Chapter 1

Introduction

1.1 Background

Only a few years ago Japan was viewed as an exemplary economic success story and a model of successful economic long-run growth. People talked of “Japan Inc.” and the Japanese growth model was being suggested as a case study to be followed by other developing and developed countries (Roubini, 1996). But, it is often said with regret that the 1990s was a lost decade for Japan. Two important reasons can be identified. The first is Japan’s long-term stagnation due to asset deflation stemming from the collapse of the “bubble economy” in 1990 (Boltho and Corbett, 2000). The second reason is Japan’s inability to adapt its political, economic and social systems to drastic changes in the global environment. Japanese political situation has been unstable while Japanese economy has been in recession throughout the 1990s, unlike the previous decades when political stability under the LDP one-party dominance was combined with high-growth economy. The term also connotes that, during the 1990s, Japan lost a chance for a fundamental structural reform when it was desperately in need. The root of the problem is that Japan is still mired in the structures, policies and mental habits that prevailed in the

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1 The Lost Decade (Ushinawareta Jūnen) is the time after the Japanese asset price bubble’s collapse, (hōkai) within the Japanese economy, which occurred gradually rather than catastrophically. It consists of the years 1991 to 2000.

2 The Japanese asset price bubble was an economic bubble in Japan from 1986 to 1991, in which real estate and stock prices greatly inflated. The bubble’s collapse lasted for more than a decade with stock prices bottoming in 2003, until hitting an even lower low amidst the current global crisis in 2008.
1950s-60s. What we have come to think of as the “Japanese economic system” was a marvelous system to help a backward Japan catch up to the West. But it turned into a terrible system once Japan had in fact caught up.

The evolution and transition of Japan’s economic and political institutions during the entire post-World War II period is remarkable for two reasons. First, Japan completed reindustrialization and reestablished prewar economic growth trends in record time. By the 1970s, Japan emerged as the second largest economy in the world. Japan remains a major component of the world economy with one of the world’s higher standards of living for its population. Second, following the completion of reindustrialization, Japan’s economic and political development exhibited wide fluctuations in performance. After a short but turbulent period of economic distress in the early 1970s, Japan achieved impressive economic, financial, and political stability from 1975 to 1989. The perception of Japan’s economic invincibility became widespread during this period. Starting in 1990, however, Japan experienced intense economic, financial, and political distress (Kerr, 2001). The economy and financial system continued to decline or stagnate until 2005. Despite economic recovery by the mid-2000s, Japan continues to face lingering economic and political problems.

The special characteristics of the Japanese economy have lost their effectiveness due to changes in the global environment since the 1980s. The most notable change was the end of the cold war as a result of the collapse of the Soviet Union. The victory of the West over the East has brought in two fundamental principles to unite the world, democracy and the market economy, which are supported by globalization tendencies in the movement of economic factors, and simultaneous technological progress in IT (information technology).

The end of the Cold War also caused the industrial structure to undergo change on a global scale. Abundant labor at an extremely low cost, together with the cutting-edge technology of developed nations and the IT revolution, all led to a large-scale change in the global industrial structure. Secondly, the development of information and
communications technology affected corporate management in major countries. The 'siege mentality' over the Japanese economy was created by this lack of awareness at a global level, by the focus on the bad loans problem since the bursting of the bubble economy, and by debating about the Japanese economy only from the perspective of aggregate demand policy.

After the two World Wars, people had come to perceive economic boundaries; and so people came to emphasize social security policies and restricted capital outflow. In other words, they were following the principle of putting the national economy at the center of interest. But with the end of the Cold War, the northern and southern boundaries economically, and the eastern and western boundaries politically had completely collapsed. In other words, people, goods, and money came to move freely around the world.

Given these changes in the global environment, what kind of problems did Japan face? It had become clear that the main characteristics of Japan's economic system, supporting its economic development since the 1930s, were no longer adaptable to changes in the environment beginning in the 1980s. The ideas and strategies that worked so brilliantly in the era of industrial takeoff had outlived their usefulness once Japan's economy matured. And yet Japan could not bring itself to leave them behind. Over time, past strengths became the source of current weakness (Peng, 2004). As a result, the nation once predicted to dominate the world economy now struggles to keep up. The world's greatest growth machine spent much of the 1990s hardly growing at all. The economic system once seen as a model for the world is now viewed as the country's biggest ball and chain.

Of course, Japan was not alone in this respect, as other East Asian countries shared similar characteristics to those of Japan, and the U.S. and Europe are facing more or less similar problems (Boorman, 1999). In case of Japan, however, the degree of difficulty in dealing with the problem is much greater, because those characteristics have been

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3 Siege mentality is a belief that the rest of the world has negative intentions toward the society and implies also that the other groups are evil and malevolent; it is indeed a common practice to delegate the responsibility for conflict situations to other groups. In Japan of the 1930s this function was very salient.
supported by unprecedented successes in the past and have constituted the frame of mind for almost everyone, including politicians, managers, consumers, the media and scholars in Japan.

1.2 Characteristics of Japanese Structural Breakdown

Japanese problems are systemic and deep-rooted in the nation's institutional fabric. One can't correct its shortcomings overnight. Otherwise one can't call them structural problems. In accordance, one has to revisit the fundamentals of institutional set-up of the nation's economic entities. Moreover, there is no doubt that each economist describes the natures of problems somewhat differently from others. Hence anyone's view is subjective.

Basically, the Japanese problem is twofold. The first is over bureaucratization of major institutions. The second is a concurrent overgrowth of the government and both seem to have a historical root. For the national task at the end of WWII, was identified unanimously as a reconstruction of the economy. In order to accomplish this, rebuilding of strong institutions was believed to be imperative. The strong government was considered as dependable when business institutions were still weak. Japanese institutions worked beautifully during her high growth era in 50s, 60s, and most of 70s. It nourished good teamwork under lifetime employment practice (Gordon, 2001). It enabled rapid acquisition of western technology. It successfully absorbed baby boomers⁴ and escaped acute capital labor confrontation. Together with banks, strong government channeled scarce capital into strategically important manufacturing businesses whose creditworthiness was not adequate enough to attract fund in capital markets.

⁴ At the end of World War II, as Japanese soldiers returned home from fronts overseas, an unprecedented number of them married. Between 1947 and 1949, about 8.06 million babies were born. These baby boomers are now in their mid-50s and total about 7 million in number, about 5 percent of the nation's population. The dankai generation's population is about 30 percent larger than the population of those born in three-year periods before and after the baby boom.
However, all these institutional assets transformed themselves into liabilities when a catch-up process came to an end in late 70s or early 80s. The economy matured and the growth slowed down visibly. Difficulty in downsizing under life employment practice made wage bills unbearably high, as baby boomers became middle-aged (Atkinson, 1996). Blind pursuits of expansion often ended up in meaningless series of diversification, while genuine entrepreneurship was lost.

But the picture differs strikingly among industries. To put it differently, Japanese manufacturing sector still appears fairly healthy and competitive. On the other hand, the service sector remains somewhat inefficient. What does this marked contrast in productivity performance mean? It was whether or not industries are exposed to the global marketplace. Unmistakably, it forced incessant restructuring on manufactures, while many service industries are inherently domestic and do not have to face any rivalry from abroad. Moreover, the sector which is most shielded from international competition, is the government. It is often alleged that a size of budget and a number of civil servants suggest that Japan has a small government which is vilely misleading. Taking a wide range of public enterprises and banks into consideration, the nation's public sector has grown into a gigantic player in the economy combined.

To further complicate the situation, small businesses in service industries and the government seem to have developed a kind of dubious alliance of mutual dependence. As they have strong franchises in respective local communities, these small institutions tend to have strong political power collectively. They often capitalize on this political power to seek protection. The typical argument made was that the government should extend assistance to the small businesses, which could otherwise be exploited by big businesses. Consequently, the inefficiency of service industries was preserved by a variety of subsidies, regulation, public works projects\(^5\) and even quasi-cartel arrangements, which

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\(^5\) Public works projects have long been an area that interests the Japanese people. Once public works projects were like a magic wand that could bring them happiness. What is more, these projects meant jobs and enormous profits for the construction and related industries. Japan has the highest percentage of public investment outlays among advanced industrialized countries. It is widely believed that this characteristic of the public finances supported the rapid economic growth of postwar Japan. In the bubble
reinforces arbitrary executive power of the ministries in charge. As a result, Japan became an exceptionally high service cost economy.

1.3 Koizumi Era

Junichiro Koizumi\(^6\) won the LDP presidency, and thus the Prime Ministership, in April 2001. The LDP had ruled for all but 11 months of the previous 46 years. Or, rather, it had shared power with the heads of big business and the bureaucrats at the main ministries. This “iron triangle”\(^7\) had cosseted business, channeling money into industries that, as part of the bargain, guaranteed a lifetime’s work and a comfortable retirement for their employees. Japan thrived. Indeed, in the four decades after the Second World War it was the world’s greatest success story.

By the time Koizumi came to office, scandals, corruption and a lack of accountability had thoroughly discredited a system hijacked by interest groups, the LDP prominent among them. Factions within the party were vehicles for political patronage, and they had enfeebled successive governments, most of them led by antique Prime Ministers who would serve a brief and ineffectual term (Machidori, 2005). The system had proved incapable of dealing with the slump that followed the property and stock market collapse of 1990, leaving Japan’s banks with piles of bad loans and many banks went bankrupt.

Successive governments had responded by ramping up the spending on public works. That may have staved off a more vicious deflation, but the spending was adding

\(^6\) Junichiro Koizumi born on January 8, 1942 served as Prime Minister of Japan from 2001 to 2006. He retired from politics when his term in parliament ended. Widely seen as a maverick leader of the Liberal Democratic Party (LDP), he became known as an economic reformer, focusing on Japan’s government debt and the privatization of its postal service. In 2005, Koizumi led the LDP to win one of the largest parliamentary majorities in modern Japanese history. Koizumi also attracted international attention through his deployment of the Japan Self-Defense Forces to Iraq, the first foreign deployment of the Japanese military since World War II. His visits to Yasukuni Shrine led to diplomatic tensions with neighboring China and Korea. Koizumi is the only Prime Minister to have served more than five years in office since 1972. (For more details on Koizumi See Appendix-II)

\(^7\) The Iron Triangle is the Japanese System of the politicians, Big Business/Special Interests, and the bloated bureaucracy.
alarmingly to the country’s public debt, just as Japan’s population was starting to shrink, and so too its tax revenues (For more details See Appendix-1, Figures 4 and 6).

**Public debt**: 192.1% of GDP (2009 est.)
172.1% of GDP (2008 est.)

![Figure 1: Public Debt in Japan](source)

Source: CIA, 2010

Making matters worse, the public works spending that was smothering the country in concrete merely reinforced the unsavory links between the LDP’s hacks and their supporters in the construction industries. At the same time it entrenched the powers of the bureaucracy, making change even harder (Woodall, 1996).

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8 Public debt records the cumulative total of all government borrowings less repayments that are denominated in a country’s home currency. Public debt should not be confused with external debt, which reflects the foreign currency liabilities of both the private and public sector and must be financed out of foreign exchange earnings.

9 The term “construction state” has been used to refer to a system of vested interests in construction activities that embraced Japan at different geographical levels of scale. A system of collusion between politicians, bureaucrats, and businessmen evolved and led to massive government spending on public works projects. as a result of which the central and local governments have incurred cumulative debts totaling more than 670 trillion yen meanwhile. Its pace and scope have resulted in fiscal crisis and environmental devastation and have aroused the opposition of local residents.
The system’s inadequacy at home was matched by feebleness abroad. After Japan’s defeat in the Second World War, America foisted on it a pacifist constitution that limited its forces to the role of self-defence and forbade it to send them abroad. Though the definition of “self-defence” had been gradually stretched, Japan seemed unable to shoulder international responsibilities except through its generous aid budget, or even to protect its own direct interests (Amyx, 2004). All in all, Japan was in doldrums both economical and in socio-political. The post-war success story had become a wretched tale featuring a “lost decade” for the economy, years of falling prices, insolvent banks, corrupt politics at home, disrespect and ingratitude abroad. It was during this point of time, bidding for the party leadership; Koizumi came with a reputation for pushing change. He was a critic of the faction system, and obsessed with the need to break up the post-office savings system (Kenji, 2004).

By Japan’s standards, Koizumi’s agenda was radical. Within the government, cabinet posts were to be allocated by merit and no longer by faction. Spending on public works was to be slashed, and government borrowing capped. The highway corporation, a great source of pork barrel spending, was to be broken up. Local governments were to be given more power, but also more responsibility. As for the banks, they would have to

10 After World War II, Japan has resolved to ensure that the horrors of war will never be repeated and has ever since made tenacious efforts to establish itself as a pacific nation. The establishment of eternal peace is a sincere wish shared by the Japanese people. The Constitution of Japan, upholding pacifism, sets forth in Article 9 the renunciation of war, non-possession of war potential and denial of the right of belligerency of the state. Since Japan is an independent state, it is recognized beyond doubt that the provision in the article does not deny the inherent right of self-defense that Japan is entitled to maintain as a sovereign nation. Thus the self-defense right of Japan is not denied, and therefore, the Government of Japan interprets the Constitution as being allowed to possess and maintain the minimum level of armed strength for self-defense necessary to ensure that Japan exercises the right. On the basis of such understanding, the government has adopted an exclusively defense-oriented policy as its basic policy of national defense, has maintained the Self-Defense Forces as an armed organization and has taken steps to improve their capabilities and conduct their operations under the Constitution.

11 Pork barrel politics is a particular type of constituency service through which a legislator’s geographical constituency benefits from the distribution of public work projects. The desire for reelection prompts the representative to use his influence to initiate local projects. The 1960s was a decade in which the Liberal-Democratic Party (LDP) increased its use of the pork barrel and expanded welfare expenditures to build constituency support, and three civilian war victim groups seeking state compensation took heart from the newly positive discourse on national service.
acknowledge the full extent of their bad loans and then sort them out to get the economy going again. Above all, Koizumi attempted to privatize Japan Post. Yet as well as delivering the mail, Japan’s postal system is also the world’s biggest bank, $2.8 trillion (March, 2007) in savings and life-insurance accounts funneled towards favored public-works projects and a collection of public financial bodies and their clients.

The Koizumi Cabinet started off its reform process which was committed to the revitalization of Japanese economy and realization of “a society that rewards hard work and offers opportunities to meet new challenges,” “a society in which wisdom in the private sector and regional communities brings about vitality and prosperity,” and “a caring society in which people can live safely and in peace” (Cabinet Office, 2001). In Japan, five factors are generally perceived as major factors driving reforms:

1. First, economic maturity or decline in economic growth.
2. Second, growing budget deficits.
3. Third, an aging population and declining fertility.
4. Fourth, economic globalization, including the catching-up of Asian countries.
5. Fifth, revolution in information and communication technology.

1.4 Politics of Reforms

When Koizumi came to power few politicians, opinion leaders, journalists, and private citizens imagined that he would lead the nation for five years and five months, among the longest tenures in the post-war period. When he became the national leader, Japan’s economic and financial situation was so dire that there was fear abroad that Japan might trigger a worldwide financial crisis.

During that period, however, Prime Minister Koizumi launched reforms with his slogan “no recovery without reforms” in the national budget system, special public corporations, the postal savings and insurance system, and the medical insurance and national pension systems. Koizumi, who retired as Japan’s prime minister on September 30, 2006, has
earned a reputation as the "reformer of the unreformable". During his tenure Japan's governing apparatus has been transformed; its economy has emerged from long years of recession and decline. By the time he stepped down, the national budget system had been restructured, legislation to privatize the highway public corporations\textsuperscript{12} and postal savings and insurance system had passed as had legislation to reform the medical insurance and national pension systems. Koizumi's goal was to streamline the bloated bureaucracy that wasted the taxpayer's money, to privatize nationally run organizations as much as possible, to cut the national deficit, and to reenergize the private sector, particularly the banking system.

Koizumi's success was achieved only after excessive debates about his policies and discordant attacks on the prime minister and his team, particularly Dr. Heizo Takenaka.\textsuperscript{13} Koizumi chose him to be Minister of State for Economic & Fiscal Policy and to lay out the framework of Japan's economic and financial recovery. It was no wonder that the opposition to the reforms was fierce since each reform would shred power from numerous interest groups. Opponents ranged from retired senior government officials who had enjoyed lucrative second careers in public corporations to general construction companies that were accustomed to getting large-scale highway and urban development projects to politicians who brokered deals on government financed projects in exchange for election campaign contributions. Lobbying by business groups was intense. Bureaucrats who had enjoyed powerful control over budgets and legislation were dismayed to see their control over policy taken over by the office of the prime minister. At every step of reform, senior bureaucrats resisted the changes, even openly lobbying against the prime minister.

\textsuperscript{12} In October 2005, the Japan Highway Public Corporation was privatized and separated into three expressway companies. Three other public corporations were privatized as well: the Metropolitan Expressway Public Corporation, the Hanshin Expressway Public Corporation, and the Honshu-Shikoku Bridge authority.

\textsuperscript{13} Heizō Takenaka, born on 3 March 1951 is an economist and retired politician, last serving as Minister of Internal Affairs and Communications and Minister of State for Privatization of the Postal Services in the cabinet of Prime Minister Junichiro Koizumi. As of July 2007, he is a professor at Keio University and an advisor for other academic institutions and companies.
Koizumi’s triumphs derive from the wars he has waged against the ruling LDP, and yet, continued to carry his party with him. (As the heir to a political dynasty, he built his career at the heart of that party). He used his personal popularity to trump the faction system that had hitherto controlled Japan’s prime ministers. He yearned to raise Japan’s standing in the world and followed policies to drive it. However to keep conservatives happy he persisted with the annual visits to the Yasukuni Shrine where the souls of Japan’s war dead are venerated which most of the times annihilated Japan’s relations with its neighbours.

1.5 Koizumi’s Leadership Resources

When Koizumi become the prime minister of Japan, there were three advantages that he had in his quest for structural reform.

The first is a yearning for changes, which runs deep among public at large. It is often alleged that people are generally indifferent to how the nation’s politics are run as long as the economy is in good shape. However, people are coming to recognize that the economy would not be able to resume its past vigor without some fundamental restructuring. A series of scandals and wrongdoing found among politicians and bureaucrats seems to be intensifying people’s distrust in the current state of governance of the nation. Undoubtedly this helps any reform initiative from political leadership.

The second is a reorganization of the government, The said objective of this reorganization is fourfold: 1) establishing a strong political leadership over policy making and implementation processes, 2) reducing coordination failures among ministries whose jurisdictions appear too fragmented, 3) enhancing accountabilities of ministries, agencies

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14 Yasukuni Shrine is a Shinto shrine located in Chiyoda, Tokyo, Japan. It is dedicated to the kami (spirits) of soldiers and others who died fighting on behalf of the Emperor of Japan. Currently, its Symbolic Registry of Divinities lists the names of over 2,466,000 enshrined men and women whose lives were dedicated to the service of Imperial Japan, particularly to those killed in wartime. It also houses one of the few Japanese War Museums dedicated to World War II. There are also commemorative statues to mothers and animals who sacrificed in the war.
and other public sector institutions, and 4) engineering a lean government through outsourcing and other measures. This reorganization was a political response to persistent criticism in the past, which made out the case that the Japanese parliamentary cabinet system lacks a mechanism for forceful political leadership, which can push through bold reform by overriding institutional inertia of bureaucracy. The reorganization strengthened vehicles available for Prime Minister when he launched his own policy initiative.

The third advantage which Prime Minister Koizumi had was his own resolve and policy expertise, even though there was always a natural limitation on what an individual heroic determination can accomplish. Aberrantly among Japanese politicians, he appeared to neither be a reform believer who does not compromise without reason nor fear confrontation. It is known that he was a seasoned fiscal policy expert. Rarely among his LDP peers, had he been consistent in advocating downsizing of the government, privatization of public banks and enterprises, and scrapping Fiscal Investment & Loan Program that financed public institutions on an off-budget basis.

His promises of a painful remake of politics and society have not evolved into a vision that includes much more beyond a few pet obsessions. Rather than offering strategic or 'smart' governance, the Koizumi style of reform centres on tactics. However, this combination of advantages and disadvantages inevitably requires Prime Minister to be crafty and tactical in pursuing his policy agenda. In other words, from time to time he had given up on small gains in order to derive big ones. He needed skillful sequencing in agenda setting. This makes it extremely difficult to make a fair over-all assessment of his accomplishment and failure to date. To be more precise, every accomplishment is not an entirely one hundred percent victory and does contain some element of defeat.

1.6 Basis of Koizumi Reform & Its limitations

If one can agree with the nature of Japan's failure, it would not be much difficult to reach to the conclusion that Prime Minister Koizumi put forward his reform agenda very
carefully and quite properly. He was not just another fiscal conservatist. It seems more appropriate to describe Koizumi reform as a public sector reform which aimed at dismantling a political alliance between the government and service sector, which is vehemently defended by the nation’s old guardian, namely old generation politicians and governmental bureaucrats. In so doing, the reform intended to open up new business opportunities for progressive private-sector entrepreneurs and restoring economic dynamism. In fact, public at large as well as private sector economists appeared united in endorsing a necessity of the reform as such. On this account, it can be stated that all the policy and political debates were about means and tactics rather than about end or goals. Certainly the task of restructuring the economy was not easy, because individuals are so much hostages to existing institutions which are inherently designed to preserve their turf. It is widely understood that LDP and government bureaucracy are the two outstanding defenders of status quo. Theoretically they don’t argue against structural reform. They seem to have two reservations, firstly that hasty actions could make pains unbearable for those who can’t cope with changes, and secondly that the wholesale reform could run a danger of weakening safety nets too much.

It is true; however, Prime Minister had to face a host of burdensome constraints as he was not blessed with loyal comrades at political as well as bureaucratic levels. In the first place, he represented a wrong party, LDP that is believed to be at the core of paternal guardianship for inefficient service industries. It was not surprising to find that his campaign slogan was ‘change LDP and change the nation’. He meant that a voluntary transformation would be the only remaining practical step to secure the party’s survival as a ruling party.

No doubt, many observers pointed out that DPJ (Democratic Party of Japan), the biggest among oppositions, could have been Koizumi’s natural ally. In fact, a considerable portion of the DPI members were those who couldn’t tolerate slow progresses in the LDP’s self-reform and deserted LDP in the past. Nonetheless, in practice it was impossible for Prime Minister to team up with DPJ unless he gave up on and become prepared to break up LDP. In addition, it is extremely difficult for any Prime Minister to
control government bureaucrats at his will. It is commonly held that, each ministry is run by its career bureaucrats, who appear united against any attempt to downsize it. Their strength lies in their expertise knowledge about bolts and nuts of legislation under their jurisdiction. Japanese politicians do not have such other resources of consultation as lawyers, accountants, consultants and independent think tanks. Inevitably, in order to take any legislative initiative, Japanese politicians have to rely upon advices from bureaucrats whose loyalties to their masters are seemingly imperfect. Prime Minister Koizumi was no exception.

1.7 Purpose of Study

Structural reforms are designed to affect an economy's productive capacity and productivity, although they can also have long-term macroeconomic effects. By addressing institutional rigidities and improving both the efficiency of factor use and resource allocation, structural reforms can raise the level of potential output in an economy, allowing internal and external balance to be reached at a higher level of real income. Structural reforms can also facilitate the adoption of stabilization measures, overcoming obstacles to the implementation of these measures and allowing policies to be sustained. This may come about, for example, by changing legal and administrative institutions, or by strengthening social safety nets to reduce the cost of adjustment to more vulnerable groups in the population.

There are two issues regarding structural reforms. The first is to have firms shift their management resources to an area where one can expect higher productivity and where one can expect higher demand. That's what Japanese firms should do in the first place, and to establish the system supporting such moves in various industries and people's lives should be the primary meaning of structural reform. The second issue is the deep sense of insecurity held by the people those current systems, such as the medical system and the pension system, cannot be sustained if there is no change. The second point of structural reform would be to conduct reforms to sustain systems, which make the public feel secure. In other words, it is a structural reform of society's safety net. The main aim
of this research is to look into the politics of structural reforms in Japan during the Koizumi era, with special emphasis on his reforms efforts within the context of Japanese institutional constraints, privatization and social security reforms and how this far this has contributed in Japanese recovery both economically and socially.

The Japanese economy has entered a phase of maturity and remained in a long state of stagnation, especially after the start of the 1990s and collapse of the bubble economy. This is not simply due to cyclical factors. Much of it is the result of structural factors that have come about because reforms have been put off despite the fact that the various systems that have so far supported the Japanese economy no longer match the new environment, and Japan is being pressured to completely overhaul its systems. In order to respond to such demands, various efforts were undertaken by the Japanese governments especially from the 1990s to the "reforms without sanctuaries" advocated by Koizumi. It appears that deregulation and the creation of an environment where competition principles work are the consensus in all of these reform proposals. However, it seems that reforms are seeing little progress because they are meeting resistance from vested interests when it comes to their planning and implementation. Even if everyone is aware that a wonderful world awaits them once reforms are carried out, there is a lack of analysis regarding what kind of path leads to the finish line.

Up until now, reforms in Japan have not been implemented as planned because the government has given too much importance to vested interests; many policies that are desirable for economic reasons have not been implemented for political reasons. This discrepancy between economics and politics has led both economists and political scientists to begin thinking about the political economy of reform. They have already done considerable work on the political economy of macroeconomic reform and trade policy, emphasizing factors such as incomplete information, time inconsistency of preferences, credibility problems, path dependency and interest groups as major obstacles to reform (Grindle and Thomas 1991; Nelson 1990 and 1994; Rodrik 1994; Tommasi and Velasco 1995).
Prime Minister Koizumi’s passion for structural reform has a long history, starting in 1970’s when he was parliamentary vice minister of the Ministry of Finance and the national deficit was escalating. As minister of health and welfare and then minister of posts and telecommunications in the 1990s, he tried to restructure the flow of funds from postal savings, postal insurance, and national pension into supplementary budget but was not taken seriously. When he ran unsuccessfully in the LDP presidential elections in 1995 and 1998, his policy speeches focused on the same theme. In his third attempt, in 2001, he again advocated an efficient, stronger but smaller government to stop the hemorrhaging of public funds.

Ever since Koizumi took over the office of prime minister, Japan has changed dramatically. This is true not only in economic terms but also in terms of business structure and practices, consumer sentiment, regulatory practices and Japan’s receptiveness to foreign participation and investment. Much of this success has to do with the efforts of Prime Minister Koizumi, who has served longer than any Japanese prime minister. He was a very different breed of prime minister who was clear about what he spoke, took the initiative and was accessible to the media. He had a clear vision and a plan for the implementation of structural reforms within the system which is of crucial importance for its success. Whatever his ambitions, some political observers say his moving into the top government spot in April 2001 was not an accident, it was a call to make history. At that time, Japan desperately needed a reformist, as the old guard had made no headway in breaking the country of its economic doldrums.

Public discontent had risen and support for the ruling Liberal Democratic Party was dwindling when Koizumi took office. Koizumi has made cracks in the political

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15 Public support for the ruling Liberal Democratic Party declined to 22% in 2001, the lowest level since July 1998 when the LDP suffered a setback at House of Councillors elections, according to a survey released Friday by the Asahi Shimbun on March 23, 2001. However, only 9% of respondents showed support for the main opposition Democratic Party of Japan, while 60% said they support no specific political party, the survey said. The Asahi surveyed 3,000 eligible voters across Japan on Tuesday and Wednesday. Of these, 2,116, or 71%, responded. The support rate for the LDP fell from 24% in February, which followed 26% in January, 28% in December and 30% in November, the Asahi said. Meanwhile, 71% of the respondents said it is “natural” that Prime Minister Yoshiro Mori step down. But only 9% said they believe his departure will bring changes in the LDP, of which Mori is president. Fifty percent said they
structure, in which pork-barrel politicians catered to farmers and certain industries in return for votes, the observers said. Koizumi became prime minister pledging to change Japan even at the cost of destroying the LDP. He appointed the top party executives without conferring with faction leaders and made cabinet appointments on his own, too. He left no room for factional intervention. That pleased the public, boosting his support. And young party members, figuring that if the prime minister enjoyed high support this would help get them elected, also backed him. All this prolonged Koizumi’s rule.

Prime Minister Koizumi’s structural reforms emerged as a response to the breakdown of the postwar Japanese policy system that had long been maintained by an alliance between the LDP and the bureaucracy centering on factional politics, but which broke down under the impact of the forces of globalization, the bursting of the “bubble economy”, the ageing of society and the declining birth rate. *(For more details on birth and death rates, see appendix-1, figures 1 and 3)*

The postwar policy system combined evils such as endemic corruption, inefficiency and waste, with a concern for equality and for the weak and the regions. Koizumi’s structural reforms smashed the ‘vested rights’ of politicians and bureaucrats and promoted policy efficiency; but they also had a serious impact on people and regions that had enjoyed protection under the policies in place until then (Schoppa, Leonard J. 2001).

**1.8 Research Questions**

The research started with the objective of trying to seek an explanation and answer the following questions:

cannot accept the LDP remaining in power, while 31% said the LDP can stay in power. Seventy-one percent of LDP supporters approve the LDP taking power, but only 24% of New Komeito party supporters said they believe the LDP should not be in power. The New Komeito is the LDP’s key partner in the coalition politics linking them with the New Conservative Party. Asked which one of the LDP or the DPJ they want to win the upper house elections in July 2001, 41% chose the DPJ and 34% favored the LDP, according to the survey.
1. How Japan can reap the benefits of Globalization to recover its economy - economic, social and political and stay competitive?

2. What are the domestic and international factors that have forced Japan to restructure itself?

3. How far have Koizumi reforms been successful i.e. reform content and advancement?

4. What are the public sector reforms in Japan and how far will postal privatization help in delivering, what it has been promised?

5. What is the impact of privatization on the Japanese social security system, including pension reforms and medical insurance and postal services?

6. What are the recent changes that have been introduced in Japanese social security system in order to meet the new challenges of aging society?

1.9 Hypotheses

1. External pressure will continue to prevail as a force in reforming Japanese domestic economy and other areas. Even though the Koizumi reforms have helped Japan recover the pace of reforms remains slow due to the opposition within and outside his own party.

2. Privatized public firms will continue to display lethargy, which entails special skill enhancement programme in-house in order to enhance productivity and efficiency in the long run.

3. Many of the structures and institutions that proved so valuable in helping develop Japan’s industrial power in the past are no longer sufficient to meet the needs of a more mature, service-oriented economy.

4. Social security and pension reforms are useful to support the living condition of the aged, and improve the economic prosperity of firms.
1.10 Justification of Research

The research which started with the above hypotheses has been a humble effort in trying to justify it. Firstly, globalization in the past has proved to be of immense help for Japanese economic recovery through boosting its exports and also will also in the future compensate for the shortage of labour caused due to its aging population and declining birth rate.

Secondly, the post office privatization which started in 2007, in accordance with the postal privatization bill passed in 2005, under the primeministership of Koizumi, has been overhauled again and again under the successive governments, before real implementation could take place. Hence this research in accordance with the purpose of study has looked into the aspect of political battle surrounding the same which concludes that nothing much has been done other than reversing or changing the basic plan under the koizumi administration.

Thirdly, the research tries to justify that the very fact Japan slid into recession was due to institutional rigidities, which had to be changed in order to suit the need of time. This not only refers to the economic structure, but also the social and political institutions. By social meaning the social security system which has been reformed again and again keeping in mind the aging population. By political meaning the 1955- LDP system which to some extent had been changed under Koizumi’s premiership, but finally the August 30, 2009 elections which gave a death blow to it.

1.11 Research Methodology

Given the nature of research problems and questions, the research from the outset is qualitative in nature, combining descriptive and both inductive and deductive analytical methods have been used. Most part of this research is based basically on available primary and secondary sources in the form of official documents, books, and research articles and media reports. In order to know about the real success of the reforms in
helping Japanese recovery, the available data is analyzed along with the analysis of survey and opinion polls. Due to language difficulty the research made use of the sources available in English language, Japanese author's materials either translated to English or directly written in English, is acknowledged.

1.12 Chapterisation

Chapter 2: Literature Review

This chapter reviews the amount of literature available on Japanese economic recession, recovery, reforms, postal privatization, Koizumi and his politics and also the social security reforms in Japan and other literature related to the area of research.

Chapter 3- Concept of Structural Reforms

This chapter makes an attempt to deeply look into the concept of structural reforms from theoretical point of view, emphasizing on the factors driving the same, the reform strategies and the main structural reform policies. It also briefly looks into the structural reforms in Japan and concludes with the main causes which were responsible for the failure of the Japanese system, the bubble burst and the reluctance in reform implementation.

Chapter 4: Resistance, Reform and Changing Nature of Japanese Politics

Most researchers would agree that reforms in Japan have taken so long to pull its economy from continuous doldrums and finally bring its economy on track. This chapter would look into the reform efforts of the various governments starting from the 1990s till the Koizumi administration and conclude that there is no dearth of policy options, what is
lacking is the political will in the reform implementation which is often resisted by vested interests, including the bureaucracy and the iron triangle.

Chapter 5: Koizumi and His Way of Politics

Turning to Prime Minister Koizumi’s way of politics, this chapter tries makes an attempt to evaluate Koizumi’s leadership style in the context of constraints on the same. One important point this chapter tries to look into is to how was the Koizumi era different from its predecessors. The main issues discussed in this chapter are his reform efforts, the changes he brought in LDP politics and also the factors that contributed to his reform success. An attempt has also been made to compare Koizumi and Nakasone, who are the two outstanding Prime Ministers in post world war II Japanese history.

Chapter 6: The Case of Postal Privatization and Japanese Politics

When Koizumi started his reform campaign, one of his main objectives was to privatize the mammoth institution of Japan post, which was a source of government funding, inducing corruption. But this was not an easy task, as Koizumi had to fight against a host of vested interest groups lobbying against it. This chapter will basically look into the massive legislative battle that he fought within and outside his party, to finally get it passed, winning the historic 2005 elections. A brief section on postal overhaul under the present Hatoyama led DPJ is also included.

Chapter 7: Aging Population and Social Security Reforms in Japan

One of the severe problems that Japan is confronted today is its rapidly aging population due to its declining birthrate and long life expectancy. This has impacted all aspects of Japanese economy and society forcing Japan to reform its social security reforms again and again. Against this background this chapter will look into the pension reforms, health and medical insurance, long term care insurance and the recent policy manifestos of the DPJ government. The available policy options are also suggested.
Chapter 8: Conclusion

The research concludes that politics in deed plays a very important role in deciding the economic future in any country. In case of Japan a wide variety of structural reforms were introduced by various governments in order to pull Japan out of its structural trap. But here too, reforms have been not implemented as planned due to the fact that vested interests and opposition forces have hampered policies leading to growth at every step.