

## **Changes in the Japanese Policymaking Process**

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For Japan, the last ten years of the twentieth century are now referred to as “the lost decade.” All of us are familiar with the economic dimensions of the lost decade: namely, a lackluster economy, deflation, bankruptcies, rising unemployment, and a fragile banking system. But the decade was lost in political terms as well. During this period, there were seven prime ministers before the current incumbent, Koizumi Jun’ichiro. Their average duration in office was 495 days—too brief for a prime minister to deliver his own policy program, if not someone else’s. Policy swung and swayed—from Hashimoto Ryutaro’s tightening of fiscal policy to Obuchi Keizo’s loosening of fiscal policy, and now back to tightening again under the Koizumi administration.

Koizumi became prime minister in April 2001 on a platform of reform. This has helped him gain tremendous popularity among average Japanese, even as the specifics of his reform plan have yet to be put into practice.

I am committed to fully supporting Prime Minister Koizumi’s reform, but I am not entirely sure about its rapid implementation. For one thing, Koizumi’s plan is so ambitious and sweeping that it will affect much of the bureaucracy as well as many interest groups hostile to any major change in the status quo. The history of Japanese politics tells us that an administration can usually accomplish only one large task and therefore a leader must prioritize. The Koizumi administration has put more emphasis on fiscal consolidation than on resolution of the nonperforming loan problem. It is my view that the latter is, by far, the policy issue of greatest priority, essential for enhancing productivity and profitability. Further, any implementation of structural reform warrants full attention to the dynamics of the global economy as well.

### **CHARACTERISTICS OF THE LOST DECADE**

## **The End of the “Iron Triangle”**

Another source of uncertainty over the prospect of reform lies in the fundamental decision-making process in Japan’s politics. Except for some highly sensitive issues, such as constitutional amendments and the introduction of the consumption tax, the government has been known—until 1993 when the Liberal Democratic Party (LDP) lost its majority—for making decisions and implementing policies with expedition.

Under the old regime, big businesses, bureaucrats, and politicians had a congenial relationship referred to as the “iron triangle.” The groups shared two common objectives: anti-communism and catching up with the West economically. When opinion on issues differed, top politicians of the LDP and top business leaders would meet informally to make what would become final decisions. Top bureaucrats may have had influence, but the decision making itself was done by the political and business leaders. Once a decision was made, it was formalized by due democratic procedure, that is, through discussion and vote in the Diet. Since the LDP controlled the Diet by a comfortable majority, the outcome was certain.

In the 1980s, the two common objectives of the iron triangle were achieved: Japan caught up with the West economically, and the Berlin Wall was torn down. Although this joint focus was no longer, the iron triangle retained its power, which even increased temporarily. This was evident, for example, in the early months of the Hosokawa Morihiro administration when the Ministry of Finance and the policy caucus members of the Diet flexed considerable political muscle.

### **Lack of a Beacon**

This situation did not last long, however. Two axioms held: First, that absolute power corrupts absolutely, and second, that fish rots from the head.

Soon after the power of the iron triangle peaked, it fell sharply in the face of a series of scandals. In 1989, the Recruit stocks-for-favors scandal brought down both the Ministry of Labor and the Ministry of Education. In 1995, the Ministry of Health and Welfare suffered in the shadow of the AIDS tainted-blood scandal. Even the highly respected Ministry of Finance and Bank of Japan were ravaged by scandal. In recent months, the Ministry of Foreign Affairs has

been wallowing in scandal after scandal, as has the Postal Services Agency because of its illegal involvement in the House of Councillors election of 2001. In the course of events, politicians and high-ranking officials have been arrested or forced to step down.

This state of affairs may be the result of a lack of a control tower, or a beacon, in government. Under the iron triangle system, political leaders such as Takeshita Noboru and a few intellectual bureaucrats conducted government policy as if it were a national beacon, but this guiding principle is no longer. The death of guru politics may be viewed as democratic progress, but the present system is unhealthy. Now, less prominent political figures concentrate on their political survival by making alliances with ad hoc policymaking units.

### **The Ad Hoc Policymaking Machine**

The series of scandals fueled public resentment of the iron triangle in general and the LDP in particular, which has made it difficult for the LDP to capture a majority in the House of Representatives since 1993. Policy under these circumstances has been decided on an ad hoc basis. Under the Hashimoto administration, for example, younger politicians and bureaucrats played an important role in policy decisions as well as policy planning. Under the Obuchi administration, coalition partners of the LDP played a significant role. Under the Mori Yoshiro administration, the Policy Research Council of the LDP, headed by Kamei Shizuka, was instrumental in policymaking.

In the first several months of the Koizumi administration, the Prime Minister's Office seems to be most influential, but it is too early to know for certain. Many academics and private advisors work in the Prime Minister's Office, but no one can tell who, other than bureaucrats, really shapes an administration's central doctrine on matters such as the ¥30 trillion ceiling on the annual bond issuance. When key actors have changed in the last decade, decisions of the government have been made on an ad hoc basis, depending on the power structure of each administration.

## **Deterioration of the Government's Political Power Base**

Associated with the ad hoc feature of decision making is the fact that each government since the Hosokawa administration has ended up weakening its own power base. For example, in February 1994 the Hosokawa administration suddenly proposed an increase in the consumption tax under the name of the "national welfare tax." This grossly unpopular proposal, coupled with a series of internal conflicts among the coalition parties, brought down the non-LDP coalition, putting the LDP back in power four months later.

The next prime minister, Murayama Tomiichi, had been head of the then Social Democratic Party of Japan (SDPJ), which had long denounced the U.S.-Japan Security Treaty as well as the Self-Defense Forces (SDF). Murayama endorsed both the treaty and the SDF, thereby forgoing the socialist credo. As a result, the SDPJ lost so many seats in the following general election that it was reduced to a very small party.

Shortly after Hashimoto became prime minister in early 1996, he proposed an ambitious reform package, an unprecedented act for an LDP prime minister selected through due process. I took part in his financial reform, which was called the Big Bang, as well as in the revision of the Bank of Japan Law and the creation of the Financial Supervisory Agency. By trying for so ambitious a plan, however, Hashimoto cut off the well-established linkages between the bureaucracy and policy caucus members of the Diet, alienating both and contributing to his downfall.

Under the Obuchi and Mori administrations, government spending increased dramatically. In this period, the idiosyncrasies of the public works programs became apparent, leading to the review of public works under Koizumi.

All this is as ironic as it is paradoxical, but an important question arises now with respect to what Koizumi is going to destroy. There is the chance that the Koizumi administration will end up destroying the LDP's traditional power base: farmers, small shop owners, and small manufacturing and construction firms. Koizumi himself has suggested as much by saying, "Let us change the LDP, thus let us change Japan."

Ad hoc decision making and deteriorating power bases have characterized Japan's politics during the last decade. Will a new decision-making process be established in the near future? What kind of policymaking process is emerging now as a model for the future of Japan?

## **NEW FEATURES**

The Diet used to be called a rubber stamp because the vast majority of government-sponsored bills were voted on and agreed to in the Diet without revision. However, under the ad hoc policymaking process in the past decade, the Diet has emerged with a new cast.

### **“Brats in the Diet”**

The political process that in 1998 produced the Comprehensive Plan for Financial Revitalization (the so-called Total Plan) for resolution of nonperforming asset problems and the subsequent Financial Revitalization Law (FRL) marked the beginning of a new style of policymaking in Japan. Traditionally, in Japanese politics, only party leaders collaborated to maintain a status quo environment; the ruling party paved the way and opposition parties agreed reluctantly. However, on this particular occasion, a group of junior politicians with policy expertise—known as the *seisaku shinjinrui*, or “brats in the Diet”—were able to take action themselves, thus generating a new approach in policymaking among bureaucrats, the ruling party, and opposition parties.

These are the details: Within a week after the Obuchi cabinet was installed, the bill regarding emergency measures for the revitalization of the financial system (which was to become the FRL) was submitted to the Diet on August 5, 1998. The FRL, originally drafted by the Ministry of Finance, included the bridge bank scheme for the resolution of bad loans. By that time, however, the Long-Term Credit Bank of Japan (LTCB) was showing signs of failing and the Ministry of Finance tried to rescue it by injecting public capital and forcing a merger with the Sumitomo Trust Bank. The plan did not succeed. The Ministry of Finance had wished to discuss the LTCB issue separately from the FRL legislation and, therefore, proposed only the bridge bank scheme, because, as a practical matter, the scheme was geared mainly to small banks, not to large money centers like the LTCB.

Junior politicians within the LDP had other ideas. They tacked on a nationalization scheme to the FRL legislation that could be applied to the LTCB. This was welcomed by both financial markets and public opinion, which were pleased for the departure from the ministry's policy of pampering the banks. In fact, these junior LDP politicians had developed the Total Plan approach to the nonperforming assets problem in the beginning of 1998. The plan included a strict due-diligence measure for nonperforming assets, the establishment of debt-servicing companies, and drastic improvements in bankruptcy proceedings, all of which were a change from the past policy of forbearance and were intended to push the ministry and banking industry toward a fundamental resolution of nonperforming loans. The important point here is that it was not only the opposition party members who took issue with the bureaucrats' plan; strong objections were also raised within the LDP.

All major parties agreed to the FRL on September 26, 1998. The most striking aspect of the outcome was the fact that the final bill was based on drafts from both the LDP and opposing parties. It included both bridge bank and nationalization schemes. The bureaucrats had to implement, almost unconditionally, a law devised by junior politicians from both the LDP and opposition parties. The LTCB was nationalized and its nonperforming assets fully removed under the application of the FRL. The case was unprecedented.

Several factors account for how these "brats in the Diet" came to play a major role in legislating the FRL. First, although they were inexperienced, their main asset actually was their expertise. Whereas senior politicians obtain their information mainly from bureaucrats, the younger generation of politicians approaches a wide spectrum of sources, both in and out of the country, to obtain the necessary knowledge and information.

Second, they were flexible. No matter their party affiliation, they worked to create a better FRL. Because they acted as public spokesmen, inter-party debate and negotiation became possible. Third, with their expertise and flexibility, these junior politicians developed a practical vision for fundamental policy change. Also it should be noted that the then party leaders, Kato Koichi in the LDP and Kan Naoto in the Democratic Party of Japan (DPJ), allowed these junior politicians to play a significant role in the policy debate, perhaps because of the sense of urgency generated by the financial crisis in the global markets.

Some argue that the FRL would not have passed the Diet without the *seisaku shinjinrui*. After the FRL passed, senior politicians and factional politics regained power and junior politicians were removed from center stage of the policymaking process. Soon after Obuchi formed a coalition government with the New Komeito and the Liberal Party, these “brats in the Diet” lost their influence on policymaking. Junior politicians possess expertise without power; senior politicians possess power without expertise. This is one of the most persistent and daunting dilemmas in Japanese politics.

### **Political Appointees and Bureaucrats**

One of the characteristics of the policymaking process of the last decade is the involvement of an increasing number of non-bureaucrats. These non-bureaucrats, however, were not necessarily political appointees; in many cases bureaucrats, not politicians, appoint outsiders as a way to maintain their own influence. In any case, expert opinion is now more respected and required than in the past, partly as a consequence of increased transparency. When a wider audience keeps an eye on the substance of policy discussions, greater value is placed on expert opinion, irrespective of seniority in the old hierarchy.

On the other hand, bureaucratic apathy is increasingly more evident. Bureaucrats have recently been trying to hide behind the ad hoc decision-making machine, which consists of politicians, academics, and other non-bureaucrats, so as to minimize public criticism and personal accountability. Since bureaucrats live in the fragmented field of government functions, they tend to stay away from the areas of other ministries. This is one of the reasons why strong political leadership is needed. Fragmentation leads to delays or even stalemates in policy implementation because legislators make laws and cabinet members make policy decisions, but neither can be implemented without the bureaucracy. When the bureaucracy is apathetic or fragmented, policy is left unimplemented. Since structural reform requires a set of policy packages beyond the boundary of ministries, the forbearance that has been the usual attitude of bureaucrats works as an impediment.

## **Political Realignment**

There have been several political party realignments since the big split in the LDP in 1993. Realignments among parties are likely to continue. However, such realignments may not be based on policy preferences, such as hawks versus doves on security issues, or liberals versus conservatives on economic policy. Party realignments are more likely to be based on personal relationships, and coalition governments will continue to be based more on political convenience than on policy.

## **PROPOSALS**

For a more accountable policymaking process in the Japanese government, politicians who are chosen by voters must play a more important role. The Diet must no longer be a mere rubber stamp of bureaucrat-made policy. Political reforms that permit and encourage politicians to work as genuine lawmakers are needed. Following are several proposals that might help.

### **Integration of Ruling Parties and the Government**

First, integrate the ruling parties and the government in order to strengthen the leadership of the prime minister. This cannot be achieved without decreasing the practice of the ruling party's pre-clearance of cabinet-sponsored bills before submission to the Diet. At the same time, efforts need to be made toward democratizing the Diet in order to facilitate productive debate and amendments under a more transparent system.

Currently, the ordinary Diet session is held only in the first half of the year, while the following year's budget process begins in the second half of the year. Under this system, the tax council in the ruling party discusses tax code changes only between October and December. Thus, LDP debates on budget appropriations and tax policy are held only in the fourth quarter, giving bureaucrats the freedom to operate without the constraints of political debate during the rest of the year. A year-round Diet can be a more accountable system, preventing the current tactical scheduling of the governing parties to pass as many pieces of legislation as possible within a limited time frame.

## **Prime Minister's Office and Ministerial Staff**

Second, strengthen the Prime Minister's Office. It is essential to restore the leadership of the office by increasing the number of expertise-based political appointees and non-bureaucrat advisors in the Prime Minister's Office, and possibly in individual ministries as well. The current system of deputy minister and parliamentary vice-minister may not function well because politicians can be easily deprived of access to timely, unbiased, and adequate information, let alone new ideas independent of the bureaucracy, needed to make their final decisions. On this point, minister and vice-ministers must form a team in directing bureaucrats. (Ministers are free to appoint whomever they wish as their assistant, but no minister has done so, probably because it means replacing civil servants.) Also, the introduction of an advisory committee with full-time membership, similar to the United Kingdom's Policy Unit, at the Prime Minister's Office deserves serious consideration

## **Strengthen Think Tanks**

Third, widen the policymaking community. Strengthening the intellectual base of national policymaking cannot be achieved without a strong and diverse think-tank community. Japanese think tanks tend to be affiliates of financial institutions or business associations. More independent, strategic think tanks should be cultivated as they would enhance the national debate.

## **Disclosure**

Lastly, disclosure has grown in importance in the Japanese political scene. As mentioned above, the last decade was mired in scandal, which fueled public mistrust of the iron triangle. The good thing, however, has been an increase in the transparency of public policymaking. In recent years, virtually all government councils and committees disclose the minutes of their meetings. Public comments are solicited with respect to policy drafts. Under these circumstances, individual policies can be decided on after due consideration of the issues and interests in question rather than by bargaining behind the scenes.

## CONCLUSION

Japan's policymaking process is becoming more democratic in both good and bad senses. Until a new regime is established, the current chaotic situation will continue. Should we be happy about it, or at least accept it as it is? The answer is clearly no. In addition to being riddled by bureaucratic apathy and ad hoc processes, decision making is extremely messy and time consuming. Japan has no time to lose in putting its economy, national security, and society back on the right track, and under these circumstances someone has to lead—to help forge wise and timely policies and see to their effective implementation.

That someone is, of course, the prime minister. Fortunately, Japan has a tremendously popular prime minister at the moment. The time is right for gathering the best and the brightest from both inside and outside the government and marshalling their efforts for policy development and implementation. The main problem is not an inability to envision solutions, but an inability to put them into practice. Behind this inability lies weakness in our governance system involving politicians, bureaucrats, and constituencies. But pressure for change is intensifying among voters. It is of utmost importance today to institutionalize a new style of governance, one that can realize the grand vision of Japan embraced by the prime minister and one that revitalizes Japanese democracy.