

As for politicians in the opposition, they are in a position where they do not and cannot take responsibility for the management of the incumbent administration. Naturally they should perform the role of scrutinizing and checking the activities of the cabinet, where the executive power lies. At the same time they should continue to work on and develop the policies they would want to put into practice were they to take over the government, refining them to the point where they are ready to be turned into concrete legislative proposals. As a part of this process, they should prepare for the creation of a team capable of controlling the bureaucrats—a team that could be pulled together and function smoothly as a unified entity. In preparing their policies, opposition politicians should not call upon the assistance of bureaucrats, and indeed they would not be able to do so were such contacts to be banned. Opposition parties would benefit from developing effective think tanks to take the place of bureaucrats in providing specialist advice. Opposition parties must develop the practice of gathering a wide variety of information from a range of sources and carefully screening it in their think tanks, with a view to formulating sound policies based on the relevant information. Were an opposition party able to develop its think tank to this level, it could tap the services of the think tank staff to support the cabinet when it accedes to office.

Systematic support is required to create such an arrangement, particularly since maintaining and running think tanks entails substantial costs. For this reason, there should be

some form of public funding provided to meet these costs. For example, an adjustment could be made to the system of allocating subsidies to parties in proportion to votes obtained at general elections or some of the funds now earmarked for the governing party could be transferred to opposition parties, on the condition that the extra funding be used for think-tank management. Since the governing party's access to the resources of the bureaucracy gives it a huge advantage over the opposition parties in drafting policy, it is only fair that some consideration be extended to opposition parties to offset the disparity.

The present Japanese political structure makes no allowance for changes in the administration and does not provide support to help opposition parties take over the reins of power. Moreover, even the LDP, which has been the party of government for so many years, has hardly any policymaking staff. Ultimately, this state of affairs has led to "the eternal administration of Kasumigaseki," a reference to the domination of politics by the bureaucratic district of Tokyo where most of the ministries and agencies are located. It is time that Japan shifted to a political system predicated on changes of administrations, as is the case in other developed countries. This would also help clarify the respective roles of politicians and bureaucrats.

Considering what form executive power might take in the future, one option would be a system of public elections for the post of prime minister. Directly elected by the people through due democratic process, such a prime minister would serve a fixed term and would form a government by staffing his cabinet with political appointments. This would bring to an end the dual power structure seen with the LDP and the government. The cabinet would formulate policy, which would then be debated in the Diet. The Diet, in turn, would monitor the cabinet's use of its executive powers and retain its present right to pass a vote of no confidence in the cabinet. Likewise, the prime minister would retain the right to dissolve the Diet.

Such a system would likely produce prime ministers with far longer terms of office and stronger authority over cabinet appointments than at present. This would result in greater self-awareness and a stronger sense of responsibility on the part of the cabinet in the use of its executive powers. The possibility of introducing direct elections for prime minister is

currently a hot topic within the cabinet of Koizumi Jun'ichiro. When the pros and cons of such a system are considered, the fact that it would serve to clarify the character of the cabinet as the seat of executive power should not be overlooked.

CONCLUSION

The circumstances surrounding the Finance Diet left many unresolved questions as to the ideal form of politician-led politics. But it remains an indisputable fact that this was a breakthrough in the shift in the control of politics from bureaucrats to politicians, and it provided an opportunity for policy-minded politicians to emerge from the backrooms to center stage. Since then, there has been a rapid increase in the amount of energy and attention devoted to policy by politicians. There has also been an increase in the number of young people who want to engage in policy-driven politics and who are taking on the challenge of entering the political world. I am sure this trend will change the quality of Japanese politicians in the near future.

Members of the general public, too, hope that politicians will engage in more open policy debate. They are no longer satisfied with the old-style policy decision making in which politicians disappear into smoke-filled rooms to coordinate vested interests well out of the public eye, emerging only when deals have been finalized and they are ready to inform the public of their final conclusion. The public wants to see the issues aired, draft proposals published, have a sense of policy direction, and develop a clear understanding of the process by which those draft proposals are turned into formal policy. For the most part, politicians alone do not have the skills required to resolve the myriad conflicts of interest involved in issues with massive implications for the entire nation such as social security reform. Many of the issues confronting Japan today are extremely complicated and of gargantuan scale. The stage is being set for politicians with a flair for policymaking to get out in front and show the public what they can do.

Meanwhile, the world of bureaucrats is also at a watershed. In 1994, when I resigned from the Ministry of Finance in the sixth year of my own career in the bureaucracy, it was

extremely rare for a young bureaucrat to abandon his profession. It is no longer so. Every year, more young people have been leaving the bureaucracy—some, like me, to go into politics, others to seek arenas of action in different fields. If this trend continues, Japan's bureaucracy will eventually be unable to maintain the caliber of professionalism that once led it to be called the finest civil service in the world. A lowering of the quality of public officials will be to the detriment of the public interest. Since we must have bureaucrats, they should be of the highest caliber, by which I do not simply mean individuals who are just good at passing exams but, rather, those who can respect the new relationship between bureaucrats and politicians, and can make that relationship work.

When these new-style politicians and bureaucrats come together to forge a new form of interaction—built on a new consciousness and according to new ground rules—we may at last be able to proclaim the birth of a true post-1955 system.