

The Reform of Public Corporations

Tatebayashi Masahiko

ON June 30, 1994, the Liberal Democratic Party (LDP) regained control of government when it formed a ruling coalition with the Social Democratic Party of Japan (SDPJ) and the New Party Sakigake (*sakigake* means "pioneer"). The LDP had been the ruling party from 1955 to 1993, but it was ousted from office after the general election of the House of Representatives (Lower House) in July 1993. After unhappily sojourning with the opposition for almost 11 months while two consecutive non-LDP administrations, the Hosokawa and Hata cabinets, held power, the LDP allied itself with the SDPJ and Sakigake and recommended SDPJ Chairman Murayama Tomiichi as their joint candidate for prime minister. Two weeks after this three-party coalition government was created, it issued a package of policy initiatives that had originally been proposed by the SDPJ and Sakigake. One of the major components of the plan was administrative reform, especially the reorganization of *tokushu hōjin*, or public corporations.¹ These quasi-governmental organizations dealing with public finance and business operations have been the focus of public criticism for their inefficiency and for "interfering" with private business activities.

On February 24, 1995, the Murayama administration decided its public corporation reform plan, proposing that of the approximately 90 public corporations one be dissolved, three be privatized, and 14 be reorganized to form seven corporations.² This plan led to considerable public resentment. Why so little change, said critics, despite the broad public call for "small government"? The plan would only reduce by 11 the total number of public corporations, while their functions would

largely be continued by transferring them to the surviving public corporations or to their previously affiliated ministries or agencies. Critics concluded that the reform initiative meant "almost nothing" (Matsubara 1995, 113), and "ended miserably" (Ōtake 1997, 20). However, I believe that this severe criticism actually reflected the gap between the high public expectations generated by Prime Minister Murayama's initial reform proposals and the blueprint later agreed upon by the three parties.

If one takes a historical perspective in examining administrative reform in Japan, the Murayama public corporation reform plan can be regarded as having been relatively successful. Japanese administrations had attempted several reform schemes in the previous three decades, with little success. The most recent prior to Murayama, an initiative by the Third Provisional Council for the Promotion of Administrative Reform (Third Reform Council) in 1993, which will be described in detail later, failed completely.³ By these standards, the Murayama reform effort made considerable progress. The number of public corporations eliminated by the Murayama reform plan also compared favorably with past reform schemes, and was as ambitious in this respect as the well-regarded Ōhira administration reform plan of the late 1970s, which reorganized 13 of the public corporations.

The Murayama plan undoubtedly influenced all the public corporations by issuing guidelines for upgrading their activities and organization. Most significantly, Murayama's initiative can be regarded as having set the agenda for administrative reform by the three-party coalition. This compelled the succeeding LDP government of Prime Minister Hashimoto Ryūtarō, who replaced Murayama in January 1996, to commit itself to administrative reform as a major policy. It was noted at the time that the Murayama reforms actually restricted the specific policy choices of the Hashimoto administration (Ōtake 1997; Mikuriya and Watanabe 1997, 181).

Thus, the Murayama reform plan for public corporations, while not an unqualified success, at least equaled the achievements of past LDP administrations. In this chapter, I will examine how the Murayama administration formulated its reform plan and will analyze the pattern of policy making by the three-party coalition. The chapter will address particularly such questions as whether the shift from a one-party government to a coalition government brought about any changes in the policy-making process or outcomes.

Two currently prevailing approaches to these questions both emphasize the continuity of the political structure in post-World War II Japan. Both regard major political developments in the 1990s, including party reorganizations and electoral reform, as merely superficial changes. Analysts adopting one of these approaches have emphasized the LDP's dominance in the three-party coalition government, assuming that the LDP could maintain its influence to almost the same degree as it had under prior single-party rule. The "failure" of the Murayama public corporation reform plan was attributed to interference by LDP *zoku* politicians who tried to defend their special interests. (The term *zoku* refers to middle-ranking Diet members who have considerable influence in a specific policy area, related to a particular ministry or agency.)

Other political observers have emphasized the dominant role of bureaucrats in policy making. If the bureaucrats are assumed to have maintained continuous dominance over the policy-making process, then one could infer that there would be no major change in public policies, even with a change in party control and cabinet formation. This approach posits that the LDP had gradually strengthened its control over bureaucrats as LDP politicians accumulated knowledge in policy areas. The formation of the non-LDP coalition in 1993, however, increased bureaucratic power in policy making, because few of these politicians had experience in working with bureaucrats to make policy (Nakano 1996). The "ineffectual" Murayama reforms were also regarded as evidence of continuing bureaucratic dominance, as the bureaucrats labored to protect their turf and thwart attempts at reform.

However, I would argue that these interpretations do not explain why the Murayama reforms were much more successful than the Third Reform Council initiative announced 18 months earlier. In this chapter, I will present a third interpretation to explain the positive aspects of the Murayama reforms, emphasizing the changes in the policy-making process under the coalition system. I will argue that changes in party politics transformed public corporation reform policy formation in two opposing directions, thus neutralizing the impact that each would have, and bringing about a similar outcome to those of past reform attempts.

On one hand, party reorganization and the formation of succeeding opposition and LDP coalition governments seemed to stimulate LDP politicians to adopt new policy preferences and provided them with

stronger incentives to carry out administrative reform. The coalition framework forced the LDP to compete with its coalition partners to claim credit for new policies and, at times, to compromise with its partners in policy decisions. In the case of public corporation reform, Sakigake took an opposing stand, strongly insisting that more than one-third of the approximately 90 public corporations be reorganized or privatized.

Moreover, because the LDP had been thrown out of office for the first time in its almost 40-year history, due to party reshuffling, LDP politicians now became concerned that with the adoption of new electoral reform laws they would lose control of the government again in the future. These changes seemed to loosen the close cooperative links between the LDP and bureaucracy that had been forged during the LDP's long-term rule. Geddes (1994) uses several Latin American nations as examples in arguing that government leaders in a two-party system are more likely to carry out administrative reform than those under one-party dominance. She claims that the two-party system, where ties with the bureaucracy are fairly evenly distributed among the major parties, provides political leaders with more incentives to carry out reform. I would argue that LDP politicians, correctly or not, interpreted the new electoral system to be a simple "Westminster" model, e.g., single-seat districts with plurality rule. Thus, they seemed to display obsessive concern that the electoral reforms would result in a two-party system in the future.

On the other hand, however, the coalition government increased bureaucratic autonomy and made administrative reform more difficult. The principal-agent theory posits that multiple principals enlarge the manipulatable space that agents can enjoy. Hammond (1994) writes that the differing policy preferences of the various governing parties in a coalition cabinet create a large policy space within which bureaucrats can maneuver. In the case of the Murayama cabinet, I would argue, the bureaucrats took advantage of this "manipulatable space" to defend their interests and dilute the proposed public corporation reforms.

The next section of this chapter will review the chronology of public corporation reform plans under earlier LDP rule and during the Murayama administration. The chapter will then examine the reform process by the three-party coalition, in terms of the strategies of the respective participants and the procedures for decision making.

*COMPARING MURAYAMA REFORMS
WITH PAST EFFORTS*

Although the three-party coalition under Murayama was certainly the driving force behind public corporation reform, we cannot say that a coalition government is a necessary prerequisite for reform of public corporations, since such reform attempts have been made several times by LDP administrations as well. The Murayama reforms actually resemble earlier efforts in scale and scope. Over the years, criticism of the inefficiency of public corporations gradually increased and events such as bribery scandals, which flared up intermittently, would act as a catalyst to a new reform initiative. The LDP was not itself inclined to carry out administrative reform, since many LDP politicians maintained strong links with public corporations, regarding them as a political resource. Thus, outside pressure was sometimes needed to force the LDP to commit itself to administrative reform.

Administrative reform cannot be carried out via the routine process of policy making (March and Olsen 1989). In other words, because it requires special mechanisms to accomplish reforms, each reform process inevitably differs from others. However, it seems to be possible to roughly categorize the various attempts at public corporation reform in Japan into two types.⁴ One is reform from outside the bureaucracy administering the corporations. Administrative reform by the Second Provisional Commission on Administrative Reform (Second Rinchō) in the early 1980s is an example of this type. In the case of public corporations, the reform process began with the establishment of a deliberation council for administrative reform—the Third Reform Council. The council then presented a specific reform plan, which the cabinet adopted and executed through coordination with the ministries. While LDP leaders were consulted by council members in advance, lower-ranking LDP Diet members, who are more positive toward public corporations, were relatively isolated from the policy-making process.

The other type is reform from inside. Administrative reform in Japan was sometimes routinely carried out by bureaucrats themselves. Examples of internal reform of public corporations include efforts carried out under Prime Ministers Miki Takeo, Fukuda Takeo, and Ōhira Masayoshi in the 1970s. In all of these cases, the reform plan was actually drafted by the ministry concerned through consultations with the Administrative and Management Agency (the predecessor of the

Management and Coordination Agency). Especially in the case of the Ōhira administration's reform, each ministry was assigned a numerical goal for public corporations, requiring them to merge superfluous corporations when necessary. Since this type of dispersed decision-making resulted in fragmented policy, rank-and-file members of the LDP held veto power in the subdivisions of the LDP's Policy Research Council.

These two types of administrative reform proved effective in bringing about desired outcomes in some cases but not others. There seemed to be no causal relationship between the type of policy making and its outcome. For example, reform of public corporations under the Ōhira cabinet, which was driven by public criticism over bribery scandals involving the Japan Railway Construction Public Corp. and Japan's international telephone carrier, KDD (Kokusai Den shin Denwa Co., Ltd.), succeeded in rapidly reducing the scale and number of public corporations. The Second Rinchō was also able to carry out dramatic reforms, with the partial privatization of three major public corporations: the Japanese National Railways, Nippon Telegraph and Telephone Public Corporation, and Japan Tobacco and Salt Public Corporation.

RECENT PUBLIC CORPORATION REFORM EFFORTS

Third Reform Council

This advisory council, which was organized by the Prime Minister's Office and operated from the fall of 1990 to the fall of 1993, discussed reform of public corporations. After being asked to do so by Prime Minister Miyazawa Kiichi in September 1992, council members discussed the role of government and organizational problems in the bureaucracy. The council suffered from an early failing: Its members tried to identify problematic public corporations at the beginning and propose specific reform plans for them, rather than creating a general guideline for reform.

From February to April 1993, the council held hearings to which it invited bureaucrats representing each ministry holding jurisdiction over the problematic public corporations it had previously identified.⁵ On April 6, the council publicized an interim report that included specific names of 34 public corporations that had been discussed during

the hearings. This report attracted a great deal of attention from the mass media, raising public expectations that the council would subsequently issue a drastic reform plan. However, in the final report publicized in October, the council declined to identify by name those public corporations needing reorganization; it simply advised the government to review the role of the public corporations and desirable reform. Drafting of actual reform proposals was left to the bureaucrats.

This "retreat" from reform was caused by the combined resistance of the bureaucrats, LDP politicians, and the public corporations themselves. Politicians have their own special interests concerning public corporations, since these corporations receive considerable budgetary funding and funds from the government's fiscal investment and loan program. Although the council tried to hold a second round of hearings after publicizing its interim report, it was unable to do so because ministry bureaucrats and public corporation representatives universally refused to attend them. Reportedly, Hashimoto, then chairman of the LDP's Policy Research Council, and other influential LDP members not only were in support of this stonewalling, they had initiated it.

The failure of the council's reform efforts has also been attributed to the ineffective strategies that it adopted. Bureaucrats did not cooperate with the council, some analysts say, because they felt it had failed to legitimize the first-round hearings. The bureaucrats complained that the council arbitrarily selected 34 of the 92 public corporations as their targets for reform. However, no matter on which side the fault lay, the basic problem was the mutual hostility between bureaucrats and council members that was present from the beginning. Since fall 1992, the council had been organized as a means of attacking the bureaucracy. Few former bureaucrats were selected to serve as council members, as had been the case in prior reform councils. A subcommittee system was abolished, since it had provided former bureaucrats with additional influence in the past. In addition, the council broadened its focus beyond the issue of public corporations. In its interim report, the council proposed more aggressive plans, including the reform of personnel affairs and the fiscal investment and loan program, and the reorganization of ministries. Bureaucrats thus assumed that the peripheral issue of public corporation reform spurred proposals for more significant administrative reform.

The other major problem that the council faced was the lack of support from government leaders and external groups. Prime Minister

Miyazawa placed priority on deregulation and decentralization; he displayed little enthusiasm for restructuring the bureaucracy. Business leaders also failed to pay particular attention to administrative reform. The chairman of the Japan Chamber of Commerce and Industry even expressed some anxiety as to whether the reform plan would affect financial organizations for small and medium-sized businesses.

Hosokawa Administration

Members of the Third Reform Council expected that the Hosokawa administration, which was formed by an eight-party coalition, would revitalize the reform initiative begun by the council. Prime Minister Hosokawa Morihiro himself was chairman of one subcommittee of the council until May 1992, when he ran for the House of Councillors, and he had publicized his determination to carry out administrative reform. However, it was too late to revise the Third Reform Council's final plan. As already mentioned, the council's report, issued in October, two months after the Hosokawa administration was formed, merely included guidelines for formulating reform plans and allowed each ministry to devise its own plan.

The Hosokawa administration approved its "General Program of Administrative Reform," based on the final report of the Third Reform Council, in a cabinet meeting held on February 15, 1994. It requested that each ministry examine all public corporations under its jurisdiction and address their problems within two years. This was a surprisingly muted response by the Hosokawa administration, considering the prime minister's earlier stated commitment to administrative reform. This is partly because he was forced to concentrate his efforts on electoral reform for the first six months of his administration. At the start of his administration, Hosokawa also focused on the issue of government deregulation, which allowed him to claim some positive results. For example, the deregulation of the beer industry, which led to the rise of many small local brewers, was widely covered by the mass media. However, Hosokawa apparently procrastinated on issues, including reforming public corporations and the postal savings system, that were controversial among the ruling parties. The slow response of the Hosokawa administration was also due to the failure of the Third Reform Council's initiative. The Hosokawa cabinet's "General Program" appeared to represent a new start after the failed efforts of the earlier report.

After the "General Program" was approved, the eight ruling coalition parties discussed public corporation reform in some interparty organs, such as the subcommittee for administrative and financial affairs of the Tax Reform Council of the coalition parties. However, this failed to accelerate the slow process of reform. The final report of this subcommittee added little to the "General Program" except for shortening the time allotted to the ministries for tackling their public corporation problems from two years to one year. At that time, it was clear that a two-year time limit was allowing ministries to defer any efforts to examine or carry out reforms of their public corporations. The only action taken had been by the Administrative Management Bureau of the Management and Coordination Agency, which has jurisdiction over administrative reform. The bureau had examined public corporations in terms of their routine management of bureaucratic organizations in general.

*POLICY MAKING BY THE
MURAYAMA ADMINISTRATION*

The LDP-SDPJ-Sakigake Coalition

The stagnating reform process was finally revitalized by the launch of the LDP-SDPJ-Sakigake coalition. As part of an initial agreement among the three parties, they concluded that administrative reform was a necessary precondition for garnering public acceptance for an increase in the consumption tax rate. They organized a task force to tackle administrative reform in July 1994. In the early summer, at the start of the new coalition government, the media paid considerable attention to a reform plan proposed by Sakigake which proposed privatization of 13 public corporations, including the Japan Development Bank, the Japan Highway Public Corporation, the Housing and Urban Development Corporation, and the Housing Loan Corporation; eliminating three public corporations, including the Livestock Industry Promotion Corporation; and reorganizing 31 corporations into 14. It also proposed decreasing the share of government holdings of the Nippon Telegraph and Telephone Corporation and Japan Tobacco Incorporated, both of which had been privatized in the mid-1980s, and delegating authority to local governments for regulating three public corporations, including the Hokkaido-Tōhoku Development Corporation.

The reform plan by Sakigake attracted much public attention, as it

concretely identified the public corporations targeted for reform by name and proposed dramatic steps in privatizing and eliminating public corporations, and unifying those that were under the jurisdiction of more than one ministry. Bureaucrats criticized this plan as unrealistic. The party's coalition partners, the LDP and the SDPJ, also regarded it as fanciful. Sakigake itself did not seem to take it seriously. Tanaka Shūsei, one of the founders of Sakigake, wrote that this plan was never officially authorized by Sakigake's organization (Tanaka 1995, 157–159). However, the Sakigake plan had a large impact on the ensuing policy-making process. Later plans issued by the coalition government were always compared unfavorably with the Sakigake proposal and criticized as representing a retreat from reform. The mass media came to regard the Sakigake plan as an ideal model for reform.⁶

The task force formed by the three parties decided on its "Basic Plan for Administrative Reform" in September 1994. The coalition parties decided to shorten the time allotted for reform to one year. Based on this plan, the Management and Coordination Agency made a more detailed reform schedule, directing each ministry to submit an interim report to the agency by November 25 and a final report by February 10 of the following year.

Task Force Discussions

Membership in the 12-person task force was allocated to the ruling parties as follows: six for the LDP, four for the SDPJ, and two for Sakigake. The smaller parties were overrepresented compared with their numerical strength. Three chairmen—one from each party—served in one-month rotations.

After deciding on a basic plan, from October to November the task force held hearings on the public corporations, to which it invited bureaucrats and corporation representatives. These hearings were said to be comprehensive and intensive, examining everything from the routine work of each public corporation to the possibility of it being dissolved. This exhaustive approach was probably adopted by the project team due to the fact that the Third Reform Council had engendered resistance from the bureaucrats by identifying problematic public corporations before holding their first round of hearings.

The Ministry of Finance seemed to take a wait-and-see approach to the proceedings. In the past, the ministry played an important role in administrative reform by pressing other ministries to cooperate. The

Finance Ministry had its own organizational goal of cutting budget deficits by implementing administrative reforms. At this time, however, the ministry bureaucrats argued that rationalizing or merging public corporations would not improve the government's finances one whit. The Finance Ministry seemed to be wary of being a target of reform itself, since there were several major public corporations under the ministry's jurisdiction, including the Japan Development Bank, the Export-Import Bank of Japan, and the People's Finance Corp.

The Management and Coordination Agency was responsible for coordinating efforts by the other ministries to draft their own reform plans. When the coalition parties decided to shorten the time period to one year, the agency directed the other ministries to start examining their affiliated public corporations. After announcing the time schedule, eight directors-general for management⁷ in the administrative management bureau of the Management and Coordination Agency invited and interviewed heads of bureaus or sections that directly oversaw their respective public corporations. These agency interviews were held independently of those conducted by the task force, although agency bureaucrats sometimes consulted with task force members to hear their views on what kind of questioning would be appropriate.

Each of the ministries formed its own internal task force to examine affiliated public corporations. The composition of these task forces varied; in some ministries the task force was led by the vice-minister, while in others it was directed by the director-general of the ministry's or agency's secretariat, or the director of the general affairs division in the ministry's secretariat. The bureaucrats in each minister's secretariat, who are sometimes said to be more pro-reform than officials directly responsible for the public corporations, were responsible for coordinating with these officials. Some ministries established examination committees inside the public corporations and let them draft their own reform plans.

Interim Report

In response to pressure from the task force and the Management and Coordination Agency, each ministry submitted an interim reform plan to the agency by November. It was notable, however, that not a single ministry proposed dramatic reforms, such as merging, dissolving, or privatizing public corporations. The ministries all claimed that none of the public corporations satisfied the criteria for applying these

extreme reform measures that had been specified in the governing coalition's basic plan. Some ministries even insisted that their public corporations be maintained in their current form. For example, the Economic Planning Agency reported that "since the function of the Overseas Economic Cooperation Fund (OECF) is to supply public funds for development to areas where it is difficult to attract private capital, privatization would not be effective. Because no other organizations like OECF exist which can supply developmental loans, merging OECF with other institutions would not bring about greater efficiency, either" ("Koshi no omoi no ga" 1994, 3). The National Land Agency asserted that the Fund for the Promotion and Development of Amami Island was similarly essential: "This is a critical organization which provides funds on a continuing basis for promoting small businesses in the Amami islands. Since special measures are required to develop this area, it would not be appropriate to delegate national authority to the local government" ("Jigyō kakudai motomeru" 1994, 2). Moreover, the Science and Technology Agency claimed increasing demand for the services of the Japan Information Center of Science and Technology.

Some ministers followed their ministry's or agency's stance in appearing to be unenthusiastic about the prospect of reform of public corporations. For example, Kōmura Masahiko, director-general of the Economic Planning Agency, and Hashimoto, who was then minister of international trade and industry, strongly insisted on the continuation of the public corporations under their jurisdictions.

Most of the ministries seemed to be marking time, waiting to see how the other ministries would respond. Bureaucrats of the Management and Coordination Agency claimed that they had expected to encounter such passive responses by the ministries. However, Murayama and his political staff seemed to regard the report with trepidation, since it made them recall the failures of the Third Reform Council, which had been severely criticized by the mass media. Murayama said at a breakfast meeting on December 5 with leaders of Keidanren (Japan Federation of Economic Organizations), "If we continue to allow the ministries to draft their own reform plans, I am afraid that they will just keep repeating, incessantly, that 'this public corporation is indispensable.' I think we should have the chief cabinet secretary and the director-general of the Management and Coordination Agency [both ministers] identify the problematic public corporations"

("Shushō, tokushu hōjin minaoshi" 1994, 3). In other words, he suggested the adoption of a top-down approach to this problem.

On December 26 and 27, 1994, Igarashi Kōzō, chief cabinet secretary, and Yamaguchi Tsuruo, director-general of the Management and Coordination Agency, held detailed discussions with all of the ministers about the reform issue. Some ministers finally mentioned specific names of public corporations targeted for reform and detailed their reform plans, Igarashi said, noting that "this represented a certain degree of progress from when the interim report was issued" ("Taishoku-kin kyōsai" 1994, 1, evening edition). However, the overall approach remained bottom-up, not top-down. It was reported that Igarashi and Yamaguchi barely revealed their own plans to the other ministers, but instead just listened to the presentations by the ministries.

By this time, some ministries indicated that they were planning to restructure the public corporations under their jurisdiction. The Ministry of Transportation conceived a scheme to merge the Maritime Credit Corporation and the Railway Development Fund. The Ministry of Agriculture, Forestry and Fisheries reported that it was considering merging two of its six affiliated public corporations, the Japan Raw Silk and Sugar Price Stabilization Agency and the Livestock Industry Promotion Corp., and the Science and Technology Agency announced that it was considering merging two of its six public corporations. The Ministry of Construction publicized its plans to downsize the Housing and Urban Developmental Corp., while the Ministry of Home Affairs revealed its intention to privatize the Finance Corp. for Local Public Enterprises.

While some ministries presented concrete reform plans, most of the ministries merely reiterated their findings from the interim report. Bureaucrats from the Ministry of International Trade and Industry were especially vocal in criticizing the prime minister and his staff, claiming that the goals of the reform initiative were not clearly defined.

Labor unions that would be affected by the initiative actively lobbied SDPJ politicians against administrative reform in order to protect their members' interests. The leaders of the Labor Federation of Government Related Organizations (LAFGO) met with SDPJ member Yamaguchi and Yagi Toshimichi, a vice-minister of the Management and Coordination Agency, in December, requesting that the government initiate a mechanism that would allow laid-off workers from eliminated public corporations to find jobs in other public corporations.

Yamaguchi acceded to their request, eliminating LAFGO's primary objection to administrative reform. LAFGO, which is part of Rengō (Japanese Trade Union Confederation), then changed its position, becoming more tolerant of reform in general. LAFGO's more flexible position on public corporation reform was criticized by anti-Rengō labor unions. The administrative reform task force representing the three parties later agreed to honor the agreement between the SDPJ and LAFGO by promising that there would be no firing.

Final Decisions

What was the task force on public corporation reform doing while the ministries drafted their own reform plans? Members of the task force actually pressed the ministries to draft more positive plans, but they never proposed their own, sufficiently detailed alternatives. They wanted to lead the reform policy-making process, but because they were overly concerned about engendering the opposition of affected business groups and labor unions, they were unable to decide on details. They delegated execution of reforms to the bureaucrats in order to avoid criticism from their political supporters.

The three-party coalition government decided to move the date of their decision on the reform plan to February 10, 1995. They wanted to finalize the plan to enable them to prepare for Diet debate on the issue, as the New Frontier Party, the largest opposition party, was planning to place priority on administrative reform as part of its tactics for the upcoming Diet session.

Two important factors, which influenced policy making in the final stage, should be noted. One was the Great Hanshin-Awaji Earthquake of January 17, 1995, and the other was the emerging issue of reorganizing public financial institutions. The disastrous earthquake in Kobe increased demand for assistance from public corporations involved in reconstruction activities. The Small Business Finance Corp. and the Japan Development Bank stated publicly that they were considering urgent measures for earthquake recovery. The Hanshin Expressway Public Corp., which had been a target for reform, undertook a large amount of reconstruction work. While members of the coalition's task force argued that the need for public corporations in the long term should be discussed separately from the short-term impact of the earthquake, many business leaders, especially those in the Kansai area, became more supportive of the public corporations.

The reform of public financial institutions also began drawing public attention in January. Only in its initial proposal did Sakigake insist on a drastic reform plan for public financial institutions. The party's initial plan included calls for the privatization of the Japan Development Bank and the Housing Loan Corp. as well as a merger of the Export-Import Bank of Japan and the OECF. Except for this early proposal by Sakigake, the reform of financial institutions had rarely been discussed by the three-party coalition. But now suddenly some politicians, mainly in the LDP, insisted on the necessity of including financial institutions in the reform plan in the final stage.

The LDP officially proposed the merger of the Japan Development Bank and the Export-Import Bank, both of which were under the Finance Ministry's jurisdiction, to the policy coordinating committee of the ruling coalition on February 8. Sakigake criticized the LDP proposal as inefficient, and party members presented their own counterproposal to merge the two banks with the Hokkaido-Tōhoku Development Corp. They also proposed combining the People's Finance Corp., the Small Business Finance Corp., and the Environmental Sanitation Business Corp. into one entity. While the LDP plan focused on public corporations under the jurisdiction of the Finance Ministry, whose minister was Sakigake head Takemura Masayoshi, the Sakigake plan involved several different ministries. Sakigake's scheme, however, met resistance from the LDP, because the Hokkaido-Tōhoku Development Corp., the People's Finance Corp., the Small Business Finance Corp., and the Environmental Sanitation Business Corp. were all tied to the electoral interests of incumbent LDP members. Negotiations between the LDP and Sakigake on the reform issue became deadlocked, while the SDPJ took a neutral stance, concerned that the coalition would break up.

Hashimoto, the minister of international trade and industry, consulted with Takemura and proposed a compromise that would establish an advisory organization to discuss the reform of public financial institutions, including the fiscal investment and loan program. His proposal, however, was criticized by Katō Kōichi, chairman of the LDP's Policy Research Council, and it soon foundered.

On February 10, the deadline for making a final decision, coalition members proposed several compromise plans to bridge differences between the LDP and Sakigake positions. But they were unable to reach an agreement and finally postponed a decision about financial

institutions for one month. Late that evening, Chief Cabinet Secretary Igarashi and Director-General Yamaguchi of the Management and Coordination Agency organized talks with the policy division chairmen and task force heads from each coalition party, pursuing a final compromise. This political party maneuvering, however, resulted in a draft reform plan that differed little from the proposals already drafted and publicly announced by the ministries. To reach a compromise on reform of public financial institutions, the coalition parties formed another task force for this issue. At the end of February, the LDP and Sakigake agreed on a plan to divide the Export-Import Bank into two parts, with one part merging with the Japan Development Bank and the other joining the OECF. This compromise decision was again revised during discussions at the cabinet level in March. Faced with the strong objections of the Ministry of Finance against dividing the Export-Import Bank, the coalition government gave up the idea and authorized a plan to merge the bank with the OECF.

Summary and Analysis of Murayama Reforms

How can we characterize the public corporation reforms of the Murayama administration, particularly in relation to past reforms and the failure of the aforementioned Third Reform Council?

First of all, the Murayama reforms were for the most part initiated by party politicians. There appeared to be little public demand for reform of public corporations. The business community was more interested in the issues of deregulation and decentralization than public corporation reform. For example, even after the various ministries had already issued their interim reports, in early 1995, the chairman of influential Keidanren stated that his group lacked a concrete plan "identifying which public corporations should be reformed" (*"Tokushu hōjin no minaoshi"* 1995, 2). While the business world professed indifference, labor unions strongly opposed public corporation reform. The Japan Postal Workers' Union, LAFGO, and Rengō lobbied against reform, mainly to SDPJ politicians. It could be said that the reform efforts were only possible because politicians wanted them to be carried out and they received the support of the mass media.

Even though the interests and strategies of the three parties widely varied, they agreed on implementing reform of public corporations. Sakigake members wanted to aggressively promote their party platform to the public via this administrative reform initiative, since they

were a small party and had joined in a coalition with the LDP, which they had previously criticized and from which their members had originally defected. Sakigake actually took the initiative in the reform efforts early on by publicizing its own reform scheme. However, the Sakigake plan proved too extreme to serve as the basis of the task force or the ensuing policy-making process. In sum, Sakigake's role in public corporation reform seemed to be limited to setting the agenda.

SDPJ politicians also tried to initiate public corporation reform. At the time, they were seeking a rationale for cooperating with the LDP, their former enemies, and acquiescing to an increase in the consumption tax. However, the SDPJ did not seem to be able to play a leadership role in the reform efforts. Although the ministers of ministries involved in administrative reform were all SDPJ members, they were constrained from playing key roles. A major factor in this decision was the opposition of labor unions. Moreover, some SDPJ members, especially those from outlying districts, expressed support for public corporations due to the benefits they provided. Clearly, the LDP was not the only party involved in pork-barrel politics.

The LDP, on the other hand, which had previously defended the bureaucracy, was pro-reform this time. The LDP had obviously changed its stance: LDP politicians had been responsible for ensuring the failure of the Third Reform Council's efforts, and they had helped bureaucrats and public corporations maintain the status quo a year earlier. While they were out of office, however, LDP members came to understand the harsh truth that bureaucrats always fall in love with the party in office. Many LDP members thought that they had been betrayed by the bureaucrats. Moreover, the LDP realized that in a three-party coalition it could no longer claim credit for every action the government took. The LDP had to compete with coalition partners in claiming credit for policy making. Since Sakigake was enthusiastically advocating administrative reform, and the SDPJ had lent its tacit support, the LDP had no choice except to proceed with reform efforts. Participation in the three-party coalition's decision-making procedures made it easier, however, for the LDP to justify having adopted this altered stance to opposing rank-and-file members. Members of the subcommittees of the party's Policy Research Council lost much of the veto power they had enjoyed during earlier reform efforts. Task force members and party leaders could now take the lead in policy making, since they could legitimize their relatively centralized decisions in

terms of the need to bargain with coalition partners in order to stay in office.

A second characteristic of the Murayama reforms was that it allowed bureaucrats relative autonomy in decision making. This statement appears to contradict the prior assertion that party politicians led this process. However, bureaucrats were clearly delegated authority to decide the specific details of the reform plan. Coalition politicians wanted to effect administrative reform, as noted above, but they did not relish assuming responsibility for specifying which public corporations should be reformed and how reform should be accomplished. This was especially true of LDP and SDPJ members. Thus, they delegated the decision-making specifics to the bureaucrats and they tried to shirk the blame for these decisions from affected businesses and labor unions.

Ministries try to the best of their ability to protect the public corporations under their jurisdiction because they provide respectable jobs for many retired bureaucrats and because public corporations receive large government subsidies and assistance from the fiscal investment and loan program. Specific public corporations are seen as being part of a ministry's turf, resulting in escalating interministerial rivalry. Should the public corporations affiliated with one ministry undergo more dramatic reforms than those of other ministries, the supervisory bureaucrats in that ministry would be criticized, lessening their chances for future promotion. Nevertheless, ministries are not always obstinately protective of their public corporations. High-ranking bureaucrats are sometimes amenable to dissolving highly inefficient public corporations, as they are unwilling to shoulder continuing responsibility for their performance.

We can find examples of both of these general attitudes by the bureaucrats involved in the Murayama reform initiative. Ministries attempting to protect their own public corporations worked to ameliorate the impact of the Murayama reform efforts. Although they could not succeed in killing off the reform plan in the face of strong political demand, they succeeded in limiting the reforms to mergers of a reduced number of public corporations, while forestalling their privatization or dissolution. Moreover, the decisions on which public corporations to merge seemed to be affected by ministries' preferences. They seemed to have targeted either small public corporations that would not

have much impact on the ministries, or clearly inefficient corporations whose performance might generate adverse criticism.

The Management and Coordination Agency's interest in reforms was by nature different from that of the other ministries, since the agency is charged with the task of carrying out administrative reform. However, in practice, agency personnel rarely act as progressive reformers, since they are lifetime bureaucrats who engage in mutually beneficial relationships with those in other ministries. The agency staff also includes many bureaucrats who are on loan to the agency from other ministries for limited assignments. The Management and Coordination Agency tried to play a conciliatory role in resolving conflicts between the politicians and the ministries, by withdrawing from contention the most objectionable of the individual ministries' reform plans.

CONCLUSION

In sum, a comparison with past public corporation reform plans suggests that the Murayama reforms represented a mixture of the two above-mentioned types of reform, those efforts from outside the bureaucracy, and those from inside.

Ruling coalition politicians clearly indicated to the bureaucrats their commitment to carrying out reform of public corporations. Party leaders were able to use the three-party coalition's relatively centralized decision-making procedure as a means for stymieing any opposition from *zoku* Diet members. In this respect, the reform efforts seemed to be external, like those initiated by the Second Rinchō. But unlike with the Second Rinchō, politicians involved in the Murayama reforms tried to shirk responsibility for the details of the reforms by delegating authority to the bureaucrats to write concrete reform plans. The final plan for reform, except for the merger of the Export-Import Bank and the OECF, was basically a compilation of the plans of the individual ministries. In this respect, the Murayama reforms appeared to be an internal undertaking.

The conspicuous distinction between the Murayama reforms and earlier efforts was that the Management and Coordination Agency seemed to enjoy great autonomy in this situation. The political parties failed to draft a specific reform plan, unlike in the case of the Second

Rinchō, but the *zoku* politicians were unable to exercise much veto power over the proposals, like they had in the case of reforms under the Ōhira administration and other unsuccessful attempts.

The results of the Murayama reform plan, as I mentioned before, were not much different from the administrative reforms under earlier LDP single-party governments. There were important changes in the approaches taken by the major players and the decision-making procedures, and these changes had a certain impact on the reform process. However, I would argue that these two kinds of changes pushed the reform process in two opposing directions, thus neutralizing their impact on each other. The change in the LDP's stance on administrative reform made the Murayama reforms possible, but the increased autonomy of the bureaucracy prevented any dramatic reforms from taking place.

NOTES

1. Public corporations are established by special government law to serve as instruments for state activities. However, unlike government agencies, they are not directly controlled by the regulations that apply to state organizations or public officials. Many high-ranking bureaucrats take positions at public corporations after retirement, in a practice called *amakudari*, or "descent from heaven." The number of public corporations increased in the 1960s and 1970s but decreased thereafter, in response to rising criticism.

2. The reform plan for public financial institutions was announced in March. If its proposals are included in the tally of final reforms, the reform plan resulted in the reorganization of 16 public corporations to eight.

3. The Third Reform Council was preceded by the Second Provisional Commission on Administrative Reform (Second Rinchō), which operated from March 1981 to March 1983. The Provisional Council for the Promotion of Administrative Reform was organized three times to follow up on the Second Rinchō report: the first convened between July 1983 and June 1986, the second between April 1987 and April 1990, and the third between October 1990 and October 1993.

4. This characterization was first suggested in 1984 by Tsuji Keiichi, a former vice minister in the Management and Coordination Agency (Gyōsei Kanri-chō Shi Hensan Inkkai 1984).

5. Almost all the ministries have at least one public corporation under their jurisdiction.

6. However, according to Tanaka (1995), because the final reform plan fell

far short of the Sakigake proposals, in the end both Sakigake and its head, Takemura Masayoshi, suffered negative repercussions.

7. Each of the eight directors-general is responsible for two or three ministries and/or agencies.

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