Organizational Separations of Public Institutions from the Government in Japan

Prof. Dr. Toru Sakurai, Nihon University, Tokyo
Contents

Introduction
I. New Public Management and organizational separation of public institution from the government
II. Backgrounds, goals and characteristics of IAA (incorporated administrative agency)
III. Practices of IAA
Conclusion
Introduction

A) Objective
   a. to pick up organizational separations of public institutions from the Government in Japan as a measure of streamlining bureaucracy
   b. to explain background, practices and problems of that measure, and
   c. to clear cut characteristics of streamlining bureaucracy in Japan
Introduction(2)

B) Preceding researches on the subject (put in chronological order)


d. All these researches do not deal IAAAs from business administration and are those before establishment of IAAAs in Japan
Ⅲ. New Public Management and organizational separation of public institutions from the government

A) Tow characteristics of New Public Management

B) Three forms of public sector reforms and organizational separation
A) Tow characteristics of New Public Management

a. to introduce managerial technique into public sector
   1. New Taylorism
   2. New managerialism

b. to introduce market mechanism into public sector
   1. Principal agency theory
   2. Public choice theory

c. References
B) Three forms of public sector reforms and organizational separation

a. Criterion of the classification
b. Three reforms of public sector reforms
c. Position of organizational separation in the three forms
a. criterion of the classification

1. Two kinds of governmental functions
   i. Planning and policy-drafting functions
   ii. Executing functions

2. Which functions should be transferred to the private or non governmental subject
b. Three reforms of public sector reforms

1. Internal reform
   i. Introduction of managerial techniques and no transference
   ii. Reorganization and evaluation (see Fig. 2 Plan-Do-See)

2. External reform
   i. Perfect transference of the both kinds of governmental functions
   ii. Perfect privatization, perfect deregulation, decentralization (in case of central government)

3. Middle reform
   i. Transference of executing functions
   ii. Contracting out, PFI and formal or imperfect privatization (in case of mixed enterprise)
c. position of organizational separation in the three forms

1. Which position of the three reforms should organizational separation have

2. Aspect common with middle reform
   • tow kimd of the government separate

3. Aspect common with internal reform
   • not transfer to the private
Fig. 1 Reform of a central government

- Necessities of direct provision by the government
- Efficient provision
- More private
- No

- Perfect privatization
- Decentralization
- Contracting out or imperfect privatization
- Executing functions

- Planning and policy-drafting functions
- Vertical reduction
- Horizontal reduction

Source: SRIC report, Vol.5 No.2, p.27, changed
Fig. 2 Conventional cycle vs. Management cycle in the government

Conventional cycle
- plan → do
- plan
- plan → do
- plan

Management cycle
- Plan
- do → see

Backgrounds and characteristics of IAA (incorporated administrative agency)

A) History of public sector reforms in Japan
B) Development of internal or organizational reform and IAA
C) Characteristics of IAA(1): legal
D) Characteristics of IAA(2): comparative
A) History of public sector reforms in Japan

a. Last half of 1980s: Privatization
b. First half of 1990s: Deregulation
c. Last half of 1990s: Central government reform and IAA
d. First four years of 2000s: under Koizumi
   Government three reforms are brought into political agendas simultaneously
   1. Privatization: Postal Services, Highways, Airports
   2. Deregulation: Postal Services, Electricity, Transport, Telecommunication and labour
   3. PFI: Hospital, school, university and city hall
   4. Central organization and IAA
Fig. 3 International Comparison of numbers of government officials per population of 1,000

Source: Institute of Administrative Management, Japan’s government and administration at a glance 2004, Public Management Research Center, 2003
Fig. 4 Development of government lending (as a percentage of GDP)

B) Development of central government reform and IAA

a. 21 November 1996: Administrative Reform Council headed by the Prime Minister

b. 3 December 1997: final report of the Council

c. October 1998 The Basic Law for Central Governmental Reform: its targets

1. enhancement of the function of the Cabinet,
2. the sweeping reorganization of national administrative organs (into 1 Cabinet Office and 12 Ministries),
3. the streamlining and efficiency improvement of the administration, and
4. the establishment of the Incorporated Administrative Agency

d. 6 January 2001 new systems of government ministries and agencies

e. Incorporated Administrative Agencies, born as a means of vertical reduction of the government, and later a means of public corporation`s reform
C) Characteristics of IAA(1): legal

a. Meaning of IAA
   • Semi-governmental entities organizationally separate from the government (OECD, Issues and development in public management-Japan-2000, 2001)

b. Definition of IAA by the Law on the General Rule of IAA

c. Tow kind of IAA
   1. Special IAA: whose employee have a status of civil servant
   2. The other IAA: whose employee have no such status

d. Powers of a competent minister to a IAA

e. Evaluations by departmental IAA evaluation committees

f. Possibilities to privatize IAA (from internal, through middle and to external reform)
Four Elements of IAA by the Law on the General Rule of IAA

a. A corporation
b. Established in order to do efficiently and effectively
c. Works and projects
   1. necessary from public aspects to carry out without fail
   2. the government as subject must not direct provide
d. Works and projects of c.
   1. which a private subject would have possibility not to provide fully
   2. which should be provided in a monopolistic way
Powers of a competent minister to an IAA (1)

- to appoint and dismiss the chief of directors of an IAA (§ 20 and § 22)
- to appoint and dismiss auditor (§ 40 and § 43)
- to set forth a medium-term (three to five years) objective of an IAA and to instruct the medium-term objective to the IAA (§ 29)
- to approve a medium-term plan the IAA makes according to the medium-term objective (§ 30)
Powers of a competent minister to an IAA (2)

• to accept a one-year plan based on the medium-term plan from the IAA (§ 31)
• to accept an achievement report for the medium-term objective from the IAA (§ 33)
• to consider, at the end of medium-term plan, the appropriateness of continuing projects and tasks of the IAA, what the IAA should be and all organizational problems the IAA have and to take necessary measures on those considerations (§ 35)
Powers of a competent minister to an IAA (3)

- to accept and approve financial documents of the IAA about balance-sheet, profit-and-loss statement, and treatment of profit and loss (§ 38)
- to approve profits spent outside compensation of losses and clearance into reserves (§ 44, 42)
- to approve the IAI taking short-term borrowings that exceed the limit settled in the medium-term plan (§ 45)
- to approve alienation of property and raising a mortgage on property (§ 48)
- to accept a standard of payments to directors such as rewards (§ 52 and § 62)
- to accept a standard of payments to personnel (§ 57 and § 63 42)
- to accept regulations about working hours, rest, holidays and vacations of personnel (§ 58 special IAA)
Two kinds of evaluation committees and their tasks

- IAA evaluation committees settled in a competent ministerial department
- the policy evaluation and IAA evaluation committee settled in Ministry of Public Management, Home Affairs, Posts and Telecommunications
D) Characteristics of IAA(2): comparative

a. Comparative characteristics of IAA with British executive agencies as a model of IAA

b. Separation or not
   1. Britain: internal administrative organization
   2. Japan: separation from administrative organization

c. Aim
   1. Britain: efficiency and service quality
   2. Japan: efficiency, service quality and lean

d. Control
   1. Britain: duty of reporting to parliament
   2. Japan: no duty to parliament

e. Range
   1. Britain: only public institution, neither NDPB nor Quango
   2. Japan: not only public institution but also public corporations 24
§. Practices of IAA

A) Establishment of IAA
B) Tow origin of IAA
C) Scale and human resources
D) Performance
E) Evaluation problems
A) Establishment of IAA

- April 2001  57 agencies
- April 2002  1 agency
- July 2002  1 agency
- April 2003  3 agencies
- October 2003  30 agencies
- January 2004  1 agency
- February 2004  1 agency
- March 2004  1 agency
- April 2004  10 agencies
- July 2004  2 agencies
- October 2004  1 agency
- Total 108 agencies
<table>
<thead>
<tr>
<th>Examples of IAA under Ministry of Education, Culture, Sport, Science and Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Example 1</td>
</tr>
<tr>
<td>3. Example 3</td>
</tr>
<tr>
<td>5. Example 5</td>
</tr>
<tr>
<td>7. Example 7</td>
</tr>
<tr>
<td>9. Example 9</td>
</tr>
<tr>
<td>11. Example 11</td>
</tr>
<tr>
<td>15. Example 15</td>
</tr>
<tr>
<td>17. Example 17</td>
</tr>
<tr>
<td>19. Example 19</td>
</tr>
<tr>
<td>21. Example 21</td>
</tr>
<tr>
<td>23. Example 23</td>
</tr>
<tr>
<td>25. Example 25</td>
</tr>
<tr>
<td>27. Example 27</td>
</tr>
<tr>
<td>29. Example 29</td>
</tr>
<tr>
<td>31. Example 31</td>
</tr>
<tr>
<td>33. Example 33</td>
</tr>
<tr>
<td>35. Example 35</td>
</tr>
<tr>
<td>37. Example 37</td>
</tr>
<tr>
<td>39. Example 39</td>
</tr>
<tr>
<td>41. Example 41</td>
</tr>
<tr>
<td>43. Example 43</td>
</tr>
<tr>
<td>45. Example 45</td>
</tr>
<tr>
<td>47. Example 47</td>
</tr>
<tr>
<td>49. Example 49</td>
</tr>
<tr>
<td>51. Example 51</td>
</tr>
<tr>
<td>53. Example 53</td>
</tr>
<tr>
<td>55. Example 55</td>
</tr>
<tr>
<td>57. Example 57</td>
</tr>
<tr>
<td>59. Example 59</td>
</tr>
<tr>
<td>61. Example 61</td>
</tr>
<tr>
<td>63. Example 63</td>
</tr>
<tr>
<td>65. Example 65</td>
</tr>
<tr>
<td>67. Example 67</td>
</tr>
<tr>
<td>69. Example 69</td>
</tr>
<tr>
<td>71. Example 71</td>
</tr>
<tr>
<td>73. Example 73</td>
</tr>
<tr>
<td>75. Example 75</td>
</tr>
<tr>
<td>77. Example 77</td>
</tr>
<tr>
<td>79. Example 79</td>
</tr>
<tr>
<td>81. Example 81</td>
</tr>
<tr>
<td>83. Example 83</td>
</tr>
<tr>
<td>85. Example 85</td>
</tr>
<tr>
<td>87. Example 87</td>
</tr>
<tr>
<td>89. Example 89</td>
</tr>
<tr>
<td>91. Example 91</td>
</tr>
<tr>
<td>93. Example 93</td>
</tr>
<tr>
<td>95. Example 95</td>
</tr>
<tr>
<td>97. Example 97</td>
</tr>
<tr>
<td>99. Example 99</td>
</tr>
</tbody>
</table>
B) Tow origin of IAA

a. public institutions within departments (including national universities)

b. public corporation (different from that of Britain)
C) Scale and human resources IAA

a. Scales
   • number of employee
   • capital amount

b. Directors
   • problems of heaven descendant

c. Performance
Fig. 5 IAA s by personnel scale and by fields of activity (as of January 1.2003)
Tab. 2 Number of Employees in 57 IAAs comparable year on year

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fig.6 Number of IAAs by the capital scales

Note: converted from yen to dollar calculated with a convenient ratio, 100 yen=1 dollar
Fig. 7 the percentage of retired civil servant in directors of IAA (as of September 1, 2002)
D) Performance

a. composition of revenue
b. composition of expense
c. profit and loss
d. problems of accounting: difficulties caused from that accounting of Ministry is departmental one but accounting of IAA is business one
### Fig. 8 Budgets (revenues) of 54 IAAs comparable year on year (million dollars)

<table>
<thead>
<tr>
<th>年度</th>
<th>運営交付金</th>
<th>施設整備補助金</th>
<th>受託収入</th>
<th>自己収入</th>
<th>無利息貸付金</th>
<th>その他</th>
<th>合計</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fig. 9 Budgets (expenses) of 57 IAAs comparable year on year (million dollar)

### Tab.3 profit and loss of IAAs (the 2003 fiscal year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>100</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>2002</td>
<td>300</td>
<td>400</td>
<td>500</td>
</tr>
</tbody>
</table>

Note: converted from yen to dollar calculated with a convenient ratio, 100 yens=1 dollar

Source: Policy Evaluation Committee, Annual Report 2002
Tab 4. Membership of departmental IAA departmental evaluation committees (as of April 2002)

<table>
<thead>
<tr>
<th>Department</th>
<th>Membership</th>
<th>Department</th>
<th>Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Policy Evaluation Committee, Annual Report 2002
E) Evaluation problems

a. Medium-Term Objective
   1. Efficiency: usually cut 1% of operating subsidies
   2. Service quality: abstract
   3. Finance; to raise up self made revenues and to balance budget

b. “Transaction cost”
   1. Work load lack of information
   2. Cost of evaluation
      i. Cost of IAA to inform and report performances
      ii. Cost of evaluation committees
Conclusion

A) IAA is a means of vertical reduction and has a possibility of abolition or privatization
B) IAA contribute to decreases in number of central government personnel
C) But dimension of its contribution are relatively small because of scales of IAA
D) Moreover independency and efficiencies of IAA are up to now not realized
E) Evaluation problems exist