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# **New Public Management - Japan's Practice**

**HIROMI YAMAMOTO**

## **INSTITUTE FOR INTERNATIONAL POLICY STUDIES**

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# New Public Management - Japan's Practice

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**HIROMI YAMAMOTO**

*New Public Management (NPM) has become one of the dominant paradigms for public management across the world. This paper briefly reviews NPM and discusses NPM reforms in Japan. The paper explores the conditions under which NPM reforms were introduced in Japan's public sector, and examines the NPM reforms which have been introduced. It also analyzes the peculiarly Japanese features of the NPM reforms and future prospects. This paper concludes with a discussion of how NPM reforms in Japan are limited in scope to only two fields—policy evaluation and agencification—and how NPM principles have been introduced selectively. Although modeled on the United States' Government Performance and Results Act (GPRA) and the Executive Agencies of the UK, Japan's NPM reforms differ from these original models in several crucial respects. The negative view of NPM which bureaucrats hold is a barrier to the further introduction of NPM reforms in the public sector in Japan.*

## Introduction

A new paradigm for public management, called “New Public Management” (hereafter NPM), has emerged since the 1980s. The term NPM came into use at the beginning of the 1990s to describe public sector reforms in the UK and New Zealand, as a conceptual device invented for the purposes of structuring discussion of changes in the organization and management of government. The principles of NPM are in general characterized by an emphasis on output controls, the disaggregation of traditional bureaucratic organizations and the decentralization of management authority, the introduction of market and quasi-market mechanisms, and customer-oriented services (Hood, 1991: 4-5; OECD, 1995: 8, 15).

In the UK, for example, increased pressures forced the government to cope with economic problems, including high rates of unemployment and inflation, and with long-standing criticism of the quality and efficiency of public services. Prime Minister Thatcher, who had a clear idea of what she wanted to do, was deeply committed to promoting change in government. The NPM movement gained in popularity and in the early 1990s NPM was adopted by the Clinton Administration in the United States, which, despite the buoyant state of its economy, had experienced problems in the civil service similar to those seen in the UK. Under the slogan of “reinventing government” (Osborne and

Gaebler, 1992), the adoption of NPM took shape in Vice President Al Gore's 1993 "National Performance Review." In the light of problems such as accumulated debt (at least until the mid-1990s in the case of many OECD countries) and drastic external environmental change characterized by the OECD (1995: 21) as "deregulation and internationalization," the role of the public sector was being severely questioned and pressure for management change in the public sector was strengthening. The OECD, the World Bank, and the International Monetary Fund (IMF) have been keen advocates of NPM reforms around the world, and NPM has been expanding to more countries.

As the NPM movement expanded, during the mid-1990s a few scholars in Japan began to discuss NPM. Some of the public sector reforms adopted by Prime Minister Hashimoto (11 January 1996-30 July 1998), who took strong initiatives to carry out extensive public sector reforms in the late 1990s, were based on certain NPM principles.

This research paper discusses issues relating to NPM, including its principles and analytical theories, and critiques of NPM. Then, it explores the conditions under which NPM reforms were introduced in Japan's public sector, and examines the NPM reforms which have been introduced. This research paper also analyzes the peculiarly Japanese features of these NPM reforms and future prospects.

## **Importance of the Study**

The importance of this study is that, first of all, many countries consider NPM principles effective for public sector reforms, as shown by the increasing number of countries that have introduced the NPM principles; therefore, it is crucial to research NPM. As already mentioned, the OECD, the World Bank, and the IMF are keen advocates of NPM reforms across the world; thus, NPM principles have been introduced not only in industrialized OECD member countries, such as Australia, Canada, New Zealand, the UK, and the USA, but also in developing countries, including India, Jamaica, and Thailand (McCourt, 2002: ch. 14; Talbot and Pollitt et al., 2000: 3). In the light of this trend, there is a strong possibility that NPM principles will spread to even more countries in the future.

On the other hand, the practice of NPM principles in Japan has not been examined to any great extent—and hardly at all in English—even though a number of scholars have shown an interest in it. Hood (1995a: 110) insists that Japan has not followed other OECD countries closely, arguing that "more rather than less stress seems to have been put into 'legalistic' styles of administration using written documents (for example, in business regulation)." NPM principles require business-like contractual arrangements as a tool for controlling output and efficiency and for securing accountability. However, Japanese business custom is not always based on written contracts—rather, it is based on trust, created by long-term relationships between individuals or organizations. Hood indirectly implies that, in the light of these factors, Japan would not adopt NPM principles as other OECD countries did. In addition, Pollitt (1998: 48-49) argues that Japan (as well as Germany) appears distinctly lukewarm towards NPM. He

explained that the reason why he made this assertion was that he had rarely recognized any participants from Japan (or Germany) at Public Management Service (PUMA) conferences organized by the OECD (interview in January 2000).

Accordingly, western scholars are keen to know how Japan (the most industrialized country in Asia) practices NPM principles, particularly now that NPM principles have recently been gradually introduced in other Asian countries through assistance programs set up by the World Bank and the IMF. One obstacle confronting western scholars wishing to carry out research into how Japan practices NPM principles is the language barrier (interview with Prof. Pollitt in January 2000). Thus, this research paper aims to provide this analysis.

## **Origins of NPM**

The NPM approach to public management was in general founded on a critique of bureaucracy as the organizing principle within public administration (Dunleavy, 1991). Bureaucracy, it was claimed, is plagued by progressive inflexibility based on complex hierarchical rule-based systems and top-down decision-making processes, which causes it to become increasingly distant from citizens' expectations.

The focus of the NPM movement was to mirror what were seen as critical aspects of private sector modes of organizing and managing (Dawson and Dargie, 2002: 35), assuming the superiority of the private sector and private sector management techniques to those of the public sector and public administration (Metcalf, 1989). While government remained "rigid and bureaucratic, expensive, and inefficient" (Pierre, 2000: 5), the private sector, it was claimed, was forced to undergo radical change because, from the 1980s onwards, companies were exposed to severe competition on the international stage and had to seek to exploit new opportunities. Management innovation was promoted in the private sector, as described by authors such as Peters and Waterman (1982), and Deal and Kennedy (1982).

Government is urged to adopt both the "techniques" of business administration and business "values," which include the values of competition, a preference for market mechanisms as a means of social choice, and respect for the entrepreneurial spirit (deLeon and Denhardt, 2000: 90; Kamensky 1996: 251). Since the 1990s, public sector reforms have therefore had to go beyond simply acknowledging that there are fundamental differences between the public and private sectors; instead, as far as possible, the public sector has had to follow the "best practice" model of private sector management.

## Principles of NPM

NPM is an umbrella term (Metcalf, 1998: 1) which encompasses a wide range of meanings, including organization and management design, the application of new institutional economics to public management, and a pattern of policy choices (Barzelay, 2002: 15). There has been debate over the precise nature of NPM (Dunleavy and Hood, 1994: 9; Hood, 1995b: 94), but the guiding principles of NPM have basically been agreed among scholars. According to Hood (1991: 4-5; 1995b: 96), they can be summarized in the following seven doctrines:

- (1) an emphasis on *hands-on professional management* skills for active, visible, discretionary control of organizations (freedom to manage);
- (2) *explicit standards and measures of performance* through clarification of goals, targets, and indicators of success;
- (3) a shift from the use of input controls and bureaucratic procedures to rules relying on *output controls* measured by quantitative performance indicators;
- (4) a shift from unified management systems to *disaggregation* or decentralization of units in the public sector;
- (5) an introduction of greater *competition* in the public sector so as to lower costs and achievement of higher standards through term contracts, etc.;
- (6) a stress on *private-sector-style management practices*, such as the use of short-term labor contracts, the development of corporate plans, performance agreements, and mission statements;
- (7) a stress on cost-cutting, efficiency, *parsimony* in resource use, and “doing more with less.” (Emphases as in original by Hood, 1991: 4-5)

Examining the NPM principles with regard to management, the first principle refers to “hands-on management” and the “freedom to manage,” suggesting that visible top managers should control public organizations more actively by wielding discretionary power (Hood, 1991: 4). The emphasis is moved away from policy skills and personnel management rules towards active management, and away from relatively anonymous bureaucrats to visible managers at the top of public sector organizations (Hood, 1995b: 96-97). Clear assignment of responsibility is required from the point of view of accountability, rather than diffusion of power (Hood, 1991: 4; 1995b: 96).

In addition, NPM applies proven private sector management tools to the public sector, with flexibility regarding the hiring of staff and their compensation, as described in the sixth principle. Just like top executives in private sector organizations, top executives in the public sector must possess professional management skills and are, ideally, given the freedom to exercise flexibility in organizational management and in the hiring and compensation of staff.

As a counterpart to the discretion and flexibility allowed, the output-orientation described in the third principle requires organizations and staff to work to performance targets; this breaks up traditional input controls and rule-governed process-orientation. Resource allocation and rewards are linked to measured performance (Hood, 1991: 4), in order that transparency and accountability may be strengthened. Performance evaluation of programs or policies, as discussed later, is one public sector reform that is based on this principle.



Before NPM, outputs had of course been crucial for citizens as public service receivers, and also for governments in their capacity as the providers who were required to generate the optimal effects from their policies. However, inputs and processes had been stressed much more than outputs, because of the difficulty of measuring public service outputs objectively and because of the necessity for democratic control of the processes whereby public money is utilized. The change to output-orientation based on NPM implies an abolition or lessening of traditional strict input controls and process-orientation; on the other hand, accountability for outputs is strengthened through the requirement for clear statements of goals, targets and indicators of success, and performance measurement based on pre-determined standards/indicators of achievement—"management by objective"—as described in Hood's second principle. Although James Wilson (1989: 25-26) defined traditional bureaucracy as having overarching goals, NPM requires the precise definition of goals, targets, and indicators of performance measurement.

Hood's fourth principle of disaggregation/decentralization breaks up traditional monolithic bureaucratic units into separately managed corporatized flat units (Hood, 1991: 5; Hood, 1995b: 95; Pollitt, 1995: 134). Agencification, which separates the policy implementation function from the policy-making function, is one public sector reform that is based on the NPM principle of disaggregation/decentralization, as discussed later. The purposes of decentralization are the creation of manageable units and the delegation of authority, enabling quick and flexible decision-making which reflects citizens' demands. Peters and Waterman (1982: xvi) insisted that excellence came from "small, competitive bands of pragmatic bureaucracy-beaters"—units that share an intensity about what they do based on love of their product and a desire to serve the customer. The "*kanban* system" or the just-in-time inventory system—an idea originated by the Japanese car company Toyota—delegates authority for making decisions to front-liners, and has achieved high productivity and efficiency. In addition, decentralization is effective in terms of responding to citizen's demands and preferences, which may vary within a country from region to region.

Decentralization, described as "separating the function of providing public services from that of purchasing them" (Pollitt, 1995: 134), is further characterized as separating functions into "quasi-contractual or quasi-market forms" (Dunleavy and Hood, 1994: 9). The quasi-contractual form represents a tool for defining the relationship between the purchaser of services (policy-maker) and the provider of them (policy implementation organization), while the quasi-market form denotes the modified market in which only a single provider of public services exists.

Introducing greater competition, Hood's fifth principle, refers to increased competition in the provision of services, both between public sector organizations and between public sector organizations and the private sector (Hood, 1995b: 97; Kaboolian, 1998: 190). Traditionally organized and managed public services tend to be monopolies and are indefinitely assigned to particular service providers. NPM, however, aims to introduce a more competitive style into the public sector and to establish "internal markets" (Walsh, 1995: 26-27, 138-139), as well as to loosen the inefficient monopoly franchise through the use of multiple competing providers and term contracts which set out the performance required of service providers. This concept of competition can also be applied to human resource management, such as the hiring of staff on term contracts.

Introducing competition can help achieve parsimony in resource use, as mentioned in the last principle on Hood's list, and also improve the quality of public services, which is essential from the point of view of responsiveness to the citizen's demands. As Dunleavy and Hood (1994: 9) demonstrate, opening up competition to multiple providers allows citizens (as customers or users) more scope to "exit" from one provider to another, just as in a commercial market, rather than forcing them to rely on "voice" options as a means of expressing how public service provision affects them.

Although it is not clearly indicated in Hood's list (1991: 4-5; 1995b: 96) (although it is premised), NPM definitely encompasses the principle of customer-orientation, or what Pollitt (1995: 134) calls "customer responsiveness." Traditional public administration regards citizens as service receivers who are unilaterally given limited choices by government, whereas NPM regards citizens as customers who have multiple choices, similar to the alternatives available in any market. The NPM principle of customer-orientation involves an increasing emphasis on improving the quality of services, setting standards for quality, and responding to customers' priorities.

## Analytical Theories of NPM

NPM has two main sources (Hibbs, 1987: 107-192, 258-289; Mueller, 1989: 277-285). Hood (1991: 5) describes NPM as originating from "a marriage of two different streams of ideas." One partner is the "new institutional economics" (Downs, 1967; Niskanen, 1971; Williamson, 1975, 1985), built on public choice theory (Buchanan and Tullock, 1962; Downs, 1957, 1967; Mueller, 1979; Niskanen, 1971; Olsen, 1965; Tullock, 1965), principal-agent theory (Arrow, 1963; Moe, 1989), and transaction-cost theory (Coase, 1937; Williamson, 1975), which views politics as a market phenomenon (Foster and Plowden, 1996: 1). The other partner in the "marriage" is "managerialism," whose ideas concerning public sector reforms emanate from private sector or business administration (Aucoin, 1990; Hume, 1981; Merkle, 1980; Pollitt, 1993). Aucoin (1990: 115-116)—who did not yet use the term NPM—also argued that administrative reform in public management is based on two fields of discourse or paradigms, known as "public choice" and "managerialism."

In short, NPM is the fusion of contractual elements in the field of new institutional economics—such as the principles of measuring performance and introducing competition as described in Hood's list (1991: 4-5; 1995b: 96)—and of management by objective in the field of business administration—such as discretion for organizational management as also described in Hood's list (1991: 4-5; 1995b: 96). The former is described as "*making* managers manage," and the latter as "*letting* managers manage" (Hood, 1991: 6; Kettl, 1994; OECD, 1995: 8). Thus, NPM unites the new institutional economics and managerialism from business management thought; the strategy of NPM should thus be one of a balanced effort involving both the use of contractual arrangements as a tool of output controls, and managerial freedom.

## **Critiques of NPM**

A range of critiques of NPM have been made. NPM is criticized for ignoring the fact that public management differs from private management in its essential nature. Schick (1996: 25-26) argues that NPM would narrow the responsibilities of the public sector and weaken collective values and interests, even though the responsibilities of government organizations are considered to be broad because of their strong influence on society.

On the other hand, Metcalfe (1998: 3) insists that public management is rarely the task of a single organization, but one that involves inter-organizational cooperation and coordination among different levels of government or among networks including businesses, independent consulting organizations, voluntary associations, lobbying organizations, and other not-for-profit organizations. In business management on the other hand, it is competition (between organizations) that is regarded as the key to success. Metcalfe (1998: 3) also suggests that a prominent feature of government is organizational diversity; agencies come in various shapes and sizes, and have multifarious functions, so that general statements about performance need to be qualified with reference to organizational differences. Admitting a role for the imitation of business practice, Metcalfe (1998: 2-3) demonstrates that public management must meet the challenge to innovate, in order to respond more flexibly to organizational diversity according to diverse criteria of effectiveness. Otherwise, for example, in meeting the objectives of the business “bottom line,” schools might exclude under-achieving pupils or hospitals might put obstacles in the way of the admission of unprofitable patients (Metcalfe, 1998: 3).

In relation to the difference in essence between public and private management, NPM has been criticized as eroding the traditionally respected values and ethics of civil servants, such as fairness, equality, probity, and impartiality, on which public administration has been based (Denhardt and Denhardt, 2000: 550; Schick, 1996: 25-26). Schick (1996: 25-26) underscores the problem of scant loyalty to the broader values of public service. This problem has arisen because NPM is based on output controls and discretionary management—in imitation of private sector management—rather than on rule-based systems or on any requirement for open procedures and processes. Under NPM, individuals’ ethical standards are the only safeguard.

Although a decline in values and ethical standards would be extremely difficult to measure and forestall, widespread public concerns over these problems can be dealt with by government intervention. Dawson and Dargie (2002: 40) offer various examples, such as the foundation of The Committee on Standards in Public Life<sup>1</sup> in the UK in 1994, which examines concerns about standards of conduct for all holders of public office and makes recommendations on changes to existing arrangements which might be required to ensure the highest standards of propriety in public life. The National Clinical Assessment Authority (NCAA) was established in the UK in 2001 with the aims of providing a service in support of the primary care of the National Health Service (NHS) and of establishing trust between hospitals and the community. When confronted with concerns about the performance of an individual doctor, the NCAA also provides support to the doctor.<sup>2</sup> The background to this is that the practices of medical doctors tend to lack transparency because, as Broadbent and Laughlin (2002: 95) argue, doctors have

relative autonomy over their working practices and often enjoy a great deal of status which gives them power over other stakeholder groups. Further examples are the codes of governance for publicly funded organizations which have already been published in several countries.

DeLeon and Green (2001: 621) argue that the lessening of rules and increased flexibility will lead to administrative corruption because precise application of private sector management will not always work well in the public sector. In the public sector, external political forces influence internal systems of management; for example, performance evaluation could be beset by a series of political compromises, and likewise any sense of accountability is geared towards politics rather than management (deLeon and Green, 2001: 627). Thus, performance measurement and accountability might be much less effective as tools for output controls in the public sector.

The problem of a decline in civil servants' values and ethics under NPM is considered to be dependent on how the balance between managerial freedom and output controls is achieved (see deLeon and Green, 2001: 621). In addition to the creation of suitable systems for balancing these two elements, civil servants' values and ethics must be maintained through improvements to the organizational culture (Peters and Waterman, 1982) and through education.

In addition, NPM is criticized as making little commitment to democratic forms. DeLeon and deLeon (2002: 239) discuss the problem that, under the thrust of reinvention, workplace democracy in the public sector has been developed less than entrepreneurship and technocracy. In addition, many scholars suggest the problem of government's relationship with civil society. Metcalfe (1998: 10-11) criticizes NPM for paying little attention to the involvement of citizens, and regarding the users of public services simply as clients or customers rather than as members of democratic states. DeLeon and Denhardt (2000: 89) point out that Osborne and Gaebler's (1992) *Reinventing Government* offers little discussion of citizen participation. Denhardt and Denhardt (2000: 549) suggest figuratively that the owner of the boat (whether steered or rowed) is forgotten. All these arguments indicate a problem with the people as "citizens"—one of Mintzberg's (1996: 76-77) four types of relationship between citizens and their government: as customers, clients, citizens, and subjects. In addition, NPM does not take account of the government's relationship with the people as "subjects."

Under NPM, it is intended that citizens participate in the process of evaluating public services, since the NPM principle of "customer responsiveness" (Pollitt, 1995: 134) requires that the degree of user satisfaction with public services be measured. If the results of user evaluation feed back to the policy-making process, it can be said that citizens have been brought into the policy-making process indirectly. However, this is a rather passive form of citizen participation. A more active form of citizen participation has been seen in the UK, where the Blair Government has placed user or citizen representatives in active decision-making roles. For example, the National Health Service (NHS) has appointed new local patient representatives to draw attention to issues such as dirty hospital wards, and there are to be patient representatives on many national decision-making bodies (Dawson and Dargie, 2002: 37). Denhardt and Denhardt (2000: 549, 552-557) propose as an alternative what they call "New Public Service," suggesting that the primary role of public servants is to help citizens articulate and meet their shared interest

rather than to attempt to steer society. As Kettl (2000: 5) demonstrates, the main goal of the public sector reform movement is to attempt to solve the problems inherent in government's relationship with civil society.

Furthermore, NPM is criticized for focusing on managerial reforms—whose goal is the pursuit of efficiency and economy within the constraints of pre-determined policy and resources—at the expense of policy issues, and for separating managers and front-line workers from the policy process, as described in the UK White Paper *Modernising Government*<sup>3</sup> (Cabinet Office, 1999: paras. 4 and 5). Osborne and Gaebler (1992: 32) insist that “those who steer the boat have far more power over its destination than those who row it,” but the focus of their discussion is on the issues relating to rowing (service delivery), not steering (policy decisions). To put it another way, NPM focuses on the individual achievements of managerial reforms rather than on any contribution to an overall strategic purpose (Cabinet Office, 1999: paras. 4 and 5). Metcalfe (1998: 5-6) argues that NPM, especially the institutional separation of policy implementation from policy-making (or agencification), seeks to revive the policy-administration dichotomy by drawing a clear line between management and policy, and that this dichotomy provides an incomplete picture of the whole management-governance process. In this case, governance is the sphere of setting policy through maintaining political support and securing resources. Although various attempts have been made to strengthen the linkage between policy-making and implementation, more comprehensive strategies and entrepreneurial policies must be shaped through direct interaction between management and governance.

A final major criticism is that NPM is a self-serving movement designed to promote the career interests of an elite group of bureaucrats (top managers and officials in central controlling departments/ministries, management consultancies, and business schools) rather than those of the mass of low-level civil servants (Hood, 1991: 9; Pollitt, 1993: 134-137). DeLeon and deLeon (2002: 241) indicate that NPM focuses on allowing more managerial discretion (in particular, over hiring, job assignments, and firing) rather than on greater autonomy for workers or on more widely shared leadership. The suggested remedies are disproportionate cutbacks on managerial staff rather than on operational staff (Hood, 1991: 9), and the promotion of workplace democracy (deLeon and deLeon, 2002: 240).

## NPM as Global Paradigm?

There have been arguments as to whether or not NPM is a global paradigm for public sector reform. Successive OECD studies (1990, 1993, 1995, 1997) insist that it is globally convergent. The OECD (1995: 25) describes changing trends in the public sector as follows:

OECD countries' reform strategies have many points in *common*. They are aimed at both improving the performance of the public sector and redefining its role in the economy. Key reform thrusts are: a greater focus on results and increased value for money, devolution of authority and enhanced flexibility, strengthened accountability and control, a client- and service-orientation, ... and changed relationships with other levels of government. (Emphasis by the author)

NPM principles correspond to these trends; therefore, NPM principles are in keeping with the reform strategies which are *common* to OECD countries. Also, Kettl (2000: 1) demonstrates that the movement towards NPM "has been striking because of the number of nations that have taken up the reform agenda in such a short time and because of how similar their basic strategies have been."

On the other hand, Kickert (1997: 731-732) insists that NPM is a more nation-specific and Anglo-Saxon Commonwealth phenomenon (with New Zealand as the most extreme example), whereas the United States is the motherland of business management. Hood (1995b: 98), who has taken a negative stance towards NPM as a "global paradigm" (1995a: 110), also demonstrates that not all OECD countries have adopted NPM principles to the same extent. He cites Japan, the United States, Germany, and Switzerland as examples of countries whose governments seem to have put much less emphasis on adopting NPM-type reforms in the 1980s than those of countries such as the UK and New Zealand. Pollitt (2002: 277) points out that one of the reasons for this variation is that different countries started from different points in terms of the make-up of their public sectors and in the ways in which they thought about the role and character of the state. He also notes that different governments do not all possess the same capacity to implement reforms; for example, in Germany it is very difficult, politically and legally, to change the central administrative structure.

As Pollitt (2002: 278) demonstrates, there could be convergence in discussion of the emergence of NPM as a dominant paradigm and in government decisions to implement reforms with a view to business-like management, market-like competition, and client-orientation; however, less convergence might be seen in the actual carrying out of reforms and in the results thereof. In spite of the above arguments, NPM has continued to provide "a kind of shopping basket for those who wish to modernize the public sector" (Pollitt, 1995: 133).

## **Public Sector Reforms in Post-War Japan**

During the post-war period, Japan has undergone three major public sector reforms in central government. The first two of these were overseen respectively by the First Provisional Commission for Administrative Reform (FPCAR) in 1962-64, which used lessons learnt from the American Hoover Commission, and the Second Provisional Commission for Administrative Reform (SPCAR) in 1981-83, which proposed the goal of “medium-sized government” for Japan (Muramatsu, 2001: 77) and which privatized large public corporations. Finally, Prime Minister Hashimoto (11 January 1996-30 July 1998) initiated public sector reforms which were implemented in January 2001 and which represented the largest reorganization of central government since the war.

Throughout these processes, the unification and abolition of organizations, based on the principles of streamlining and efficiency, have been the preferred public sector reforms in Japan. For example, the major initiative carried out by Prime Minister Nakasone (27 November 1982-6 November 1987) was the privatization of large public corporations under the Second Provisional Commission for Administrative Reform, including the Japanese National Railways, the Japan Tobacco & Salt Public Corporation, and the Nippon Telegraph and Telephone Public Corporation. Prime Minister Hashimoto's reforms reorganized 23 ministries into 13, thereby reducing the number of ministries and thus the number of cabinet members. The unification and abolition of organizations are reforms which are both visible to, and easily understood by, the people. Politicians tend to prefer those reforms which are considered likely to have considerable political impact on constituents.

In addition, in order to apply strict controls to the number of civil service employees, the National Public Service Law was established in the late 1960s, and, from time to time, various plans have been adopted by the central government for annually reducing the national percentage of civil service employees within set periods. The first of these plans was drawn up for the period 1968-71. The tenth and most recent plan, announced in January 1999 by the Obuchi Government (30 July, 1998-5 April 2000) which succeeded the Hashimoto Government, was designed to accelerate Hashimoto's public sector reform of streamlining the central government and to accomplish a net reduction in national civil service staff of 25 percent over the decade starting in fiscal year 2000. Although the ratio of civil service employees to the general population in Japan is already lower than that in other major industrialized countries, cutting the number of civil service employees is also preferred as a method of making government streamlined and efficient, because of its popular political appeal. Shiroyama (2002: 10) indicates that these plans to reduce the size of the civil service have been carried out “without sufficient theoretical basis”; however, size reduction and streamlining have been typical methods of central government reform in Japan.

## Origins of NPM Reform in Japan

Hashimoto's public sector reform initiatives were proposed at a time when the "policy window," as Kingdon (1984, 1995) called it, was open. Kingdon's (1984, 1995) model focuses on the pre-decisional phase of policy-making; at the time various incidents and problems caused by bureaucrats had captured the attention of the general public and the media. The problems caused by officials at the Ministry of Finance were known to the public in the mid-1990s: these included the injection of a huge amount of public money to underwrite bad loans made by private finance companies in the housing sector (*jusen*), the suppression of information from the US Federal Reserve Board (FRB) regarding \$11 billion in losses at the New York branch of Daiwa Bank caused by a single bond dealer, and several bribery scandals. In addition, a senior official of the Ministry of Health and Welfare was arrested in 1996 because the ministry had for years taken no action to prevent the use of "unheated" blood derivatives, in spite of fears that patients could be infected with HIV by these derivatives. These problems caused by bureaucrats resulted in a loss of public esteem for administrative organs. Furthermore, Japan had been experiencing a severe economic downturn since the beginning of the 1990s; as a result, the government was facing a large financial deficit and by 1995 the ratio of government bonds to GDP had reached nearly 45 percent. Under these conditions public policies to stimulate the economy while reducing the size of the public sector were urgently required. Bureaucratic problems only served to highlight these conditions, if not exacerbate them.

The Liberal Democratic Party (LDP) has dominated Japanese post-war politics and held power continuously, except for during the periods 1950-1954 and 1993-1994. In the mid-1990s the LDP regained power in a coalition with the Japan Socialist Party (JSP) and a new party named *Sakigake* which had split from the LDP in the early 1990s. At the time, JSP chairman Murayama became Prime Minister. Prime Minister Hashimoto of the LDP succeeded Murayama when the latter resigned on 11 January 1996, and was able to become what Kingdon (1995) calls a "policy entrepreneur" in the field of public sector reform. Hashimoto had been exposed to public sector reform on several occasions in his life as a politician, for example, while he was president of the LDP's Research Council for Administration and Finance during the era of the Second Provisional Commission for Administrative Reform (SPCAR) in 1981-83.

With relatively strong public support for the First Hashimoto Government<sup>4</sup> (11 January 1996-7 November 1996), Hashimoto dissolved the House of Representatives in September 1996 and called a general election, in a bid to strengthen the political foundation of his government. The issue of public sector reform was the center of public attention during the general election of October 1996, as the national mood was one of severe criticism of bureaucrats. For the coalition parties, the election resulted in gains for the LDP and serious losses for the JSP and *Sakigake*. Hashimoto was able to form the Second Hashimoto Government (7 November 1996-30 July 1998) using members of his own party; this was analogous to what Kingdon (1995: 140) calls the "take-off point" for extensive public sector reform in Japan. With more political power in his second government, Hashimoto immediately established the Council for Public Sector Reforms<sup>5</sup> (hereafter the Council) on 21 November 1996—only two weeks after forming his second government—with the Prime Minister himself as Chairman. This was unusual because such councils were in general advisory organs for Prime Ministers.



Hashimoto does not have a reputation as a politician who expresses his vision of the nation's future in strong ideological terms; rather, he is perceived as a skillful practitioner (Masujima, 1998: 33) and often described as "more bureaucratic than the bureaucrats."<sup>6</sup> These characteristics were reflected in his speech at the annual conference of the Research Institute of Japan on 1 October 1996, and demonstrated that Hashimoto's emphasis was neither on any ideology nor on his vision of the nation's future, but on methods and techniques of reform.

..... regarding current politics, I believe that the former confrontations in ideology or philosophy, such as liberalism versus socialism or liberty versus equality, are already things of the past. In addition, the opposing axes, such as big government versus small, or hawk versus dove, are abstract or ideological confrontations which do not take reality into consideration; in other words, these types of confrontation are merely artificial axes for generating confrontation. [Therefore, confrontation between parties in an election campaign is not inevitable.]

A more important issue, I believe, is how to carry out reform of our country and the methods which should be used to realize this..... (Parentheses added by the author)

In addition, he is regarded as an authority on public policy (Tanaka, 2000: 18). This is because he has had considerable experience in practical matters—as a minister he worked with bureaucrats four times altogether: at the Ministry of International Trade and Industry, the Ministry of Finance, the Ministry of Transport, and the Ministry of Health and Welfare.

The year-long Council's meetings, which began on 21 November 1996, discussed the overall reorganization of central government and eventually published its Final Report on 3 December 1997. This reform program did encompass some NPM principles; however, the application of NPM principles to Japan's central government was limited to two fields: policy evaluation for ministries in the central government; and agencification as a means of disaggregation/decentralization in order to separate the policy implementation function from the policy-making function.

## NPM Application (1) — Policy Evaluation

Whereas local governments had implemented and developed methods of performance measurement since the mid-1990s, policy evaluation had rarely been implemented in the central government in Japan. The Council for Public Sector Reforms published an Interim Report in September 1997, which suggested the introduction of performance measurement into the administrative processes of every government organ. Then, the Council's Final Report in December 1997 recommended strengthening the evaluation of policy *ex ante* and *ex post*, reflecting the results of the evaluation in the policy planning function, and establishing a clearly distinguished evaluation section in every government organ. Later, in June 2001, the Government Policy Evaluation Act (GPEA) was established. This act came into force in April 2002.

Kingdon (1995: 143) argues that the chances of a problem rising on the agenda are dramatically increased if a solution is attached. In Japan's case, a solution had been demonstrated by the Government Performance and Results Act (GPRA) of the US federal government, which was enacted in 1993 under the Clinton Administration. Japan's GPEA has similarities to the US GPRA, on which it was modeled, including the requirement that every government organ implement performance measurement, the disclosure of reports describing the results of performance measurement, and the maximal use of quantitative standards in performance measurement. On the other hand, Japan's GPEA does differ from the GPRA of the USA in some crucial aspects.

In the USA, the GPRA (Section 3) requires each government organ to submit to the Office of Management and Budget (OMB) and to Congress a "strategic plan" for program activities covering a period of three to five years, which should contain a comprehensive mission statement, and general goals and objectives. The GPRA (Section 4) also requires the preparation of an "annual performance plan" covering each program activity, which should establish "performance goals" to be achieved by the program activities, express such goals in an objective, quantifiable, and measurable form, and establish the "performance indicators" to be used in measuring or assessing the relevant output, service levels, and outcomes of each program activity. Program performance reports should be submitted to the President and Congress (Section 4, GPRA), which evaluates the annual performance plan. In addition, the OMB has designated some government organs as pilot projects in "performance budgeting" in an attempt to link performance measurement and budget appropriations (Section 6, GPRA). While introducing performance measurement, the performance plans may also include proposals to waive administrative procedural requirements and controls, including specification of personnel staffing levels, limitations on remuneration, and prohibitions or restrictions on funding transfers among budget object classification (Section 5, GPRA). Pilot projects have been conducted to test the effects on performance of greater managerial and organizational flexibility, discretion, and authority.

On the other side of the coin, in Japan there is no single OMB-type ministry in charge of performance budgeting; in addition, the GPEA does not require budget appropriations or require that performance measurement be reflected. In Japan, budget appropriations and performance measurement are exercised by two different ministries: the Ministry of Finance (MOF) is

responsible for budget appropriations and the Ministry of Public Management, Home Affairs, Post and Telecommunications (MPHPT) is in charge of overall management of the policy evaluation system, which is based on the GPEA. The MPHPT was created at the time of Hashimoto's reorganization of the overall central government by a merger of three existing but separate ministries. The MPHPT and the MOF do not always communicate with each other very well; moreover, within the ministerial hierarchy the MPHPT is less powerful than the MOF. In the light of this situation, it is clearly unlikely that the results of policy evaluation would be effectively reflected in budget appropriations.

Japan's GPEA assumes that, in general, each government organ will implement policy evaluation itself by establishing its own policy evaluation section. This is set out as follows: "[E]very organization of the national government shall evaluate, plan and develop its own policies by itself" (Sub-Section 2 of Section 2, National Government Organizational Law). This implies that Japan's GPEA basically allows each government organ to decide on programs and areas for performance measurement (Paragraph 1 of Sub-Section 2 of Section 7, GPEA), and establish its own performance measurement system (Section 6, GPEA). In contrast, the GPRA in the USA requires that the performance of each program be measured and defines how performance measurement is to be implemented. In Japan, the Standard Guidelines for Policy Evaluation (hereafter the Guidelines)<sup>7</sup> set out the items subject to evaluation by each ministry as follows:

- (i) a new item that it is planning to carry out;
- (ii) a project that has not been started or completed after the passage of a certain period of time;
- (iii) a newly implemented system or the like that has been in operation for a certain period of time;
- (iv) an item that needs to be reviewed due to a sudden change in social conditions.

The above does not provide any details; thus, each ministry is basically allowed to decide itself which areas and policy items it will evaluate. This may result in a situation in which ministries will not include specific policy areas for evaluation if there are likely to be technical difficulties in quantifying and measuring performance, or if a ministry foresees certain problems. In addition, the Guidelines state that the criteria for evaluation should include necessity, efficiency, effectiveness, fairness, and priority, and that the evaluation method should be essentially quantitative, using specific indices and numbers as much as possible. As the GPRA in the USA requires, all programs need to be evaluated under a unified evaluation standard, so as to link program performance to budget appropriations. However, Japan's system of self-evaluation by each government organ may make it almost impossible to link program performance to budget appropriations.

With respect to each ministry's self-evaluation system, Japan's GPEA requires neither that each government organ state a comprehensive mission and general goals, nor that performance goals be established; rather, these are matters that are left up to each individual government organ. In addition, the GPEA requires each government organ to draw up a "basic plan for policy evaluation" covering a period of three to five years (Sub-Section 1 of Section 6, GPEA)

and an “operational plan” for conducting evaluation each year (Sub-Section 1 of Section 7, GPEA); both of these are policy evaluation plans (not plans for individual government organs) and are thus completely different from the strategic plan and annual performance plan of the US GPRA. Whereas the US GPRA adopts a logical cycle for program performance measurement, based on essential elements such as mission statement, performance goals, and performance indicators, Japan’s GPEA lacks any requirement for such indispensable performance measurement elements.

Furthermore, the US GPRA uses Congress to put in place both pre- and post-control systems, by requiring each government organ to consult with Congress in developing a strategic plan, to submit it to OMB and to Congress (Section 3, GPRA), and to submit program performance reports to the President and Congress (Section 4, GPRA). On the other hand, Japan’s GPEA (Section 19) requires the government to submit a report on the status of policy evaluation to the Diet; thus the Diet is used only as a means of putting in place a post-control system. Thus, as already stated, the US GPRA introduces strong control and monitoring systems, while trying to give government organs greater managerial and organizational flexibility, discretion, and authority (Section 5, GPRA). This is consistent with NPM in that it complements managerialism’s devolution of authority and provision of flexibility with the stringent accountability for performance (through target-setting, strengthened reporting, and contractual arrangement) of the new institutional economics. All of this is lacking in Japan’s GPEA.

On the other hand, Japan’s GPEA does require two levels of evaluation by third parties, namely the MPHPT and the Commission on Policy Evaluation and Evaluation of Independent Administrative Institutions (hereafter the Commission). The US GPRA does not require evaluation by any such third-party commission. In addition to each ministry’s self-evaluation, the MPHPT carries out third-party policy evaluation, including evaluation of policies which need to be evaluated throughout government offices in a cross-sectional manner from the standpoint of the entire government, and policies which encompass several government offices and need to be evaluated in such a way as to promote progress in a comprehensive fashion (Sub-Section 1 of Section 12, GPRA). The Commission, the other third party, is comprised of external experts and is responsible for ensuring that the MPHPT’s policy evaluations are conducted in a fair and neutral manner.

Although third-party policy evaluation by the Commission might seem to be stricter than the evaluation carried out under the US system, there are various problems with the Commission’s evaluation, such as the fact that its members are part-time and thus may not devote sufficient time to it. In addition, there are not enough experts with skill and experience in policy evaluation in Japan, as policy evaluation has rarely been implemented in central government in Japan. Evidence of this problem is revealed in the GPEA (Section 20) as follows:

The Government shall promote studies on methods of policy evaluation etc., and take necessary measures, including training to ensure the acquisition of capable personnel as policy evaluation staff and the enhancement of staff capabilities.

Accordingly, Japan has introduced some policy evaluation systems as a method of applying NPM to its existing systems; however, the application of NPM principles has been rather limited.

## NPM Application (2) — Agencification

Agencification as disaggregation/decentralization is the other area in which NPM principles have been introduced in Japan. Agencification refers to a reform method in the central government that is designed to create, within the public sector, autonomous or semi-autonomous organizations in which the implementation function is separated from the policy-making function. The aim of such reform is to improve the efficiency and quality of the public services which are provided by these policy implementation organizations for citizens and the government.<sup>8</sup>

The introduction of agencification had already been suggested in the LDP pledge (1996: 99-100) for the 1996 general election—called the “Hashimoto Vision”—as a specific model for public sector reform. The LDP was the only major political party to commit itself to introducing agencification during the 1996 general election campaign, when the issue of public sector reform was at the center of public attention due to a series of bureaucratic scandals. The resulting LDP gains brought to power the Second Hashimoto Government, with a single-party cabinet which was stronger than the coalition's had been.

From its early discussions, Council meetings under the chairmanship of the Prime Minister often cited Britain as an example of agencification. Thus, Japan's agencification was primarily modeled on that of the UK. However, the thinking behind Japan's agencification was essentially different from the thinking behind agencification in the UK. To cite a prime example, whereas the UK's agencification was defined as “management reform in the civil service”, according to Prime Minister Thatcher's statement (HC Deb., Vol. 127, cols. 1149-56), Prime Minister Hashimoto defined agencification as streamlining the government.

In the UK, the original draft of *The Next Steps* (Efficiency Unit, 1988) on agencification postulated the use of agencies outside the government in order to cut back on the core civil service (Drewry, 1988: 506; Zifcak, 1994: 71). However, Thatcher subsequently opted to retain agencies as part of government. The reason for this change was that Thatcher was wary of the possibility of stiff resistance from the civil service labor unions and wanted to avoid the risk of failing to put agencification into practice at all. Although Thatcher's policies have often been analyzed as stemming from a New Right ideology and/or the influence of public choice theory (Rhodes, 1997: 49, 174), this decision was not consistent with either; rather, it may well have resulted from Thatcher's characteristic tendency to make pragmatic decisions, as Campbell and Wilson (1995: 245-246) and Gamble (1988: ch. 5) argue. As a result, agencification in the UK concentrated on management reform. In Japan, on the other hand, although the LDP's election pledge (1996: 99-100) assumed that policy implementation functions would remain within the government (as in the case of the UK's Executive Agencies), organizations that were legally separate from the central government, known as Independent Administrative Institutions (IAIs), were established to perform the policy implementation function.

Hashimoto had generally viewed public sector reforms as a means of streamlining the government and pursuing efficiency. Prior to taking office, Hashimoto (1994: 169-173) wrote of having participated in a fact-finding trip to the UK to study public sector reforms and of observing Rayner's “efficiency strategy,” which had examined government policies, activities and functions with a view to making savings and increasing effectiveness, and which had

questioned all aspects of the work carried out in the early stages of the Thatcher Government. In discussion in his book of the reforms under the Second Provisional Commission for Administrative Reform (SPCAR) of Japan during the period 1981-83, Hashimoto explained the purposes of Thatcher's reforms as being "streamlining and efficiency," and described how government costs had been cut in the UK. The words "streamlining" and "efficiency" were repeated in Hashimoto's speeches<sup>9</sup> on the forthcoming public sector reforms in his government. In addition, in July 1996, during the First Hashimoto Government, Hashimoto announced the ninth plan, which was intended to cut the total number of civil service employees by about 4.5 percent between fiscal 1997 and fiscal 2001. In this way, Hashimoto preserved traditional Japanese public sector reform methods.

As Council member Prof. Fujita (1999: 110-113) states, since one focus of Hashimoto's reform was the streamlining of the central government, the legal separation of the IAIs from the central government—so as to enable the number of civil service employees in the central government to be cut—was indispensable. Accordingly, the Council's Final Report (1997) set down the establishment of IAIs in the section on "streamlining/outsourcing and efficiency." However, in order to take account of possible resistance from the civil service labor unions, two types of status were established for IAI employees: civil-service-type and non-civil-service-type. IAI employees of civil-service-type enjoy civil service status and guaranteed employment.

Hashimoto himself never defined agencification as management reform; in addition, the issue of management reform was rarely discussed in the context of agencification, either throughout the year-long series of Council meetings or during deliberation in the Diet. One reason for the lack of a management approach at Council meetings may lie in the fact that the Council did not include any specialists from the fields of either public administration or management. Instead, two members of the legal profession (experts in the areas of constitutional law and administrative law) were asked by Hashimoto to lead Council discussions (24th Council meeting on 18 August 1997). This exemplified the strategy of Hashimoto, the skillful practitioner (Masujima, 1998: 33), for setting up a fundamental legal framework during his tenure of office. He believed that if he did otherwise, he might fail to carry out his reform plan.

This legalistic approach resulted in the Council spending considerable time on discussion of whether IAIs were legally inside or outside the ministries responsible, and of which functions would be candidate functions for IAIs. Policy implementation functions that involved the "exercise of compulsory authority over citizens"—such as social insurance, issuing of patents, registration and deposition—were entirely excluded as IAI candidates. As a result, in Japan agencification was applied in a relatively limited fashion, encompassing only about 2.2 percent of the civil service. By contrast, agencification in the UK started out with relatively "easy ones" (TCSC, 1987/88, HC494-I, Q14), in the sense that it was not difficult to measure their performance and in the sense that some of them were engaged in quasi-commercial activities. After the announcement of the first 12 candidates in 1988, their numbers were expanded without the adoption of any standard means of candidate selection. This factor, coupled to the fact that agencies remained within departments, allowed agencification in the UK to proceed easily. In addition, Executive Agencies in the UK performed functions that were excluded from IAI candidacy in Japan.

Despite the lack of a managerialism perspective at the Council's discussions, it should be noted that Japan's agencification has inevitably introduced certain NPM principles at the IAI system design stage. The NPM principle of freedom to manage, as a counterpart to output controls, has been introduced into the IAI systems in terms of personnel management, specifically in terms of a Chief Executive's right to exercise his discretion in deciding the number of employees, employee promotion and employee pay within the limitations of the resources allocated under the mid-term operational plan (Final Report, 1997). In addition, as a further counterpart to output controls, IAI systems are given flexibility in financial management, a freedom that is denied to central government ministries. For example, the Final Report (1997) decrees that, in principle, IAI systems should use business-style accrual accounting (implying a transition from cash accounting), whereas central government does not. IAI budgets are divided into operating and capital expenditures. IAI operating expenditure, which covers personnel expenses, is regarded as a "block grant"—the purposes for which the money is spent need not be specified (Cabinet Decision, 27 April 1999). The internal reservation and carry-over of operating expenditure are acceptable within the framework determined by mid-term operational plans, provided that cost savings are made (Section 44, Law of General Rules). Furthermore, the NPM principle of management by objective is introduced as a defined IAI mid-term objective which the IAI must achieve during a term of three to five years, as determined by the Minister (Section 29, Law of General Rules). According to the Cabinet Decision of 27 April 1999, mid-term objectives are defined to be quantifiable as far as possible. The NPM principle of output controls is introduced in the form of performance-based salaries (Sub-Section 1 of Section 57 and Sub-Section 1 of Section 63, Law of General Rules).

Thus, some NPM principles have been adopted within IAI systems; in practice, however, these systems have been changed during the implementation stage and have not functioned as expected. In the area of personnel management for example, in practice it has not been the IAI Chief Executives who have determined staffing numbers, since there exists a requirement that they report actual staffing numbers to the ministers responsible, who (in the case of civil-service-type IAIs) are in turn required to report annually to the Diet (Section 60, Law of the General Rules). In addition, Chief Executives have not exercised their authority in making decisions regarding employee promotion and pay, because employee promotion and pay are bound by the rules for national civil servants. In the case of civil-service-type IAIs, employees have the status of national civil service employees and are thus covered by the National Public Service Law (Section 51, Law of the General Rules). At the start of agencification in April 2001, only four out of 57 IAIs were designated as being of non-civil-service type; most IAIs preserved the seniority system for salaries rather than abide by their Chief Executive's decision. Thus, although it was initially intended that, under the Japanese system, authority over staff matters would be delegated to Chief Executives, in practice Chief Executives have not been able to exercise their authority and discretion in these matters.

As for the recruitment of IAI top management, the Council's Final Report (1997) decreed that selection of candidates for Chief Executive posts would be open to the public. At the design stage, however, it was stipulated that, to be qualified for the post of IAI Chief Executive, a candidate must possess in-depth knowledge and considerable experience relating to the

undertakings and operations of the IAI (Paragraph 1 of Sub-Section 1 of Section 20, Law of the General Rules). This clause was criticized because it assumed that Chief Executives would be drawn from the ranks of senior bureaucrats and former senior bureaucrats at the ministries responsible—that is, they would be the products of what is known in Japanese as *amakudari* or “descent from heaven” (Mizuno, 2001: 74-75). When agencification began in 2001, 50 of the first 57 Chief Executives were the products of *amakudari* and there were no cases of recruitment using open competition.

In the UK by contrast, the Treasury and Civil Service Committee (TCSC) of Parliament (TCSC, 1987/88, HC494-I: para. 21) suggested that Chief Executives of Executive Agencies be recruited from outside the civil service. The Government (1988, Cm524: 5) responded that it agreed with the idea of injecting talent from outside and using open competition to fill these posts. Support for this view was maintained after its implementation, and this recruiting system has continued to be used. In 1997 nearly 67 percent of posts were filled using open competition; of these, about 34 percent were drawn from outside the civil service (Cabinet Office, 1998). Describing agencification in the UK, Goldsworthy (1991: 28) wrote that Chief Executives were required to exhibit many of the same qualities and skills that are required of the head of a successful commercial business, including proven management ability and competence in business.

The NPM principle of hands-on professional management skills (Hood, 1991: 4-5; 1995b: 96) anticipates that Chief Executives will be management experts from the private sector. Ideally, Chief Executives will be recruited from the private sector and their management skills will thus be brought into the public sector. In Japan, the large-scale overall reorganization of central government which took place just before the start of agencification in 2001 resulted in a schedule which was too tight to allow the preparatory procedures for open competition to be carried out. It will be instructive to observe the recruitment process for the next generation of IAI Chief Executives.

Financial management incurs the same problems as personnel management in terms of the limits on an IAI's management freedom in the implementation phase. Although an IAI's operating expenditure is regarded as a block grant, in practice an IAI's discretion is limited to about 40 percent of operating costs. This is because, on average, nearly 60 percent of operating expenditure must be allocated to personnel expenses. In addition, IAIs are not permitted to switch operating and capital expenditure, or to reserve or carry over capital expenditure as subsidies. Furthermore, although in the early stages of system design a multi-year budget system for IAIs was envisaged (in the Cabinet Decision of January 26 1999), the Law of the General Rules (Section 36) stipulates a single-year budget system. The Ministry of Finance was thought to oppose a multi-year budget system because it was eager to retain its power over IAIs, just as it retained power over other ministries. Thus, although the IAI financial management systems were originally intended to give great autonomy and flexibility to IAIs, once again their freedom of management has been limited in practice; thus, in the implementation phase, managerialism has been weakened.



From the point of view of the NPM principle of management by objective, the ministers responsible for IAIs are supposed to set mid-term objectives (Section 29, Law of General Rules); however, according to the minutes of the IAI evaluation committee of the Ministry of Economy, Trade, and Industry, the IAIs themselves set their own mid-term objectives at the start of agencification. In this case the NPM principle of management by objective is not valid. In addition, mid-term objectives are defined to be quantifiable as far as possible (Cabinet Decision, 27 April 1999); however, for the first 57 IAIs, only 277 out of a total of 2081 targets (13.3 percent) were numerical targets.

The evaluation system for IAIs is designed to be strict, in a similar fashion to the policy evaluation system of central government ministries. The system requires an internal audit and an external audit by the Board of Audit regarding money from the government. This is similar to the UK system. In addition, IAIs with capital of more than 10,000 million yen are under an obligation to be audited by outside professional auditors (Section 39, Law of General Rules). This is not required for the UK's Executive Agencies. Furthermore, Japan's IAI performance evaluation adopts a double-check system, whereby an IAI is evaluated twice: once by the ministry in charge and once by the Commission on Policy Evaluation and Evaluation of Independent Administrative Institutions, which is comprised of external experts (Cabinet Decision, 27 April 1999). The system is designed to be stricter than the UK's, which does not require performance evaluation by a third-party commission. However, the problem in Japan is that there are not enough experts with the skills and experience required for performance evaluation (as was mentioned in the discussion of policy evaluation), as performance evaluation had rarely been implemented in the public sector. In addition, there were individuals who were members of both evaluation committees.

The IAI evaluation system is similar to the US program evaluation system (which is based on the GPRA) in terms of the way in which mid-term objectives are set and achievements evaluated-features lacking in Japan's GPEA-based policy evaluation system for central government ministries. In this sense, performance evaluation for IAIs, which are outside the central government (separate from the central government ministries), is stricter than policy evaluation for central government ministries.

## Future Prospects for NPM Practice in Japan

Japan has adopted some NPM principles in the fields of policy evaluation and agencification. However, in their implementation these systems have sometimes ignored NPM principles, as has been discussed. Even assuming that NPM principles are effective in public sector reform, the future prospects for the further expansion of NPM principles in the public sector are doubtful. The reason lies in the negative attitudes of bureaucrats towards NPM. In particular, the National Personnel Authority has a rather negative stance towards NPM, as indicated below (White Paper, 2001).<sup>10</sup>

NPM is generally held to have been successful in terms of improved efficiency. However, NPM may not be the perfect solution for the current problems in the public sector. There has been criticism that it causes fresh problems and exerts a harmful influence. For example, in the areas of medicine, social welfare, and education, priority is placed on cost-cutting and efficiency, the notions of service and skillful technique have been largely downgraded, and cooperation between the parties involved has declined.

The problems arising from the introduction of NPM are as follows:

- as a corollary to market-orientation, the scope of politics and government is narrowed; this results in weaker democratic control overall;
- excessive cost-consciousness results in a decline in the quality of public services;
- the morale of the civil service declines, and this results in increased popular suspicion of government and the civil service; and
- success in the marketplace is used as a justification for public policies; this leads to reduced accountability.

In addition, the National Personnel Authority (White Paper, 2001) states that NPM is said to reduce the quality of the civil service; because NPM attempted to use money to motivate the civil service, they lost their identity and their spirit of service to the public. The Ministry of Finance will surely be opposed to any loosening of the regulations on budgets, just as the UK Treasury was at the start of agencification (TCSC, 1987/88, HC494-II: 68, 73).

Public sector reform policy-making is usually difficult, as bureaucrats tend to be opposed to it. In Japan particularly, the framework of governmental systems is fundamentally defined by laws, such as establishment laws for each government organ, for each IAI etc., as well as basic laws and general rules, etc. (unlike the situation in the UK). As a result, bureaucrats are inevitably required to be involved in the process of creating laws.

Taking these processes into account, Prime Minister Hashimoto excluded any former senior bureaucrats from membership of the Council for Public Sector Reforms. Prior to establishing the Council, he expressed this decision clearly at a press conference<sup>11</sup> on the formation of the new Cabinet of the Second Hashimoto Government on 7 November 1996. Previous deliberative councils for public sector reform had usually featured former senior bureaucrats (who were products of *amakudari*, such as executives in either public organizations or private enterprises) who represented the interests of bureaucrats.<sup>12</sup> In spite of the prospect of stiff bureaucratic resistance to the reorganization and streamlining of government, Hashimoto was eager to at

least create a fixed foundation for reorganizing the central government within the limited period during which he would be in power. (At the time, the average tenure for a Prime Minister was less than two years.<sup>13</sup>) Hashimoto's strategy was to have two legal scholars take the lead in Council discussion, draft the Council's Interim Report, and draft the Council's Final Report, which was precisely crafted in legal terms and which, without significant alteration, became the Basic Law on the Public Sector Reform of the Central Government in June 1998. This owed much to Hashimoto's skillful strategy and leadership (Masujima, 1998: 33). However, some original rules were still changed by bureaucrats in the process of creating the Law of General Rules in July 1999. These changes included the addition of the qualifications for IAI Chief Executives (Paragraph 1 of Sub-Section 1 of Section 20, Law of General Rules) to allow *amakudari*, and the removal of the multi-year budget system which had been stipulated, as mentioned earlier, by the Cabinet Decision of 26 January 1999. This was replaced by a single-year budget system by the Law of General Rules (Section 36).

Considering these facts, unless there is strong political commitment, the bureaucrats' negative view of NPM will present a strong barrier to the introduction of further NPM reforms in the public sector in Japan.

## Conclusions

This paper has briefly reviewed NPM, examined the manner in which certain NPM reforms have been adopted in Japan, and discussed the future prospects for NPM reforms in Japan's public sector.

In Japan NPM principles have only been applied to two fields: policy evaluation and agencification as disaggregation/decentralization. These systems were created using models based on the examples of other countries: namely, the policy evaluation system of the US GPRA and UK agencification. However, at the system design stage, not all of the other countries' systems were introduced, and thus the original NPM principles were not always introduced either; rather, Japan introduced other countries systems—and thus NPM principles—“selectively.”

On the other hand, some of Japan's systems were designed to be stricter than the original foreign models. Examples of this are the double-check system of policy evaluation for ministries and the system of IAI performance evaluation by a third party. Since these control and monitoring systems are considered as originating from the new institutional economics, Hood's (1995a: 110) insight that Japan places less stress on legalistic styles of administration using written documents as a tool of output controls may not be true. However, in their implementation, Japan's systems were not always stricter than the original models from abroad, as these were changed slightly in order to fit Japan's culture and traditional institutional framework. As a result, some Japanese customs—like *amakudari*—remained, while new systems—such as evaluation systems based on NPM principles—were introduced. Thus, Japan's NPM reforms are unique among those of OECD countries.

In spite of this, Japan has not yet created its own model for NPM reforms. It may take some time for Japan to establish a model that will suit Japan's culture and traditional institutional framework in the public sector. It will be instructive to see whether Japan's existing systems will function or not, and to see whether Japan can create its own model for NPM reforms.

## Notes

- 1 <<http://www.public-standards.gov.uk/>>
- 2 <<http://www.ncaa.nhs.uk/about/background.htm>>
- 3 <<http://www.cabinet-office.gov.uk/servicefirst/1999/whitepaper.htm>>
- 4 According to a survey conducted by the Nihon Keizai Shimbun newspaper on January 13-14, the rate of confidence in the First Hashimoto Government was 54.3 percent, which was the second highest rate ever recorded up to that time.
- 5 The Japanese Government officially calls the group the “Administrative Reform Council.”
- 6 Editorial, “Hoping for a decisive Prime Minister with the power to revive Japan,” Nihon Keizai Shimbun newspaper, p. 2, July 14, 1998.
- 7 <[http://www.soumu.go.jp/english/kansatu/evaluation/evaluation\\_06.html](http://www.soumu.go.jp/english/kansatu/evaluation/evaluation_06.html)>
- 8 Public services are assumed to be provided to the “[G]overnment, Parliament and the public” (The Government reply to the Eighth Report from the TCSC, Cm524, 1988: 1).
- 9 These speeches included a presentation at the Japan Press Center on September 11, 1996, a press conference on the formation of the new cabinet for the second Hashimoto government on November 8, 1996. (Speech records of Hashimoto Government [in Japanese]), <<http://www.kantei.go.jp/jp/danwa>>
- 10 <[http://clearing.jinji.go.jp:8080/hakusho/book/jine200202/jine200202\\_2\\_009.html](http://clearing.jinji.go.jp:8080/hakusho/book/jine200202/jine200202_2_009.html)> (in Japanese)
- 11 Speech records of Hashimoto Government, <<http://www.kantei.go.jp/jp/danwa>> (in Japanese)
- 12 For instance, the SPCAR (1981-83) had one former senior bureaucrat out of nine members.
- 13 Before Hashimoto took office in January 1996, the average tenure for a Prime Minister over the preceding twenty years had been 630 days (about one year and nine months).

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