

# Japan's Fiscal and Administrative Reforms Adopt the New Public Management Concept

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## 1. New Public Management Concept is Spreading Globally

In Japan, persistent deflation and economic recession have reduced tax revenues and enlarged the fiscal deficit. While the government aims to achieve a fiscal surplus in the primary balance at the national and local government level by the early 2010s, the fact is that fiscal conditions have and will continue to deteriorate. There are only two ways to reduce the growing fiscal deficit—increase revenue or reduce expenditures. But the economy's persistent weakness practically rules out a large scale tax increase, leaving little chance of significant revenue growth. Thus to improve the government's fiscal condition, not only are spending cuts becoming increasingly important, but the government needs to boost its administrative efficiency by transferring functions to the private sector when possible, and improving the budget making process by allocating limited resources as efficiently as possible.

Against this backdrop, attention in Japan has focused on the concept of new public management (NPM). First implemented in the West in the 1980s, NPM seeks to apply the management concepts and methods of private sector companies (management efficiency, customer satisfaction, accountability, etc.) to the public sector, and thereby improve efficiency in government spending, provide high-quality public services from the perspective of treating residents (taxpayers) as customers, invigorate the administrative organization, and contain fiscal burdens. Specifically, it includes such things as private finance initiatives (PFI), in which the private sector provides funding and management for public works projects, and introducing accrual accounting methods used in the private sector.

NPM has progressed most in the U.K. After the Thatcher government was formed in 1979, it carried out numerous fiscal and administrative reforms, including the creation of agencies to improve administrative efficiency, introduction of PFIs to inject private sector vitality and competition into the public sector, and implementation of measures to provide high-quality public services. Moreover, subsequent reforms have continued to improve transparency and accountability, including the introduction of accrual accounting in public accounting in the 1990s, and the government even succeeded in achieving a fiscal surplus from 1998 to 2001.

The fiscal and administrative reform movement based on NPM first spread in the U.K., Australia and New Zealand in the 1980s, then in Sweden, the Netherlands and other countries in the 1990s, and has since been growing worldwide.

## **2. NPM in Japan—Initiatives and Issues**

Japan has already announced a policy to implement NPM initiatives in fiscal and administrative reforms. In June 2001, the Cabinet approved the Basic Policy for Economic and Fiscal Management and Economic and Social Structural Reform (“Large-Boned Policy”). Specific measures include:

- ① maximizing the use of market mechanisms in providing public services by promoting privatization, private sector consignment, PFI, and formation of incorporated administrative agencies,
- ② enhancing public management competence through pre-project cost-effectiveness evaluation, clarification of responsibility for performance and results, and post-project evaluation, and
- ③ increasing public accountability through greater disclosure and introduction of accrual-based public accounting.

In promoting fiscal and administrative reforms through these measures, the government seeks to maximize taxpayers’ satisfaction in public services, and has already launched some initiatives.

Institutional arrangements for PFI have progressed following the PFI Law’s enactment in 1999, and the number of PFI projects has been growing, including the recent announcement to introduce PFI in the Haneda Airport re-expansion project. Results have already appeared in the construction project for the Chubu International Airport, which is slated to open in 2005. The project’s president was recruited from the private sector, and private sector expertise has been harnessed to produce cost savings of approximately ¥100 billion. Moreover, special public corporations are being reformed using privatization and conversion into incorporated administrative agencies, which embrace private sector management methods. Thus steady progress is being made in introducing private management concepts and market mechanisms to the public sector.

Measures under consideration for the future include evaluating policies and feeding back results into the budget making process, and reforming the public accounting system. Clearly, fiscal and administrative reforms based on the NPM concept have begun to move forward.

However, several issues currently stand in the way of successful reform. For example, when consigning public services to the private sector, the public sector must make accurate evaluations and decisions regarding project costs and the appropriate level of services to be provided. To perform these functions, the public sector needs to accumulate private sector expertise and enhance its executive competence. It also needs to create an incentive system that encourages the private sector to reduce costs, improve efficiency, and succeed operationally.

Moreover, in converting special public corporations into incorporated administrative agencies, efficient management requires that the overseeing government office conduct a rigorous operational evaluation, and that disclosure of the evaluation results and management conditions is expanded.

While additional reforms are under consideration as mentioned earlier, results could ultimately end up being superficial unless the reforms are thoroughgoing. That is, reforms must not only alter the participants and organizational form of projects, but strive to achieve the original objectives—providing high-quality public services, and improving the efficiency of fiscal spending.

Although fiscal and administrative reforms based on NPM have just begun in Japan, these reforms promise to be a powerful prescription for improving the nation's fiscal health. And at the local government level, the policies will help improve the quality of public services.

However, to improve the chances of success, not only must we alter systems and methods, but we must also scrutinize existing reforms to evaluate results and address problems, and then feed back the results into the policymaking process. We must remember that even in countries that have succeeded in implementing NPM-based reforms, progress has come at the expense of a long and costly process of trial and error.