

CURRENT TOPICS

General Subjects

Overhauling the Administrative Structure

Toward Smaller and More Efficient Government

At the same time as the Reagan Administration is trying to reduce the scale of the American government machinery and national expenditure, the conservative government of Prime Minister Zenko Suzuki is trying to trim its own obesity for greater efficiency. Administrative reform in Japan aims at expanding the role of the private sector to increase the efficiency of the Japanese economy, as well as halting the endless expansion of government spending and placing the nation's finances on a sound footing. The Reagan Administration's daring curtailment of fiscal expenditures and removal of controls serve as great encouragement to the people assigned the task of reforming Japan's administrative structure.

In early 1981, the Government assigned a mammoth ad hoc commission on administrative and fiscal reform the job of studying ways and means of carrying out administrative reform. The commission, headed by Toshiwo Doko, former president of the Federation of Economic Organizations (Keidanren), is composed of nearly 100 business leaders, academics, journalists, labor union leaders, and others.

The commission quickly submitted to Prime Minister Suzuki a first package of recommendations dealing with a number of problem such as restraint on civil service wage increases and on the hiring of government service personnel, curtailment of government subsidies and grants, increasing premium payments on social welfare and health insurance, cutting down the issue of deficit-financing bonds and rationalization of local finances.



Prime Minister Zenko Suzuki (Left)

Mr. Toshiwo Doko, former president of the Federation of Economic Organizations (Keidanren), who currently heads a government commission on administrative reform. (Right)

Based on this, the Government decided to compile a budget for fiscal 1982 (from April 1982 to March 1983) with a growth rate over the fiscal 1981 budget kept to around 6% through curtailment of both national bond issues and fiscal expenditures.

The initial recommendations covered only pressing issues. Proposals for an overhaul of the administrative structure, the principal purpose of the commission, will be made in the recommendations scheduled to be submitted in June this year.

The June recommendations are expected to propose drastic reforms, such as reorganization of government ministries and agencies, simplification of complicated government licensing system, reduction of civil service personnel, reorganization of government-operated corporations including the Japanese National Railways, Japan Salt and Tobacco Corporation, and Nippon Telegraph and Telephone Public Corporation. It might even propose that these corporations be turned over to private management.

To study overhaul of the administrative structure, the commission last September established four subcommittees to examine four themes: (1) role of the administration, (2) desirable form of administrative structure and systems, (3) division of administrative functions between central and local governments and the manner of central supervision of local administration, and (4) the ideal form of operation

of government corporations.

The Japanese Government had established a similar ad hoc commission in the past to study possible reform of the administrative structure. The effort, however, failed due to a sharp conflict of interests.

A major characteristic of the attempted administrative reform this time is that both the Government and the private sector are seized by a strong feeling of crisis. Both believe that unless the Government's excessive intervention in private business activities is curbed, the overgrown administrative organization reformed, and the inflation of the national finances, now heavily dependent on deficit-covering government bond issues, is halted and fiscal health restored, the economy will lose vitality and succumb to what might be described as the "Japanese disease".

In submitting its first recommendations, the commission commented: "In only about 35 years since Japan rose from the debris of World War II, it has successfully evolved into a modern society ranking shoulder to shoulder with the advanced countries of the world. However, government finances have fallen into a state which can only be described as a crisis."

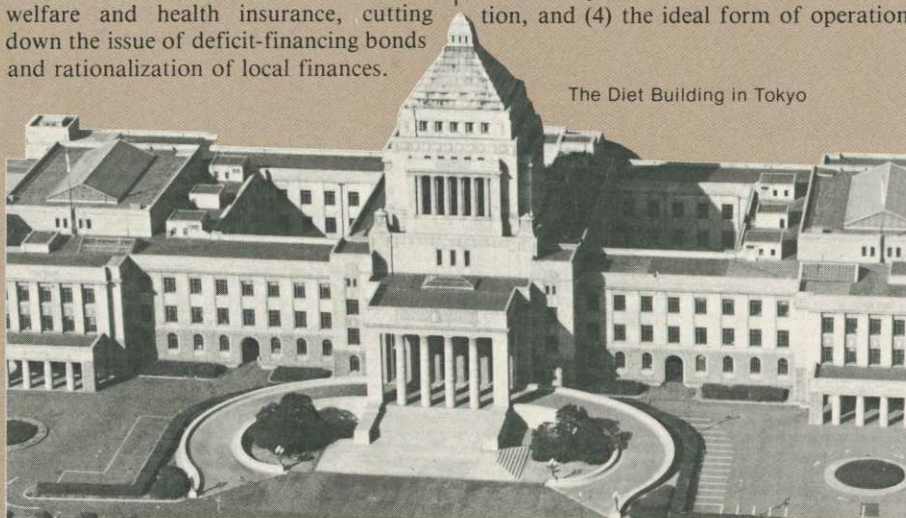
As regards the future direction, the commission cited "realization of a welfare society full of vitality as the domestic goal and expansion of Japan's contribution to international society as its external goal."

The commission stressed that the fundamental aims of the administrative reform are (1) appropriate responses to changes (eradication of the protectionist tendency, reviving administrative and fiscal flexibility, etc.), (2) administrative simplification and raising of efficiency (improvement of the fiscal constitution, improvement of administrative structure to raise efficiency, etc.) and (3) winning of the people's confidence (a government worthy of the people's trust in terms of efficiency, fairness and ethics).

Everybody is in favor of these ideals, but when it comes down to specifics, opposition from various concerned sections is inevitable. Chairman Doko, regarded as the most influential man in the business world, is strongly resolved to see the administrative reform through. He says, "I, 'an old soldier,' will dedicate the rest of my life to administrative reform." He is full of youthful vitality, belying his 85 years.

Liberalization of Data Information Services

The Posts and Telecommunications Ministry is scheduled to submit to the Diet (parliament) in January a bill partially liberalizing data communication services.



The Diet Building in Tokyo

In Japan, both data and information communications systems are strictly controlled by the Public Telecommunications Law. The domestic authority, the Nippon Telegraph and Telephone Public Corporation (NTT) and the international communications carrier, Kokusai Denshin Denwa Co. (KDD), both capitalized by the Government, currently enjoy a monopoly on data and information transmission circuits. There has been widespread criticism recently, both at home and abroad, that this situation obstructs private business and technological progress.

The move to liberalize the data communication service by the Ministry is aimed at partly meeting this criticism and as a step forward in a data information policy for the 1980s. The reaction of the communications industry to the proposed bill ranges from expectation to apprehension.

The expectation stems from the relaxation of restrictions on private use of circuits which previously was allowed only in exceptional cases under the system monopolized by NTT and KDD. The relaxation includes the expansion of the system of joint use of circuits by different companies, use by other parties of circuits such as those of a computing center, the partial liberalization of exchange of messages, which was previously prohibited, and the liberalization in principle of the interlinking of public circuits and exclusive circuits.

Business circles are already making plans in anticipation of liberalization. For instance, a major data processing company is planning a system for exchanging data between department stores, superstores, banks, credit companies, manufacturers, wholesalers and storage companies. Another plan is to market an electronic mail system.

The Posts and Telecommunications Ministry is at present experimenting with the CAPTAINS system, under which subscribers call a central computer by telephone and have information transmitted for display on a TV screen. It will become possible for this system, too, to be operated by private industry. It will also become possible to establish an international multipurpose sophisticated data exchange system by interfacing computers and terminals.

The liberalization is highly significant in that it will allow messages to be transmitted on behalf of other parties, and private industry to engage in interface communication between computers and terminals. Both these functions had been an NTT/KDD monopoly.

But checks will be necessary to see that technological standards are observed, so that the use of communications circuits will not interfere with other communications, and to ensure that secrecy of the

data will be protected. And as various social activities begin to depend ever more on these communication systems, measures will have to be taken to protect users.

And it is here that apprehensions arise over how these restrictions will be handled.

The Posts and Telecommunications Ministry takes the position that in screening license applications, it will consider the maintenance of basic order of communication service, adjust the competition between NTT and KDD, limit participation by foreign capital, and ensure a reasonable balance in supply and demand if numerous companies seek to advance into the field.

The Ministry of International Trade and Industry and the business world are not against leaving NTT and KDD their monopoly of such basic services as telegraph and telephone, which can be regulated impartially and on a continuing basis. But aside from this, MITI and business circles insist that restrictive regulations should be limited to maintaining the order of communications. In other words, they insist on a "negative list" formula, whereas the Posts and Telecommunications Ministry insists on a "positive list" formula, under which the communications business will be regulated by a licensing system.

MITI recently issued a statement that said in part: "The Ministry of Posts and Telecommunications, under the guise of liberalization, is aiming to introduce a new system of licensing. Its proposal will obstruct the free use of the computer." MITI intends to stress to other government departments and the ruling Liberal-Democratic Party the need for complete liberalization of data communications use. It intends to reject the presentation of a bill prepared by the Posts and Telecommunications Ministry for the next Diet session on the grounds that "prior agreement by all government departments concerned is necessary."

The crux of the MITI position is: (1) On-line data processing essentially should be made totally free to all parties. But the Posts and Telecommunications Ministry is still trying to restrict the businesses which can use it, thus totally denying the initiative and creativity of the private sector. (2) The Posts and Telecommunications Ministry is trying to introduce a licensing system that goes against the spirit of times, on the pretext that the use of data communications circuits is a "public service."

The Posts and Telecommunications Ministry's attempt to restrict "message switching" through the medium of the computer is criticized by MITI as "excessive regulation." MITI intends to mobilize a critical business community in a continued crusade against the Posts and Telecommunications Ministry plan.

Domestic Economy

Japan Aims at 5% Balanced Growth and Will Make Utmost Efforts to Eliminate Trade Friction

Despite the worldwide economic recession, the Japanese economy is in a stable growth pattern, with a real growth rate of nearly 5% and a low inflation rate of about 4%.

Nevertheless, the Japanese economy faces some difficult problems, such as the shrinking of disposable income under the pressure of a mounting tax burden, the sluggishness of consumer spending due to the increased economy-mindedness of the people, the widening gap between booming and distressed industries, and the growing trade imbalance resulting from export expansion stimulated partly by the recent depreciation of the yen.

Hope Pinned on Expansion of Domestic Demand

In Japan, the December-January period is very important, as this is when the country's economic policies are formulated every year. Also during this two-month period, the Government's budget plan for the new fiscal year (April to March) is compiled and submitted to the Diet (parliament) with its economic forecast for the new year. Private economic research institutions, banks, and securities companies, too, announce their independent economic forecasts. Leading enterprises inform their employees of management goals for the next 12 months mostly through the company president's customary new year message.

The Japanese Government in October revised its economic forecast for fiscal 1981 (April 1, 1981—March 31, 1982). According to this, the Japanese economy's nominal growth is projected at 8%, real growth at 4.7%, the average wholesale price rise at 3%, and the average consumer price rise at 5%. Although the revised real growth rate of 4.7% is slightly lower than the original forecast of 5.3%, this is due to the fact that the standard of national income statistics which forms the base for making an economic forecast has been changed. If the old standard is used, the real economic growth comes almost to the originally projected 5.3%.

As these projections show, it seems that Japan is enjoying the most stable economic growth among industrially advanced nations. Actually, however, the Japanese economy has many difficult problems as mentioned earlier.

First, personal consumption expendi-

ture is sluggish. In the revised economic forecast, the growth of this in fiscal 1981 over the preceding year has been revised downward from the original 4.9% to 2.7% in real terms. This downward revision was made necessary because, despite the 7% wage hike given to Japanese workers in spring 1981, real disposable income has not increased as much as expected under the pressure of increased tax and insurance payments. Furthermore, people are tightening their purse strings and trying to increase savings partly because they have become economy-minded since the oil shock of 1973 and partly because they are uncertain about the future of the Japanese economy.

The second problem is the performance gap among types of industry. Whereas the electronics, home electric appliance, machinery, and automobile industries are enjoying good business, the aluminum refining, paper and pulp, and petrochemical industries are suffering from a serious recession. Banks, too, are plagued by deterioration of their earnings position. Affected by poor rice harvests resulting from the unseasonably cool summer that hit Japan for two consecutive years, the Hokkaido, Tohoku and Shikoku regions are particularly depressed.

Reducing Trade Surplus by Expanding Imports

In the high-economic growth period of the past, the Government was able to stimulate business activities by generously priming the economy with Treasury investment funds. However, now that the natural increase in tax revenue is leveling off due to slackened economic growth and that the country's fiscal position has deteriorated seriously as a result of the excessive national bond issues, the Government cannot be counted on to stimulate economic activities with fiscal outlays. At this time when money rates have gone up throughout the world, it is difficult for Japan to lower interest rates in the near future. (The Bank of Japan's official discount rate as of December 1 was 6.25%). For all of these reasons, Japan has no alternative but to depend more than ever on the private sector in order to boost the economy.

Fortunately, the unification of the standard prices of petroleum by OPEC (Organization of Petroleum Exporting Countries) is expected to stabilize the oil price. This is expected to contribute greatly to calming down prices in Japan. Consumers and corporate managers are beginning to anticipate that the year 1982 will be better than 1981.

The Government makes its economic forecast for fiscal 1982 in December. Now it hopes to attain a real growth in the 5% range in fiscal 1982, by giving priority to

expansion of both personal consumption expenditure and plant and equipment investment in the private sector.

The Japanese Government is currently making utmost efforts to correct the imbalance in foreign trade which has resulted from the expansion of exports. To rectify the trade imbalance, the Government is contemplating the utilization of the Export and Import Bank of Japan's foreign exchange lending system, emergency imports to build up national stockpiles, increasing long-term imports in cooperation with other countries, and restraining exports in the sectors where export growth is too rapid.

There is no doubt that "5% growth on the balanced external and domestic demands without trade friction" will become the principal target of the economic policy of the recently reshuffled cabinet headed by Prime Minister Zenko Suzuki.

The Actual Status of Japan-South Korea Economic Cooperation

Negotiations having bogged down, Japan and South Korea remain far apart on the question of economic cooperation.

Citing its large defense expenditures to maintain peace on the Korean Peninsula, South Korea has asked Japan to recognize this important contribution to wider regional security by extending \$6 billion in official economic assistance over a period of five years.

Japan has refused on the grounds it cannot extend economic aid that may lead to military cooperation in view of its war-renouncing Constitution.

As a result, a cold blanket has been thrown over prospects for a Japan-South Korea summit meeting originally scheduled within last year. It is not certain when or whether the summit meeting will be held at this stage.

The Koreans made the aid request officially at Foreign Ministers' meetings held in Tokyo on August 20-21, though it was informally reported since early spring last year that South Korea wanted an official credit of \$6 billion and \$4 billion in non-governmental aid from Japan.

Under its fifth five-year social and economic development program starting in 1982, South Korea needs a total of \$46.5 billion in foreign credits and thus was asking Japan to provide \$10 billion of the total.

To back up its demand, South Korea emphasized its defense efforts on the Korean Peninsula, referring to its huge military expenditures amounting to 6% of gross national product (GNP) or over 35% of the national budget.

The Koreans argued that this contributed to the peace and stability of East

Asia including Japan, so that the Japanese should share the "due burden."

Japanese negotiators countered by insisting that any Japanese economic aid is intended for raising living standards of people in developing countries and this country cannot take over defense expenditures.

At the regular Japan-South Korea ministerial meeting held for the first time in three years in Seoul on September 10-11, negotiators collided head-on over the economic cooperation issue and ended the session without issuing a joint communique—the first such case in 11 such ministerial conferences.

Japanese official development assistance (ODA) to South Korea has been declining in recent years, with the amount totaling ¥19 billion (\$82.6 million) in 1979 and 1980.

This is because both countries previously agreed to promote the bilateral economic cooperation centered on a private sector as South Korea has already entered the ranks of middle-income countries, with a per capita gross national product above \$1,600.

The annual economic aid of \$1.2 billion (\$6 billion in five years) on an official basis that South Korea sought is about 14 times greater than the fiscal 1980 figure.

At present, Japan is still sticking to its stance that it cannot budge an inch on security-related assistance, though it will consider raising the amount to some extent if the assistance is of a purely economic nature.

Foreign Investors Move Tokyo Stock Market

Selling Exceeds Buying by Record Amount in September

These days, all eyes in the Tokyo Stock Exchange, with the world's second largest turnover after New York, are focussed on the moves of foreign investors.

Since the start of 1981, the Tokyo stock market has been influenced by foreign investors more keenly than by any other factor. Consistently in recent months, the Dow Jones average for the Tokyo Stock Exchange rises when foreign investors buy Japanese stock and falls when they sell. Although Japanese investment specialists strongly urge Japanese investors to buy or sell on the basis of their own assessment of the market, the advice has fallen on deaf ears. The popular view is that foreign investors will, for the time being, continue to hold the initiative.

The Dow Jones average for the Tokyo stock market topped the ¥8,000 mark on August 17, 1981, passing the previous record high. As it was in September 1980 that the average pierced the ¥7,000 mark for the first time, it took only 11 months for it to scale another height.

The sharp increase in foreign invest-

ment in Japanese stock was instrumental in pushing the average in a continuous upward curve. The main foreign investors are American and European pension annuity funds and oil-rich Arabs. Japanese securities houses say their massive purchases of Japanese stock can be attributed to their high regard for the real capability of the Japanese economy, which has successfully surmounted the second oil crisis ahead of the U.S. and European countries.

However, in the middle of August 1981, the trend changed suddenly. Primarily due to the fact that prices on the Tokyo stock market had risen too rapidly, and due to the mounting view that U.S. interest rates would remain high for a long time, flurries of selling by foreign investors became conspicuous. According to the Ministry of Finance, foreign investors' selling in September registered an all-time excess over buying of as much as ¥142.2 billion. The Dow Jones average of the Tokyo stock market nosedived drastically at one time almost back to the ¥7,000 mark.

Following Wall Street analyst Joe Granville's forecast of a crisis in the world's major stock markets, share prices plummeted on September 28, a step ahead of slumps in London and New York, and the Dow Jones average recorded the steepest fall ever of ¥302.

As of the end of October, there were no signs of recovery in foreign buying so the Tokyo stock market continues to be sluggish. Securities circles are still optimistically forecasting a bullish trend, saying, "because the fundamentals of the Japanese economy are by far superior to those of American and European economies, foreign investors will resume investing in Japanese stock before long."

Will the prediction come true? There is no denying that the future moves of foreign investors will be a matter of great concern to the Tokyo stock market.

Sony Develops Revolutionary Video Camera

The days of sticking snapshots into the family album could be numbered with the emergence of the world's first electronic still camera.

With the rapid strides being made in video movie cameras in recent years the development of a still version by someone was considered only a matter of time.

And the lead has now been taken by Sony Corporation, a giant of the Japanese electronics industry, with the August 24 unveiling of its "MAVICA" (magnetic video camera).

Although it will probably be a couple of years before the system is actually avail-



Magnetic-Video-Still-Camera "MAVICA" and Magnetic Disc "MAVIPAK"

able to consumers worldwide, the Sony announcement has already turned the photographic industry upside down.

The American company Eastman Kodak, for example, has quickly reacted with assurances that traditional still photography still has a future and will remain the predominant form of amateur picture-taking for a good many years to come.

Kodak, with a great deal of interest in ensuring this is so, reportedly believes it will be at least 10 years or more before a truly acceptable all-electronic camera becomes available, and even then it will be too costly for the mass market.

Sony, however, still believes its new product is, in the words of company spokesman, an "epoch-making achievement in the history of still photography."

What the MAVICA system does primarily is to dispense with the need for the costly and time-consuming developing and printing processes which are an indispensable part of conventional chemical photography from the time the first cameras appeared more than 140 years ago.

From the outside, the MAVICA hardly looks any different from typical modern 35-mm single-lens reflex cameras, and it is about the same size and weight.

But radical changes have taken place inside. For a start, there are far fewer moving parts. And the pictures being taken require no processing whatsoever.

Instead of registering subjects on a photo-sensitive chemical film, they are screened on a solid-state charge-coupled device (CCD) and then recorded on a 50-shot magnetic disc.

The disc can then be removed from the camera and inserted into a television player for instant viewing of all the pictures in rapid succession. Sony's idea is that in the future you will store your family

snapshots electronically and no longer keep them in bulky albums. But the company is working on a printing unit that will provide hard copies if desired.

The magnetic recording disc, known as MAVIPAK, is about the same size of present audio cassette tapes. With each shot it revolves 360 degrees and the magnetic head shifts a fraction each time to allow the 50 exposures to be registered one after another.

Sony says 10 shots or more can be taken in a single second through use of a preset device on the back of the camera.

In fact, the company has pointed out that, while all attention has been on the MAVICA as a still camera, it can just as easily function as a home-video camera by being linked up to a conventional video tape recorder.

Sony says one of the key reasons for the breakthrough in creating an entirely electronic still camera is its charge-coupled device which, powered by three small batteries, does all the work of converting the picture images into signals for recording on the magnetic tape.

The CCD screen is made up of photo-sensitive dots known as "diodes." The electrical conductivity of each dot varies with the amount of light it receives from the image being scanned, so that the more light the more the current will flow to a charge cell behind each diode.

These variations in current are then "read out" and a scanning signal fed to the camera's magnetic head for recording on the disc.

One of the problems that still has to be overcome is the high cost of the system. Many industry analysts believe it is unlikely to appeal to the mass consumer market while the camera costs around \$660, the player \$220 and each disc about \$2.60 which are the prices currently being quoted.

For certain specialized interests, however, the Sony development is likely to have big impact. Newspaper photography, for example, will obviously never be the same.

The new system will allow newspaper editors to insert photographs almost up to their final deadline now that there is no developing or processing time to be taken into consideration—allowing much better coverage of late-breaking events. The newspaper "dark room" in fact could quickly disappear.

Sony says the MAVICA camera could be adapted for a number of military purposes, and the company has already been tentatively sounded out by the U.S. and British defence departments about possible purchases.

But such sales are considered unlikely—at least directly—because of a Japanese Government prohibition on the export of weapons or any equipment that could be adapted for military purposes.