Koizumi's Reform of Special Corporations

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Recommended Citation
When Prime Minister Junichiro Koizumi assumed office in April 2001 he pledged to initiate extensive structural reforms that would bring Japan’s deflation-ridden economy back on track and renew consumer confidence. His mantra ‘structural reform without sanctuary’ brought memories of former Prime Ministers Morihiro Hosokawa and Maruyama’s attempts at reforming the political and economic system during three turbulent years from 1993-1996.

Koizumi’s proposed reforms encompass three areas: (i) fiscal reforms; (ii) state-sector reforms; (iii) tackling the non-performing loans (NPL). He also promised to downgrade the Liberal Democratic Party, the party that has dominated national and local politics since 1955 and over which he presides as the president.

Nearly three years later, despite Koizumi's efforts, the process of reform has occurred slowly, giving voters, who had high expectations that Japan’s worst post-war recession would come to an end, the distinct impression that Koizumi’s reforms may be more an image of the effort to reform. Although Japan’s economy continues to lag with land prices falling for the twelfth consecutive year at 7.4%, retail sales falling for the twelfth consecutive year and sales at the larger supermarkets and department stores falling 1.2 percent for the sixth consecutive year in 2003, the government pronounced in October 2003 that the economy was ‘showing movement of incipient recovery’, projecting a 2% growth in the GDP by 2006. The projection is based on an 18-month consecutive rise in private sector activity that is generated chiefly by exports to Asia (40%), the United States and the EU. Mercantile policies have been fundamental to the bureaucracy’s planning of economic and industrial policies during Japan’s post-war economic growth. Yasutaru Yamamoto, an economist at the Sumitomo Life Research Institute warned that dependence on external demand to revitalize the economy would only be a temporary solution. The real problems were structural and unless these were dealt with full economic recovery would not take place. Certainly the strengthening of the yen against foreign currencies this year has raised concerns among Japanese manufacturers that their exports will not be competitive in the global market. As the dollar slid down to ¥105 the government spent ¥7.15 trillion on currency-market

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1 The Japan Times Online (29 January 2004).
2 The Japan Times Online (8 March 2002)
3 Cabinet Office Report (December 2003).
intervention in January to keep the yen from further appreciating. It had used ¥20 trillion in 2003 compared to ¥7.64 in 1999.

I. LOCAL GOVERNMENTS AND SMALL BUSINESS OWNERS BEAR THE BRUNT

The Cabinet Office released a report in December 2003 indicating that Japan's net assets at the end of 2002 shrank by 3.4 percent from 2001 to 2.79 quadrillion yen, for the fifth consecutive year. Since the end of 1990 assets have shrunk 21.2 percent. The Health, Labor and Welfare Ministry announced on January 25 that ¥27.65 billion in 2002 wages went unpaid due to the lag in corporate profits.

The Cabinet's approved ¥82 trillion budget for fiscal year 2004 is 0.4 trillion larger than the 2003 budget, which was topped up with ¥150.5 billion for the remainder of 2003. At the end of fiscal 2004, the outstanding debts of the national and local governments together will amount to ¥719 trillion or 143.6% of the GDP, the highest among the 30 member countries in the OECD. Government expenditures for public works are 2-3 times more than in the U.S. and the EU.4

The most troubling aspect of the recession is the serious and debilitating financial conditions in many of the prefectures and in the small and medium-size business sector. Local governments generate only 20-30% of tax revenue and thus must rely heavily on central government for the subsidization of public works projects, welfare and education. Referred to as '30% autonomy' the prefectures, in return for the support, are obliged to follow policies set by the national ministries.5 The coffers of the majority of the prefectures are dry but Koizumi, as a part of his reform strategy to decrease public funding, is cutting subsidization by ¥1 trillion to local governments in 2004. This is still ¥40 billion more than last year. In return local government ostensibly will have more autonomy in planning policies, although there is intense resistance in Tokyo to this enforced decentralization. Clearly, local governments will have to be creative in the distribution of waning wealth. However, during Japan's post-war era local governments have deferred the forging of policy to the national ministries and local government officers do not have enough experience to deal with the budget crunch.

The government's predictions of Japan's economic upswing may be overly optimistic since regional banks are shouldering 54% or ¥23.8 trillion of all non-performing loans. While the state is cutting subsidies to local governments for public works, it is simultaneously taking over local banks to ensure that local banks remain solvent. The government seized Ashigawa Bank in Tochigi Prefecture on December 1, 2002.

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68
The shinkin, the local state-lending institutions are slated for enormous injections of funds from the state. The Financial Times reported on January 5 that Fitch, the credit rating agency, claimed that 153 of the 314 shinkin are in need of substantial government financing. Fitch advised that the number should be reduced to 200 through consolidation. The LDP had given the go-a-head to the Financial Service Agency on December 1, 2003 to inject ¥2 trillion into regional banks if there are strong indications that the banks can recover. But members of the Japan Democratic Party, the largest opposition party, claim that the selection of institutions to be salvaged will inevitably hinge on political favoritism.

Small and medium-size business owners have been severely hit by Japan’s continuing deflation. Small businesses account for 99% of the business activity in Japan and employ around 70% of the workforce. Since the early 1990s thousands of small businesses have collapsed. As an example, in the month of October 2001 alone, small business bankruptcies were up by 11.7 percent or 1,911 as compared to October 2000.6 Orders from large companies, the primary procurers, are slow not only because domestic demand is down but, also, because the larger firms have moved operations abroad to countries where labor and parts are cheaper. Again, the state is intervening to prevent further deterioration of small and medium -size businesses. The Ministry of Economy Trade and Industry (METI) announced last November that it would establish corporate revival funds for small and medium-size businesses to be distributed by the Japan Small and Medium Enterprise Corporation, one of its special corporations, which has offered long-term, low-interest rate loans since the 1950s. The private sector is being asked to share the responsibility of funding 50% of the loans. Oita Prefecture businesses were slated to receive the first funds in January.7

II. NON-PERFORMING REFORMS

Recent editorials in Japanese newspapers have been highly critical of Koizumi’s efforts, claiming that he has backpedaled on his proposed reforms and that, indeed, the 2004 budget reflects that ‘...no substantial headway will be made in the coming fiscal year on the reform front.’ Heist Takanaka, the state minister of financial, economic and fiscal policy, claimed that in order to support a recovery' the government must ‘...make good signs appear in regional economics and employment' and that...’government also needs to make sure that structural reforms will move forward by tackling priority issues: reforms of the pension system, postal services and the local taxation system.’8

In an effort to reduce public debt, which was 130% of GDP in 2001, Koizumi intended to privatize the Postal Savings Agency and downsize dramatically the Fiscal Investment Loan Program (FILP), the two bodies that

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6 Ibid, 88.
7 The Japan Times Online (25 November 2003).
8 The Japan Times Online (15 October 2003).
fund public works projects and public corporations. Indeed, Koizumi pointed his finger directly at public corporations as a main target of his reform efforts. The front page headline of the October 10, 2001 issue of the *Nikkei Shimbun* proclaimed that Koizumi was determined to cut public financing to special corporations (one of a number of types of public corporations in Japan) by one-third, strictly review their applications for budget supplementation and, more importantly, restructure them, concentrating on those bodies with massive debts. Among the special corporations named were the Japan Highway Corporation, the Japan National Oil Corporation and the Government Housing and Loan Corporation.

However, the privatization of the Postal Savings Agency has been put on hold and the reform of the pension fund has yet to begin. Minister of Health, Labor and Welfare Chikara Sakaguchi confessed, 'At this time, we are only determining the amount of the burden in relationship to payouts. We have yet to delve into the basic framework of the pension system.' The reform of special corporations is also problematic because Koizumi is meeting with stiff opposition from members of his own party and from the national ministries who established and manage the corporations.

Koizumi's reforms have essentially come to a standstill proving beyond doubt that, like Hosokawa and Maruyama, Koizumi is a victim of his country's political and economic system, a system that was once touted to be the reason for the 'Japan miracle' but, in fact, is the very reason why Koizumi cannot implement substantial reforms.

### III. THERE WERE HIGH HOPES FOR HOSOKAWA

In 1992, the recession and the acknowledged need for action to ignite Japan's lagging economy triggered a struggle for power among factions of the LDP, resulting in some members defecting to form two new parties, the New Japan Party (*Shin Nihon*), led by Hosokawa, and the Pioneer Party (*Sakigaki*) led by Ichiro Ozawa. In August 1993, Hosokawa, a former governor of Kitakyushu, was appointed to the office of prime minister, raising the hope among Japanese citizens that the government was going to deal with the recession and initiate political reforms. The government tried to jump-start the economy by releasing several fiscal stimulus packages, much of the funds going to public works projects to give contracts to businesses in the prefectures and to keep unemployment figures down. Unfortunately, after serving only eight months in office, Hosokawa resigned in April 1994 amidst rumors that he had accepted a loan from Sagawa Kyubin, a parcel delivery service whose previous loans to other politicians caused a political scandal.

A struggle for power between the New Japan Party and the Pioneer Party ensued, revealing that there was serious disagreement among party members. Tsutomu Hata, a member of the New Japan Party, who was the Minister of State, the Minister of Foreign Affairs and the vice-prime minister in

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Hosokawa’s Cabinet, served as prime minister for four months. Tomoichi Murayama, a Socialist, was appointed prime minister in August 1994. Forming a coalition Cabinet composed of members of the Japan New Party, the LDP and the Socialist Party, he began to push for a review of bureaucratic powers and to attempt reforms of the political system itself in order to end the relationship between politicians, bureaucrats and businessmen, and thus bring Japan into the same league as other developed economic powers. This movement set off a power struggle between politicians and bureaucrats, who were intent on keeping control over the regulation of the economy.

Murayama’s administration suffered from political in-fighting and the continuing recession. A series of unfortunate incidents including the government’s handling of the Kobe Earthquake on 17 January 1995 and the administration’s approval of the constitutionality of the self-defense force and the acceptance of the Japan-U.S. security agreement led voters to return the LDP to power with Prime Minister Ryutaro Hashimoto at the helm. Frustrated members of the New Japan Party and the Pioneer Party returned to the LDP fold or entered long-established opposition parties. Nevertheless, the process of reform, at least in principle, had begun.¹⁰

IV. A SYSTEM THAT DEFIES RAPID REFORM

In his column, ‘Inside Japanese Politics’ for the major daily news source Asahi, Toru Haying stated the primary reason for Koizumi’s failure to push through his reforms: ‘The ties among the government, bureaucracy and business circles are irreutable realities that are difficult to reform. Reforms could be carried out by only ten like-minded friends who were also determined to reform. But Koizumi has no such friends, which exposes his weakness by being obliged to leave everything to bureaucrats and politicians with vested interests.’¹¹

Japan’s political economic system can be characterized as an intricate network of interpersonal relationships between the bureaucracy, big business and politicians, a system that began during the Meiji period (1868-1914) when Japan emerged from feudalism and began to industrialize. The bureaucracy was endowed with inordinate powers to administrate land reform and Japan’s industrialization. The family-owned oligopolies, known as zaibatsu (a few of them were established in the 17th century), co-operated with the bureaucracy by financing the construction of power plants and steel mills. The zaibatsu were involved in such industries as banking, mining, retail, textiles, trade, shipbuilding, and steel production. The Second World War intensified the relationship between business and the bureaucracy as the state took full control

¹¹ Asahi.com (31 December 2003).
of industries and the central bank pumped money into banks that were set up to fund the production of munitions and military supplies.\textsuperscript{12}

Despite Japan’s defeat the bureaucracy became even stronger after the war. The Occupational Forces led by the Supreme Commander of the Allied Powers (SCAP) purged war criminals as one of its punitive measures. SCAP had intended to dismantle the zaibatsu, forcing the owners to relinquish all of their stocks and forbidding cross share-holdings among the zaibatsu. In addition, 2,000 top executives were dismissed. Nevertheless, due to the beginning of the Cold War in 1945 and the perceived threat of communist expansion in the Pacific SCAP reversed a number of its reforms. In order to secure a strong and conservative ally in the Pacific the majority of the companies, related through a keiretsu, were allowed to continue operating with minor reforms. The bureaucracy that had administered the war effort along with top ministry officials was given extraordinary power to resuscitate Japan’s war-devastated economy.

A new constitution along with a new electoral system was set up by SCAP but this effort did not entirely encourage an appreciation of the democratic process among the Japanese, who had been ruled for over a thousand years by either an imperial family, a military regime or by a mighty bureaucracy. The Liberal Democratic Party (LDP) that was established in 1955 as a result of the coalition of two conservative parties has dominated Japanese politics, with the exception of a short respite from 1993-1996. The party has consistently supported the national ministries’ post-war policies, allowing the ministries to maintain tight control over their industrial sectors. The bureaucracy is also intimately involved in other realms of Japanese society and, indeed, the prime minister and his Cabinet are subject to ministerial guidance, indicating that the executive branch is too weak to push through reforms.\textsuperscript{13}

V. SPECIAL CORPORATIONS: THE INSTITUTIONS THAT PERPETUATE THE SYSTEM

Special corporations (tokushu hojin) are types of public corporations that Japan’s national ministries established after the Second World War to aid in the resuscitation of industry and the reconstruction of infrastructure. They include corporations for public construction work, public finance, banks and research. The corporations receive funds through FILP, often referred to as Japan’s ‘secondary budget.’ FILP was established in 1953 and can be described as a huge financial organ operated by the public sector. Postal savings is the largest part with another entity being the public pension fund. Tax revenue from both national and local governments is also a source of funding and supplementing of budgets.


\textsuperscript{13} Ibid, 53.
The corporations are linked to the industrial sectors under the administrative jurisdiction of each ministry. For example, the Ministry of Construction (renamed in 2001 the Ministry of Land, Infrastructure and Transport) established the Japan Highway Corporation in 1956 to rebuild highway networks. The corporation awards contracts to construction companies and funds these projects through FILP.

The Ministry of Finance established the Japan Development Bank (JDB) in 1953 to aid in Japan’s economic recovery. The Ministry of International Trade and Industry (MITI) (renamed in 2001 the Ministry of Economy Trade and Industry) founded the Japan Finance Corporation for Small Businesses in 1955 to give long-term, low interest loans to small businesses. Again, the loans are funded by FILP. Other METI corporations are the Japan National Oil Corporation (JNOC) and the Japan External Trade Organization (JETRO). Special corporations that have international recognition are the Japan Broadcasting Corporation (NHK), Japan Telephone and Telegraph (NTT) and the Japan Foundation.14

Officially, the ministries do not manage their corporations, but in general, the Japanese are aware that the ministries manage corporations de facto through officials, who are sent to fill upper management positions.

By 1972, Japan had achieved an astounding annual growth rate of 10 percent gross domestic product. Realistically, by that time, many special corporations were no longer necessary to support economic growth and rebuild infrastructure, and ideally, they should have been dismantled. However, the ministries had come to rely on their corporations because not only did they provide post-retirement positions for officials, but they also served to extend ministerial powers and to increase administrative jurisdiction (namely, 'territory').

The reform of special corporations became big news with the cover story in the February 12, 1997 issue of Japan’s largest business weekly, Nikkei Business. The story claimed that while special corporations were founded on the precept that the work executed would serve national interests the opposite was, in fact, true for the following reasons:

(i) special corporations receive funding from sources that are difficult to trace.
(ii) special corporations can set up subsidiaries (kogaisha, magogaisha) that show profits even though the parent corporations are in debt.
(iii) the ministries establish special corporations as their subsidiaries to provide temporary employment for staff and post-retirement positions for retired senior officials before they move to the private sector.

14 Ibid, 14.
special corporations spend funds to do work that is in the best interests of the corporations (for example, ministries).

There were a number of interviews including one with Kan Kato, the Director of Chiba Commercial College. He emphasized that the funding of special corporations was a serious problem because the ministries had the power to use the money at their discretion without seeking the consent from the Diet. Politicians support this behavior because they solicit contracts from special corporations involved in public works for their constituents. In 2002 the Ministry of Public Management, Home Affairs, Post and Telecommunications reported that the streamlining of corporations began in 1995. In 1996 there were ninety-two corporations. By 1999 the number had decreased by fourteen to eighty-four. During that year the eighty-four special corporations received ¥256 billion in subsidies from the National Treasury and in 2000 the amount rose to ¥258 billion.

By April 2002 seven more corporations had been privatized or dismantled bringing the number down to seventy-seven. One of the privatized special corporations was the long Term Credit Bank of Japan, established by MITI (now METI) in the early 1950s. The bank was in financial trouble when Ripplewood, an American venture-capital company, purchased it in 1999. Two other banks that MITI had established in 1950s as special corporations—the Japan Export-Import Bank (EXIM) and the Bank for Overseas Economic Cooperation were consolidated in 1998. It is interesting to note that most of the corporations that were dissolved had large outstanding loans and were merged with more solvent special corporations.15

VI. AMAKUDARI: THE TIES THAT BIND THE SYSTEM TOGETHER

The Japanese civil service system permits retiring officials to take higher management positions in industry, while at the same time receiving benefits from their former ministries. Known as amakudari or ‘descent from heaven’, the movement of former bureaucrats to the private sector can forge a link between retired officials and officials in the ministries, and thus promote close cooperation between industry and the bureaucracy. To Western observers, this tight relationship between the ministries and industry appeared to be a major strength of the Japanese political economic system. However, in reality, these interpersonal mutual obligation- mutual protection networks act as mechanisms that rigidify the system, thus inhibiting adaptation to the demands of the changing environment of the global economy.

The National Public Service Law stipulates that retiring civil servants must wait for two years before taking positions in corporations in the sectors their ministries manage. Nevertheless, they may move directly to upper

15 Ibid, chapter 2.
management positions in special corporations and other public corporations, receiving salaries simultaneously from their ministries. Most officials will wait out the two-year period of grace in public corporations and then slip into upper management positions in private companies. It is generally understood that civil servants like to establish public corporations in order to carve out positions for themselves and their colleagues.

The Japanese generally accepted *amakudari* because it was one of the incentives that attracted talent into the ministries where retirement age can be ten years earlier than in the private sector and, where salaries tended to be lower than in the private sector. Before the recession they believed that elite civil servants had created an economy that was impervious to failure, however, from 1992 onwards the stagnation of Japan’s economic growth, coupled with the revelation of collusion between the Ministry of Construction and the construction industry, and between the Ministry of Finance and the banking industry, triggered a political movement by opposition parties to abolish *amakudari*. In addition, there were growing demands that all special corporations be dismantled, or at least the number reduced, not only because some have massive debt and are a drain on public funding, but equally, they are the vehicles that civil servants use to migrate smoothly into positions in private companies.16

**VII. THE MURKY SIDE OF PUBLIC CORPORATIONS**

The conditions for the establishment of special corporations are unclear. Most Japanese know very little about special corporations except that they are prolific employers and big spenders. Even the government has difficulty defining the exact characteristics of special corporations other than they assist the government in promoting national interests.

Although the government has not defined special corporations clearly, they can be viewed as being corporations based on a national law, which has been approved by the National Diet. Special corporations were established according to special establishing procedures through a special law, the Law Establishment Act, Article 4-11 subject to the Ministry of General Affairs (renamed in 2001 the Ministry of Public Management, Home Affairs, Posts and Telecommunications). The law is neither civil nor corporate. For example, the Japan Highway Corporation was founded according to the ‘Japan Highway Corporation Law,’ the Japan Development Bank was established through the ‘Japan Development Bank Law,’ and the Japan National Oil Corporation was established according to the ‘Japan National Oil Corporation Law’.

**VIII. THE MAZE OF PUBLIC CORPORATIONS**

There is a much larger category of public corporation (*koeki hojin*) that are classified as associations (*shadan*) and foundations (*zaidan*), the number

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16 Ibid, chapter 6.
being estimated as greater than 26,000. Approximately 6,879 corporations are managed at the central government level and the rest are managed at the local government level. The number of associations and foundations differ from ministry to ministry. The Ministry of Education (renamed the Ministry of Culture, Sports, Science and Technology) has the largest number (1,800) with the Ministry of Finance and the Ministry of Economy Trade and Industry a joint second with around 900 each.

And to further confuse the issue of reform of public corporations there is yet another category known as chartered corporations (ninka hojin). They are managed at the national level and include the Central Bank of Japan, the Japan Red Cross, the Mutual Aid Society of Local Government Employees and the Chamber of Commerce and Industry. In terms of size they resemble special corporations but they are not subject to evaluation by the Cabinet or the National Diet. The number grew to ninety-nine by 1978 but has since decreased through dissolution, privatization or consolidation to eighty-seven. In 2001 special corporations and chartered corporations received ¥5 trillion in tax revenue.

Although the number of special corporations may seem insignificant in relationship to the overall number of public corporations, many public corporations are subsidiaries of special corporations. Indeed, special corporations tend to breed more public corporations, providing post-retirement positions for civil servants and consuming public funds. Koki Ishii, a member of the Democratic Party of Japan, the main opposition party, was serving a third term in the House of Representatives of the National Diet when he was assassinated by a right-wing sympathizer on October 25, 2002. Ishii, whose concerns centered on political and administrative misconduct, contended that special corporations and public corporations should be the focal point of structural reform. In 1999 he published a book Bureaucrat Heaven: The Bankrupting of Japan (Kanryo Tenkoku Nihon Hassan) followed by The Parasites That Are Gobbling Up Japan: Dismantle All Special Corporations and Public Corporations (Nihon wo Kuistuku Tokushu Hojin Koeki Hojin wo Zenhaiseiyyo) in 2001. Although his book may appear to be an effort on behalf of his party to weaken the bureaucracy and loosen the ministry ties with the ruling LDP, his report poses pertinent questions concerning the rapid escalation of public corporations that have been established through special corporations and government agencies, and the employment opportunities they offer elite bureaucrats. Ishii maintained that special corporations have 2,000 subsidiaries and that these employ over 10,000 people. He also claimed that public corporations employed 3.8 percent of Japan’s population or 4,900,000 people.

Ishi contended that before structural reform could progress, special corporations and public corporations should be dismantled. He believed that there had been no reform of any kind and that the reluctance of the ministries to reform public corporations, and thus preserving their territory, symbolized the rigidity of Japan’s political and economic system, a system that inhibited reform.
IX. PUBLIC CORPORATIONS: WHY SO MANY?

The number of corporations gradually increased since the end of the Second World War. For example, the Ministry of Construction established ten corporations in 1959 and by 1955 there were twenty-six. During Japan’s period of economic growth, ten further public corporations were established annually. By 1960, the number had increased to fifty-two, by 1965 there were 102 and by 1970, the Ministry of Construction had established 144. Another forty were added to the list by 1975, by 1980 the total was 240 and by 1990 the number had grown to 326. Among 322 of these corporations, 43 percent employed less than ten people and only 9 percent had more than one hundred staff.

The other ministries established public corporations at the same rate or even faster than the Ministry of Construction and it was a simple procedure because all that was necessary to establish a new one was the writing of an ‘establishment act’ in the name of the corporation and a request to an obliging Diet to sanction it.17

X. THE STREAMLINING OF SPECIAL CORPORATIONS

Koizumi aims to dissolve, privatize or convert into independent administrative institutions (IAI) the 163 special corporations and chartered corporations. Koizumi expects that the conversion of thirty-eight special corporations and chartered corporations into IAIs will eventually wean them off of public funding. Similar to the ‘law for the establishment of special corporations’ the ‘law for the establishment of independently administrative institutions’ is neither a civil law nor a corporate law. Amakudari is permitted in IAl's.

Koizumi is facing stiff opposition in the privatization of special corporations from the ministries, in charge of administering the reforms, and from members of his own party. Bureaucrats opt to leave the ministries to run for political office, often on the LDP ticket. With this kind of support mechanism in place, it is highly unlikely that the ministries will feel any pressure to relinquish their organizations.

XI. HOLDING ONTO A GOOD THING

The struggle to privatize the Japan Highway Corporation (JH) illustrates Koizumi’s uphill battle to reform the public sector. Its debts are a whopping ¥617.477 billion. Iishi labels it ‘the world’s largest general contractor’ because it handles the construction for highways and toll roads throughout Japan. In theory, the JH repays loans from FILP with revenue collected from highway tolls, but these tolls are not sufficient to cover repayment of loans. The JH has over sixty

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17 Ibid, chapter 2.
subsidiaries with such names as New Japan Highway Patrol, Sapporo Engineer, Hokkaido Service, Sendai Highway Service, Number One Highway Service, Highway Service Research, and Japan High Car.

Originally Koizumi wanted to consolidate the JH with three other public corporations- the Hanshin Expressway Corporation, the Metropolitan Expressway Public Corporation and the Shikoku-Honshu Bridge Authority, which carry debts totaling ¥40 trillion, and then cut the single entity into six private companies and an asset-holding organization that would collect the debts. Koizumi called for the privatized firms to pay off debts within thirty years (he later extended the period to forty-five years). Koizumi also wanted to cut government spending on highway construction (highway construction budget exceeds ¥300 billion annually), which would lead to a 40 percent reduction in road building and the cancellation of lucrative contracts. Members of his own party whose constituents are small and medium-size businesses in rural Japan, who depend upon construction contracts and who traditionally have contributed large sums to LDP candidates, were vehemently opposed to the consolidation of the highway construction corporations and to the termination of highway construction.

The implementation of Koizumi’s privatization plans has played like a soap opera with politicians slugging it out with bureaucrats and with each other. Last September land minister Nobuteru Ishihara charged Haruho Fujii, the president of the JH and former administrative vice-minister of the Ministry of Construction, with hiding the negative worth of the JH and being an obstacle to the privatization of the corporation. Ishihara demanded his resignation. On October 7 Fujii said that he was not about to step down and called for a hearing. On October 12 Ishihara accused Fujii of threatening to blackmail him by divulging information regarding dishonest land deals that involved prominent politicians. The nine-hour hearing on October 17 commenced but it only delayed the inevitable and Ishihara fired Fujii on October 24. Fujii is now suing Ishihara and the secretary general of the LDP Shinzo Abe for libel.

In December Koizumi picked one of Ishihara’s colleagues, Takeshi Kondo, a member of the Upper House of the LDP, to serve as president of the JH. He also chose a panel of advisors to assist in the process of privatization. Although Kondo pledged to privatize the JH by 2005 a large block of members from his own party (some of who were former bureaucrats), who feel that their seats are secure as long as they procure construction contracts for their constituents, are no more inclined to cooperate than Fujii. Thus the saga continues.

On December 21, the government released an announcement that the construction of 2,000 km of unfinished highways out of the originally planned 9,343 km of roads would be completed with the JH together with the national and local governments footing the bill of ¥13.5. On the following day two members of the advisory board resigned in protest, accusing Koizumi of presenting a watered-down version of his original reform proposals and ignoring their recommendations. They warned that the new version served the interests of road construction and would lead to massive debts. It was highly improbable
that the debts would be repaid because borrowing for the construction will continue and tolls will be used as collateral. Also, the public corporations would not be completely privatized because government would still control the roads and the collection of tolls.

XII. SPECIAL CORPORATIONS: THE INSTITUTIONS THAT MAINTAIN THE STATUS QUO

As Japan’s deflation continues the vested interests of business owners, politicians and ministry officials are clearly crippling Koizumi’s attempts at solid structural reforms. Reform appears to be simply a bailout by the state of bankrupt banks and public and private corporations. From 1999-2003 public money to the tune of ¥10.433 was poured into failing banks, including two regional banks (Ishikawa and Chubu). Resona Holdings, a bank whose primary borrowers are small and medium-size companies, was partially nationalized in June 2002 with an injection of $17 billion. Another public corporation, the Industrial Revitalization Corporation of Japan (IRCJ), was formed in April 2003\(^\text{18}\) to salvage businesses from bankruptcy. The IRCJ plans to save 100 companies during the next five years by buying up all of their stock and then trying to restructure them. Some of the businesses that have been rescued are Mitsui Mining and Kinmom Manufacturing, a producer of gas and water meters whose bank is Resona Holdings. The most recent acquisition by the IRCJ is the giant cosmetic and textile manufacturer Kanab, which will be funded with ¥366 billion yen taken from public funds and tax revenue. Tax revenue meets approximately fifty percent of government expenditures.

Despite the government’s insistence that Japan is on the road to economic recovery the tone of daily editorials in the major newspapers is pessimistic. The level of poverty in the rural areas is steadily climbing as small businesses continue to struggle. The editorial in the March 4, 2004 issue of the Asahi stated: ‘What about affluence? When we say Japan is the world’s second largest economy in the world, the view is primarily based on our gross national product (GDP), which is the world’s second largest after the United States. In per capita terms, we slump to about fifth among industrially advanced countries…’

Although the recession and burgeoning public debt have brought about public recognition that the ministries use their corporations for their own purposes, the Japanese continue to defer the administration of reforms to their elite civil servants. Special corporations serve to perpetuate the interpersonal networks between the public and private sectors thus maintaining a political economic system that cannot easily adapt to change. The ministries’ determination to maintain territory can be seen in the continued operations of special corporations despite urgent calls for their dissolution.

Special corporations are at the heart of Japanese government and bind the system together. Koizumi recently announced that he is not totally opposed

\(^\text{18}\) http://www.fpcj.jp/e/shiryo/pocket/economy/economic_main.html
to *amakudari* if the bureaucrats are better qualified for the post than personnel from the private sector. A recent example of this backpedaling is the announcement on March 12 that Masahiko Kurono, former vice-minister of Transport, will be appointed as the president of the Narita International Airport Authority, a special corporation. The Japanese seem to be content with deferring to government policy and continue to vote into office LDP candidates. A pronounced move towards ultra-conservatism could be witnessed last year when the Liberal Democratic Party welcomed into its fold the right-wing Komeito Clean Party, which once had been one of the major opposition parties.

What do these trends portend for Japan’s future relationship with the United States, her staunch ally and, until recently, her largest trading partner? Since the political economic system remains fundamentally intact there is little indication that Japan’s policies concerning security or trade will change substantially. Japan’s trade policies with the US will remain for some time linked to its reliance on US military security and US markets. Koizumi is committed to President Bush’s policies in Iraq, sending military support. Indeed, this may be a justification for an amendment of Japan’s constitution that would permit the Japanese people to have a full-fledged military.

[This article contains excerpts from *Special Corporations and the Bureaucracy: Why Japan Can’t Reform*. Little has been written in English about Japanese public corporations, which are under intense scrutiny by the Japanese media.]