

This rating radar illustrates the average scores of all experts who evaluated Japan in the INCRA rating process. The following report is an assessment of Japan by Werner Pascha with his evaluation of the indicators as they relate to Japan's willingness and ability to repay its debt, based on INCRA's Forward Looking Indicators.<sup>1</sup>

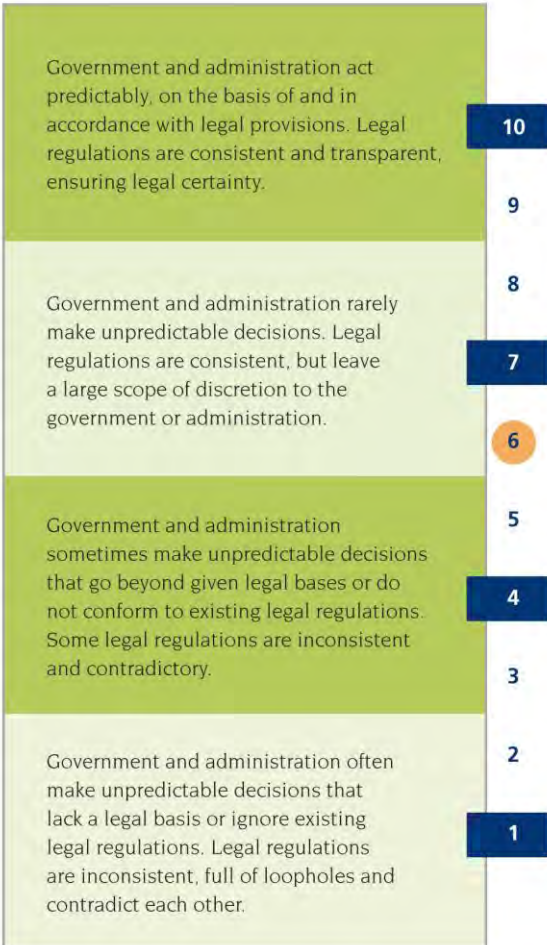
<sup>1</sup> For several answers, texts were used that were originally prepared by Werner Pascha, Patrick Köllner and Aurel Croissant for the Sustainable Governance Indicators project of the Bertelsmann Foundation.

## I. Political, Economic and Social Stability

### 1. Rule of Law

To what extent do government and administration act on the basis of and in accordance with legal provisions or culturally accepted norms to provide legal or practical certainty?

This question assesses the extent to which executive actions are predictable (i.e., can be expected to be guided by law).



In their daily lives, citizens enjoy considerable predictability with respect to law and regulations. Bureaucratic formalities can sometimes be burdensome, but they also offer relative certainty. Nevertheless, regulations are often formulated in a way that gives considerable latitude to administrators. For instance, needy citizens have often found it difficult to get welfare aid from local government authorities. Such scope of discretion is deeply entrenched in the Japanese administrative system, which experiences both the advantages and disadvantages of pragmatism. The judiciary has usually upheld the discretionary decisions of the executive branch. In terms of culturally entrenched concepts, the rule of law does not play a major role. Following strict principles, without regard to possibly changing circumstances and conditions, would rather be seen as naïve and nonsensical. A balancing of societal interests will usually imply a pragmatic interpretation of law and regulation.<sup>2</sup> Such laws, in this generally held view, are supposed to serve the common good and are not meant as immovable norms to which one blindly adheres.

<sup>2</sup> Cf. Carl F. Goodman: *The Rule of Law in Japan: A Comparative Analysis*, The Hague: Kluwer Law International, 2003

**To what extent do independent courts control whether government and administration act in conformity with the law?**

This question examines how well the courts can review actions taken and norms adopted by the executive branch. To provide effective control, courts need to pursue their own reasoning free from the influence of incumbent governments, powerful groups, or individuals. This requires a differentiated organization of the legal system, including legal education, jurisprudence, regulated appointment of the judiciary, rational proceedings, professionalism, channels of appeal, and court administration.



Courts are formally independent of government, administrative or legislative interference in their day-to-day business. The organization of the judicial system and the appointment of judges falls under the supervision of the Supreme Court, so the appointment and the behavior of Supreme Court justices is of ultimate importance. While a lack of transparency has been lamented, the Supreme Court has an incentive not to seek conflicts with the government, because this might endanger the court's independence in the longer run. This implies that it leans somewhat toward the government's position so as to avoid unwanted political attention.

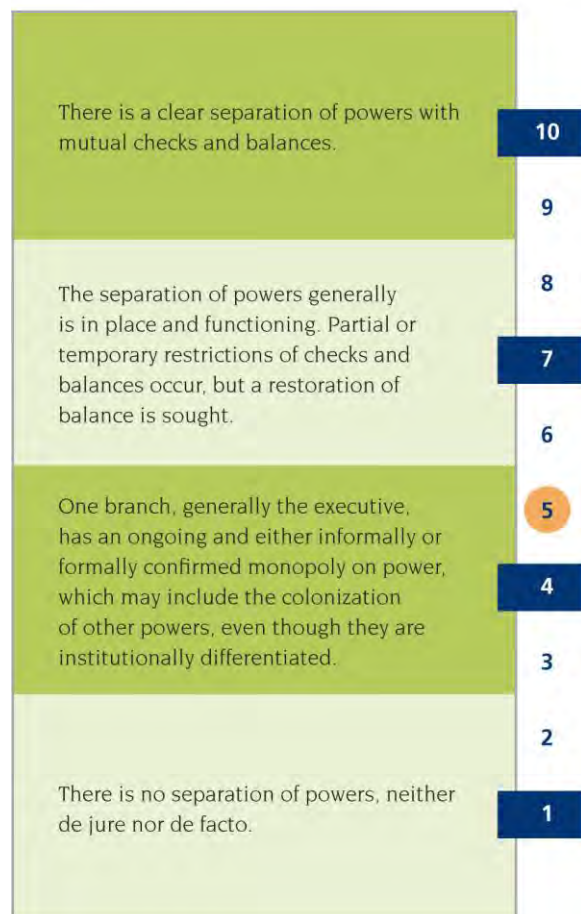
In line with this reasoning, the Supreme Court engages only in concrete judicial review of specific cases, not in general review of laws or regulations. Some scholars argue that the constitution would allow for a general judicial review process as well.

The nuclear accident following the earthquake and tsunami on March 11, 2011 exposed the inability or unwillingness of the judicial system to protect the public from an irresponsible regulation and support of nuclear power generation, which some observers fear extends to other cases as well. Several attempts to seek a decision against the construction and operation of nuclear power plants have failed in the past. With hindsight, it seems that the judiciary may not always have been competent enough or willing to appreciate the risks involved. In 2006, for instance, the Kanazawa District Court ruled to shut down a reactor of the Shika nuclear power plant in Ishikawa Prefecture because of imminent earthquake risks. This decision was later reversed in an appellate ruling, and in 2010 the Supreme

Court denied a final appeal against the latter decision.<sup>3</sup>

**To what extent is there a working separation of powers (checks and balances)?**

This question refers to the basic configuration and operation of the separation of powers (institutional differentiation, division of labor according to functions and, most significantly, checks and balances).



The 1947 constitution of Japan, drafted under a strong influence of the Allied occupation, basically follows Western principles of separation of powers by carefully distinguishing the legislature, the executive and the judiciary branches of the state. The Emperor is defined as a symbol of the state and cannot act independently. The ultimate sovereign is thus the people of Japan, which elects parliament (the Diet) as the only law-making institution, consisting of an upper and a lower house. The Diet appoints the prime minister, while the latter chooses and dismisses the ministers. Courts are independent from either parliament or government (see elsewhere), while an independent Court of Audit oversees government finances.

Rules between these organs are carefully crafted. De facto, however, reality is quite far from the de jure set up. Parliament does not have enough staff capacity to effectively draft complex legislation, so the agenda powers of this institution are seriously reduced. Another factor is that parliamentarians still depend to a considerable degree on personal networks, not on following or defining a certain program – despite legal changes in the early 1990s that were meant to change this. The implication is that politicians depend on key leaders, whose power does not necessarily relate to a formal position in the executive or legislative branch of the state. Policy drafting has thus frequently been done in party headquarters and through backroom arrangements, away from public scrutiny.

After an anti-LDP (Liberal Democratic Party) coalition won the 2009 general election, the

<sup>3</sup> The Japan Times: Suits to halt atomic plants have all failed, 26 April 2011

DPJ (Democratic Party of Japan), the party dominating the new coalition government, formally abolished its own Policy Research Committee in an attempt to weaken intransparent backstage influences of non-office holders, fulfilling a pledge of the DPJ's election platform. Under former Prime Minister Naoto Kan, the committee was reinstated (2010), however, while the chairperson of that committee also became minister for national planning. When Yoshihiko Noda took office as prime minister in the autumn of 2011, he abolished this latter link, making it clear that draft legislation has to clear the party first. Two major reasons are said to have motivated this reversal. First, it gives non-office holding politicians a voice, thus hopefully mitigating the somewhat chaotic behind-closed-doors maneuvers and strong party infighting of the early DPJ-led reign. Second, it could ease party-to-party negotiations on policy initiatives in a split Diet, in which the upper and the lower house have different majorities. The role of the judiciary has already been discussed elsewhere. Summing up, the de facto distribution of powers is much less pronounced than it may appear from the Constitution of Japan.

**To what extent do government authorities ensure well-defined property rights and regulate the acquisition, benefits, use, and sale of property?**



The Japanese Constitution contains a strong statement on the inviolable nature of property rights (Article 29), with the usual exception that for public use, property rights may be taken, upon just compensation. De facto, Japan has a long tradition of honoring property rights, dating at least back to the Meiji Restoration of the mid-19<sup>th</sup> century. As for intellectual property rights (IPR), while Japan was considered a problem case decades ago, upon becoming an advanced economy Japan has strongly supported IPRs. Based on the International Property Rights Index, it is now one of the leading economies in upholding IPRs.<sup>4</sup>

The actual process of registering property or seeking decisions in court on controversial issues may sometimes be cumbersome, given the already mentioned constraints in the judicial system.

<sup>4</sup> For an overview on Japan, see <http://www.internationalpropertyrightsindex.org/profile?location=japan>

**2. Transparency / Accountability**

**Corruption prevention: To what extent are public officials prevented from abusing their position for private interests?**

This question addresses how the state and society prevent public servants and politicians from accepting bribes by applying mechanisms to guarantee the integrity of officeholders: auditing of state spending; regulation of party financing; citizen and media access to information; accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct); transparent public procurement systems; effective prosecution of corruption.



Reports of corruption and bribery scandals have accompanied Japanese politics for decades. These problems are deeply entrenched in the way politics is organized in Japan, for instance in the way Japanese politicians need to secure funds for (re)election purposes, how they rely on local support networks, and how they have to deliver to their constituencies in return. Scandals have concerned both the long-reigning LDP and the DPJ, which has led the government coalition since 2009.

A major scandal involved the high-profile DPJ-politician Ichiro Ozawa. Ozawa himself, after three aides were found guilty in 2011, was acquitted in the spring of 2012, though the case will move to the next higher judiciary. Other cases involve lower house member Muneo Suzuki, who started a two-year prison sentence in 2010. Also in 2010, an aide of former Prime Minister Yukio Hatoyama was convicted, while Hatoyama himself was eventually not prosecuted. While such cases are evidence of the problems in this field, it should also be appreciated that prosecutors and courts have taken them up in an effort to fight abuses by politicians.

New financial and office-abuse scandals involving bureaucrats have been quite rare in recent years, though it is unclear whether this is a consequence of stricter accountability rules devised after a string of ethics-related scandals came to light in the late 1990s and early 2000s.

According to the widely used Corruption Perceptions Index of Transparency International, Japan has improved somewhat

in recent years and now shares rank 14 together with Germany (2011 ranking).<sup>5</sup>

**To what extent are the media independent from government?**

This question asks to what extent the media are subject to government influence and the influence of actors associated with the government. The question focuses both on media regulation and government intervention. The rules and practice of supervision should guarantee sufficient independence for publicly owned media. Privately owned media should be subject to licensing and regulatory regimes that ensure independence from government.



<sup>5</sup> Transparency International: Corruption Perceptions Index 2011, <http://cpi.transparency.org/cpi2011/results/>

Japanese media are free to report the news without official interference. While the courts have handled a few cases dealing with perceived censorship, there is no formal government mechanism infringing on the independence of the media. While NHK as the leading news broadcaster is a public service, it still enjoys freedom from interference.

De facto, however, many media organizations are hesitant to take a strong stance against the government or to expose political scandals. Membership in journalist clubs has offered exclusive contacts. Established media members have feared losing this advantage, and have frequently taken non-adversarial opinions.

Northeastern Japan's triple catastrophe of March 11, 2011 spotlighted such informal linkages. The government was extremely slow to release information about the magnitude of the problems, particularly of radiation leakages. Major newspapers and broadcasters with their exclusive access to the cabinet's press conferences and to TEPCO (Tokyo Electric Power Company) press conferences rarely asked critical questions and followed the government's information policy. While arguments may be raised in favor of not spreading chaos in an alarmingly confusing situation -- the Tokyo megalopolis with its 30 million inhabitants is less than 200 km away from the Fukushima power plant -- the informational collusion of government and major press interests was distressing.

Independent journalists, often using web-based information channels, the foreign press and some weekly papers and political magazines like AERA to some extent balance the one-sidedness.

The DPJ-led government tried to open the system after its election in 2009. Following



the March 2011 disaster, however, even the DPJ-led government has fallen back on the old ways of restricting an open information exchange. In the longer run, the loss of public trust with respect to the government and the major media may have intensified the development of more independent media channels such as blogs, bulletin boards, e-magazines or social networks and thus towards more pluralism.

**To what extent does the government enable the participation of civil society in the political process?**

This question asks whether the political leadership involves civil society actors in agenda setting, policy formulation, deliberation, decision-making, policy implementation, and performance monitoring. Civil society actors include civic, economic, and professional interest associations, religious, charity and community-based organizations, intellectuals, scientists, and journalists.



Civil society organizations do not have a long tradition in Japan. Until 1998, it was very difficult to found such an organization and ensure a steady flow of membership contributions and/or donations. The Non-Profit Organization Law of 1998 has made the incorporation of such NPOs easier but many bureaucratic and financial challenges remain. The depth and breadth of such organizations in Japan thus remain limited, with a few sectoral exceptions. It should also be noted that some NPOs are used by the government as auxiliary mechanisms in fields where it cannot or does not want to get directly involved.

In line with earlier events, the incompetence of many state actors during the immediate aftermath of the March 11, 2011, crisis has again raised calls for and interest in more developed civil society mechanisms.

Discounting for a possibly exaggerated optimism of dedicated activists, it is still unclear whether such movements are able to create professionally operating, sustainable platforms.

Apart from formalized civil society organizations, in various fields the government has made and makes efforts to include civil representatives. Some of these mechanisms are themselves quite formalized. The most important of them is a large number of government-related advisory councils, usually associated with particular ministries and agencies. These are usually composed of private sector representatives, journalists, civil servants and trade unionists. It has frequently been asked whether these advisory boards truly have a decisive influence on policy-making, or whether the bureaucracy rather uses them to legitimize its policies by nudging seemingly independent

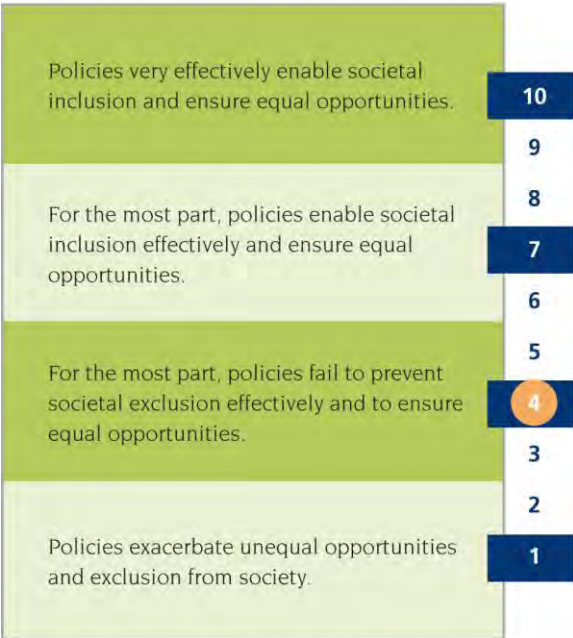
bodies into making proposals that would be forthcoming in any case. The DPJ-led government, taking up work in 2009 with its anti-bureaucracy platform, was quite suspicious of the ubiquity of such councils. Following the autumn 2009 Lower House election, many councils' work was put on hold. This does not relate to all such groups, however. For instance, a new body called the Industrial Competitiveness Committee, answering to the Ministry of Economics, Trade and Industry (METI), was added to the Industrial Structure Council in February 2010 and tasked with developing ideas about the long-term competitiveness of the Japanese economy. It includes a number of university professors and academics from institutes. The ministerial press clubs, mentioned earlier, are another mechanism to incorporate civil society actors, in this case journalists, in government policy processes. Compared to the advisory councils, in this case it is even more obvious that such a mechanism is not used by the government to lend an ear to civil society interests, but to influence civil society in an indirect, intransparent way. Despite first appearance, this seems to hold for many such instruments supported by the state.

**3. Social Cohesion**

**To what extent is exclusion and decoupling from society effectively prevented?**

Reducing the various risks of social exclusion is a fundamental precondition for social cohesion and stability. The country assessment should focus on the following key questions: 1) To what extent is poverty effectively prevented? 2) To what extent are there enabling conditions for equal opportunity in society? In addition to poverty, please also take into account additional dimensions of exclusion like the experience of marginalization and the desire to be appreciated when evaluating socioeconomic disparities.

*Reference Indicators: Poverty rates | Gini Coefficient*



Japan, once a model of social inclusion, developed considerable problems of income inequality and poverty during the past decade. The DPJ-led government is particularly outspoken on these issues. Equity concerns formed a considerable part of the DPJ’s successful electoral manifesto of 2009. According to a major OECD study of 2008, Japan’s poverty situation has considerably worsened during the 2000s, with people living on less than half median income making up the fourth highest share among OECD countries.<sup>6</sup>

The New Growth Strategy of 2010 is based on creating new demand and employment opportunities. Whether the government can effectively create demand is quite doubtful, though. Also, it is an open question whether the government can muster enough funds to develop truly substantial policies for social inclusion. The fiscal means to install expensive social policy-related programs are extremely limited.

Major social system reform measures form an integral part of an encompassing “Comprehensive Reform of Social Security and Tax” package introduced in January 2012 and eventually passed by parliament in August 2012. It includes, for instance, a proposal for a new system to support children and child-raising and an enhancement of the safety-net function of social insurance systems. Given widespread political opposition from other parties, the prime minister had to promise parliamentary elections “soon”, but due to disagreements about what that actually means, it is still open

<sup>6</sup> OECD: Growing Unequal? : Income Distribution and Poverty in OECD Countries, Country Note Japan, Paris 2008, <http://www.oecd.org/els/socialpoliciesanddata/41527303.pdf>

at the time of writing to what extent the law will actually be implemented.

In terms of marginalizing certain social groups, Japan is still very much a country that defines itself through standard livelihood patterns. The three million descendants of the so-called burakumin, outcasts of the feudal period, still face informal social discrimination, though it is difficult for the government to counter this. Korean and Chinese minorities with permanent resident status also face some social discrimination, a situation also true for more recent Brazilian and Philippine immigrants. Naturalization rules were eased somewhat recently, and among the roughly 600,000 ethnic Koreans in the country, close to 10,000 are being granted citizenship per year.

In terms of equal gender opportunities, women still face some noticeable discrimination, particularly in the labor market. The wage differential with men has not significantly decreased in recent years, and the recent recession has not helped in this respect. The ratio of female parliamentarians is one of the lowest among the advanced countries (11 percent in 2010).

### How strong is the citizens' approval of political institutions and procedures?

Please base your assessment on public opinion survey data, addressing the following factors:

- approval of the political system
- approval of performance (measured by how the political institutions function in practice or the satisfaction with the working of the institutions)
- approval of political institutions (often measured by the level of trust in institutions such as government, the legal system and police, state bureaucracy, political parties, and the military)



Traditionally, Japan is considered a country in which citizens have a lot of trust in government and in its benign policies. This attitude is frequently related to Confucian traditions and to the respect given to scholar-bureaucrats who are considered to possess competence, personal integrity and righteousness. In daily life, this can often be felt when citizens more or less unquestioningly follow public rules and what representatives of the state tell them to do or not to do.

However, since the 1990s this trust has been shaken by the presumed ineffectiveness of the government to solve critical policy issues -- like regaining economic growth -- and after an increasing number of corruption scandals were exposed. More recently, the surprisingly strong impact of the global financial crisis and the presumed incompetency of government authorities in handling the Fukushima incident have dealt a major blow to approval levels and trust.

In a BBC World Service global poll of September 2009, for instance, Japan was almost always close to the bottom in terms of approval rates for various institutions. For instance, Japanese were the second most dissatisfied among 20 major economies in terms of evaluating the response of their country's leaders to the global financial crisis. 73 percent believed that the benefits and burdens of economic development are not properly shared, which is a devastating judgment for a society with strong Confucian roots.<sup>7</sup>

<sup>7</sup> BBC World Service: Global Poll Shows Support for Increased Government Spending and Regulation  
13 September 2009,  
[http://www.worldpublicopinion.org/pipa/pdf/sep09/BBCecon\\_Sep09\\_rpt\\_final.pdf](http://www.worldpublicopinion.org/pipa/pdf/sep09/BBCecon_Sep09_rpt_final.pdf)

According to an Associated Press-GfK poll taken in early August 2011, some months after the Fukushima disaster, nearly 60 percent thought that Japan was heading in the wrong direction.<sup>8</sup> 65 percent believed that the parliament does the right thing less than half of the time, while 59 percent thought so of the cabinet. 85 percent thought that elected officials were serving special interests and not the public, anyway. The results may have been influenced by the immediate impact of the unprecedented triple crisis and thus be somewhat exaggerated. However, reactions were considerably stronger than after Hurricane Katrina in the US. At least for the time being, trust and approval of citizens in the Japanese state have been extremely shaken.

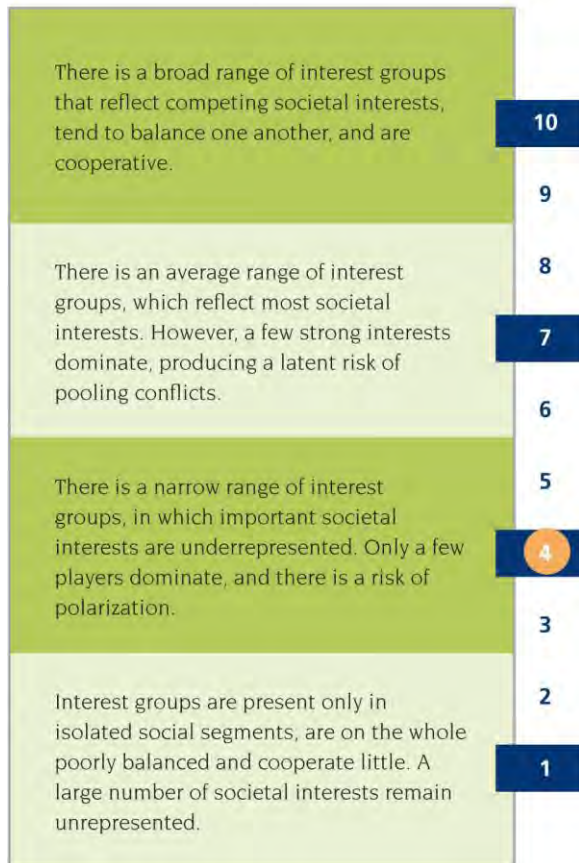
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<sup>8</sup> Malcolm Foster: Japan Natural Disasters Shake Public Trust In Government, Huffington Post World, 1 September 2011, [http://www.huffingtonpost.com/2011/09/01/japan-natural-disaster-government\\_n\\_944632.html](http://www.huffingtonpost.com/2011/09/01/japan-natural-disaster-government_n_944632.html)

**To what extent is there a network of cooperative associations to mediate between society and the political system?**

This question addresses the representation of societal interests in the political system. In evaluating the systemic nature and the quality of representative patterns, please consider:

- the spectrum of interest groups, ranging from social movements and community organizations to unions and professional associations
- the capacity to incorporate all (competing) societal interests and to avoid the dominance of a few strong interests
- the degree of cooperation between different interest groups



In Japan’s post-war socio-economic system, the so-called “iron triangle” between the leading government party, the Liberal-Democratic Party of Japan (LDP), the ministerial bureaucracy, and major industry representatives has dominated policy making. The triangle was solidified through mutual benefits and obligations among its three major partners. For instance, politicians lent legitimacy to the bureaucrats, who developed effective growth policies benefitting industry. In return, industry offered posts to bureaucracy (amakudari – descent from heaven), while lending financial support to the ruling party for election purposes. This system worked extremely well in representing economic interests in the political system, at least in the sense of narrow industry growth interests. Other social interests were much less well represented or even excluded. This holds for consumer interests; wider citizen interests, for instance in terms of environmental issues, labor (union) interests; and even interests for small-scale business. Some of these wider interests were considered in appeasement policies, for instance support for small and medium enterprises or for agriculture. While mediation with major industry interests worked very well, this latter kind of paternalistic support was often inefficient and even supportive of pathological schemes, like in agriculture or the construction business.

More recently, the iron triangle has broken up on the national level, while some remnants may still remain on the regional level. With an unconvincing policy performance since the 1990s, the major national players looked for scapegoats. Politicians blamed the bureaucracy, with the Ministry of Finance officials a major target, while industry got



frustrated about politicians and reduced their contributions.

Currently, there is no stable system of mediation between social and economic interests on the one hand and the world of policy-making on the other.<sup>9</sup> Nevertheless, Japan's leading business and labor organizations regularly prepare topical policy proposals designed to stir public debate and influence government policy-making. Specifically, the three umbrella business federations Keidanren (formerly Nippon Keidanren), the Japan Association of Corporate Executives (Doyukai), and the national organization of the Japanese Chamber of Industry and Commerce (Nissho), also the leading trade union federation Rengo should be mentioned in this context. Such organizations can make their impact felt not only by publishing policy papers, but also through their membership in government advisory committees. While there is an obvious scramble for influence between Rengo and the business organizations, sometimes leading to explicit statements criticizing each other's views, there is also growing competition among business organizations themselves. For instance, Nippon Keidanren is dominated by large enterprise groups, and has been somewhat slow in demanding a further opening of the economy. The Doyukai is more characterized by strong independent companies and is outspoken in demanding a more open business environment. In December 2011, Seidanren, a new business federation comprised of retailers, household goods makers, consumer associations and various consumer-oriented firms, held its first meeting in Tokyo. The association wants to

provide an additional collective corporate voice, with a particular focus on consumer issues.

It is noteworthy that, compared for instance to the US, the system of interest association influence in Japan is much less well defined and structured by law.

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<sup>9</sup> E.g., Yamagoshi, Katsuya, 'Ground shaking beneath Keidanren', Nikkei Weekly, January 30, 2012, p. 4

**To what extent is the government able to moderate domestic economic, political, and social conflicts?**

Please assess the extent to which the government is able to depolarize structural conflicts, to prevent society from falling apart, and establish as broad a consensus as possible across the dividing lines.



Generally speaking, the Japanese government is able and interested in depolarizing social, economic and political conflict lines. Three major factors are noteworthy in this context. First, based on the intellectual history of the country, one-sided and dogmatic stances on certain issues are to be avoided. While not trying to overstate this issue, East Asian Daoist concepts imply that everything also contains its own opposite to a certain degree. This is visualized in the well-known graphic image of ying and yang, in which no radiant from the center is either fully white or black. From that perspective, dogmatic positions, which do not at least pay lip service or make some effort to integrate minority views, would be considered immature and unacceptable for a government legitimately in charge.

Second, and more concretely, Japanese parties are not based on strict programmatic ideologies. Partly due to their foundation on interpersonal networks, they have to relate to many different people and their varied views. While some reforms like the electoral reform of 1993 were supposed to raise the programmatic content of parties, and while there were some moves in this direction like the publication of election manifestos of major parties since the mid-2000s, this situation has not changed very much. Also from this perspective, a ruling government has a strong interest not to alienate certain groups, but, hopefully, to depolarize potential conflict lines.

Third, opposition movements or “voice” (Albert Hirschman) are difficult to organize in Japan. People may feel allegiance to certain other people, but not with respect to abstract concepts. Public upheavals like demonstrations are therefore very rare in Japan. The recent event in Tokyo with reportedly more than 100,000 participants to

protest against the government's handling of nuclear energy policy is quite exceptional, and related to the equally exceptional circumstances of the Fukushima incident. Accordingly, under normal circumstances it is rather easy for the government to keep the outbreak of political and social conflicts to a moderate level, at least if it does not exaggerate in trying to push through a strict policy line, which would not be in its interest anyway as argued above.

It should be noted in passing that there may be a high price to be paid for this inclination. For instance, if recovery and restructuring policies had been started more forcefully in the early 1990s instead of mediating between various interests, the macro-economic problems realized since might have been more short term.

#### 4. Future Resources

##### To what extent does education policy deliver high-quality, efficient, and equitable education and training?

This question assesses the extent to which a government's education policy facilitates high-quality learning that contributes to personal development, sustainable economic growth, and social cohesion. Your response should focus on the following, irrespective of the education system's organization: the contribution of education policy towards providing a skilled labor force, the graduate output of upper secondary and tertiary education, and (equitable) access to education. While the latter pertains to issues of fairness and distributive justice, it also has implications for a country's international competitiveness as unequal education implies a waste of human potential.

*Reference Indicators: PISA results | education spending | attainment levels*



Education has always been considered a strength of Japan, a country with a Confucian tradition in which parents take great care and often go to significant expense to offer their children good schooling. Primary and lower secondary education, until ninth grade, are mandatory. Since 2000, every second Japanese youngster goes on to tertiary education. Japanese still do well in PISA tests, within the top five group of student performance at age 15 in 2009.

However, the Japanese education system faces a number of challenges.<sup>10</sup> One is to deliver adequate quality. In 2002, so-called *yutori* (room to grow) education was introduced by the Ministry of Education, Culture, Sports, Science and Technology (MEXT), reducing overall numbers of teaching hours significantly and putting less emphasis on hard-core subjects like mathematics. There has been discontent with this policy shift though, and in 2011 a reorientation was introduced that to some extent reverses the *yutori* changes. While this shows policy activism, it remains to be seen whether this backward shift has a positive impact on quality.

In tertiary education, the 2001 administrative reform transformed the national universities into independent agencies. Professors lost their civil servant status, for instance. This measure was meant to make universities more agile and competitive. The influence of MEXT through budgeting remains noticeable, however, and there are concerns that formerly national universities are not able to fully exploit the options of the new liberties. Another unresolved challenge is the slow progress of internationalization. The number

<sup>10</sup> Jones, Randall S. (2011), "Education Reform in Japan", OECD Economics Department Working Papers, No. 888, OECD Publishing. <http://dx.doi.org/10.1787/5kg58z7g95np-en>

of students abroad has been shrinking for a number of years (only 59,000 in 2009), and Japan is almost singular in this respect among advanced nations. No major policy initiative has been taken on this recently. One reason for this inactivity may be that the factors behind this immobility are not entirely clear. Some observers stress the role of lower incomes in many families; others argue about a sense of complacency in a mature economy; still others see anxiety about the foreign world and a hesitation to stand out as a primary factor. As for inbound students, numbers have been more encouraging in recent years (roughly 140,000 in 2010/2011), although this number has probably come down significantly since due to the Fukushima incident. Relatively speaking, foreign students still make up less than 3 percent of university-level enrollments.

Still another issue is the problem of growing income inequality and the economic stagnation. Many citizens who consider the quality of the public school system to be lacking send their children to expensive cram schools; but given economic hardship, poor households may have to give up educational opportunities, future income and social status. The move away from yutori may also be interpreted in this context: lower emphasis on hard-core subjects like Japanese language and mathematics after 2002 motivated many parents to enroll their children in expensive cram schools. Given recent economic difficulties, this became ever more problematic from an equity perspective.

**To what extent does research and innovation policy support technological innovations that foster the creation and introduction of new products and services?**

This question comprises subsidies and incentives for research institutions conducting basic and applied research, as well as subsidies and incentives for establishing start-up companies that transfer scientific output into products and enhanced productivity. Bureaucratic impediments to research and innovation should also be taken into account.

*Reference Indicators: R&D spending | Science and Technology Degrees | Patents | R&D Personnel*



Japan has developed into one of the world’s leading research and development (R&D) nations during the postwar period. Even during the so-called “lost decades”, science, technology and innovation (STI) received considerable attention and budget allocation from the government. Forthcoming policies will be based on the Fourth Science and Technology Basic Plan (2011-2016).<sup>11</sup> Compared to the Third Plan, emphasis shifted from supply-side orientation, fostering a number of specific technologies like nano materials, to a demand-pull approach, led by economic and social challenges. Reconstruction of Northeastern Japan and a green Japan are among the major demands mentioned in this context. While this demand-side philosophy reflects the overall policy conception of the DPJ-led government coalition, in this case it could help to overcome the problematic attempts to guess which technologies will be the most important in the future.

An important challenge for Japanese STI in the future is the internationalization of Japanese R&D. While many attempts have been made already, a home bias is still noticeable. The Fourth Plan recognizes this open question, and as one of its concrete measures contains the project of an East Asia Science and Innovation Area. It remains to be seen whether such an entity can overcome the various national strategic interests in the region.

In institutional terms, the basic policy has so far been overseen by the Council for Science

<sup>11</sup> Reiko Aoki: The 4th Science and Technology Basic Plan: A National Innovation System for New Challenges – Role of East Asia and Small & Medium Businesses, 12 January 2012, mimeo., <http://cis.ier.hit-u.ac.jp/Japanese/publication/cis/dp2011/dp534/text.pdf>

and Technology Policy, which is headed by the prime minister and oversees the various ministries and agencies involved, evidencing the high status given to this issue. For the Fourth Plan, the council is to be abolished and an STI Headquarters is to take its place. It will encompass more representatives from academia and will nominate an advisor reporting to the prime minister. It is an open question whether such a headquarters will be superior to the former council. It may be expected to be closer to academic circles, but the question remains whether it might enjoy less clout in government circles.

**How successful is a government in reducing unemployment and in increasing employment?**

This question addresses a government’s strategies to reconcile the following objectives: unemployment reduction and job security, and balancing supply and demand on the labor market by providing sufficient mobility of the labor force according to the needs of potential employers in order to increase the level of employment. To assess labor market and employment policy comprehensively, special emphasis should be placed on the positive or detrimental effects resulting from labor market regulation (e.g., dismissal protection, minimum wages, collective agreements) and from the modus operandi of unemployment insurance).



Generally speaking, Japan has maintained a low unemployment level in recent decades, which is a major success story in East Asia and beyond. Even during the global financial crisis, unemployment stayed below 6 percent (although some upward revision of that figure may be in order for international comparison). This has not changed after the triple disaster of 2011. In terms of age cohorts, recent trends show diverging patterns: While unemployment among under-30 year old Japanese, and especially among 20 to 24 year olds, continues to be above average and has indeed risen since the late 2000s, unemployment among 60 to 64 year olds has significantly declined since the early 2000s – not least due to government support schemes – and is now close to average.

However, like many other countries, the Japanese labor market has witnessed a significant deterioration in the quality of jobs. Non-regular employment has increased strongly; while in the mid-1980s only every fifth job was non-regular, in 2010 it was every third one. It has become a major concern that young people cannot easily enter permanent employment positions and are not covered by employment insurance. Moreover, because of the non-permanent nature of such jobs, they lack appropriate training to advance into higher-quality jobs in the future. In 2011, Japan passed a law to support job seekers through the implementation of a job training scheme and some after-training financial support. While such a support eases some structural issues, it is not unproblematic that measures are sought outside of the open labor market.

Japan is thus somewhat turning to non-market solutions for employment problems recently, always raising the danger of state failure. So far, Japan has tended to avoid non-market solutions except for special cases like



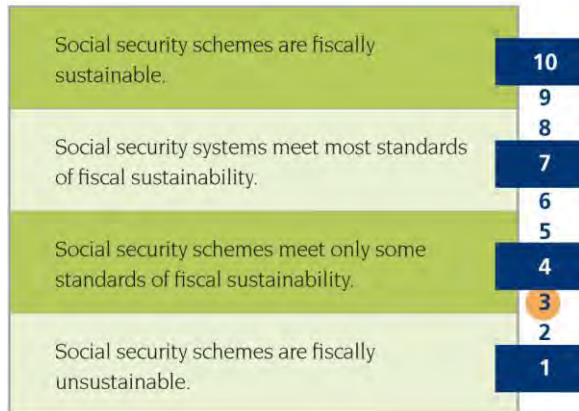
distressed industries. Unemployment payment has been kept at rather short periods, and in combination with the social stigma of unemployment, this has kept registered unemployment low. There is a mandatory minimum wage regulation in Japan, with rates depending on region and industry. The minimum wage has been low enough, however, not to effect employment chances seriously, although there is some evidence that it has started to affect employment of some low-paid groups like middle-aged low-skilled female workers.<sup>12</sup>

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<sup>12</sup> Ryo Kambayashi, Daiji Kawaguchi and Ken Yamada: The Minimum Wage in a Deflationary Economy: The Japanese Experience, 1994-2003, IZA Discussion Paper No. 4949, May 2010

**To what extent are social security schemes based on principles of fiscal sustainability?**

This question seeks to assess the extent to which social security schemes (e.g. pension systems, health care insurance, unemployment insurance etc.) are fiscally sustainable. This question is essential for assessing a government's room to maneuver in paying its current financial obligations without shifting the cost to future generations.



For decades during the post-war period, Japan was praised for a lean state, including rather small social policy-expenses. More recently, social policy expenses have been growing considerably, first based on additional public welfare programs starting from the 1970s, and later following the ageing of Japanese society. Life expectancy in Japan is now the highest in the world, at 83. Compared to other leading Organisation for Economic Co-operation and Development (OECD) economies, Japan's social security benefits as a ratio of its gross domestic product (GDP) are still somewhat on the low side: 19.3 percent in 2007 (including welfare, medical care and pensions), compared to 21.3 percent in the UK or 26.2 percent in Germany, but 16.5 percent in the US. However, seen in relationship to Japan's fiscal deficits, the still rising trend of expected social policy expenses seems unsustainable. These days, social security already makes up half of national general expenditures. Roughly speaking, adding up general expenditures, national debt service and transfer to regional and local governments, taxes can only finance half of this general budget. From that perspective, it can be argued that new debt is already necessary to finance consumption expenses like social security, which is highly questionable from a public finance perspective.

These problems are well known in Japan. Already and particularly under Prime Minister Junichiro Koizumi in the 2000s, measures were taken to limit cost rises in health policy – to some extent successfully – and in pension policy. The last major overhaul of the latter was based on 2004 legislation and became effective in 2006. Under its provisions, future payments will rise less than inflation. Payments (after an intermediate period) will commence at age 65 instead of

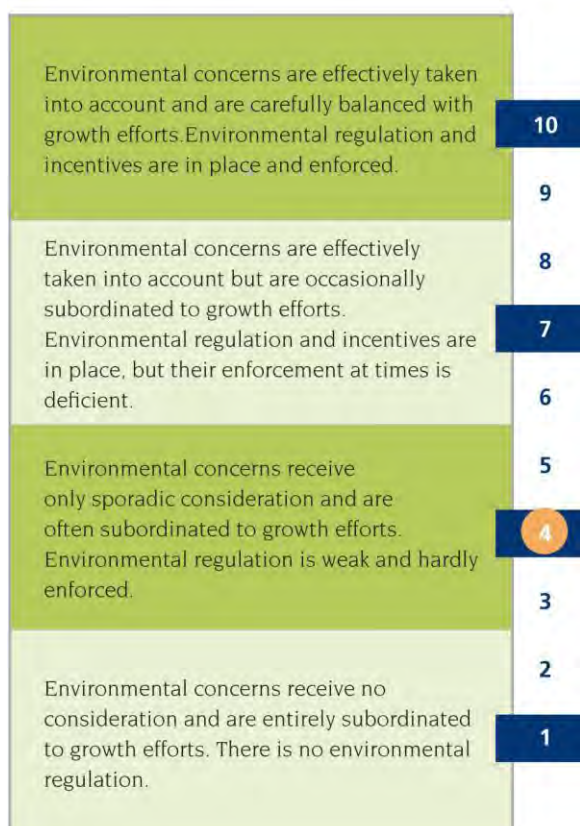
age 60, contributions top out at 18.3 percent of income, and a payout ratio of 50 percent is promised. However, the program's assumed relationship between future payment levels, contributions and the starting age for receiving benefits is based on very optimistic macroeconomic forecasts. After the global financial crisis, these assumptions seem increasingly unrealistic, and further reform is needed.

In 2011-12, Prime Minister Yoshihiko Noda proposed a so-called comprehensive reform of the social security and taxation systems. Raising the sales tax, which has always been unpopular, from a meager 5 to 8 and eventually 10 percent, in order to secure more government revenues, this move is legitimized by earmarking the extra revenues for social security measures. After years of immobility, this courageous move of the government towards regaining some degree of fiscal prudence is to be welcomed. The program finally passed parliament in August 2012, but new elections had to be promised and will be imminent, so the fate of the reform is still unclear. It also has to be realized that painful but important issues of pension reform have been left unsolved, like considering seriously to raise the pension age beyond 65.

**To what extent are environmental concerns effectively taken into account in both macro- and microeconomic terms?**

This question seeks to assess the extent to which externalization of costs or inadequate time horizons are avoided or restrained by environmental regulation. In macroeconomic terms, please determine whether tax and energy policies take ecological goals and measures into account (e.g. promotion of renewable energies, CO<sup>2</sup> reduction goals). In microeconomic terms, please establish whether the government sets incentives for environmentally sound consumption and investments to households and companies. Please take into account that a deeply engrained awareness of the environment or nature in society may serve as a functional equivalent.

*Reference Indicators: CO<sup>2</sup> emissions | Environmental Performance Index*



Japan was a global leader in terms of antipollution policy and energy conservation during the 1970s and 1980s, partially due to progress in research and development and the forceful implementation of relevant policy schemes, and partially due to the overseas relocation of polluting industries outside of Japan. More recently, Japan has been faced by two major concerns; first, how to contribute successfully to the global reduction of CO<sub>2</sub> emissions, and second, how to improve the energy mix of the economy.

Recent developments have, of course, been most strongly influenced by the March 11, 2011 triple disaster. While in 2010 it was decided to raise the share of nuclear electricity generation from then-levels of 30 percent to 50 percent, the March 2011 events raised extremely serious concerns about the planning capability of government, the nature of linkages between energy companies, notably the regional electricity monopolies, and government, and the regulatory competence of national, regional and local authorities. As other nuclear reactors, not involved in the Tohoku incident, were shut down one after the other for regular inspection and special stress tests, by early 2012 for some period no nuclear power plant was in operational mode, while more recently two plants started operation again.

Given the severity of the accident and its aftermath, it is encouraging that the Japanese government has already taken some concrete policy measures. On an institutional level, in June 2011 it was decided to disconnect the Nuclear and Industrial Safety Agency (NISA), occupied with nuclear regulatory and oversight, from the Agency for Natural Resources and Energy, which is associated with the industry ministry, METI. This was meant to avoid a serious conflict of interest between industry and environment/safety in the future. With respect to concrete policy measures, also during the summer of 2011 a strengthening of the feed-in tariff system was decided in order to promote photovoltaic energy generation, to commence in July 2012.

The future stance on nuclear energy is still unclear. While former Prime Minister Kan pledged in summer 2011 to move towards a nuclear-free Japan, it is questionable whether this is a realistic option.

Irrespective of how the energy issue is eventually resolved, the events of March 2011 have raised serious doubts about whether the government is willing and capable of addressing environmental concerns of future generations in the absence of strong public scrutiny and pressure.

On the micro level, while Japanese people enjoy a reputation for frugality, personal responsibility for a clean environment or energy saving are not notable features of Japanese behavior. When waste separation was introduced, neighborhood screening played a considerable role in diffusing it in the population.

Recently, the Fukushima incident led to a movement to cut down electricity use in order to save energy. While industry had to follow mandatory provisions, and achieved the goals for instance by moving production shifts into the weekend, the government tried to reach individual consumers through propaganda and moral suasion. By and large, such attempts have been successful, but it remains to be seen whether behavioral changes will be permanent.

## II. Steering Capability and Reform Capacities

### 5. Strategic Capacity

**Prioritization: To what extent does the government set and maintain strategic priorities?**

This question seeks to assess:

- the political capability to take on a longer-term perspective going beyond immediate concerns of electoral competition, to maintain strategic priorities over periods of crisis and stalemate
- the strategic capacity of the government to prioritize and organize its policy measures (gaining and organizing expertise, evidence-based policy-making, regulatory impact assessment, strategic planning units)

Make sure to identify reform drivers and defenders of the status quo, as political determination and institutional capacity may vary among different departments and ministries. Please also comment on how setting and maintaining strategic priorities might be constrained by government composition and by actors outside the government (e. g. powerful economic interests, lobbies, foreign governments, foreign donors).



In the post-war era, the policy-making process has traditionally been dominated by government-party (Liberal Democratic Party) relations. Ministers are torn between what their parties or their party factions expect from them and what the well-informed career bureaucrats within the ministries want them to do. Strategic planning has been hindered further by competition among ministries. For instance, there are several ministries that have tried to gain a foothold in the promotion of advanced industries.

Particularly since the economic malaise of the 1990s, prime ministers have tried to strengthen strategic policymaking at the top level. A major instrument towards this goal has been the introduction of the Council on Economic and Fiscal Policy. It included major ministers and outside members from industry and academia, and was headed by the prime minister. After Koizumi, prime minister from 2001 to 2006, and even during Koizumi's final year as prime minister, the CEFPP has become less prominent.

In its 2009 election manifesto, the DPJ promised grand reforms with respect to government structures. However, the desired streamlining of executive decision-making structures in a government effectively run by elected political representatives rather than bureaucrats was not only difficult to come by, but also rested on problematic assumptions from the outset. To start with, it was difficult because the planned division of labor between DPJ politicians in government posts focusing on policy affairs and the rest focusing on electioneering and other party affairs proved unacceptable to many DPJ Diet members. During the party's time in opposition, DPJ politicians had become used to shaping policy proposals through their membership in the party's Policy Research Council (PRC), the main policy body of the DPJ. In particular, politicians who had not been given government posts proved unwilling to cede their hitherto exercised role in shaping policy proposals to executive organs. The abolishment of the PRC in the fall of 2009, after the DPJ gained power, was thus met with great dissatisfaction from within the

party, leading to an eventual reinstatement of the PRC after Kan became premier in June 2010. His successor Yoshihiko Noda even boosted the power of the PRC again by making policy decisions of the government dependent on the approval of committee heads. All in all, unified decision-making within the executive thus proved elusive after the DPJ came to power.

Also, the DPJ's idea to install, in the form of a National Strategy Bureau, a kind of "control tower" charged with proposing and coordinating important budget and policy matters did not make much headway. First the DPJ had to realize that such a new structure, which was supposed to be able to give directions to national bureaucrats, required a legal foundation of its own. To circumvent this problem, the new unit was established inside the Cabinet Office as an office rather than a full-fledged bureau. From the beginning there were, however, important questions about its competences. An attempt to endow the national strategy unit with a proper legal basis finally floundered in the spring of 2011 as the government could not get the relevant bill through the Upper House. By then the national strategy unit had already been degraded to a mere consultative organ, advising the prime minister on select issues, a function which it also had to share with a newly established National Policy Conference comprised of outside experts, after the fall of 2011.

A major instrument to enforce strategic priorities traditionally has been the budgeting process. Under LDP governments, the Ministry of Finance played a decisive role in coordinating the various budgetary requests from ministries and shaping them into a consistent budget proposal. Due to the tight relationship within the iron triangle discussed elsewhere, priorities could thus be maintained. With the breakdown of the iron triangle and mistrust in the government, this period came to an end during the 2000s. In its 2009 manifesto, the DPJ had promised to weed out wasteful public spending expenditures by means of reviews and

evaluations. A new budget screening process started in late 2009 and was held at a public venue with the direct participation of handpicked citizens. The review process was also streamed online. The transparency of the process proved very popular among Japanese voters to whom budget-relevant deliberations had hitherto been inaccessible. Academic and other observers lauded the general idea of introducing a new mechanism of checks into the budgeting system. The budget screening process however began to lose steam in late 2010 amid increasing media and public criticism about its theater-like staging as well as intra-DPJ questioning of the use of screening public expenditures now that the state budget was controlled by the party itself. Currently, the cabinet sets basic guidelines for the budget of the forthcoming year, spelling out policy priorities and setting a quantitative range. This is informed by deliberations within the party structure, particularly within the DPJ. The Ministry of Finance is in charge of collecting the various ministry requests and of developing a coherent budget proposal. Basically, the process has thus approached earlier modes and has become more intransparent again.

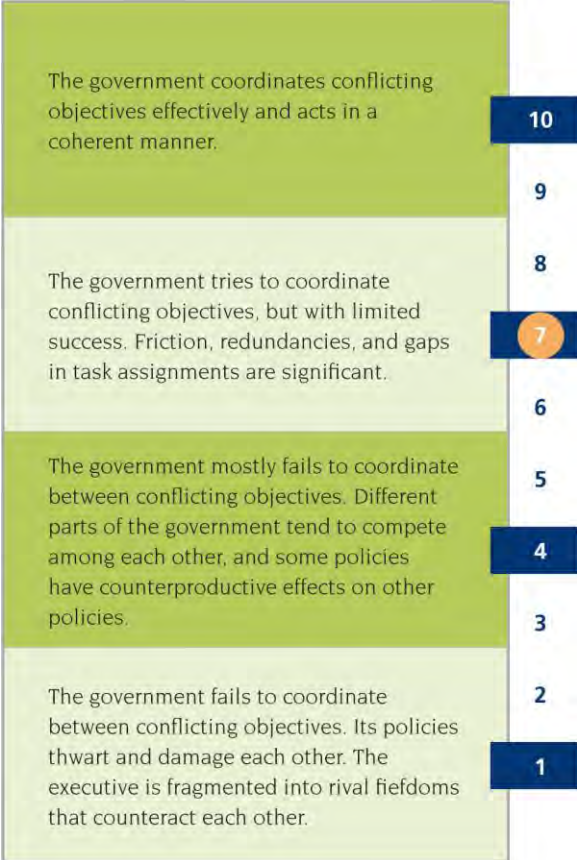
Summing up, the government has great difficulties in setting up and maintaining strategic priorities. The major reasons are related to the domestic policy sphere, namely unstable electoral majorities, which make it imperative for government parties to adjust priorities to the need of forthcoming elections, and competition of different ministries, personal networks and individual politicians, who use imprecise rules – see the lack of rule-of-law mechanisms discussed above – to extend their influence on policy making.

**Policy coordination: To what extent can the government coordinate conflicting objectives into a coherent policy?**

As many policies have conflicting objectives, reflect competing political interests and affect other policies, the government has to ensure that its overall policy is coherent. Successful coordination should:

- assure that trade-offs between policy goals are well balanced
- introduce horizontal forms of coordination to mediate between different departments of the state administration
- ascribe responsibilities in a transparent manner to avoid the negligence of tasks, redundancies, or friction between different government branches.

Various coordination styles (hierarchical-bureaucratic, informal-network, personalist, centralized, decentralized etc.) are possible and may be functionally equivalent. What matters is their impact on policy coherence.



Given the lack of clarity of the Constitution on how to coordinate policies, alternative attempts at policy coordination have met with limited success. Present guidelines for policy coordination, which were passed by the Japanese cabinet in 2000, hold the Cabinet Secretariat to be the highest and final organ for policy coordination below the cabinet itself. In statutory terms, the Cabinet Secretariat was thus placed above other ministries and national agencies. The empowerment of the Cabinet Secretariat has de jure enabled Japanese prime ministers to return items envisaged for cabinet meetings on policy grounds. In reality this rarely happens, as usually the only items to reach the cabinet stage are those on which consensus exists. However, this does not rule out conflicts over contentious policy issues among coalition partners, which can also flare up at the cabinet level. This has been witnessed on several occasions during the coalition government of the DPJ, the People’s New Party and the Social Democratic Party.

A related formal mechanism to supervise decentralized policy-making mechanisms is the Cabinet Legislation Bureau. Its official mandate is to support the correct legal framing of proposed laws, not material evaluation, and it is further weakened as an independent mechanism of cabinet- or prime minister-level supervision, because representatives of the ministries are seconded to the Bureau to support its competence, creating influences difficult to counter without more independent expertise at the central level.

As of June 4, 2012, the Cabinet passed a new “basic policy” on the duties of the three political appointees in each ministry. It explicitly stated: “Each Cabinet Minister will work in close cooperation with his or her Cabinet colleagues without seeking to further



the interests of only one ministry, and will make concerted efforts under the leadership of Prime Minister Noda".<sup>13</sup> Stating what should be obvious seems to signify a weakness of formal mechanisms rather than a strength of actual conduct.

In order to break the dependence of the cabinet as an ultimate strategic organ on the national bureaucracy, the new DPJ-led government abolished the administrative vice-ministers' meeting that used to prepare the cabinet meetings. Its high-level coordination role has been given instead to a cabinet-level committee in charge of discussing key issues ahead of cabinet meetings, the members of which change depending on the issue at hand. Measures approved by this committee are then submitted for cabinet approval.

Changes of the early DPJ-led government after 2009 have largely been unwound again, though. Politician-led government has been found too unprofessional, so the role of the bureaucrats operating from within line ministry hierarchies seems to be strengthening again. To counter potentially centrifugal forces, the incoming Noda government of 2011 has re-introduced several cross-cutting mechanisms. The administrative vice-ministers' meeting has been reinstated. Moreover, Noda has installed a Council on National Strategy and Policy, bringing together important ministers and private sector representatives. It lacks a legal basis, however, so its influence on actual policy-making may be limited.

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<sup>13</sup> Cabinet Decision: Basic Policy (on duties of the three political-level appointees of respective ministries), [Provisional Translation], 4 June 2012, [http://www.kantei.go.jp/foreign/policy/decisions/2012/0604kihonhousin\\_e.html](http://www.kantei.go.jp/foreign/policy/decisions/2012/0604kihonhousin_e.html)

**Stakeholder Involvement: To what extent does the government consult with major economic and social interest groups to support its policy?**

This question assesses how successfully the government consults with economic and social actors in preparing its policy. Successful consultation is conceived here as an exchange of views and information that increases the quality of government policies and induces economic and social actors to support them.



The traditional practice of LDP-led governments was to pursue societal consultation through the so-called iron triangle, which refers to the dense links between the elected politicians, the ministerial bureaucracy, and large business concerns. However, this mechanism tended to exclude other societal actors, including the trade union movement and the small and medium-sized enterprise sector. Since the onset of the 1990's economic problems, tensions within this triangle have increased, and during the most recent years of LDP-led government, through 2009, relations were so strained that one could speak of a demise of the iron triangle system.

Since the start of the new DPJ-led government in 2009, government relations with the trade union sector have significantly improved; indeed, the trade union umbrella organization Rengo is one of the major support pillars of the DPJ. Since the DPJ's founding in the mid-1990s, the trade union umbrella organization Rengo and a number of individual unions have supported the party and its candidates financially, with manpower and in terms of voter mobilization. Tellingly, DPJ cabinets have included former labor union leaders, and lobbying government-affiliated members of parliament has become easier since the DPJ's rise to power. Support goes either way, however: Rengo in late 2011 supported the salary cut of 7.8 percent for government employees, against the recommendation of an independent commission, which seems quite extraordinary for a trade union movement. Stronger relations between government and trade unions do not imply that business organisations have become totally unimportant. As for recent free trade and economic partnership agreements or upcoming challenges like the US proposal of a Trans-Pacific Partnership agreement (TPP),

for instance, the influence of organisations like Keidanren, the major business association of Japan, is considered quite significant by some observers.<sup>14</sup> Substantiating such claims is difficult, because there are no clear rules for lobbying efforts, which makes the channels of influence very difficult to trace. It is noteworthy, though, that the new Council on National Strategy and Policy, installed by prime minister Noda and which is supposed to be a key consultation organ for top-level policy-making, brings together important ministers and private sector representatives.

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<sup>14</sup> Laura Araki: *Joining the FTA Frenzy. How Japanese Industry Drives Preferential Trade Diplomacy*, Jackson School Focus, Spring 2012, pp. 32-45, [http://depts.washington.edu/jsjweb/wp-content/uploads/2012/04/JSJWEBv3n1.Araki\\_L.pdf](http://depts.washington.edu/jsjweb/wp-content/uploads/2012/04/JSJWEBv3n1.Araki_L.pdf)

**Political Communication: To what extent does the government actively and coherently communicate and justify the rationale for and goals of its policies to the public?**

A coherent communication policy is an important aspect of strategic governance, and ultimately in winning public acceptance for governmental policies. This question assesses governments' public communication efforts, and the extent to which policy-makers are able to coherently describe and justify goals and programs to the public.



Policy communication has always been a priority for Japanese governments. Ministries and other governmental agencies have been active in publishing regular reports on their policies, often referred to as white papers, as well as other materials. These materials are full of rich details, though observers have found the sheer quantity of brochures, data and other information bewildering. Ministries and other agencies have sometimes used public communication to stake their particular claims on specific policy areas. Policy statements have also become rather vague. Particularly with respect to visions of the future economy, recent statements have been filled with terms such as “economic individualism”, “people’s power” or, in the most recent comprehensive strategy of 2012, “rebirth”, for which practical definitions have been difficult to ascertain.

A major departure by the DPJ from earlier communications policy has been that politicians with ministry responsibility, particularly the ministers themselves, have been put in charge of representing their issue area in the Diet and in press conferences. Ministers and other politicians have started to use various means to hold press conferences and communicate with the public, including the solicitation of direct feedback over the Internet. There have been cases in which the ministerial civil servants were not even aware that their minister was speaking to the public. This has been part of the effort to strengthen politician-led government of the DPJ-led coalition. While this may seem a refreshing departure from the previous regime’s somewhat stiff communication patterns, communication may actually have lost transparency and professionalism as a result.

The recent debate on Japanese government communication has been dominated by the

Tohoku triple disaster in March 2011, in particular by the lack of transparency and of timely public information about the radiation risks of the nuclear accident. However, it should also be pointed out that the government may have had a point to avoid exaggerated transparency. Any misunderstood piece of officially conveyed information about damages or nuclear leakages might have created a panic, which in a metropolitan area like Tokyo with 30 million inhabitants might have easily become uncontrollable and disastrous. From that perspective, the government was indeed successful in containing any panic by its restrained information strategy.

## 6. Implementation and Efficiency

### To what extent can the government achieve its own policy objectives?

This question seeks to evaluate a government's implementation performance against the performance benchmarks set by the government for its own work. The assessment should therefore focus on the major policy priorities identified by a government and examine whether declared objectives could be realized.



Focusing on the last few years, the DPJ promised in 2009 to re-target substantial parts of public expenditures by making more money available to various groups of citizens including families and spending less on public construction projects. The party hoped that such a move would also lead to higher consumption, which in turn would help to fight deflation. Concrete steps taken after assuming power included a waiver on public high-school tuition fees as well as the introduction of income-independent monthly child benefits of initially 13,000 yen (around 130 EUR) per child in April 2010. For financing its more costly manifesto pledges, the DPJ counted on making necessary funds available by cutting expenditures elsewhere, for instance through systematic budget screening. However, various rounds of such reviews led to far less freed-up funds for fully implementing the relevant manifesto pledges. Against this background, the new government had to substantially slim down its planned policy programs. The loss of the government's majority in the Upper House in 2010 further complicated things, in effect leading to the derailment of some initiatives and the watering down of others. This holds for the generously intended reform of child benefits, for example. As tax exemptions for dependents aged up to 15 years were no longer deemed necessary when universal child benefits were introduced in 2010 and were thus to be abolished in 2011, households were at risk to become worse off than under LDP rule.

Summing up, the DPJ-led governments have so far been largely unsuccessful in achieving their major goal in which they departed from previous LDP-led governments, namely to refocus government efforts towards social welfare concerns. One piece of successful legislation may be the comprehensive tax and

social security program: it includes an overdue increase of the sales tax and a number of special policy measures, although some tough policy choices, e.g. on pension policy, have been watered down. Whether the package, passed in August 2012, will indeed be implemented, is still open.

The general macroeconomic policy concern of achieving a stronger growth while avoiding deflation has also been mainly unsuccessful, although that may also be strongly related to external developments. In institutional terms, the intention of the DPJ-led governments to restructure and improve governmental decision-making has hardly been successful either, with many initiatives already being scrapped again, as has been discussed above.

**To what extent does the government make efficient use of available human, financial, and organizational resources?**

In assessing the government's resource efficiency, please focus on the executive, including the administration and the cabinet.

*Reference Indicators: Personnel expenses relative to the services offered by the state | low number of politically motivated dismissals and new appointments of public servants | competitive recruiting procedures protected against political influence | transparent budget planning and implementation | low deviation of actual budget expenditures from the associated planned expenditures | effective and independent auditing | public administration that enables effective management under criteria of professional rationality | procedures and institutions to reform and modernize public administration.*



In terms of using human resources, it should first be noted that Japan has one of the smallest public sector employments, in comparison to population, of the whole OECD. This holds for central and local government as well as for public enterprises. Given that day-to-day public administration is achieved without any major disruption, this is evidence of a considerable degree of efficiency.

Promotion within the bureaucracy is based on meritocratic principles; while personal networks play a role, the professionalism of lower and higher ranks is critically important to uphold the reputation of the public service, so favoritism in terms of nepotism or else is no problem for the public sector in Japan.

There is considerable competition between personal networks, ministries, politicians and bureaucrats. This has positive and negative consequences. In terms of the task areas of the ministries, there can be considerable overlaps. With respect to innovation, for instance, a number of ministries and other high-ranking organizations play a role, including MEXT, METI, the Ministry of the Environment and others. This can lead to some wasteful duplication of programs, but such competition may also help to search for better policy solutions.

As for overseeing the interaction of government units, the Cabinet Office, established during Koizumi's years of government (2001-2006), is in charge of monitoring ministry activities. It has also increased the personnel capacity to do so. However, it cannot de facto survey all activities at all times, and it is questionable whether either the prime minister or the chief cabinet secretary have the clout to use this apparatus effectively.

The DPJ-government has made efforts to use the budgeting process more intensively to enforce compliance to overall policy



guidelines, shifting functions away from the Ministry of Finance, with the newly established Government Revitalization Unit playing an important role in the preparation of the 2010 budget. More recently, however, the Ministry of Finance has regained some of its clout, and some observers consider it not entirely coincidental that the two most recent prime ministers were ministers of finance before being entrusted with heading the cabinet.

The New Public Management literature, which spread in the 1990s, recommends improving the execution of well-defined policy goals by handing them over to professionally managed quasi-governmental organizations. Based on these theoretical considerations, in 2001 so-called independent administrative agencies were established. Such independent agencies are overseen by certain evaluation mechanisms, based on modified legislation. In recent years, skeptical voices have gained ground, because the chief administrators in charge frequently do not possess a managerial mindset, but rather originate from the civil service. Moreover, interpersonal network effects between such agency directors and their former colleagues in the ministerial bureaucracies, or in industry, can be harmful as well. It has become known that the electric power industry made significant donations to the Japan Atomic Energy Agency in recent years, which adds to the skepticism. Finally, another concern is the distribution of responsibilities between the central and regional governments. The degree of autonomy of the regional authorities is frequently considered too small for their tasks. From a different perspective, though, it is often questionable whether regions and localities possess adequate financial, human and organizational resources to fulfill more

demanding tasks. Local autonomy is guaranteed by the Japanese Constitution, but by way of unspecific rules. In reality, the central state makes its power felt through three mechanisms: control over vertical fiscal transfers, the delegation of functions that local entities are required to execute, and personnel relations between the central ministry in charge of local autonomy and local entities. Moreover, carrots exist as well as sticks, such as co-financing schemes for public works.

In the last decade, there have been a growing number of initiatives aimed at increasing local autonomy further, including a merger wave among municipalities. In terms of reorganizing regions, little actual progress has been made. The disaster of March 11, 2011 had a two-sided effect. On the one hand, the disaster area with its very specific challenges presents a case for local autonomy, which for the first time could be attempted on a super-prefectural level. On the other hand, local authorities were part of the collusive system that created the problems of poorly regulated and constructed living areas and nuclear power plants in the first place. With its “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake” of July 2011, the government decided to allow special zones for reconstruction in the region. However, this will be overseen by the national state and a newly founded Reconstruction Agency.

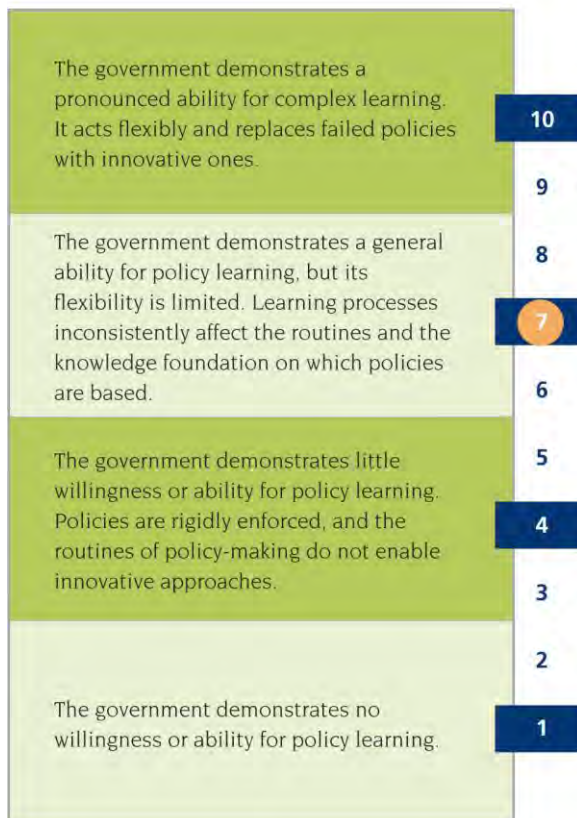
## 7. Adaptability

### Policy Learning: How innovative and flexible is the government?

Innovation in policy-making often comes from learning. This learning goes beyond changes in policy outputs to include changes in the basic beliefs in guiding policy formulation. Learning opportunities are provided by:

- learning from past experience (effective internal monitoring and evaluation)
- observation and knowledge exchange (good practices, international cooperation)
- consultancy (academic experts and practitioners)

Flexibility refers to a government's ability to adapt to and take advantage of development opportunities inherent to a given political situation. Flexibility and learning allow governments to replace failed policies with innovative ones. If possible, provide empirical evidence on whether policy learning happens coincidentally or if there are institutionalized mechanisms that facilitate innovation and flexibility in policy-making.



An important formal mechanism for improving the efficient use of government resources is policy evaluation, which is based on the Government Policy Evaluations Act of 2001. The Regulatory Reform Program of 2004 ordered that regulatory impact assessments (RIAs) were to be administered in a more systematic way. By the time of a review and revision of the system by Japan's government in 2005, it was considered to have taken root. The process is administered by the Ministry of Internal Affairs and Communications (Administrative Evaluation Bureau), while the ministries are charged with conducting their own analyses, which may not necessarily create utmost trust in the procedure. Apart, the Ministry of Finance does its own Budget Execution Review of selected issues, and the Board of Audit engages in financial audits of government accounts.

The DPJ-led government, taking power after the 2009 election, has pledged to make a careful examination of existing policies, aiming to cut costly measures that lack obvious social merit; it hopes thus to create the budgetary flexibility to pursue its own priorities. As a new body attached to the Cabinet Office, the Government Revitalization Unit has conducted public, even televised appraisals of projects, which some have characterized as similar to an inquisition, and which were noteworthy for the lack of professionalism.

The fragmented nature of such assessments seems to indicate little trust in their reliability and effectiveness. It is difficult to point to a major policy arena in which these endeavors led to major improvements.

Japan's reform processes are usually driven by domestic developments and interests, but international models or perceived best practices do play a role at times. With respect

to the extensive governmental reform program initiated by the DPJ in 2009, for example, the (somewhat idealized) Westminster system operating in the United Kingdom has served as a role model for top DPJ personnel. Political actors interested in reform have frequently appealed to international standards and trends to support their position. Moreover, the government frequently follows multilaterally endorsed policy proposals. For instance, the driving force of introducing and reforming the RIAs, discussed above, were relevant reports and recommendations from the OECD. In many cases it is doubtful whether substantial reform is truly enacted, or whether Japan rather follows international standards in only a formal sense for face-saving purposes, with underlying informal institutional mechanisms changing much more slowly.

**Institutional Learning: To what extent does the government improve its strategic capacity by changing the institutional arrangements of governing?**

Strategic capacity is the capacity to take and implement political decisions that take into account the externalities and interdependencies of policies, are based on scientific knowledge, promote the common goods and represent a long-term orientation. Institutional arrangements include the rules of procedure and the work formats defined there, in particular the cabinet, the office of the head of government, the center of government, the portfolio of ministries, the advisory staffs of ministers, and the head of government as well as the management of relations with parliament, governing parties, ministerial administration, and public communication.



In recent years, the most significant organizational reform attempts were then-Prime Minister Koizumi's measures in 2001 – 2002 to strengthen cabinet-level policy-making. A second major attempt was the DPJ-led government's attempt to put elected politicians in charge of the government apparatus after the 2009 general election (the so-called three political appointees-system). Both attempts were not really successful. After a while, centralized strategic capacity was undermined by infighting among politicians following their own agenda. While the LDP-led cabinets after Koizumi rather informally gave up the attempts to use mechanisms like the Council for Economic and Fiscal Policy to shape national economic strategy, the Noda cabinet, taking up work in September 2010, also formally strengthened non-central influences. Formally reinstalling the administrative vice-ministers' meeting to prepare cabinet meetings and the Policy Research Committee of the DPJ as well as searching for a more consensual collaboration of politicians and bureaucrats is widely interpreted as giving up on strengthening strategic capacity at the top, even though the creation of a Council on National Strategy and Policy, while not holding a legal mandate, can be seen as a certain countermeasure. Frequent changes of the institutional set-up of decision making in recent years, starting during the Koizumi years (2001-2006), and again intensifying under the rule of DPJ-led governments (from 2009), show that there is a lot of willingness to flexibly adjust to changing circumstances and learn from experience. However, the persistent need for such adjustment is also evidence to the fact that such learning has not been very successful yet, possibly due to the divergent

factors and particularistic interests playing a major role.

### **III. Track record of past crisis management (if applicable)**

*Is there evidence from historical events that the country and its society have already mastered economic and political shocks in the past?*

Japan has almost a legendary reputation for being able to overcome severe crises. Looking back in history, one such period was the beginning of modernization in the mid-19<sup>th</sup> century, when the traditional feudal system was overcome and the country started on a successful strategy of military and economic catching up with the West, avoiding colonization and eventually becoming an emerging regional power itself, for better or worse. A second major crisis that was successfully overcome was total defeat in World War II. By the late 1950s, Japan's economy had already regained pre-war levels, and by the 1960s Japan was approaching the ranks of leading Western economies.

During the post-war period, Japan was able to overcome a number of severe shocks rather well. These include the Nixon shock of 1970, when the US introduced extra import charges on Japanese products and the yen was revalued significantly following the breakdown of the Bretton Woods system, the two oil shocks of the 1970s, and the strong yen (endaka shock), following the Plaza Accord of 1985.

Since the burst of the financial bubble of the late 1980s, the record is far less convincing, and observers speak of the "lost decade" of retarded growth in the 1990s or even of the lost decades ever since. Extrapolating from earlier success stories, many commentators have voiced considerable optimism that Japan will eventually overcome its problems successfully and regain lost ground. However, on the basis of a very limited number of case studies from a single country (Japan), spread over almost 200 years, it is extremely difficult to identify the key factors for successful adjustment and to judge whether those factors still hold in 21<sup>st</sup> century Japan.

One particularly important factor in past achievements was an effective execution of strategies, overcoming opposition with decisive force. It is questionable whether this strength still holds. In particular, a forceful coalition of major interests on the national level, the post-war "iron triangle" -- of leading politicians (dominated by one party), the ministerial bureaucracy and major business -- does not exist anymore.

*Does the political system facilitate crisis remediation in a timely manner?*

Japanese processes have the reputation of being very slow in reaching a decision, but of swiftly implementing agreed upon strategies. Discussions and conferences take a long time, arguments and positions are often not clearly spelled out, while actual decisions are frequently reached in after-meeting sessions behind closed doors. Conflicting interests are often respected and remain unresolved in order to save face.

In the political sector, loosely defined boundaries of which institutions are eligible to participate in decision-making aggravate such problems. On the top government level, there has been a continuous struggle between the prime minister, political leadership of ministries, top bureaucracy, parliament and government parties to define policies. The role of parties and of the ministerial bureaucracy is particularly frustrating, as there are no clear roles for them laid down in the constitution. While recent DPJ-led governments after 2009 tried to curb the role of bureaucrats and

of influential party officials, these attempts have been largely unsuccessful, and particularly under prime minister Noda, there is a return to earlier modes of multi-actor influence and less emphasis on strengthening centralized strategic decision-making.

*Are there constitutionally anchored and politically accepted procedures for sequencing and timing countermeasures in a crisis?*

The Japanese constitution is extremely vague on positively or negatively defining procedures and sequences of policy processes, for instance for periods of crisis. To some extent, this may be due to an inclination widely shared among the Japanese public that formal ways of dealing with an uncertain world are inferior to a flexible, circumspect reaction. However, one consequence of such a mindset is that finding an appropriate reaction is time consuming, with few individuals willing and able to make and push through timely as well as risky decisions -- ironically the very opposite of swift flexibility.

As an example, take the Fukushima incident of March 2011. According to Naoto Kan himself, who was prime minister during that period, the nuclear emergency preparedness law of 1999 was totally inadequate, because the potential cases covered did not extend to what happened in Fukushima; no flexible and well-working line of command could be set in place.<sup>15</sup>

*Are precautionary measures (e.g., deposit insurances, foreclosure procedures) in place that can protect the most vulnerable groups against the full effect of a crisis?*

Japan has various mechanisms to protect vulnerable groups from the immediate full effect of an economic emergency. The principal mechanism for financial crises is the Deposit Insurance Corporation of Japan. Since changes in 2005, the deposit insurance scheme covers up to 10 million Yen (ca. 100,000 Euros) plus accrued interest per depositor per financial institution.<sup>16</sup> Moreover, the corporation has instruments for failure resolution, the purchase of non-performing loans/assets and capital injection.

As for bankruptcies, during recent years exit was simplified through new regulations of insolvency legislation. Currently there are four ways: civil rehabilitation, corporate reorganization, bankruptcy and special liquidation.<sup>17</sup> Government as well as the financial system, not to speak of owners, still often prefer to keep ailing companies afloat, which means that either in normal or in crisis periods, it is difficult to sort out terminally ailing companies from the corporate system.

Japan, of course, also has an unemployment insurance system, which is somewhat leaner than for many European welfare economies. Depending on the personal circumstances, unemployment can be paid up to 150 days, but possibly 330 days if the former employee's industry is deemed in

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<sup>15</sup> Yamaguchi, Mari: Ex-PM: Japan's nuclear emergency laws flawed, Associated Press, 28 May 2012, <http://bigstory.ap.org/content/ex-pm-japans-nuclear-emergency-laws-flawed>

<sup>16</sup> Deposit Insurance Corporation of Japan: A Guide to the System, As of April 2005, [http://www.dic.go.jp/english/e\\_shikumi/e\\_kaisetsu/e\\_kaisetsu.pdf](http://www.dic.go.jp/english/e_shikumi/e_kaisetsu/e_kaisetsu.pdf)

<sup>17</sup> For more details, particularly with reference to possible insolvencies in the financial system that could come about through a crisis, see Hideyuki Sakai: Overview Of The Japanese Legal Framework To Resolve A Systemically Important Financial Institution In Insolvency Proceedings In Japan, International Insolvency Institute 2012, <http://www.iiiglobal.org/component/jdownloads/finish/152/5963.html>

recession. As firms usually refrain from laying off workers, employees are to some extent cushioned from serious effects in the midst of an evolving economic crisis. In such cases, younger people trying to enter the labor market, easily dismissed temporary or part-time workers, and older workers bear the brunt of the downturn.

*Are automatic stabilizers in fiscal policies sufficiently strong to contain surges of massive unemployment?*

Japan possesses a rather low level of automatic fiscal stabilizers to ride out the business cycle. Some institutional mechanisms support this view.<sup>18</sup> First, as firms try not to lay off workers during recessions, as just discussed, tax income during the business cycle does not react as greatly as in many other countries. Second, the social safety net is still somewhat smaller than in many other Western countries, limiting the fluctuation of social policy expenses during the cycle and in severe downturns. Third, local governments, which are an important fiscal player in Japan, have often acted pro-cyclically.

While some of these mechanisms may have weakened in recent years, fiscal latitude in Japan has severely declined due to the fact that Japan now has the most indebted state sector of advanced economies, reaching well beyond 200 percent of GDP in gross terms.

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<sup>18</sup> See for instance Adam Posen: Restoring Japan's Economic Growth, Institute for International Economics, Washington D. C. 1998, p. 33