

Cost Reduction of Public Works

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1. Three Perspectives to Review the Framework

In order to achieve the target of cost reduction for public works, it is essential that the social and statutory framework within which public works are executed should be reformed.

There are three basic perspectives from which a review of fundamental framework should be envisaged: 1) Assurance of transparency and fairness; 2) Monitoring by the public through information disclosure; 3) Review of existing legislation and removal of acquired privileges held thereon.

2. Assurance of Transparency and Fairness

It is essential that it should embrace a global perspective. The prerequisite to being global is that Japan should be seen as being a society with a highly qualified transparency and fairness, both in Japan itself and also to the international society.

The execution of public works in Japan is subject to an immensely intricate system marked by a great diversity of laws, ordinance, regulations, statutes, rules, announcements, notices, cabinet consents and cabinet decisions. Many of these have survived for a long time as a result of system inertia and the failure to review and revise on a periodical basis. Within this statutory framework of the administrative system, the bureaucracy, firmly clings to its discretionary powers. This framework also erects barriers that preclude disclosure of information and publication of the policy-making process by the administrative system.

This underscores the need for a reform of the system to create an opened framework that permits public investigation and verification of transparency and fairness in the execution of public works.

3. Assurance of Transparency through Disclosure and Monitoring of Fairness by the Public

In order to assure transparency in public works, it is vital that all essential information should be disclosed timely and properly. This includes full disclosure of total cost of public works at all stages, including the stages of the decision-making and project execution, starting from concept, design, execution to operation, as well as the ceiling price of Authorities** (the Authority's estimated price for the public work) at the procurement stage.

Until recently, the ceiling prices for public works provided by the Authorities had been considered as being incapable of disclosure on legal grounds and it was not until the beginning of this year that the Authorities have been able to exercise their discretionary powers, with the result that large areas in the information provided by the Authorities have remained gray or black. The Authorities are obligated, however, to recognize the principle of public accountability for and in the execution of public works projects.

As long as concealed information such as gray or black dealings exists in the process of public works, it is possibly maintained that closed routes are kept among limited persons concerned and insider-dealings will be persistently rampant. Dishonored scandals such as entertainment services or bribery incidental to public works among public officials and counterparts of construction industry will not be rooted out in such circumstances. Open discussion among the public and parties concerned on the basis of disclosed information furnished by the Authorities and confirmed facts will lead and conclude to the best proposal and plan and also proper execution of public works. Though this procedure will take longer time and more efforts, it is the hallmark of a democratic society. The establishment of a framework that provides both transparency and fairness guarantees the public the involving satisfaction of playing an active role in public works.

The framework of transparency and fairness must be built on three principles: 1) The rules for the execution of public works must be clear and identified; 2) No difference between rules and practice must be performed; 3) Strict control over any violation of the rules must be exercised.

4. Review of the existing legislation and Removal of the existing privileges

One of the policies consistently pursued by central government in Japan after the Second World War has been to use public works procurement for the purpose and as a means of fostering and developing small contractors and of protecting local industries. Essentially, however, this practice clashes with, and violates, the fundamental principles of impartiality and economic efficiency in the

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** Central and Local governments, public corporation having special status are referred to as the Authorities.

procurement of public works.

In Japan, legislation was passed in 1966 with the establishment of the Act on Assuring Contract Opportunities for Small Business Enterprises in Public Procurement by the Government Authorities (Government Procurement Act). In 1983, the Ministry of Construction issued a notice “Assuring small contractors of opportunities for the award of contracts in the government's public procurement projects.” In essence, the notice promised small contractors that they would be awarded a large number of contracts. When the Government Procurement Act was established, the proportion of contracts placed by the central government authorities (national and public corporation) stood at around 25%. In the last few years, however, this share has increased to nearly 40%. Amidst the present recession, the Liberal Democratic Party has demanded that this rate should be raised about 50%.

For the last few years, the Ministry of Construction has in its notice repeated the cabinet decision urging that “Efforts should be made to give the fullest consideration to the possibility of dividing sections of the work, and to split small contract lots in this manner wherever possible.” This type of cabinet decision completely contradicts the trend toward expanding the scope and increasing the sum of contract as a streamlining measure to reduce public works costs. In the 32-year period since the Government Procurement Act was first introduced this legislation has assumed the aspect of “acquired privilege” guarded by small contractors as a vested interest.

The second objective stated in “Fundamental Construction Industry Policy” by the Ministry of Construction emphasizes the needs for “creating a competitive environment in which contractors with superior technology and management capabilities can properly extend their business opportunity and performance.” This testifies to the fact that construction industry has meanwhile reached a stage at which qualitative improvement and selection of the best offer (both technical and price) is called for. Signs have also appeared pointing to the need for achieving local independence by overcoming current situation depending on Authorities' public works. Consideration has also begun to be given to the idea of the “minus income tax” practiced by the European Union.

It is now time to break away from existing framework that public works are spread throughout Japan and so-called syndrome of excessive dependence on public works to secure local employment is widespread. In its stead, a policy of constructive support should be envisaged and a new framework established that lets the inhabitants of such local areas lead an active self-sufficient life pattern. It is time to withdraw the “acquired privileges” and vested interests under the Government Procurement Act which lay in the assured target rate of public works awarded to small contractors as part of the safeguarding policy of the weak in the construction industry, a policy that has sheltered local industries and small contractors without a development potential. In Japan, these acquired privileges and vested interests have had the effect of increasing public works costs and Japan's social costs.

5. The responsibility of the public in the light of an overall perspective

The most essential aspect that is lacking in the government's “Action Plan for Reducing Construction Costs” is the scheduled and defined goal of achieving transparency through sequenced information disclosure on the execution of public works and the principle of involving the public in every public work and assuring monitoring and auditing it by the public.

The fact that the auditing system within the administrative authorities is flawed has come to light in the many scandalous incidents involving administrative officials in recent years. This has also led to a greater insistence by NPOs and NGOs on tracing the way in which tax funds are spent and spurred public opinion and raised public awareness of how the taxpayer's funds are used. It has created greater the public awareness and a sense of public responsibility and accountability.

The way in which government is aware of his responsibility for involving the tax-paying public and of their accountability to the public in their pursuit of policies rather than the “leave it to the top (government)” attitude of non-participation is now growing more and more throughout in Japan. The “involvement of the public” with the disclosure for analysis and investigation and the public's participation in closely auditing and monitoring the government activities to be satisfied with government is the right way to save expenditure of public works.

It is proposed that a new framework should be created for infrastructure and public works from the general viewpoint of assuring greater measure of transparency and fairness of Japanese society and of fostering a more informed and open discussion among the public. Far from giving priority to the government and the manufacturing industries, the essence of the creation of a new framework lies in the positive commitment to activity directed at letting the Japanese public be more independent and stand up for themselves as individuals taking responsibility for their activities.