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Sir Jeffrey Sterling  
Chairman, P & O Company

Your reference

Our reference

Date

12 March 1986

*Dear Sir Jeffrey,*

I think DTI will have mentioned to you that we have been trying at their suggestion to make an opportunity for you to talk to some Japanese experts in the field of privatisation. Unfortunately, because of pressure in your programme, it proved impossible to set up separate calls on this subject. We did however invite Professor Kato of Keio University and Mr G Furuhashi, Director General of the Administrative Management Bureau of the Management and Coordination Agency, to meet you this evening, but both turned out to have prior engagements. Mr Furuhashi, however, asked me particularly to express his apologies for being unable to attend tonight, and to give you the enclosed paper which briefly outlines current developments in administrative reform in the Japanese Government. We have sent a copy of the paper separately for reference to DTI and to the Foreign Office.

*Yours ever*  
*Stephen Gomersall.*

S J Gomersall  
Counsellor (Economic)

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## ADMINISTRATIVE REFORM IN JAPAN

### 1. Present State

Since 1981, Japanese government has been carrying out one of the most comprehensive and thoroughgoing administrative reforms after the Second World War.

This is a drastic reform involving both national and local governments.

Prime Minister Nakasone has been pushing forward administrative reform as one of the main pillars of his policy since he took office. Along with the educational reform and the tax reform, it comprises "three reforms" pursued by the current administration.

### 2. Background

What lies behind current administrative reform efforts is the recognition that the environment of public administration during the era of high economic growth of 1960s has undergone drastic changes after the Oil Crisis of early 1970s.

For instance,

- 1) There has been a slowdown of economic growth and an accumulation of budget deficits
- 2) The aging of population structure has been in rapid progress
- 3) The interests, activities and life-styles of citizens have become diverse and multi-faceted
- 4) Japan's relations with outside world has become more complex and multi-faceted.

By the early 1980s, it was widely acknowledged both in and outside the government that these changes called for the major shifts in the domestic and international policy priorities as well as the corresponding reform of the structures and operations of the government. There was also a consensus of views that the tasks of the reform were such that they could not be



accomplished by the piecemeal approaches adopted in the preceding reforms.

### 3. Provisional Commission for Administrative Reform

Against these backgrounds, the Government launched in the summer of 1980 a project to study the new mechanism for the planning and development of administrative reform in the 1980s. It subsequently concluded that the establishment of a commission with high authority composed of persons knowledgeable in the administration was necessary. The commission was to study the ideal way of government from a long-term and broad perspective.

In March 1981, the Government established the Provisional Commission for Administrative Reform, and marked a first step of current administrative reform.

The Commission was composed of the nine members appointed by the Prime Minister with the approval of both Houses of the National Diet. The Chairman was to be elected from among its members. In appointing the members, special attention was paid to ensure that the views of different circles of society could be reflected in the Commission's deliberation to the maximum extent possible.

### 4. Goals and Standpoints of Reform

The Commission defined the goal of public administration as "the construction of a welfare society full of vitality" and "the positive contribution to the international community."

In the view of the Commission, the reforms in all aspects of administration was needed to achieve these goals. What were particularly important as basic viewpoints of such reforms were: "re-examination of the role of public administration", "promotion of fiscal reconstruction without tax increase" and "re-examination of the trade-offs between the level of government services and the public's burden."

Bearing these in mind, the Commission conducted a thorough review of the state of affairs in the public administration from the standpoints of: (1) responsiveness to change (2) co-



omination (3) simplification, and (4) public's confidence in the administration.

## 5. Procedure of Reform

During its two-year's existence, the Commission produced five reports in all.

For each of the reports, the Government made an immediate response, by first of all declaring its intention of paying maximum respect to the report, and then drawing up and effecting concrete reform plans.

This is one of the procedural characteristics of current reform compared with the previous ones.

With regard to the reform items that require legislative action, various bills were submitted to the National Diet. Some of the Diet sessions were devoted almost exclusively to the deliberation of such bills and called "administrative reform session".

## 6. Areas of Reform

Since 1981, the Government has been pushing forth the reforms in the following broad areas.

- 1) administrative organization
- 2) government manpower (number of personnel)
- 3) public corporation
- 4) deregulation (permission and authorization requirement)
- 5) national-local government relations; local administrative reform
- 6) reform of substantive programs: medical insurance, pension, etc.
- 7) fiscal reform including reform of subsidies

The details are shown in Appendix II.



## 7. Progress of Reform

The administrative reform has been steadily in progress.

The Provisional Council for the Promotion of Administrative Reform which was established after the dissolution of the Provisional Commission for Administrative Reform to monitor and promote reform efforts of the Government stated in its report of October 1984 that the reform was halfway to its goal.

Some of the notable items of reform to date are as follows.

- 1) Reorganization (into special company) of the Nippon Telegraph and Telephone Public Corporation and the Japan Tobacco and Salt Public Corporation
- 2) Reform of Pension and Medical Insurance System
- 3) Establishment of the Management and Coordination Agency; and internal reorganization of 10 ministries and agencies
- 4) Reduction in the number of public employees
- 5) Curtailment (negative growth) of general expenditure of national budget
- 6) Deregulation

## 8. Tasks Ahead

Some of the reform items waiting to be put into practice are as follows.

- 1) Reorganization (break up and privatization in 1987) of the Japanese National Railways  
(Related bills to be submitted to the National Diet in February)
- 2) Implementation of the recommendation of the Provisional Council for the Promotion of Administrative Reform including the reorganization of the Cabinet Secretariat
- 3) Rehabilitation of national government finance (by 1990)
- 4) Local administrative reform
- 5) Complete unification of pension systems (by 1995)
- 6) Freedom of information, protection of personal data and privacy



Prime Minister Nakasone, in his policy speech to the National Diet on January 27, 1986, stated that "administrative and fiscal reform is a great undertaking which will take three administrations 10 years to complete," and that "administrative and fiscal reform now faces its hardest hurdles, and I intend to build upon our success to date and to fight tenaciously for reform of the Japanese National Railways."



ADMINISTRATIVE REFORM IN JAPAN

-- CHRONOLOGY OF EVENTS --

(1980 - 1985)

1980

Sept. 12 Establishment of the "Second" Provisional Commission for Administrative Reform announced

N.B., The "First" Provisional Commission for Administrative Reform: 1962 - 1964

1981

March 16 Inauguration of the Commission  
(Enactment of the Establishment Law: Nov. 28, 1980)

July 10 "First Report" of the Commission

Sept. 24 Extraordinary Session of the Diet convened  
(Administrative Reform Session) (till Nov. 28)

1982

Feb. 10 "Second Report"

July 30 "Third Report" (Fundamental Report)

(Recommendations included the revision of the National Government Organization Law; creation of "General Management Agency"; and the reform of major public corporations including the Japanese National Railways)

Sept. 24 "Outline of Administrative Reform" (Cabinet Decision)

1983

Feb. 28 "Fourth Report"

(Creation of the "monitoring commission" on administrative reform recommended)

March 14 "Fifth Report" (Final Report)

(Recommendation included internal reorganization of ministries and agencies)

March 15 Dissolution of the Commission

May 24 "New Outline of Administrative Reform"

(Cabinet Decision)



- June 10 Inauguration of the JNR Reform Commission
- July 1 Inauguration of the Provisional Council for  
the Promotion of Administrative Reform
- Sept. 8 Extraordinary Session of the Diet convened  
(Administrative Reform Session) (till Nov. 28)
- Dec. 26 Special Session of the Diet convened  
(till Aug. 8, 1984)

1984

- Jan. 25 "1984 Outline of Administrative Reform"  
(Cabinet Decision)
- July 1 Establishment of the Management and Coordina-  
tion Agency
- Oct. 23 Provisional Council's progress report on the  
government's administrative reform efforts
- Dec. 1 Ordinary Session of the Diet convened  
(till June 25, 1985)
- Dec. 18 Provisional Council's recommendation on the  
reform of national-local government relations
- Dec. 29 "1985 Outline of Administrative Reform"  
(Cabinet Decision)

1985

- April 1 Privatization (reorganization into special  
company) of the Nippon Telegraph and Telephone  
Public Corporation and the Japan Tobacco and  
Salt Public Corporation
- July 22 Provisional Council's recommendations on the  
additional measures of administrative reform
- July 26 Report of the JNR Reform Commission  
(Recommended break-up and privatization  
to be effective April 1, 1987)
- Sept. 24 Cabinet Decision on the implementation of  
Provisional Council's recommendations
- Oct. 14 Extraordinary Session of the Diet convened  
(till Dec. 21)
- Dec. 28 "1986 Outline of Administrative Reform"  
(Cabinet Decision)



The Progress of Administrative Reform in Japan  
(1981 - 1985)

(December 1985)

I. Provisional Commission for Administrative Reform  
(1981 - 1983)

First Report ( July 1981 )

Second Report ( February 1982 ) -- streamlining of administrative procedures including licensing

Third Report ( July 1982 ) "Fundamental Report"

Fourth Report ( February 1983 ) -- establishment of an oversight commission on administrative reform

Fifth Report ( March 1983 ) "Final Report"

Members of the Provisional Commission for Administrative Reform

Chairman

Mr. Toshio Doko

Honorary Chairman of the Federation of Economic Organizations

Vice Chairman

Mr. Jiro Enjyoji

Senior Counselor of Nihon Keizai Shinbun, Inc.

Other Members

Mr. Keizo Hayashi

President of Japan Red Cross Society

Mr. Kagayaki Miyazaki

President of Asahi Chemical Industry Co., Ltd.

Mr. Ryuzo Sejima

Counselor of C. Itoh & Co., Ltd.

Prof. Kiyooki Tsuji

Professor of International Christian University

Mr. Hiroshi Tanimura

President of Tokyo Stock Exchange

Mr. Hidenobu Kanasugi

Vice President of Japanese Confederation of Labor, President of

Japan Confederation of Shipbuilding & Engineering Workers Unions

Mr. Yasuo Maruyama

Vice Chairman of General Council of Trade Unions of Japan,

President of All Japan Prefectural and Municipal Workers Union



## Gist of Commission's Report

### A. Goals to be achieved by the government

- construction of a vigorous welfare society  
    sprit of self-help, mutual aid; vigor of  
    private sector
- positive contribution to the international  
    community

### B. Standpoints of administrative reform

- ensuring proper response to changing environment
- securing integration and coordination of  
    administration  
    departmentalism; national and local  
    government
- achieving streamlined and efficient administration
- securing public confidence in administration

### C. Major area of recommendation

#### a. Policy recommendations

agriculture; social security; education; etc.

#### b. Management recommendations

- (a) administrative organizations
- (b) government enterprises and corporations
- (c) rationalization of local administration
- (d) government subsidies
- (e) government regulations
- (f) public employees
- (g) budget, accounting, and fiscal investment  
    and loans
- (h) freedom of information; administrative  
    procedure



II. Administrative Reform Programs implemented pursuant to the Recommendations of the Provisional Commission for Administrative Reform

A. Administrative Organization

a. Establishment of the Management and Coordination Agency  
(July 1984)

-- merger of part of the Prime Minister's Office and the Administrative Management Agency for the enhancement of central management and policy coordination functions in the government

b. Amendment of the National Government Organization Law

-- for less legislative control over ministerial organizations

-- effective July 1984

(NOTE) Under the new provisions, the creation or reorganization of internal bureaus, departments and other establishments of a ministry or agency is regulated by Cabinet Orders. Formerly, it was regulated by law.

c. Major reshuffling of internal bureaus and departments in 10 ministries and agencies (July 1984)

d. Reorganization (including elimination) of "divisions" affecting 10 percent (or 150) of all "divisions" in the national government by 1988

e. Reorganization of local branch offices of the national government at regional, prefectural and municipal levels

-- consolidation, scale down, or elimination

(under way)

B. Staff Number Control

a. Enforcement of the Sixth Personnel Reduction Plan  
(1982 - 1986)

-- 5 percent cut in positions

44,886 out of 897,717

b. Retrenchment of the national civil service

By limiting the creation of new positions in areas of growing demands such as education or medical care, the government has cut over 13,000 positions on balance



during the past four years.

<u>Staff Cuts (balance)</u>	
	employees
1982	-1,434
1983	-1,695
1984	-3,953
1985	-6,482
	<u>-13,564</u>

C. Government Enterprises

Rationalization under way in:

- a. Postal Service
- b. National Forest Service
- c. Printing and Mint Bureaus
- d. National Hospitals and Sanatoria

D. Public Corporations

a. Reform of three major corporations

(a) Japanese National Railways (JNR)

-- emergency measures for rehabilitation under way

(hiring freeze, restraint of capital investment, etc.)

-- privatization and break-up of JNR to be proposed to the 1986 Ordinary Session of the Diet

(b) Japan Tobacco and Salt Public Corporation (JTSPC)

-- privatization (effective April 1, 1985)

-- liberalization of import of cigarettes and other tobacco products

(c) Nippon Telegraph and Telephone Public Corporation (NTT)

-- privatization (effective April 1, 1985)

-- opening up of telecommunication business to competition



D. Reform of other public Corporations

- elimination of 14 corporations since 1980
- merger of 6 corporations (expected in 1985)
- privatization of 19 corporations (in preparation)
- other reform measures in 44 corporations (under way)
- revitalization of management (being pushed forth)

E. Administrative Processes

a. Rationalization of government regulations

- elimination and curtailment of excessive regulatory measures

(related bills passed by the Diet)

b. Curtailment and rationalization of statistical surveys

(1984 - 1986)

F. National-Local Government Relations

a. Reform of regulatory functions entrusted to the heads of local governments

(bill passed by the Diet; further study under way by the Provisional Council for Administrative Reform)

b. Abolition or lessening of the national government's involvement in local administrative affairs in the form of approvals, orders, instructions; easing of requirements for the establishment and running of certain local government offices

(bill passed by the Diet)

c. Rationalization of the system of subsidies to the local governments

(under way)

d. Abolition of the system of national government officials working in the local governments in the areas of social insurance, road transport administration, and employment security



(one bill passed by the Diet; two other bills pending in the Diet)

e. Local administration

- self-evaluation of organization structure and staff number control practices by the local governments for more economy and efficiency  
(being pushed forth)
- measures to rectify excessive salaries and retirement allowances in the local governments  
(being enforced)

G. Substantive Programs

a. Pensions

- reform of public employee's mutual aid pension schemes (related bills passed by the Diet)
- reform of other public pension schemes (bill passed by the Diet)
- integration of public pension schemes by 1995

b. Medical care

- reinforcement of the measures to hold down the cost of medical care (under way)
- reform of the system of medical insurance (bill passed by the Diet)
- rationalization of the provision of medical services (bill passed by the Diet)
- introduction of the health care system for the elderly (bill passed by the Diet)

c. Agriculture

- measures for the attainment of balanced supply and demand for rice (under way)
- curtailment and rationalization of expenditures on the Foodstuff Control System (under way)



## H. Fiscal Reform

- enactment of the Special Bill for Administrative Reform (1981)

a law incorporating spending cut measures to be enforced during 1982-1984

- rigorous enforcement of the "ceiling" on budget requests by the ministries
- curtailment and rationalization of expenditures

### growth of expenditures

FY1982	1.8%
1983	-0.0
1984	-0.1
1985	-0.0

\* excluding national debt service and local allocation tax grants which increase automatically

- curtailment and rationalization of grants and subsidies

## I. Organizations for Administrative Reform

- a. The Joint Government-Liberal Democratic Party Headquarters for the Promotion of Administrative Reform (established April 1981)
- b. The Japanese National Railways Reform Commission (established June 1983)
- c. The Provisional Council for Promotion of Administrative Reform (established July 1983)



History of Postwar Reform

- 1945 - 1954 reconstruction and preparation for development
- 1955 - 1964 modernization of administration to cope with economic development  
  
First Provisional Commission for Administrative Reform
- 1965 - 1974 implementation of Commission's recommendations ( coordination and efficiency )  
  
responses to emerging administrative problems  
  
foundation of current organization and manpower control methods
  - Total Staff Number Law and personnel reduction plans
  - "scrap and build" principle
- 1975 to date coping with drastic changes brought about by the Oil Crises
  - slower economic growth
  - huge budget deficitsnecessity of adjustment  
  
Second Provisional Commission for Administrative Reform



