

# Political-bureaucratic alliances for fiscal restraint in Japan

Gregory W. Noble

## Abstract

Japan lacks political leadership and wallows in pork, critics charge, yet from the late 1990s Japanese leaders exercised surprising restraint over aggregate spending, and reoriented budgetary expenditures from distributive outlays such as public works toward social welfare and other forms of programmatic spending. The departure from particularism reflected not only commonly-cited electoral and bureaucratic reforms strengthening the hand of the prime minister, but also the efforts of senior LDP policy experts such as fiscal hawk Yosano Kaoru and rising tide advocate Nakagawa Hidenao to combine with sections of the bureaucracy, particularly officials seconded to the cabinet from the Ministry of Finance and METI, to overcome factional and backbench resistance and restrain expenditures. LDP leaders eventually reached a consensus on the need to increase taxes, but failure to convince the public contributed to the LDP's downfall.

**Key words:** Japan, fiscal policy, policy reform, political parties, delegation

Japan's dismal and rapidly worsening fiscal situation has led to increasingly desperate calls for bold political leadership, and bitter indictments of elite bureaucrats as profligate spenders more interested in protecting their own jurisdictions and budgets than in restoring balance to the nation's finances. In the campaign for the 2008 House of Councillors elections, the left-center Democratic Party of Japan (DPJ) and Watanabe Yoshio's right-leaning "Your Party" (みんなの党) could agree on little but the urgent necessity for political leaders to bring recalcitrant bureaucrats under control.

While Japan's fiscal situation is indeed grave, wasteful spending is not the primary cause, as suggested by the OECD's *Economic Survey of Japan 2008: Achieving progress on fiscal consolidation by controlling government expenditures*: "...the deficit fell at an annual pace of around ½ percent of GDP, adjusted for cyclical factors, between 2002 and 2007," with revenue increases (mostly due to improved economic conditions) and expenditure cuts each contributing about half of the improvement (OECD 2008). Particularistic spending on areas such as public works and agricultural subsidies declined sharply over that period, and despite Japan's aging population, aggregate spending remained remarkably restrained. Japanese finances did deteriorate sharply in 2009-2010, as the government engaged in additional deficit spending to counter the sharp decline in exports and overall economic growth caused by the global financial

crisis. Yet in comparison with expansionary spending in China, the United States, and most of Western Europe, and considering the magnitude of the economic shock, the two supplementary budgets for FY 2009 and the FY 2010 budget as revised by the incoming Democratic Party of Japan (DPJ) administration remained fairly modest in size, and they largely avoided reliance on public works and other particularistic spending (Noble 2010).

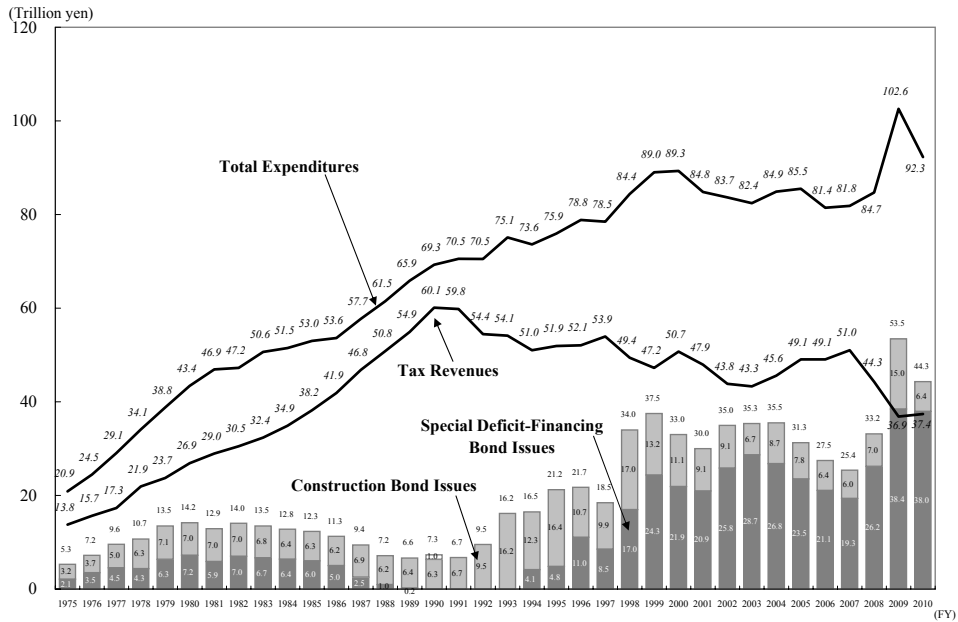
To the extent that observers have recognized this success in restraining expenditures in Japan at all, they have tended to ascribe it to structural political and administrative reforms dating back to the mid-1990s, and especially to Prime Minister Koizumi Jun'ichirō's clever use of the new administrative machinery to overcome the forces of resistance in the ruling Liberal Democratic Party (LDP) and the bureaucracy. This approach provides a good start, but it does not explain why the restrictive trends continued even under the much weaker and less effective prime ministers succeeding Koizumi. Direct assertion of leadership by the prime minister and cabinet, it seems, was not sufficient.

The conventional framework setting the prime minister against the “forces of resistance” in the committees of the LDP's Policy Affairs Research Committee (PARC), along with allied interest groups and bureaucratic agencies, misses a crucial dimension of conflict: the mixture of sparring and coordination carried out by senior LDP members intermediate in power and influence between the prime minister on the one hand, and the “zoku” (policy tribe) Diet members in the PARC and their followers on the other. Leading members of the LDP with particular interest in economic policy allied with progressive elements of the bureaucracy, particularly the Ministry of Finance (MOF) and the Ministry of Economy, Trade and Industry (METI), as well as cabinet-oriented parts of other ministries, to push for fiscal reconstruction, including both expenditure cuts and an increase in the consumption tax. This union did not simply represent hidden bureaucratic influence—politicians and bureaucrats often conflicted and the bureaucrats did not necessarily win—but they generally saw eye to eye on key budgetary issues. Other influential LDP members more suspicious of the bureaucracy relied on outsiders or a handful of renegade bureaucrats and resisted calls to increase the consumption tax. The two sides agreed, however, on the pressing need to restrain spending, especially non-welfare spending. Eventually the pro-tax side won the battle of policymakers—but then in the 2010 House of Councillors elections the politicians failed to persuade the voters of their case, leaving Japanese public finances in perilous shape, despite the relative restraint in expenditures and the emerging elite consensus on the necessity for increasing taxes.

## **Budgetary outcomes in the 2000s**

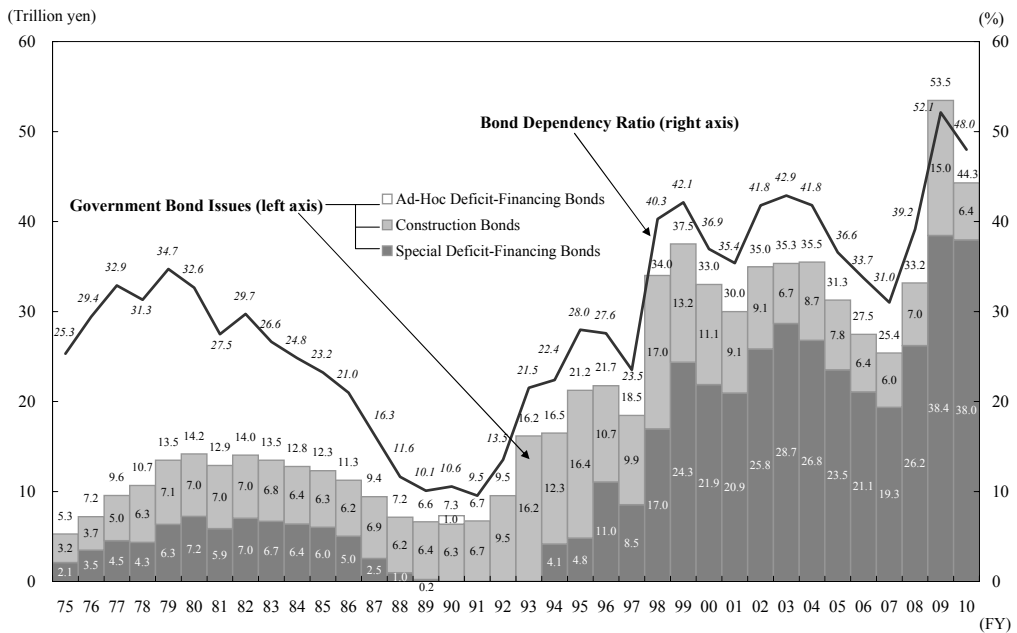
After markedly improving in the mid-2000s, the ratio of tax revenue to expenditures deteriorated sharply after 2008 as the global crisis hammered the economy, leaving the central government dependent on bonds for more than half of its revenue (Ministry of Finance 2010:

**(2) Trends in General Account Tax Revenues, Total Expenditures, and Government Bond Issues**



(Note 1) FY1975-2008: Settlement, FY2009: Second revised budget, FY2010: Initial budget  
 (Note 2) Ad-hoc deficit-financing bonds (approx. 1 trillion yen) were issued in FY1990 as a source of funds to support peace and reconstruction efforts in the Persian Gulf Region.

**(3) Government Bond Issues and Bond Dependency Ratio**



(Note) FY1975-2008: Settlement, FY2009: Second revised budget, FY2010: Initial budget

Sources: Ministry of Japan, "Japan's Fiscal Situation (December 25, 2009)"  
<http://www.mof.go.jp/english/budget/e20091225b.pdf>

4). Japan's fiscal condition is indeed grim. Net government indebtedness is well over 100 percent, worse than in any other OECD country (OECD 2010a). Unlike the case in financially troubled European countries such as Greece and Italy, Japan's domestic savings are sufficient to absorb government deficits, and interest rates remain low, but at some point declining domestic savings and increased interest rates could put tremendous pressure on budgets, and possibly ignite a crisis of confidence.

Japan's fiscal woes are not primarily the result of unrestrained spending by profligate politicians. Government spending as a share of GDP is among the lowest in the OECD: in 2007 (the latest year for which comparable data are available), total expenditure of general government as a percentage of GDP was 36.01 percent—slightly lower than that of the United States, and far lower than in most European countries (OECD 2010b). Instead, weak economic performance and deflation have depressed revenues and created “reverse bracket creep.” Neither in Japan nor abroad is there full recognition of the magnitude of the tax collapse. After climbing steadily and rapidly for decades, tax revenues in the general account budget peaked at 60.1 trillion yen in 1990. They declined by almost a third to 43.3 trillion yen in 2002, and then recovered to 51.0 trillion yen in 2007, before slumping to a disastrous 36.9 trillion yen in 2009 (MOF 2010).

To the extent that pressures to expand spending increased, they reflected not increased waste or per-capita generosity, but the aging of the population. From the late 1990s to the late 2000s, the share of public works in GDP declined by over half, and the government's spending on agriculture declined by almost as much. Defense spending stagnated, education spending declined significantly as the number of school age children dropped, and foreign aid plunged. Pension benefits, healthcare coverage and reimbursements to physicians all shrank, while pension and health premiums increased, but because of the rapid aging of the population, social welfare spending jumped from 35 percentage of the budget in 2000 to 48 percent in 2008. (Noble 2010: 247-251).

### **Sources of fiscal restraint: Structural Reforms and the Koizumi-Takenaka Team**

To the extent that restraint in expenditures is recognized at all, it tends to be attributed to the increased strength of the prime minister since the electoral and administrative reforms of the 1990s, and particularly the confluence of structural reforms and skilful leadership under Prime Minister Koizumi (2001-2006) (Fujimura 2009; Uchiyama 2007; Shimizu 2005). Electoral and campaign financing reform weakened the influence of factions, strengthened the power of the prime minister, and contributed to consolidation of the party system, creating a genuine alternative to the LDP (Rosenbluth and Thies 2010, Köllner 2009). Elections increasingly became a simultaneous choice of party, platform, and prime ministerial candidate (政治改革推進協議会 (民間政治臨調) 1996). The end of the cold war and of the bubble economy, and the

increase in uncommitted “floating voters” at the expense of “organized voters” further strengthened the move away from particularistic politics and factionalized clientelism and toward a more programmatic orientation to policy (Noble 2010). Strengthening of the prime minister and cabinet (Shinoda 2005) and creation of four key advisory councils under the prime minister increased the capacity of political leaders to provide more coherent policies.

Prime Minister Koizumi made particularly good use of the revamped institutions. Koizumi crafted effective political manifestos, effectively wielded the threat of parliamentary dissolution, and kept firm control over cabinet and other personnel decisions once left largely to factions. He mobilized charm, ability to craft bold and decisive-sounding sound bites, and skilful use of a wide range of news and information media to advance his agenda of structural reform against opponents he cannily designated as “forces of resistance.”

A crucial weapon was the Cabinet’s Council on Economic and Fiscal Policy (CEFP), which came into existence just months before Koizumi assumed office as part of the reforms crafted in the 1990s by Prime Minister Hashimoto Ryūtarō. Koizumi set the agenda and broad lines of policy, then delegated authority for economic policy to one-time government policy analyst and Keio University professor Takenaka Heizō, the only person to last through all three of the Koizumi cabinets (Takenaka 2008). Koizumi gave Takenaka his complete trust, and Takenaka in turn provided absolute loyalty, running for the House of Councillors in 2004 when Koizumi asked him to increase his political heft, and retiring from the Diet in mid-term when Koizumi finished his tenure as prime minister. Takenaka combined academic expertise, extended stays at leading American universities, and years experience working in the economic bureaucracy. He built a small, ideologically compatible and intensely loyal team, and strove to reduce the influence of the ministries.

The four “private” members of the CEFP—two economists and two business executives from leading firms in such externally oriented sectors as automobiles, electronics and trade—served as a vanguard, pushing the policy envelope. The private members quickly overcame their differences to forge a united front, seizing control of the policy agenda with provocative and unanimously signed “private member [policy] papers.” They stressed the importance of transparency to neutralize the information asymmetry typically favoring the bureaucrats, and prodded reluctant ministries to establish specific timetables and numerical targets (Ota 2006: 124-127). The CEFP under State Minister Takenaka forced the ministries and agencies to provide counter-offers rather than merely veto uncongenial proposals, and after intensive efforts at persuasion, let the bold and popular prime minister make the final decision, typically favoring further reforms (Takenaka 2008: 224-225).

The CEFP under Koizumi and Takenaka overcame the opposition of bureaucrats and backbench politicians to achieve a number of crucial breakthroughs, many of which directly or indirectly reduced pressure on government spending. The CEFP:

1. Controlled the direction of the budget and the Fiscal Investment and Loan Program (FILP) or “second budget,” overcoming resistance from bureaucrats, interest groups and LDP

backbenchers to inflict significant cuts in public works and health care (via lower reimbursements to doctors; increased co-pays, and increased contributions); and squeezed pensions (sharply higher contribution rates plus lower future payments).

2. Forced banks to cast off their non-performing loans (over resistance from banks, and the Ministry of Finance, and such borrowers as big retailers and their overseer METI).

3. Forced the Bank of Japan to switch more a more accommodating monetary policy to combat disinflation (Cargill and Sakamoto 2008: 142-143)

4. Consolidated and privatized government-owned financial institutions (against the strenuous opposition of the Ministry of Finance, which placed many of its former officials in cushy post-retirement amakudari positions at the banks).

5. Began privatization of the postal system (including the gigantic postal savings and insurance systems), despite strenuous opposition from the Ministry of Internal Affairs and Communication (MIC) and backbench politicians.

6. Cut some disbursements to local governments in return for turning over a portion of tax revenues, and consolidated many small local governments, both over the opposition of a reluctant MIC and against the wishes of many local governments.

## **Beyond the powerful prime minister**

The preceding explanation is fine as far as it goes, but it is incomplete: control of expenditures continued even under Koizumi's three weaker, less effective and shorter-lived LDP successors, who failed to match Koizumi's appeal and strategies (Shimizu 2009; Takenaka 2008, pp. 225-232). Koizumi's successors

-Failed to produce bold manifestos with concrete and immediate goals.

-Did not make good use of control over personnel or delegate clearly to one chief economic advisor; instead, they tried to balance cabinet, factions, and forces within the LDP rather than naming figures reliant on themselves.

-- Relied on the electoral majority left over from Koizumi's historic victory in the 2005 House of Representatives election rather than daring to seek own electoral mandates via parliamentary dissolution.

And yet tight control over budgetary expenditures and the FILP program continued, with only a modest relaxation after the global financial crisis in 2009, and even that response differed fundamentally from the particularistic pump-priming of the late 1990s.

Each of Koizumi's three LDP successors lacked crucial skills or committed significant errors, and the last two were hobbled by the opposition's seizure of control of the upper house in the 2007 House of Councillors elections. Each lasted but a year. Prime Minister Abe occupied himself with distant and unrealistic goals of little direct appeal to voters, such as constitutional revision, failed to set concrete short-term goals, and made numerous tactical errors. Ideologically,

Abe was closest to Koizumi, but he lacked Koizumi's hard-earned reputation as a principled and tenacious reformer, and Koizumi's feel for the concerns of the electorate, lurching from a generic conservatism to a position far to the right of the median LDP legislator, much less the voting public (Kabashima and Ookawa 2006). In sharp contrast to Koizumi's care in personnel selection, Abe's failure to vet cabinet picks carefully led to a stream of gaffes and scandals, and criticism that he relied on a "cabinet of friends." The revelation on Abe's watch that the government had lost tens of millions of pension records mostly reflected bad luck, since the problems dated back decades, but Abe did not respond effectively to the public's understandable fear and outrage. Above all, his decision to accept back into the LDP the "postal rebels" who had defied Koizumi over postal privatization in 2005 and had become symbols of the "old" LDP's unwillingness to reform, turned out to be a disastrous error (Shimizu 2009: 156-175).

Abe's successor Fukuda Yasuo was less committed to neo-liberal reform than Koizumi and Abe, and could not match Koizumi's skill at communication. The son of a former prime minister, Fukuda had been an effective "insider" as Chief Cabinet Secretary under Koizumi, and he was more sensitive to the immediate concerns of voters than was Abe, as seen in his determination to create a new consumer protection agency, but he was old and lacking in charisma and public speaking skills. LDP backbenchers questioned his ability to win elections (*Asahi Shinbun*, September 17, October 2, 2007). Fukuda failed to craft a new manifesto, and carried over almost the entire previous cabinet from Abe, rather than creating a new team and independent image. Especially telling was his botched attempts to create new slogans to summarize his policy direction, borrowing much of his terminology from the opposition parties, and then repeatedly mangling the wording in public (Shimizu 2009: 257-258). Attempts to convey a sense of modesty and circumspection (such as describing his political situation as 背水の陣 [forced to fight a last-ditch battle]) only made him sound weak.

Finally, Fukuda's flighty successor Asō Tarō repudiated the signature stances of the "Koizumi structural reform" agenda on postal privatization and fiscal reconstruction, joining the resurgence of pro-expenditure groups in the LDP (*Nihon Keizai Shinbun* August 6, 2008). The word "reform" literally disappeared from Aso's campaign posters (*Asahi Shinbun* September 25, 2008). Aso's repeated misreading of Japanese expressions exposed him to ridicule and undermined his reputation for seriousness and competence.

Koizumi's successors struggled to deal with the backlash against five years of vigorous reform under Koizumi, including "reform fatigue," scandals attributed, with varying degrees of plausibility, to the deregulation carried out under Koizumi, and the widespread impression that Koizumi's policies had contributed to a rapid increase in economic inequality in Japanese society. Most important, the opposition's victory in the 2007 House of Councillors election gave the DPJ a precious increase in perceived legitimacy and seriousness, and hobbled the policy initiatives of the CFP and the LDP, since the upper house could veto all legislation except budgets and treaties. In fact, an important reason that Fukuda came across as so much less resolute than Koizumi was his repeated, and ultimately fruitless, efforts to craft a grand

coalition with the DPJ to overcome the gridlock caused by divided government, such as trying to garner the DPJ's support for the U.S. military effort in the Indian Ocean, and a possible increase in the consumption tax.

In sum, prime minister Koizumi's hapless and unlucky successors still managed to preside over continuing budgetary stringency, and even succeeded at passing some legislative breakthroughs, such as Fukuda's creation of the consumer protection agency, even though they lacked many of Koizumi's skills and failed to imitate his clever use of the powers of the prime ministership created by the 1990s reforms. The "structural reform" explanation is necessary, but not sufficient.

Moreover, it is telling that even Koizumi relied far more on the bureaucracy, and not just new institutions such as the CFP, than the rhetoric of the Takenaka team and much of the press coverage would lead one to believe. Takenaka (2008: 124-126) and his chief assistant, Ota Hiroko (2006: 250-252) emphasize the galvanizing role of the CFP and particularly its private members, and express suspicion and even hostility toward staff seconded from the bureaucracy, but the illuminating account by Koizumi's long-time political secretary Iijima Isao (2006) makes clear that the Koizumi administration relied deeply on a select group of seconded bureaucrats. Dependence on support from bureaucrats was especially crucial in Koizumi's last year: opponents in the LDP were either defeated or cowed by Koizumi's great victory in the 2005 election, while Takenaka relinquished control over the CFP to oversee implementation of postal reform at MIC. Koizumi entrusted the CFP to fiscal conservative Yosano Kaoru, who pledged to work with, rather than against, the ruling party. It is true that Abe, Fukuda, and Aso to some extent coasted on the budgetary outlines set out under Koizumi, but the crucial compromises were forged under Yosano in the "unified expenditure/revenue reform" incorporated in the 2006 "Honebuto" (big boned) program for economic management (CFP 2006).

## **Reconsidering relations between politicians and bureaucrats: beyond strict delegation**

Until the late 2000s, analyses of Japanese politics increasingly stressed political control of the bureaucracy. Whereas scholars in the immediate post-war decades focused on the domination of policymaking by bureaucrats and the limitations of Japan's new democracy (Tsuji 1969), by the early 1980s, a positive affirmation of pluralism asserted itself. Surveys found that both bureaucrats and politicians viewed the latter as the most important players in the policy process (Muramatsu 1981). Drawing on masses of internal party documents, Satō and Matsuzaki (1986) showed that the LDP had developed a stable seniority system, and that its leading politicians played an active role in policy. Extending the work of Aberbach, Putnam and Rockman (1981) on western democracies, they proclaimed that politicians and bureaucrats in Japan had merged into a new "hybrid." Inoguchi and Iwai (1987) concurred, highlighting the



active role of LDP politicians in distributing political resources. Japanese policymaking, it seemed, had become democratic, pluralistic, and highly responsive to party politics, if still not quite as freewheeling as in the United States.

After 1989, the LDP's loss of control of the Upper House and from 1993-1994 even the House of Representatives, and its consequent dependence on coalition partners confirmed the idea that politics, not bureaucracy, held the key to Japanese politics (Hiwatari and Miura 2002). At the same time, widespread reporting of the putative failings of the ministries quieted talk of bureaucratic dominance: the bursting of the economic bubble in 1990, scandals involving the ministries of finance and health, the perceived failure to deal effectively with the Kobe earthquake and the subway poisoning attacks of the Oum Shinrikyō sect, the inability of the Finance Ministry to prevent the collapse of numerous financial institutions and the accumulation of bad loans, and above all the prolongation of deflation and slow and erratic growth all undermined the reputation of the bureaucracy.

Principal-agent models developed elsewhere also began to influence studies of Japanese politics. The assent of politicians is needed to pass legislation and budgets, and scholars explored an increasingly wide variety of techniques politicians could use to influence the behavior of bureaucrats, including screening, direct and indirect monitoring (including provision of "fire alarms"), and control over administrative procedures, agency budgets, and career opportunities available to bureaucrats (Miller 2005). Ramseyer and Rosenbluth (1993) found significant evidence that many of these techniques were also at work in Japan. McCubbins and Noble (1995) showed that Japanese budgets, far from being rigid and incremental, responded to fluctuations in the goals of top leaders and the size of the LDP contingent in the Diet. Masuyama (2003), following Cox and McCubbins (1993), argued that LDP leaders guided policymaking through their control over the Diet's agenda.

Just as the "me political principal, you bureaucratic agent" approach became accepted wisdom in Japan, the literature in the west grew more complex and sophisticated, emphasizing variations in the type and breadth of delegation, and the varying resources available to both politicians and bureaucrats, not the least the fact that bureaucrats have a massive advantage in numbers, experience, expertise and continuity. Many analysts applied the economics of industrial organization and transaction costs to political arrangements, concluding that politicians will not devote unlimited resources to writing legislation or monitoring bureaucrats, but will compare internal costs (producing laws and regulation through legislative committees) to the external transaction costs involved with delegation to bureaucracy. Politicians are more likely to delegate, for example, under unified rather than divided government (Epstein and O'Halloran 1999). Huber and Shipan (2002) argued that the degree of delegation depends upon the character of the issue (for example, how conflictual or technical); the availability of alternatives such as courts or federalism; and the capacities of politicians (especially ministers) and legislatures (e.g. time, salaries, and committee systems). Similarly, Alesina and Tabellini (2007) predicted greater delegation when the policymaking is complex or uncertain, and less

when the content involves distributing valuable resources to specific clients.

A related strain of research pointed out that politicians sometimes deliberately forsake political discretion in the presence of time-inconsistency, short-termism, and strong vested interests (Alesina and Tabellini 2008). The trend toward more independent central banks is a famous example (Alesina and Summers 1993, but see also Hallett et al. 2009 on limitations arising from interactions with fiscal policy). Independent regulatory agencies, once limited largely to the United States, have spread to Europe and even Japan, partly via diffusion mechanisms, but also because of their ability to increase credibility and bind the hands of successors (Gilardi 2008). Politicians may even deliberately tie their hands and limit their discretion so as to increase their bargaining leverage with other players or other countries (Miller 2005).

More recently and intriguingly, political scientists have noticed that bureaucrats are not simply agents with significant hands-on information and expertise, but political players capable of mobilizing formidable political resources of their own. In Sweden and other social democratic countries, public sector unions are major supporters of leading political parties. Even in America, unions of teachers, prison guards and other public employees can mobilize significant numbers of voters and contributors (Moe 2006; Zimring et al. 2001). Agencies also often sit at the nexus of interest groups, academics and professionals involved in the policy process. Carpenter (2001) demonstrated that the American post office and Department of Agriculture (though not so much the Department of the Interior) were able to provide unique services that caused related interest groups to rally around the agency and protect against hostile or indifferent politicians. Similarly, President Ronald Reagan's ability to use appointment powers to rein in the Environmental Protection Agency (EPA) was slowed and limited by the EPA's network of supporters (Wood and Waterman 1994).

In some cases, bureaucracies can use their information advantage and image of being less corrupt than politicians to sway larger swaths of public opinion. Robert Moses, for example, used his control over an independent income stream (bridge and road tolls) to dominate public construction in New York for decades, lasting through five mayors and seven governors, until he lost control of public opinion in the early 1960s and was pushed aside (Caro 1974). In addition to mobilizing positive opinion on their own behalf, bureaucrats can leak damaging information to discredit their political "masters," as lightly fictionalized in the famed British television series "Yes, Minister" (Makihara 2003:17-18). Finally, on occasion, bureaucrats can unleash against political opponents (and their supporters) the coercive powers of the state, such as tax audits, regulatory investigations, and prosecutions.

By the 2000s, as the economy continued to flounder despite massive budget stimulus packages, similar observations proliferated in Japan. Loss of confidence in the bureaucracy gave way to larger questions about political governance. Scholars increasingly questioned the power of the prime minister to overcome not just the bureaucracy but also the pluralistic forces in the LDP that often aligned with individual ministries to demand resources and resist

calls for structural change. The Hashimoto and Koizumi reforms created some optimism, but even Koizumi's subordinates and supporters expressed doubts that structural reform would survive his retirement (Takenaka 2008: 225-232). Many scholars agreed that political direction remained weak. Iio Jun's (2007) award-winning book pointed to continuing weaknesses in the quality of ministers and deliberation in both Diet and cabinet. Despite some improvements after electoral reform, he noted that bureaucracy remained deeply embedded with producer and other social groups. Bureaucrat-scholar Nakajima (2007) and prominent LDP figure Nakagawa Hidenao (2008: 31) expressed even greater skepticism.

By the 2009 and 2010 elections, the insurgent DPJ, LDP conservatives, and journalists (Shimizu 2009) joined together in decrying the weakness of Japanese governance and calling for greater political leadership. Conservatives such as Nakagawa (2008) and Takahashi (2008) assailed the bureaucracy's use of leaks, information freezes, and sabotage. Foreign Ministry officials, for example, used information leaks to discredit Koizumi's first Foreign Minister, Tanaka Makiko (Ehrhardt 2009: 636). During the postal privatization drive, Prime Minister Koizumi even sacked two MIC officials for carrying out secret negotiations with LDP backbenchers (Takenaka 2008: 183). Nakagawa (2008: 33-35) assailed bureaucrats for mobilizing interest groups and local governments to pressure political leaders. Rather than politicians determining the promotion of bureaucrats, he charged, bureaucrats were able to manipulate the images and thus career prospects of politicians. Nor, he claimed (Nakagawa: 56-64) did bureaucrats in the Ministry of Finance and elsewhere hesitate to use tax audits and regulatory powers against reporters and others perceived to be unsympathetic to bureaucratic interests. Doubts even emerged about the independence of prosecutors. Johnson (2002) showed that prosecutors were even more immune from oversight in Japan than in most other advanced democracies, though he argued that in general they handled their discretion responsibly. Former Foreign Ministry official Sato (2010), however, claimed that bureaucrats selectively prosecuted certain politicians and parties while leaving more pliable politicians alone (for the interaction between leaks by prosecutors and pliable news media in the run-up to the 2009 House of Councillors election, see also *New York Times*, May 28, 2009). The conclusion of Nakagawa (2008: 35): bureaucrats still wield overwhelming influence in policymaking.

In sum, while the claim that delegation to the bureaucracy amounts to out-and-out abdication is implausible in an electoral democracy, and plenty of comparative statics evidence suggests that changes in political arrangements lead to changes in policy outcomes, and are not just stymied by bureaucratic resistance, logic and considerable evidence provide reasons to believe that politicians often prefer fairly loose delegation and on occasion will even deliberately create strong bureaucratic control, not least via the Ministry of Finance. Moreover, the assumption that politicians hold an absolute advantage in political legitimacy and legislative control over their bureaucratic agents can be exaggerated: the resources available to bureaucrats include not only information, expertise, hierarchical control and institutional continuity, but also legitimacy, extensive contacts with economic and social groups, and at

times even significant electoral mobilization capacity. These resources help explain how leaders within the LDP could use alliances with parts of the bureaucracy to control spending even under weaker prime ministers.

### **Beyond the prime minister: influential LDP MPs and alliances with the bureaucracy**

Despite the rhetoric of the DPJ electoral manifestos (Democratic Party of Japan 2009), in Japan as elsewhere, policymaking conflict rarely neatly pits politicians against bureaucrats (Aberbach, Putnam, and Rockman, 1981: 252). Normally, one set of politicians, related bureaucrats, and allied interest groups confronts other clusters of politicians, bureaucrats, and interests. Traditionally, subgovernments and iron triangles were especially pernicious in Japan because of the internal political competition resulting from the “medium-sized constituency” or Single Non-Transferable Vote (SNTV) electoral system (Campbell 1984). As noted above, the electoral and campaign reforms of 1994 diminished internal conflict, undermined factions, and strengthened party labels and prime ministers as party leaders. Despite the drama of the Koizumi years, however, policymaking does not just revolve around a conflict between prime ministers and the pluralistic “forces of resistance,” but often includes conflict over policy direction and balance across spending programs. These conflicts are not new, but they grew in relative prominence as factions and *zoku* leaders weakened. Back in the 1980s, Sato and Matsuzaki (1986: 50-51, 97) noted the importance of “influential Diet members” 有力議員 with seniority (two or more terms in the cabinet or “top four” party posts) and (unlike mere *zoku*) a plausible claim to expertise and influence in multiple policy areas. Influential members demonstrate their status (and suitability for future positions, including prime minister) by restraining their own demands, imposing discipline on junior members, and brokering deals across policy areas. Even among *zoku* Diet members, Inoguchi and Iwai (1987) distinguished between “hunting dogs” that constantly sought new resources for themselves and their followers, and “guard dogs” (獵犬/番犬). After the structural reforms, influential members without their own factions played an even more important role.

### **Major axis of conflict: Consumption taxes**

After the accession of Prime Minister Koizumi, the greatest conflict in economic policy centered on whether, when, and how much to raise taxes to cover the yawning budget deficit. The weakness of the economy and fears of intensified deflation served to delay calls for tax increases, as did the repeated setbacks the LDP had experienced when it proposed, passed, and later increased the rate of the consumption tax. The business community, well represented through the peak association Nippon Keidanren and the CEFPP, argued that the highest priority

was to stimulate domestic investment by cutting corporate taxes, since profitable big companies face relatively high rates, especially compared to those of neighboring Asian countries. Prime Minister Koizumi flatly declared that he would not raise the consumption tax during his tenure, which reassured consumers and investors, but also postponed the problem.

Policymakers paid relatively little attention to gaining more revenue from farmers, small-businesses, and middle-class taxpayers, even though Japan's tax base was narrower than that of other leading democracies (Steinmo 2010). Professor Ishi Hiromitsu of the Government Tax Committee, an advisory council under the Ministry of Finance, proposed implementation of a "standard" corporate tax on value added and invested capital in order to capture revenue from the two-thirds of companies reporting losses. Prime Minister Koizumi had spoken in favor of widening the tax base, and Professor Honma Masaaki and the private members of the CEFPP were not opposed in principle, but the CEFPP doubted that the measure would bring in much revenue and the business sector was bitterly opposed. When a watered-down system was finally introduced in 2004, it applied only to companies with capital of at least 100 million yen, and the CEFPP turned its attention back to cutting corporate tax rates (Ota 2006: 180-187). In 2003, the Koizumi team introduced some minor "policy tax cuts" on corporate and personal income tax rates, but after that tax policy changed relatively little (Ota 2006: 193-196), apart from some inadvertent reverse bracket creep that further cut into revenues. On the other hand, the Koizumi administration also implemented some significant increases in social security contributions and hiked co-payments by patients, effectively shifting some of the tax burden from corporations to households.

### *Tax cutters*

Tax aversion dominated the Koizumi administration and remained a powerful movement under his successors. In 2005, the private members of the CEFPP set out a framework for "integrated expenditure/revenue reform," including three underlying principles (CEFP 2005): small government; vitality (including cross-generational equity); and transparency. Of these, the most important was "small government," and Takenaka repeatedly declared, "I am the minister for small government" (Takenaka 2008: 211, 225-232). Policymakers tried to stimulate more rapid growth, and made optimistic (or unrealistic) assumptions about its likelihood. They focused on microeconomic reforms such as deregulation as well as macroeconomic policy, and aimed for a moderately high nominal growth rate; that is, they were implicitly willing to use a moderate amount of inflation to eat away the government's debts. Advocates of lower taxes tended to start with the maximum acceptable tax burden, then figured out expenditure cuts necessary to maintain them (Ota 2006: 123-165). The main thrust was clear: cut corporate and other taxes to the extent possible, and rely on accelerated growth and cuts in expenditures, including social security, to control the deficit.

In addition to Koizumi and Takenaka, prominent advocates included the CEFPP private

members led by Professor Honma, who had once recruited Takenaka to Osaka University (Shiota 2005). The private members did not always agree on neo-liberal principles—Professor Yoshikawa Hiroshi of Tokyo University had studied under the famed Keynesian economist James Tobin at Yale—and at first they tried to implement a division of labor by topic, but they soon concluded that their influence depended on maintaining unity, and they agreed that the first priority was cutting expenditures and privatizing where possible (Ota 2006: 255)

A number of senior LDP politicians shared this view. Some, led by Nakagawa Hidenao, opposed virtually all tax increases; others, such as Prime Minister Abe, Finance Ministers Omi Kōji and Nukaga Fukushirō and METI Minister Amari Akira, were willing to consider a small increase in the consumption tax if it could be used to reduce corporate or income taxes. The most consistent and vociferous proponent of cutting expenditures rather than increasing taxes was Nakagawa. A graduate of Keio University's Law Faculty, Nakagawa worked as a reporter for the leading business daily *Nihon Keizai Shinbun* before inheriting a Diet seat from his father-in-law, a party politician and fierce critic of the bureaucracy (Nakagawa 2008: 30). Nakagawa entered the cabinet in modest posts in 1996 and 2000. He was not a faction leader and proved electorally vulnerable, failing on two occasions to win election to the Diet, but from 2002-2005 he spent a record-breaking term as the LDP's point man for Diet negotiations. His books "Rising Tide" and "The Collapse of the Bureaucratic State" (Nakagawa 2006, 2008) called on Japan to surf on a rising tide of growth by cutting taxes, and assailed Japan's "stealth hybrid" elite, particularly graduates of the Law Faculty at the University of Tokyo, who were far more likely to be fiscal hawks than tax cutters (or big spenders). Nakagawa argued that it was unfair and politically unviable to ask ordinary citizens for tax increases before eliminating wasteful expenditures.

### ***Fiscal Hawks***

In contrast, the Ministry of Finance, its advisory bodies, many economists, and LDP leaders such as Finance Ministers Tanigaki Sadakazu and Yosano Kaoru and financial services minister Yanagisawa Hakuo claimed that "healthy" or "prudent" fiscal policy required an increase in the consumption tax. Like the bureaucrats, many of the fiscal hawks in the LDP hailed from the Law Faculty of the University of Tokyo. Many were sons of bureaucrats (Yosano) or politicians (Tanigaki) or linked to the Ministry of Finance. None headed a faction, and most had relatively weak electoral and fund-raising records, yet they were among the LDP's most influential members. Yosano came in second to Aso in the LDP's presidential race, and Tanigaki ran several times before finally assuming presidency of the party after Aso's disastrous loss in the 2009 House of Representatives election.

The fiscal hawks gave first priority to restoring fiscal discipline, initially by achieving "primary balance" (balancing the budget other than bond repayments) as soon as possible. They accepted the economic and political case for cutting unnecessary expenditures such as

public works before increasing taxes, but they believed that it was politically unrealistic and normatively undesirable to cut social spending (Yosano 2008: 150-152). Rather than taking a hypothesized maximum tax burden as a starting point, they argued for calculating the amount necessary to fund social welfare expenditures at close to current levels, and then working out a combination of expenditure cuts and tax increases sufficient to pay for them. As a practical matter, they settled on the consumption tax for its stability and prodigious capacity to generate revenue. While the consumption tax was regressive in incidence, the spending it supported was generally progressive, and exemption of basic items such as food could soften the regressivity, albeit at the cost of increased complexity and lower revenue (Kato 2003). Fiscal hawks argued for making realistic assumptions about growth and interest rates, and assailed the deliberate courting of inflation to melt off public debt as a “demonic technique” 悪魔的手法 (Yosano in Shimizu 2009: 93).

### ***Big spenders***

Despite heated disagreements over tax policy, tax cutters and fiscal hawks agreed on the importance of cutting expenditures. Naturally, many politicians, bureaucrats, and interest groups resisted attempts to cut favored programs. After the failure of the huge budget stimulus packages of the late 1990s, few LDP leaders advocated expansionary finance as a matter of principle, but backbench pressure was unrelenting, and when elections loomed, even some leaders called for expanding expenditures. For example, in 2008, Diet countermeasures chief Koga Makoto, PARC chair Hori Kōsuke, and presidential candidate Asō Tarō all called for resisting expenditure cuts (*Nihon Keizai Shinbun* August 6, 2008). These voices rarely appeared in the CEFPP, however, and they typically defended specific items rather than making a principled case for larger expenditures (*Asahi Shinbun*, November 15, 2007). Instead, they criticized the unelected private members of the CEFPP (including Takenaka before he was elected to the House of Councillors in 2004), and complained about inconvenient timing of expenditure cuts (*Asahi Shinbun* October 16, 2007; Yamanaka Sadanori in Ota 2006: 191).

Overall, though, the striking feature of the big spenders was their weakness and lack of confidence. They rarely held key policymaking decisions in the ruling party or government, and they did not attempt to articulate a serious ideology or mount a sustained media campaign. They wielded only marginal influence, and could not stop net budget cuts.

### ***Fiscal hawks gradually gain the advantage***

From the latter part of the Koizumi administration, the fiscal hawks slowly and almost imperceptibly pulled ahead. Though the Abe administration was ideologically conservative and favored tax cuts, CEFPP Minister Ota denied being an advocate of the “rising tide,” and Prime

Minister Abe told the Diet, “As far as I can recall, I have never used the expression.” (Shimizu 2009: 196, 198). Abe and Ota sought to increase productivity through deregulation and even consumer protection, and focused on the implications of fiscal policy for productivity, rather than avoiding all tax cuts per se.

Fukuda, whose father had been head of the budget bureau at the Ministry of Finance before becoming prime minister, basically favored prudent finance and protection of social security. Unlike Koizumi, he was not unalterably committed to working through the CEFP with its economists and business executives. For example, in 2007 he established a joint LDP-Komeito committee on joint consideration of taxes and social welfare. Unlike the CEFP, the committee included the minister responsible for social welfare and labor (*Asahi Shinbun* October 23, 2007 and September 27, 2007). Politically, Fukuda was not in position to act as an active fiscal hawk. Hobbled by a weak party base, a cabinet coalition, and the opposition-dominated House of Councillors, he tried to balance factions and policy groups, and relied on multiple advisory councils.

Aso was even less committed to Koizumi’s structural reforms and publicly questioned the priority placed on balanced budgets. Unlike Abe and Fukuda, he did not receive Koizumi’s support in the LDP president’s race. But like Fukuda, he engaged in balancing in a futile attempt to retain support and deal with the opposition. He formed an unlikely alliance with Yosano, and promised to get to work on the deficit—later. Finally, after the fall of Aso, the LDP under Tanigaki incorporated into its electoral platform for the 2010 House of Councillors election a pledge to hike the consumption tax to 10 percent. To Tanigaki’s annoyance, the DPJ immediately copied the proposal. Increasing the consumption tax had become the mainstream consensus among policymakers and the leading parties—but the voters rejected tax increases, handing the DPJ a defeat, and favoring smaller opposition parties as much as the LDP.

Especially striking from the last year of the Koizumi’s administration through his three LDP successors was the recurrent reliance on the leader of the fiscal hawks, Yosano Kaoru. The grandson of famous poets, son of a diplomat, and graduate of the Tokyo University Law Faculty, Yosano worked briefly in the semi-private sector (Japan Atomic Power Generation, a joint venture of the regional electric power monopolies) before working as a secretary to former Prime Minister Nakasone Yasuhiro and as Deputy Chief Cabinet Secretary under LDP heavyweight Kajiyama Seiroku. Yosano entered the cabinet as education minister in 1994, and then served prime minister Obuchi Keizo as a MITI minister in 1998. Despite his elite background, powerful patrons and widespread contacts in the bureaucracy and business community, Yosano failed to build a powerful electoral base and never headed a faction. Three times he failed to win election to the Diet, including during the first half of Koizumi’s term; he only scraped his way back into the Diet in 2003 by virtue of a spot on the LDP’s proportional representation ticket.

Yosano was a moderate, pragmatic conservative. He supported Koizumi’s structural reforms as right for their time, but denied that they represented eternal verity. Sharply critical



of “market fundamentalism,” he advocated “market realism,” and “humanist democracy” (Yosano 2008: 70). He said that the government had to seek fairness but not equality per se. Above all, it had to be pragmatic (Yosano 2008: 76-80). Yosano was basically positive about bureaucrats. He said he had learned from Kajiyama how to use bureaucrats without being used by them, and claimed that he seldom accepted policy briefings from bureaucrats (Yosano 2008: 32-38, 26). He saw bureaucrats as motivated primarily by a sense of honor and mission (Yosano 2008: 139) and rarely mentioned amakudari or bureaucratic scandals. He presented a detailed refutation of the arguments of the “rising tide” faction, and forcefully advocated a simple policy prescription: raise the consumption tax to restore fiscal balance (Yosano 2008: 149-171).

During the administrations of Koizumi and his successors, Yosano served in a remarkable array of posts. In 2004, Koizumi named him head of the LDP’s Policy Affairs Research Council, where he was responsible for guiding postal privatization—Koizumi’s signature policy initiative, drafted by the Takenaka team—through the party. In 2005, after Koizumi’s triumph in the “postal election,” Yosano served as minister of state for economic and fiscal policy. As CFP minister, he took responsibility for compiling Koizumi’s final “big boned” (honebuto) report. To the disgust of Takenaka and Ota, Yosano argued for coordinating with the LDP rather than trying to overcome its opposition. Koizumi balanced Yosano and “rising tide” leaders Nakagawa, ending in an ambiguous victory for Yosano in the final report, which called for both higher taxes and a higher nominal growth rate (Shimizu 2009: 93-97). For big spenders, however, the report was clearly a major defeat. The plan aimed to bring the primary balance of the combined central and local government budgets back into the black by 2011. The integrated reform of expenditures and revenue called for a shift of 16.5 trillion yen over the following five years, including at least 11.4 trillion yen—over 70 percent of the total—in expenditure cuts (CEFP 2006: 15-19, 47-48).

In October 2006 Yosano was temporarily sidelined by a 13-hour operation for cancer of the pharynx (Yosano 2008: 113-115). Even after his recovery, he did not at first receive a position under the young, growth-oriented Abe, who focused on innovation and openness as a way to stimulate growth and obviate the need for tax increases. But in the last month of his term, a flailing Abe brought in Yosano as Secretary General in a futile bid to restore his popularity and authority. Yosano also initially failed to win a position under Fukuda, but he still exerted indirect influence through the interim report of the Research Group on Fiscal Reform, of which he was chair. The report (LDP 2007) called for continued reductions in expenditures, and a “streamlined and efficient” (rather than small) government with a mid-sized welfare/mid-sized tax burden, and a hike in the consumption tax to 10 percent by the mid-2010s to pay for it. When Fukuda’s supporter ratings sagged, he, like Abe before him, called on Yosano, naming him special minister for the CFP and for regulatory reform, just a month before the end of the Fukuda cabinet.

Aso, once an avowed skeptic of prudent finance, kept Yosano on. When Nakagawa Shoichi, minister of both finance and financial supervision, resigned after showing up drunk at an

international meeting in Rome in early 2009, Aso added those two posts to Yosano, leaving him in complete control of economic policymaking. By that time, ironically, the global financial crisis was exerting staggering contractionary pressure on the Japanese economy, and the advocate of balanced budgets resigned himself to supervising creation of a large stimulus package: "Within the LDP, I have been categorized as part of the 'fiscal discipline faction' 財政規律派, but for the time being I have changed my sect. Fiscal discipline is important, but a crisis requires an appropriate response. We will adopt all policy measures necessary to achieve the economic recovery agreed to by the nations of the world." (Shimizu 2009: 45). Despite this pragmatic tactical retreat, the dependence of successive prime ministers on the senior policy specialist, and the powerlessness of backbenchers to stop the leader of the fiscal hawks, was clear.

## **Bureaucratic staff**

If influential policy specialists within the LDP played a role in restraining expenditures far beyond that captured by the dramaturgy of "prime minister versus backbench forces of resistance," bureaucratic staffers, particularly officials seconded to the cabinet from MOF, METI and the MIC, were also crucial players in coordinating and implementing budgetary reforms. The most strident advocates of structural reforms, particularly leaders of the tax avoidance group such as Takenaka and Abe, often harshly criticized bureaucrats, not least those serving in the cabinet. Rising tide leader Nakagawa quoted Prime Minister Murayama, whom Nakagawa served as an assistant in 1994, as lamenting that in a cabinet office containing 300 bureaucrats, the prime minister and three other politicians were mere "birds in a cage" (Nakagawa 2008: 39). Koizumi accused the bureaucrats of attending only to their only interests. Early in his administration he particularly lamented the Ministry of Finance's lack of enthusiasm for structural reforms such as privatization of highways and postal services, reform of the Fiscal Investment and Loan Program, government-related financial organizations, and special-purpose corporations: "The Finance Ministry said nothing about all these programs that I am now reforming" (CEFP 2002: 25). Takenaka (2008: 40, 124-126) complained that bureaucrats stuck to precedent because they were unwilling to admit past policy failures. Ota and the CEFP private member Okuda Hiroshi (Chairman of Toyota) castigated the bureaucracy as cautious, slow, compromising, chronically inclined toward adjusting interests rather than taking bold initiatives, and extremely reluctant to accept specific timetables and numerical targets (Ota 2006: 83-94).

Koizumi and his advisors developed a number of countermeasures to overcome bureaucratic aversion to structural reform. Koizumi frequently insisted that the key was controlling the details rather than delegating them to the bureaucracy (大事なのは各論) (Ota 2006: 88). Takenaka (2008: 88, 162) echoed the importance of following up on the details. Ota (2006: 17-18) said that it was important to rely on the private members and the prime minister's office (官邸) rather

than the cabinet, but she admitted that in practice it was often difficult to ascertain who was issuing orders. Sometimes the Koizumi-Takenaka team tried to ignore or perform an end run around the bureaucrats, especially when it came to postal reform, though Takenaka was himself a former bureaucrat, and made great use of the renegade MOF official Takahashi Yōichi, a bitter critic of the bureaucracy (Shiota 2005).

Despite this ingrained suspicion and hostility, even those most critical of the bureaucracy agreed that seconded bureaucrats were crucial to the policymaking process. In cooler moments, Ota (2006: 13) acknowledged that Article 4 of MOF's establishment law assigns responsibility for compiling the budget to the Finance Ministry and does not even mention the CFP. She also noted (Ota 2006: 92) that while relations between CFP and MOF were sometimes conflictual, they were also sometimes cooperative. Takahashi Yōichi and his coauthor (Takahashi and Suda 2010: 47-48) advised that controlling the Assistant Chief Cabinet Secretaries, of which an official seconded from the MOF is most important, is the "heart" (literally "liver") or essence of political leadership. Bureaucrat sympathizer Yosano (2008: 136-142) went even further—make good use of bureaucrats, and you won't even have to work hard!

The Ministry of Finance and METI occupy dominant positions among seconded staff in the cabinet. Four of the five positions as Executive Secretary to the Prime Minister (秘書官) have been reserved for key agencies: MOF, METI, the Foreign Ministry, and the police Agency, of which MOF and METI are by far the most influential, especially on budgets and other economic issues (the fifth position is reserved for a political secretary). All but one of Koizumi's Executive Secretaries served through his full term of five years and five months (see the list at Iijima 2006: 334). If the broad direction for the budget issued from the prime minister and CFP, the "ceiling" framework to restrict budgetary requests and the evaluation of individual items still came from the MOF (Ota 2006: 110).

Special project teams at a slightly lower level of seniority came from four other big ministries, but they were expected to show loyalty to the cabinet, and not simply work on issues of interest to the home ministry (Iijima 2006: 28-32). Many bureaucrats worked in the cabinet for extended periods, sometimes covering two or more cabinets, and extending as far back as Hashimoto in the mid-1990s. The vast majority were graduates of the Law Faculty at the University of Tokyo.

Seconded bureaucrats remain important partly because four of the alternatives advanced since the 1990s have not proved particularly successful, as even their advocates acknowledge. Increasing the number of junior ministers (Takenaka 2002) has not made much difference because junior minister is still primarily a learning position, and distribution of posts (unlike the case with ministers) is still primarily determined by factions (see e.g. *Asahi Shinbun* September 28, 2006 for the example of the Abe cabinet). Some prime ministers, notably Abe, attempted to rely on special advisors to the prime minister (内閣総理大臣補佐官), but the special advisors lack independent legal authority and often conflict with ministers (Shimizu 2009: 134-139; *Asahi Shinbun* September 29, 2006). Fixed-term contract staff from universities and the private

sector have played some role—Ota was initially hired on a fixed-term contract—but the importance of seniority and the difficulty of carrying out mid-career hires in the Japanese personnel system has proved a major obstacle, and individuals parachuted in from the private sector often have found themselves isolated and cut off from the information controlled by the bureaucrats (*Wedge*, December 2007: 10-12). After an initial burst of interest, the number of contract staff at CEFP declined (Ota: 260-262). Nor has the staff of the Diet and its legislative committees expanded much, despite repeated proposals from Nakagawa Hidenao and other politicians and scholars (Nakajima 2007: 235-239; Nakagawa 2008: 35-36).

More useful have been the “Ministers of State for Special Missions” introduced as part of the reorganization of the central ministries and cabinet in 2001. Special ministers possess legal authority, belong to the cabinet, and are responsible to the Diet, yet they can respond flexibly to address new policy issues. Prime Minister Koizumi, for example, was able to name Takenaka Heizō special minister for postal privatization. Of course, confusion over roles and the potential for conflict with the ministers of the line agencies still exists (Ota 2006: 16), and special ministers lack backup from ministerial staff—forcing them to rely primarily on officials seconded from the various ministries.

The CEFP played the crucial role in setting the direction of budgetary policy, and it relied heavily on bureaucratic staff. Most of its 200 or so members hailed from the old Economic Planning Agency (EPA), a support rather than line ministry that had developed significant expertise in macro-economics but wielded little power (and indeed was largely colonized by the Finance Ministry). Of seven Directors-General for Policy (政策統括官) in the cabinet, three worked at the CEFP. Among the crucial seconded bureaucrats at CEFP were Kishi Hiroyuki of METI and Takahashi Yoichi of MOF (Shimizu 2005: 272-275; Shiota 2005). Kishi, a *kōhai* of Takenaka at the economics department at Hitotsubashi University and holder of an MBA from Columbia, worked in the cabinet for Takenaka for more than four years. Takahashi, a graduate of the mathematics and economics departments at Tokyo University, was a visiting scholar at Princeton under Ben Bernanke, who later headed the Federal Reserve. Takahashi assisted Takenaka from 2001, officially entered the cabinet in 2003, and stayed through the Abe administration. Some seconded bureaucrats were renegades who cut ties with their home ministries and after leaving the cabinet became academics, managers, or private business executives. In 2008, both Kishi and Takahashi joined Eda Kenji, a METI bureaucrat who had helped design many of Prime Minister Hashimoto’s reforms before coming a politician, and other prominent figures in creating “The group of former bureaucrats changing bureaucratic state Japan” [官僚国家日本を変える元官僚の会] (脱藩官僚の会).

The CEFP private members did not trust bureaucrats not to leak information back to their home ministries, so in 2002 the CEFP created a “special orders” team under Professor Honma to set the council’s agenda. Initially, ex-EPA officials and contract employees from the private sector staffed the team, but it later added seconded members from various ministries. Even Takenaka admitted that independent experts were rare in Japan, and that his anti-

bureaucratic “Team Takenaka” and “guerrilla team” for postal reform relied heavily on “visionary bureaucrats” (Takenaka 2008: 139). More generally, once proposals from the private sector members moved to specific items for incorporation into the Honebuto plans, the CEFPP had to mobilize the full panoply of bureaucratic support (Ota 2006: 150-152; cf. also Takenaka 2008: 225-227). As Prime Minister Koizumi noted, “Unless we thoroughly revise the whole structure of wasteful spending, it will not be possible to regenerate the economy...If disagreements on specific issues [such as the size or composition of expenditure cuts] arise, we will request the assistance of the Ministry of Finance. I want the Finance Ministry to please think of itself as the secretariat for the CEFPP.” (CEFP 2001: 16)

Outside the CEFPP, the Koizumi cabinet’s reliance on bureaucratic staff to keep control over expenditures was even more obvious. Iijima Isao (2006: 60), who served as Koizumi’s political secretary for more than 30 years, was especially emphatic:

The ability to incorporate so radically the specific features of the Koizumi reforms in the Honebuto program depended upon the power of the team of Cabinet Secretariat Counsellors under Assistant Chief Cabinet Secretary Takeshima, who stood at the forefront of the battle to support the private sector figure Minister Takenaka, and Director-General Saka, who curbed the resistance of the ministries and agencies. This is an example of what I mean by ‘making full use of bureaucrats’.

Takeshima Kazuhiko, a career MOF official, served as Iijima’s “Mr. Outside,” while Saka Atsuo, another elite MOF official, served as “Mr. Inside” (Shimizu 2009: 148). Tango Yasutake, a budget specialist who later (2009) ascended to MOF’s top career post of administrative vice minister, also played a key role during the Koizumi administration (Iijima 2006: 28-32).

Of the last LDP prime ministers, Abe was the most skeptical of bureaucrats, especially MOF bureaucrats, and did the most to separate them from their home ministries. He relied on open applications from individual officials (公募) of which he received more than 80, rather than nominations by the ministries (*Asahi Shinbun*, September 27, 2006). He told would-be applicants to expect to burn their bridges to their home ministries; successful candidates were not to contact their home ministries, and were assigned to problems unrelated to the expertise they had developed at their home ministries (Shimizu 2009: 150). If Abe tried to reduce the power of the Ministry of Finance, in the end he relied heavily both on the coordinating powers of seconded MOF official Saka Atsuo, and on a variety of METI-related bureaucrats and politicians, including METI alumni in the LDP (Shimizu 2009: 148, 185, 136). For his “Asia Gateway” project ([www.kantei.go.jp/jp/singi/asia/](http://www.kantei.go.jp/jp/singi/asia/)), Abe relied on Executive Secretary Nemoto Takumi, an ex-Construction Ministry member of the lower house, with administrative backing from METI and MOF, while at the CEFPP Ota leaned on METI’s Nohara Satoshi.

Like Abe, Prime Minister Fukuda relied heavily on MOF’s Saka, and indeed one of Fukuda’s problems was his perceived bias toward bureaucrats. His attempt to balance members from MOF, the Bank of Japan, and academic economics led him to keep nominating ex-MOF officials to the BOJ, even though the DPJ opposed appointment of ex-bureaucrats and was in a

position to defeat his nominations (Shimizu 2009: 334-339). Constrained by the alliance with Komeito and the desire to create a modus vivendi with the opposition-controlled upper house, Fukuda and the CFP under his direction delegated much of the authority to set budgetary priorities to MOF, leading to complaints of “a revival in MOF power” (*Asahi Shinbun* July 29, 2008). To counter fears that he was losing momentum in the fight against wasteful expenditures, the LDP under Fukuda established a project team to reduce administrative waste—with help from Japan Initiative (構想日本), a private organization founded by former Ministry of Japan official Katō Hideki (*Asahi Shinbun* June 27, 2008).

## Conclusion

Japan’s fiscal situation is indeed grave, but contrary to conventional wisdom, its primary problem is not political failure but demographic and economic pressures. An aging society with a shrinking work force has combined with two financial crises—domestic after 1990 and especially after the financial collapses of 1997, and international in 2008-2009—to constrict political choices. Japan’s gaping budget deficit and huge accumulated debt have resulted primarily from a catastrophic decline in tax revenue, not from ballooning budgetary expenditures. Despite the tremendous pressures, political leaders over the last decade have exercised considerable restraint over aggregate spending, and have reoriented budgetary expenditures from distributive outlays such as public works toward social welfare and other forms of programmatic spending.

To the extent that this outcome has even been recognized, the conventional explanation highlights institutional reforms such as revision of the electoral system, campaign financing reform, and the strengthening of the cabinet system, leading to stronger political leadership, as symbolized by Prime Minister Koizumi. Clearly, institutional reforms are part of the story. After 2005, however, continued constriction of expenditures continued despite weak (or in the case of Koizumi after the 2005 election, preoccupied) prime ministers. This suggests that we must look beyond the “reformist prime minister versus profligate backbenchers” structure. Influential senior LDP leaders with reputations as policy experts such as rising tide advocate Nakagawa Hidenao and fiscal hawk Yosano Kaoru combined with sections of the bureaucracy, particularly officials seconded to the cabinet from the Ministry of Finance and METI, to restrain expenditures. In some ways, this harks back to a pattern identified by Makihara (2003) for the 1950s and early 1960s, in which officials from MOF and parts of other ministries oriented toward the cabinet cooperated with leading LDP officials (see also Nakajima 2007: 127-129 on longer-term trends toward the development of “cabinet bureaucrats.”).

To be sure, pressures to boost spending, especially particularistic spending, welled whenever the economy weakened or an election loomed, and senior politicians periodically gave voice to those demands. Nor did influential LDP leaders always see eye to eye with the

Ministry of Finance; even Koizumi and the fiscal hawks occasionally clashed with MOF and METI bureaucrats. Yet the politicians with the reputations for serious and sustained commitment to policy were generally able to rely on officials seconded from MOF and METI to implement restraint on expenditures, and from 2001 until the LDP fell from power in 2009, fiscal stringency and restriction of particularistic spending consistently won.

On the revenue side, weaker prime ministers were actually more willing than Koizumi to consider tax increases. After a long struggle, the fiscal hawks defeated the tax cutters, and an elite consensus emerged that the consumption tax should increase to at least 10 percent. The mooted tax hike was blocked not by weak leadership or veto players in the political system, but by the electorate, which punished the DPJ (and to a lesser extent the LDP) for championing the increase in the consumption tax.

Rejection of the consumption tax reflected the public's conflicted attitude toward welfare spending, and even more its skepticism about the effectiveness and fairness of government spending. Numerous surveys over the last decade have shown that the majority of respondents prefer high benefits to low costs (Takegawa 2010). An *Asahi Shinbun* poll from 2008 found the public more evenly split on whether to support a "high tax, high benefit" model, or a "low tax, low benefit" approach, but it showed that an overwhelming majority believed that the government, rather than individuals, bore primary responsibility for providing health care and pensions (*Asahi Shinbun* July 26, 2008). Cabinet (2010) surveys also demonstrated the consistently high priority the public placed on public pensions and health care. Surprisingly, poor people and women were less supportive of the high tax-high benefit model than were men and the better off, reflecting both the burden of the weak economy, and the political reality that for decades the political system channeled revenues to farmers and other clients of the LDP rather than to the population as a whole. Many poorer voters appear to fear that they will pay the higher consumption taxes, but receive few benefits in return (Takegawa 2010), a fear that is well-supported by the overwhelming evidence of the particularistic bias of the Japanese welfare system under SNTV (Estevez-Abe 2008).

In many ways, developments in Japan resemble those in the UK, where a stronger prime minister surrounded by "prime minister cliques" appeared: "While not all-powerful, the prime minister can be more powerful as an individual than the cabinet can be as a collective body. Tony Blair most certainly has been" (Heffernan 2005: 40). Yet the prime minister is not always effective, particularly in economic policy, as Tony Blair also proved, particularly after 2003. Power was actually wielded by a "core executive" spread across a number of agencies (Rhodes and Dunleavy 1995), most notably the Treasury under Gordon Brown. "The Brown-Blair rivalry is not just about personalities and court politics. It is about who controls the heart of the machine and the Treasury won" (Fawcett and Rhodes 2007: 102). It is noteworthy that the changes in Britain occurred despite a stable electoral system. Rather, the increasing power of the prime minister and treasurer reflected changes in the domestic political environment (the growth of television news and the decline in unions and the salience of social class) as well as

Britain's international situation (the emergence of the European Union and the increasing frequency of international summits). Similar developments have marked the large majority of parliamentary systems (Poguntke and Webb 2005).

Japan—like the UK after Blair, Brown, and the financial crisis—faces huge fiscal deficits. The shrinking work force and the pressure of deflation mean that Japan is constantly teetering on the edge of recession, leading to popular dissatisfaction and even more reluctance to raise taxes than in the UK or US. Unlike the UK or even the US, however, Japan as a net capital exporter faces little external pressure to reform—at least yet. Uncertainty about when Japan's grave fiscal problems could become an actual crisis also inhibits action. Moreover, the late development of the consumption tax makes it more difficult to reduce the deficit by increasing taxes than in the UK and most European countries (Kato 2003). Japan's bicameral system, with its diverging electoral systems and lack of double dissolution, also raises the prospect of greater gridlock under divided government, as has occurred since 2007. Recent research suggests that democratic systems can prove surprisingly responsive (see e.g. Kitschelt et al. 2010 on Latin America and Soroka and Wlezien 2009 on Anglo-American countries). Japanese voters can only hope that those findings prove applicable to Japan as well. If so, influential senior politicians and elite bureaucrats from MOF and METI are likely to play a crucial role in supplementing the initiatives of prime ministers.

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