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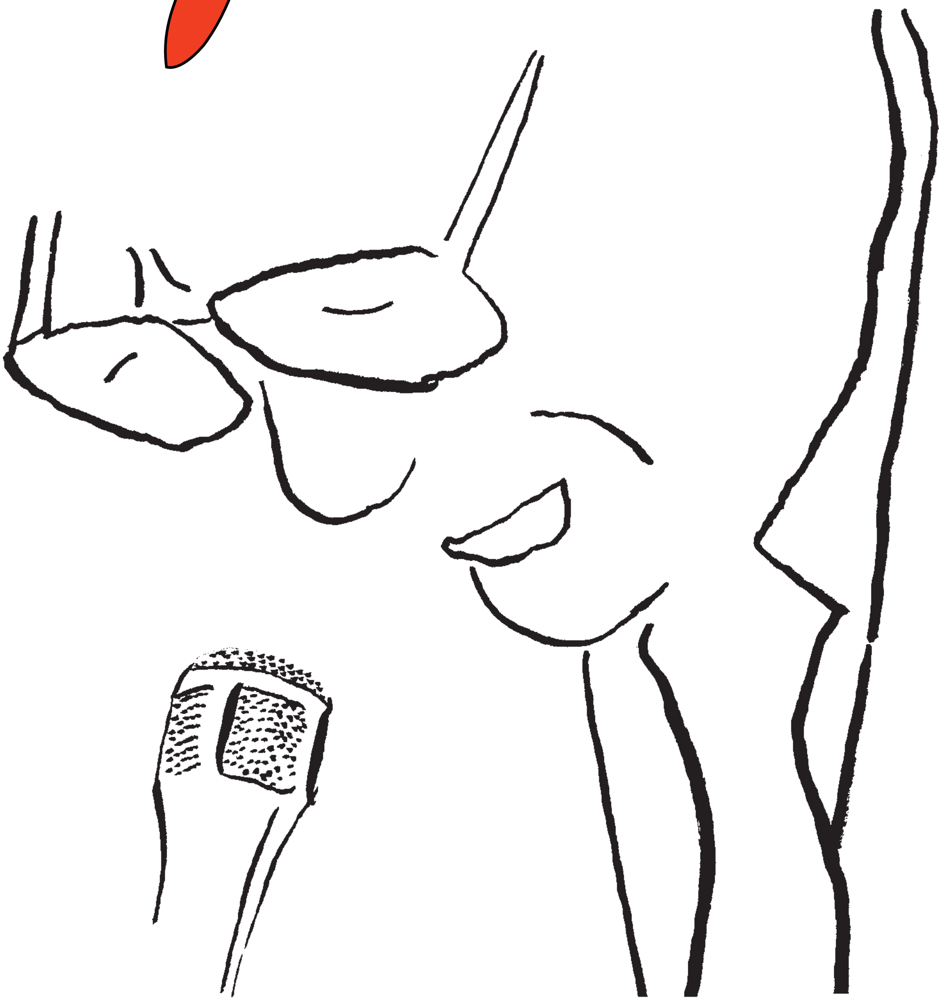

The Financial Crisis in Asia

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Editorial Notes

Personal Names
All personal names are given in the customary order in the native language of the person, unless otherwise requested. Hence in Japanese names the family name is given first, e.g., ARIMORI Yuko, and in Western names the family name is given second, e.g., Gabriel WILSON.

Romanization
Due to software limitations circumflexes are used in place of macrons, and omitted in most personal and place names.

The causes, present impact and future ramifications of the economic crisis that has gripped East Asia have been the stuff of world headlines for the past year. Yet as we are well aware, researching the financial crisis is like taking aim at a moving target, with new developments daily changing the nature of this crisis. We hope that this issue of *Social Science Japan* presents useful information on numerous aspects of the financial crisis in Asia. We provide a historical angle with a look at past economic crises in Japan, as well as two articles on the present Japanese financial crisis. Two more articles look at the overall Asian currency crisis, while another explains the domestic origins of Thailand's present economic difficulties. We also provide a short bibliography of sources and websites related to the financial crisis.

Contents:

Prewar Financial Crises:

Lessons for Today

TSURUMI Masayoshi

In modern times, Japan has faced a situation which can be termed a financial crisis in 1890, 1901, 1920, 1927-1930, 1966 and again in 1997. In the wake of the great panic of 1930, a comprehensive financial safety net was constructed, but it has since been removed little by little under the slogan of financial liberalization. As regulations loosened, the possibility of a crisis developing continued to rise. In research to this point, a financial crisis has been treated as nothing more than one piece of an overall economic crisis. Yet there are lessons to be learned by examining the mechanisms that triggered the intermittent financial crises of the prewar period.

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In a financial crisis, the following four economic scenarios often arise. 1) Due to a speculative attack, the value of a nation's currency falls drastically, creating a currency crisis. 2) Deflation is created by an extreme fall in the price of stocks and real estate. 3) A rush on deposits causes the failure of numerous banks. 4) A quick fall in economic activity can also lead to an overall economic crisis. For example in the current Japanese financial crisis, a banking crisis and asset deflation have overlapped and now the danger of deflation is growing. In the crisis of 1927-1930, the above four factors developed simultaneously, creating an extremely serious situation. Although there was no currency crisis in the financial crises of 1890, 1901 and 1920, asset deflation, a bank crisis, and an economic crisis all occurred.

If we broadly summarize the factors that led to financial crises in prewar Japan, we can conclude that: 1) A real economic boom was eventually followed by a downward turn (before or after a panic); 2) A severe stock market crash occurred; 3) Along with a drop in property and products prices, there occurred a rapid decline in the quality of bank loans, which led to bank panics; 4) An outflow and inflow of gold and silver expanded or disturbed the business cycle, although a currency crisis did not develop. A conspicuous characteristic of the financial crises of the pre-war period is that a banking panic, asset deflation and an overall economic crisis all occurred simultaneously. In the economic process detailed above, a "bubble economy" develops as the business cycle expands through activity in stock and loan markets. Yet why did these triple crises appear simultaneously?

Before we can answer that question, we need to examine whether a financial crisis can develop without an economic crisis. In three of the financial crises of the prewar period (1890, 1901, and 1920), industrialization stimulated a corporate investment boom. In the first two booms, large firms which adopted Western technology were being continuously established, especially in the spinning and railroad industries. At that time, the spinning industry was one of the main engines of the business cycle, and hence its financial difficulties brought about the crises of 1890 and 1901. Although in 1907 as well the economy spiraled downward, the situation did not develop into a nation-wide banking panic. Several years later during WWI, exports increased, prompting an investment boom that helped turn the Japanese economy toward heavy industrialization. The subsequent slowdown in economic activity brought about the banking crisis of 1920. Based on these facts, we can first confirm that a banking crisis develops from a slowdown that often follows a boom in economic activity.[1]

Why did banking panics follow recessions in the business cycle? Simply stated, it was because the investment booms of the Meiji period and WWI were accompanied by wild stock speculation. Big corporations provided a large amount of the capital for new investment, much of it from the stock market. Banks came to expand their loans with collaterals of the higher priced stocks in the boom. In this environment, a stock bubble developed and it was perhaps inevitable that its collapse led to a banking crisis.

Unlike the postwar financial system where main banks form the nucleus, the role of capital markets was far more important in the prewar period. The main engines of industrialization in the Meiji period, the spinning industry and railways, received from the stock market almost all of the investments. Bank lending was directed to the landlord class and to individual merchant investors who had wealth in stocks and real estate. Additionally in their lending practices, banks depended upon capital gained from stocks more than capital from deposits. Hence the nucleus of the industrial finance system of the Meiji period was composed of wealthy merchants and landlords closely connected to the stock market and banks. While this system allowed Japan to catch up with advanced industrialized nations, money lending also stimulated the development of an economic bubble, increasing the tendency for a financial crisis to appear.

Obviously as a natural consequence of the advance of industrialization, banks gradually began to draw capital primarily from deposits, and increased their loans for corporate investment. During the financial crisis of 1901, for the first time a bank run threatened the entire banking system, which depended upon deposits. Although this crisis led to the development of a reserve money system (such as the call market), these measures did not keep a banking crisis from developing.

Another problem concerns the ability of banks to detect an economic bubble. Banks of the early Meiji period were forced to depend upon information gained from individual merchants to gauge if certain individuals or businesses were good loan risks. To improve this situation, bankers associations in large cities supported the establishment of business inquiry agencies to develop an information network among merchants. The

development of this network marked a great improvement. Later as banks were able to gradually accumulate information about borrowers, the role of business inquiry agencies in gathering background loan information decreased, replaced by examinations conducted by banks themselves. In general when banks are not able to obtain enough information about borrowers from outside sources, they are inclined to lend to insiders.[2] In Japan, we can see an example of this in *zaibatsu* financial groups and institutional banks. However insider lending increased the prevalence of "bad assets" in the economy, with *institutional banks* criticized as one of the main causes of the banking crisis.

An additional problem is the public role in developing supervising regulations and financial relief during a crisis. The Ministry of Finance recognized the harmful effect of the 1901 financial crisis on small, weak banks. Although the Ministry of Finance introduced loose regulations of branch banks at that time, the government policy toward banks was essentially "hands-off" for a considerable time. Until the bank law of 1927, the Ministry of Finance and the Bank of Japan did not consistently regulate banking activities, requesting only that banks, as companies which publicly sold their stock, provide a simple, annual report of their financial situation. Because of this practice, the Ministry of Finance and the Bank of Japan were unable to restrain in the development of the stock bubble. In response to the financial crisis of 1890, the Bank of Japan had to take action as the "lender of last resort." The Bank of Japan did not aid individual banks directly but instead, for a long period of time, supplied aid through bankers associations.

In conclusion, it seems clear that the financial crisis of the Meiji period, like the present financial crisis in Asia, began with the development of a stock bubble. Growth in the business cycle brings a subsequent stock boom which is supported by bank credit. When the bubble bursts, it is natural for the triple crises: a financial crunch, price deflation and a banking crisis, to appear. In order to stabilize the payment system, the chain of crisis must be broken. Hence the introduction of a mechanism that controls the rise of bank leverages, for example as assessment rate of collateral requirement, a margin call requirement, or a capital adequacy requirement, is necessary.

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Notes

[1] Gary GORTON. "Banking Panics and Business Cycles" *Oxford Economic Papers* no. 40, 1988.

[2] Naomi R. LAMOREAUX. *Insider Lending*. Cambridge: Cambridge University Press, 1992.

New on the Bookshelves...

20 Seiki shisutemu 2: Keizai seichô (I): Kijiku

The 20th Century Global System 2
Economic Growth (Part I): Core Systems
Institute of Social Science, University of Tokyo (ed.),
Tokyo: University of Tokyo Press, 1998.
(text is in Japanese)

Section I ***Theory and the History of Economic Growth***

1. "The Era of Rapid Economic Growth"
   HASHIMOTO Jurô
2. "Theories of Economic Growth and Japan's Rapid Growth"
   OTAKI Masayuki

Section II ***American Style Production Methods***

3. "The Formation of Mass Production in the United States: The Creation of the Automobile Industry"
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5. "The Establishment of an American Style Competitive Order: the 1956 Automobile Dealer Law"
   MORITA Osamu
6. "The Establishment of American-Style Labor-Management Relations"
   NITTA Micho
7. "The Role of the United States Federal Government: Guns and Butter
   SHIBUYA Hiroshi

Why is the Japanese Financial System Facing a Serious Crisis?

HORIUCHI Akiyoshi

In this paper, I will examine the problem points of the Japanese financial system from the perspective of corporate governance. Until now, there has been much research that has examined the functioning of the financial system through the lens of the oversight mechanism of banks.[1] However when the economy began to face the problem of bad loans in the 1990s, doubts arose about the effectiveness of the monitoring and regulating mechanism management, causing a reexamination of these issues. In one example of this new wave of research, several economists examined the bailout of several, financially strapped firms by a main bank, concluding that the rescue of these firms helped restore management efficiency to those companies.[2] Certainly main banks have played pivotal roles in rescuing numerous companies. However if we look at the performance of industries after they received relief from a main bank, one cannot help but question the theory that a main bank's actions support efficient, corporate management.

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It has been pointed out that the laws of Japan allow Japanese stockholders comparatively more power than their American counterparts enjoy under US law.[3] Hence in the Japanese case, the market at work can be seen in the practices of interlocking stockholding and long-term stockholding, two of the most effective means to assert management control over a firm (as illustrated in the practice of hostile take-overs.) It is generally believed that these practices remove the influence of general investors (powerful stockholders and company bond holders). Yet among one group of economists there is the view that rather than market mechanisms, management control asserted by banks is more effective.[4]

Corporate Control and Financial Institutions

Until now, when taking a general view of management control of firms, the most important issue has been the question of how banks, as corporations, have come to be regulated. D.W. DIAMOND suggests that based upon asymmetric information, banks have taken effective steps to solve the problem of "who monitors the monitor?" According to his research, logically, if a bank breaks up its stock portfolio and at the same time, it is supplied capital from the market to finance its debt, the trust the bank gains from investors acts as a regulatory mechanism, thereby removing the necessity to oversee the activities of banks.[5] However, in reality, there appears to be a limit to this logic. We can consider the management control of banks as corporations as generally having the same structure as the control of non-financial entities. Yet, to a certain degree, we cannot ignore how in the Japanese legal system, the methods of financial administration and financial regulation exert influence upon the management of banks.

In Japan, influence from the market on management of banks has been ineffective. First with the existence of the wide safety net created by the deposit insurance system, investors tend to be laxed in their oversight of bank management. The trend originally developed because the structure of stock holding in financial institutions is more scattered than that of non-financial institutions. Among the stockholders of banks, the most powerful are life insurance companies. As a stable stockholding group, it is an obvious step that insurance companies have built a cooperative relationship with bank managers.

In the 1980s, like many other countries Japan implemented financial liberalization. Yet in the case of Japan, the liberalization process was strictly controlled by the financial authorities so that existing banks and financial institutions were not exposed to fierce competition. It was argued that limiting competition in the financial industry would provide a positive influence on the efficiency of banking operations. Some suggested that the exchange of information among banks would produce long term trading relationships. At the same time, by possessing a dominant position in the information network, banks could be able to obtain "rent" fees. By receiving these "rent" fees, the long term transaction relationship would lead banks to regulate industry. In this way, long term transaction relationships, by promoting financial liberalization, would become indispensable.[6] If we take this perspective on the market, financial liberalization is the main cause of the recent financial difficulties of banks. With financial liberalization, a traditional market function of banks was lost and banks were unable to provide any market regulation.

The Pitfalls for the Japanese Financial System

When we look in detail at the structure of Japan's financial system, the above scenario is far from convincing. As the Ministry of Finance and government controlled the financial liberalization, the "contestability" of banks and financial institutions was quite low. The government policy led to several problems. First, it produced a danger that the management of banks and financial institutions would lapse into a pattern of non-efficient expansion. Second, as a result of management practices in banks and financial institutions that emphasized the profits of insiders, necessary changes in the management structure did not proceed smoothly. When examining the recent instability of the financial system, it appears that the latter point is particularly important. This is because in the Japanese financial crisis and above all in the crisis that is gripping banks, the problems appear to be a direct result of the large amount of bad credit in the system. With this

Notes

[1] M. AOKI and H. PATRICK, eds. *The Japanese Main Bank System: Its Relevancy for Developing and Transforming Economics* (Oxford: Oxford University Press, 1994); S. PROWSE, "Corporate Governance in an International Perspective: A Survey of Corporate Control Mechanisms Among Large Firms in the US, UK, Japan, and Germany" *Financial Markets, Institutions and Instruments* 4 (1995): 1-63.

[2] T. HOSHI, A. KASHAP, and D. SCHARFSTEIN, "Corporate Structure, Liquidity, and Investment: Evidence from Japanese Industrial Groups" *Quarterly Journal of Economics* 106 (1991): 33-60.

[3] M. FUKAO, *Financial Integration, Corporate Governance, and the Performance of Multinational Companies.* (Washington: The Brookings Institution, 1995).

[4] For example, M. AOKI, "Monitoring Characteristics of the Main Bank System: An Analytical and Developmental View" in AOKI and PATRICK, 109-141.

burden, banks have been unable to advance restructuring and to effectively improve their management practices. In my opinion, Japan is facing its present difficulties because it failed to effectively advance restructuring in banks and the financial industry, a move that would free the banking system from their present quagmire.

How are the financial problems related to financial administration?

In the regulation of bank management, the government and the financial authorities have an extremely important role in the system. For some time it has been pointed out by numerous specialists that the regulation method has a profound influence upon the efficiency of bank operations. In the policy stance of Japan's financial regulators, there has clearly been a tendency to support the operators of existing banks and financial institutions. The idea of regulators as representatives of depositors and investors has not been particularly strong. For example, in the *amakudari* practice of dispatching officials from the Ministry of Finance to private banks, the fact that the regulators secure a job after retirement at the private industry they are intended to be regulating creates the danger of conflicts of interest. In our research, SHIMIZU Katsutoshi and I found that of the banks that receive officials through *amakudari*, their ratio of net worth of total capital is high or the ratio of bad credit is high, indicating very poor performance.[7]

Some take a positive view of *amakudari*, believing that the practice of dispatching bureaucrats to private financial institutions improves the efficiency of the Japanese financial system. However if we look at the soundness of bank operating practices, we cannot help but doubt this conclusion.

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Notes
(continued)

[5] D.W. DIAMOND. "Financial Intermediation and Delegated Monitoring" *Review of Economic Studies* vol. 51, 393-414.

[6] M.A. PETERSEN and R.G. RAJAN "The Effect of Credit Management Competition on Lending Relationships" *Quarterly Journal of Economics* (1995): 407-443.

[7] HORIUCHI Akiyoshi and SHIMIZU Katsutoshi "Did *Amakudari* Undermine the Effectiveness of Regulator Monitoring in Japan?" Discussion Paper, 98F-10 (April 1998) Research Institute for the Japanese Economy, University of Tokyo.

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Horiuchi looks at how the troubles of the Japanese financial system are closely related to the problem of bad debts.

IKEO Kazuto. *Kinyû sangyô e no keikoku* (A Warning to the Financial Industry). Tokyo: Toyo Keizai Inc, 1995.
Ikeo provides recommendations on how to restructure the Japanese financial system in the wake of recent bank failures.

Nihon Keizai Shimbun, eds., *Nihon ga fureta hi* (The Day Japan Shook: A Documentary of the Financial Crisis in the Autumn of 1997) Tokyo: Nihon Keizai Shimbun, 1998.
An analysis of the Japanese financial crisis by several journalists.

KAIZUKA Keimei and UEDA Kazuo, eds. *Henkakuki no kinyû shisutemu* (The Financial System in a Period of Reform) Tokyo: University of Tokyo Press, 1994.
Studies of the Japanese financial system by leading economists.

Websites

Japanese Ministry of Finance
http://www.mof.go.jp/english/index.htm
On the financial "Big Bang"
http://www.mof.go.jp/english/big-bang/ebb1.htm

Bank of Japan
http://www.boj.or.jp/en/index.htm
Various information and statistics are available for downloading.

The Federation of Bankers Associations of Japan
http://www.zenginkyo.or.jp/en/index.htm
Information about the financial state of Japanese banks (in Japanese)
http://www.zenginkyo.or.jp/stat/stat.htm

Compiled by DOI Takero
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Lapses in Corporate Governance and the Crisis of Japan's Financial System

SHIMIZU Katsutoshi

One of the main reasons why Japan's financial system has been brought to the verge of crisis is that the governing financial authorities did not fully understand the regulatory system which they themselves established. Although capital adequacy regulation was imposed before 1988 when the international BIS rule was introduced, a large number of banks did not comply with the regulation and the financial authorities did not require them to do so. In addition, the financial world had to wait nearly ten years from the introduction of the BIS rule until measures for prompt corrective action were implemented. Can we say that during that period the financial system was stable? The answer is clearly "no" as many banks failed or were forced to restructure. Moreover, the financial burden borne by investors (depositors and / or taxpayers) in these failures and restructuring also became a major problem.

Management and operations in the banking industry are strictly regulated by laws. What is more, as representatives of depositors (and taxpayers), financial regulators are important stakeholders in banks. Hence, financial authorities prepare for crises by constructing an environment where the optimal corporate governance of banks can be implemented. Specifically, it is necessary to clearly establish in advance, an allocation of control that allows the optimal action to be selected in any number of different circumstances. In order to achieve stability in the financial system and to maintain the smooth circulation of money, there are cases where it is necessary to move quickly to transfer control when trouble arises in the financial system. However, as became clear in the handling of bank failures after 1990, the financial authorities could offer only a lethargic response. There were few major decisions made concerning the method for dealing with banks facing a financial crisis. The corporate governance policy of Japanese banks was shown to be woefully inadequate.

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At the same time, the Japanese Diet also did not take positive steps to help the economy. Although a payoff of deposits was stipulated in the deposit insurance law, the Diet decided to postpone the payoffs until 2001. After the problem of the outstanding bad loans became particularly serious, many feared that a soft budget might develop if the *ex ante* system that was developed to deal with financial problems was altered *ex post*. Moreover, when the housing loan companies (*jûsen*) fiasco arose, the Diet decided to protect depositors, although a part of the financial cost of paying for lost deposits was borne by the taxpayers. In these ways, the Japanese banking industry and the regulating authorities failed in corporate governance. This failure of corporate governance was not a result of excessive financial risk taking in the 1980s, rather the expectation of lax policies caused the excessive risk taking of the late 1980s.

In the corporate governance of Japanese banks, prompt corrective action is considered to be particularly effective. Prompt corrective action legislation aims to use the capital adequacy ratio of banks to detect unhealthy banks or banking practices and to make corrections at an early stage. Many hoped that the financial authorities would be proactive and anticipate the need for prompt corrective action before the debt crisis developed or when it first appeared. However because the authorities were indecisive, a capital crunch arose as Japanese banks hastened to increase their capital assets ratios. What is more, the prompt corrective action measures which were finally scheduled to be introduced in April 1998, were eventually postponed for one year. Although this postponement was a result of the fear that a further capital crunch would develop and negatively effect the Japanese macroeconomy, we must note that prompt corrective action has much to do with the conflict of interest between the economic agents of banks. Namely, while prompt corrective action improves the welfare of bank depositors, for the banks and for those who borrow from banks, a reduction in bank lending adversely affects their welfare. In the prompt corrective action system, the banks whose capital asset ratio declined below the standard will be ordered to improve management practices. To avoid such intervention, the bank must maintain the capital asset ratio above the standard by reducing the credit supply. However as I stated earlier, it is this step that is desirable for depositors. Moreover, as the depositors may be borrowers at the same time, conflicts of interest arise. Therefore, in order to avoid the problem of a slowdown in lending, it is most desirable to implement a prompt corrective action before financial problems appear.

However even if the prompt corrective action mechanism causes a reduction in lending, whether or not that reduction negatively affects the Japanese macroeconomy is a question that requires further research. According to the media, the extreme reduction in lending appears to have resulted from the introduction of prompt corrective actions. Economists refer to a reduction in lending as a "capital crunch." However economists should examine whether a capital crunch will grow into a so-called "credit crunch" that will harm the entire economy on the macro level. According to the traditional monetary view, simply altering the nominal money supply will affect the economy on the macro level. On the other hand according to the lending view, if monetary policy does not lead to a reduction in the amount of deposits, there is no visible effect on the economy. In the United States as well, when prompt corrective action were introduced recently, a capital crunch was detected in part of one region, but a credit crunch was not seen anywhere. In any case, we need more empirical analysis of how prompt corrective action affects the economy before we can draw further conclusions.

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The Asian Currency Crisis and Future Policy Problems

OKURA Masanori

Beginning with the drop of the Thai baht in July of last year, a currency crisis spread throughout Asia, affecting the Hong Kong dollar in late October and by November, the South Korean won. By year's end, the balance of payments crisis led Thailand, Indonesia, and South Korea to request International Monetary Fund (IMF) assistance. As has already been pointed out by numerous commentators, the currency crisis and the financial crisis in Asia have mutually amplified one another, thereby intensifying economic destabilization. Before the currency crisis developed, financial institutions in Thailand, Indonesia and South Korea were already saddled with bad loans. The drop in the value of East Asian currencies made repayment all the more difficult for financial institutions and corporations which carried foreign currency debts. As a result, the bad loan problem worsened and currency speculation intensified. Additionally, trust in financial institutions decreased, making it harder to produce letters of credit, leading to a reduction in imports and exports in these countries. This credit contraction had a serious impact on real economic activity in all three nations. The macroeconomic problem points that often lead to a financial crisis, namely a reduced savings rate, inflation, and budget deficits, have not appeared in the present crisis. Rather the unsound domestic financial systems of East Asian nations and exchange rate policies that do not reflect the level of economic interdependence with other nations are the two factors that are chiefly to blame for the present financial woes of the region.

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Over the past decade, East Asian nations were extremely successful in mobilizing funds from savings to maintain the stability of their economies. Moreover in the 1990s, East Asian states liberalized financial markets and allowed foreign capital to flow into domestic markets. However, proactive policies to support the health of the financial system were late in coming, especially in risk management of financial transactions and measures to improve fund allocation mechanisms. Under present IMF guidelines, South Korea, Indonesia and Thailand are working to restore the health of their financial sectors. In this process, each country should not simply adopt international economic standards but must reform how their nation's financial system responds to economic development. For example, the governments of these nations must consider if their system to allocate funds to less developed regions is functioning effectively.

Along with the strengthening of the financial system, another important "reform theme" to be considered is exchange rate policy. As East Asian countries have opened their markets, keeping the exchange rate stable in order to maintain the strength of the domestic economy has become a pressing domestic policy issue. Overall, it is important to remember that the economy of each country is tied to foreign markets. To measure in real terms how much each country has opened its markets and integrated its economy with foreign nations, we can look at the level of imports and exports in overall domestic production. Using this economic barometer, we find that 195% of Malaysia's economy is import / export based, followed by Taiwan (96%), Thailand (89%), the Philippines (80%), South Korea (67%), and Indonesia (54%). Malaysia's level of economic integration with neighboring countries even exceeds that of Belgium (129%) and the Netherlands (100%), which are remarkable among European countries for their high level of exports. Indeed we can see how "open" the markets of these East Asian nations are when we compare them to the levels of Mexico (59%), Chile (57%), and Brazil (15%). Since the late 1980s, the ASEAN nations in particular were able to use foreign capital to expand their industrial bases. With this industrialization, markets became more open to trade. The outward oriented economic expansion strategy was an important reason for the high level of growth in East Asian countries.

However because of their integration with other states, the economies of many East Asian states run a higher risk of being destabilized by a shock from a number of different countries. As East Asian nations trade primarily with Japan, the United States, Hong Kong and Singapore, they are vulnerable to an economic shock emanating from any one of these states. The situation is thus different from Mexico for example, which conducts almost 80% of its trade with just the United States.

In the area of capital transactions as well, we must also be aware of the currency composition of foreign debts. For example, the foreign debt of Central and South American countries is in US dollars. As a result, changes in the dollar interest rate have a big impact on the repayment burden shouldered by these countries. ASEAN countries, which have been receiving loans in yen from the Japanese government, have thus seen an increase in the proportion of yen in their overall debt. Consequently, fluctuations in the yen / dollar exchange rate have an effect on the dollar base repayment burden of debtor nations. The economies of East Asian countries have become more closely linked to the Japanese and American economies in recent years and regional integration has also increased. These two trends should continue in the foreseeable future.

However a pressing problem is that the pattern of mutual dependence is not effectively reflected in the exchange rate management practices of East Asian nations. In the "basket peg" mechanism being used by Malaysia and Thailand, the Japanese yen, the German mark, and Singapore dollar are

considered to be base currencies, although the US dollar is the main currency of the basket. Also while Korea adopted a market average exchange rate system in 1990, the switch was not a success as it controlled daily movements in the dollar exchange rate but was not effective in the long run. East Asian countries came to adopt this dollar based exchange rate policy to maintain stability among regional currencies. However, changes in the yen / US dollar rate have sent shocks through each economy. This was seen in the recent slowdown of investment activities and trade in South Korea.

As I have outlined above, an important policy question for East Asian countries is how to maintain exchange rate stability. In particular for the ASEAN countries which are looking to expand regional free trade, stabilization of currency rates between member countries is a necessary first step to the return of economic strength. However to link the currencies of East Asian countries, it is desirable to have a currency basket which better reflects the economic relationships with foreign countries. Additionally to maintain currency stability in the region, it is also important to establish a framework which better promotes regional cooperation.

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Lessons Learned from the East Asian Currency Crisis

KAWAI Masahiro

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Until the currency crisis broke out, East Asia was the most dynamically growing part of the world and was often called the "growth center" of the world economy. Its economic miracle was made possible by rapid capital accumulation, an increased supply of labor, and productivity growth. This remarkable economic development in the last twenty years was aided by stable macroeconomic environments and outward-oriented policy regimes. Since the mid-1980s, outward orientation had been accompanied by the introduction of export-oriented foreign direct investment (FDI). We observed virtuous circles in the expansion of FDI inflows along with exports and imports. This trend promoted economic growth, in turn attracting more FDI inflows and further stimulating trade.

When there was a currency crisis in Mexico in late 1994, economists and policy makers in East Asia said the region would not face a Mexican-type crisis because its economic fundamentals were substantially better. It enjoyed high savings rates, relatively low inflation, and sound fiscal positions. Even when the current account deficits persisted, the deficits were financed by long-term capital inflows, such as FDI and short-term banking inflows with long-term roll-over commitments. They believed that a severe currency crisis was a remote possibility in East Asia.

Now to our surprise, most of the East Asian economies are under currency attacks and are undergoing severe financial crises. The experiences of the East Asian currency crisis show that even the supposedly most dynamic East Asian economies can come under serious currency attack once confidence in a currency is lost. There are five main lessons we can learn from the recent economic turmoil in East Asia.

1. Sound Management of the Macroeconomy and the External Account

We have found reconfirmation that any emerging economy must maintain sound macroeconomic policies, a viable exchange rate regime, and a resilient financial system in order to prevent a currency crisis from occurring in the first place. Sound macroeconomic policies include a stable fiscal policy over the business cycle and a non-inflationary monetary policy. The policies must be used in conjunction to achieve both internal balance (full employment and low inflation) and external balance (sustainable current accounts) simultaneously. In particular, macroeconomic policies must be used to avoid overvaluation of the nation's currency, unsustainable current account deficits, and excessive capital inflows.

2. Proper "Sequencing" of Capital Account Liberalization

Proper "sequencing" of capital-account liberalization is highly recommended to maintain a stable currency. The traditional literature on "sequencing" has emphasized that capital account liberalization must be preceded by the creation of stable macroeconomic conditions, current account liberalization, and domestic financial market deregulation. The experience of the East Asian currency crisis has shown that in addition to these traditional sequencing steps, a country must establish a resilient and strong domestic financial system. That is, to cope with financial and capital account liberalization, domestic financial institutions must have the capabilities and expertise to efficiently manage assets and liabilities and inherent risks, and the authorities should maintain a solid framework of adequate supervision and strong disclosure and accounting standards without providing guarantees to the financial institutions. Once a resilient financial system is in place, excessive capital inflows through financial institutions and rapid capital outflows will be less likely to have an adverse impact on the domestic financial system and economic activity in general.

Additionally, once large-scale capital inflows and outflows occur and create speculative pressure on the exchange rate, appropriate policy responses are needed. Options include intervention in the foreign exchange market, changes in monetary policy, and the use of exchange rate flexibility. Temporary introduction of capital controls in the form of imposing liquidity or higher reserve requirements on short-term capital inflows to financial institutions may also be effective in avoiding undesirable and rapid exchange rate fluctuations, though they should not be used as a permanent policy instrument.

3. A Viable Exchange Rate Regime Reflecting Diverse Economic Linkages

The East Asian currency crisis is expected to reduce the role of the US dollar in the region's exchange rate regime. This is because East Asian economies have diverse linkages with the rest of the world in trade and foreign direct investment (FDI). We must keep in mind that the US is not the single most dominant trade partner or FDI source. Rather, Japan and the European Union are equally important, and other East Asian economies are often more important. It is therefore more appropriate for East Asian nations to stabilize their exchange rates with respect to a basket of currencies consisting of not only the US dollar but also the Japanese yen, the euro (after January 1, 1999) and some regional currencies. This suggests that these economies should reduce the role of the US dollar and increase the role of the yen and the euro as nominal anchor currencies in East Asia.

Given the rising degree of intra-regional trade and investment interdependence however, each nation in East Asia is expected to attempt to avoid large fluctuations in intra-regional exchange rates. This is particularly the case for ASEAN countries which should complete the ASEAN Free Trade Agreement (AFTA) by the year 2003 by lowering tariffs on manufactured products below 5%. Large swings in exchange rates among the ASEAN countries would be counterproductive because these fluctuations would suddenly alter international price competitiveness and make the prospective free trade agreement unsustainable. If ASEAN countries are to stabilize their mutual exchange rates, they should adopt similar currency baskets, reflecting the degree of economic linkages with the United States, Japan and the European Union. Each economy might find a currency basket that will yield relatively stable exchange rates vis-à-vis other ASEAN countries. Other East Asian economies might follow similar exchange rate policies.

4. A Resilient Financial System

The most important lesson is that policies to prevent a currency crisis can ensure a stable financial system by maintaining prudent financial institutions and effective supervisory mechanisms. To enjoy the fruits of financial and capital-account liberalization, these are imperative steps. A sound and stable financial system must be regarded as a prerequisite to wholesale liberalization of the capital account. One way to ensure prudent financial institutions in an emerging economy is to strengthen the regulatory framework over commercial banks and non-bank financial intermediaries (NBFIs) and to introduce measures to strengthen the financial positions of banks and NBFIs. For this purpose, it is desirable to impose capital adequacy requirements more demanding than those of the Bank for International Settlements (BIS) and to require tighter loan classification and provisioning rules. A strong financial position is likely to make banks and NBFIs more resilient in weathering adverse macroeconomic fluctuations and asset price gyrations.

5. Cooperative Frameworks for Regional Financial Management

East Asia's deepening financial interdependence with the rest of the world implies that the region's economies are increasingly facing greater risks of sudden capital inflows and outflows, increased pressure on their exchange rates, and undesirable effects on their local financial institutions. In a world

of expanded financial linkages, a currency crisis in one country spreads easily to neighboring countries. Because contagion is geographically concentrated, a regional arrangement for financial coordination is logical. An efficient cooperative framework for regional financial management is highly recommended to cope with serious currency crises and contagions.

The East Asian economies have developed a network of bilateral repurchase agreements and several forums: the EMEAP (Executive's Meeting of East Asia and Pacific Central Banks), the Six Markets Meeting, and to promote financial cooperation by finance ministers and central bankers, the APEC (Asian-Pacific Economic Cooperation) Finance Ministers Meeting. One of the objectives of these meetings is to establish a cooperative framework to cope with possible currency and financial crises through frequent exchanges of information and bilateral repurchase agreements involving US dollar-denominated foreign exchange reserves. In addition to these existing regional arrangements, a framework of regional financial cooperation has emerged spontaneously in the wake of the currency crisis. In response to the baht and rupiah crises, financing from multilateral institutions (the IMF, the World Bank, and the Asian Development Bank) was supplemented by funds from regional nations. With these various arrangements and frameworks supplemented by an effective regional surveillance mechanism, each economy in the region is expected to be under peer pressure to pursue disciplined macroeconomic policies that are conducive to stable currencies.

Conclusion

At the time of writing (February 1998), the Hong Kong dollar and the Chinese renminbi remain firm despite massive speculative attacks on the Hong Kong dollar. An important question is whether China can maintain the current exchange rate once speculators decide to attack its currency. Though China has a large war chest of foreign exchange reserves and favorable external accounts, its international price competitiveness has been reduced due to the depreciation of East Asian currencies and its domestic banks are known to have accumulated large non-performing loans against state-owned enterprises. There is no doubt that a successful speculative contagion and the consequent devaluation of the renminbi would exacerbate East Asia's financial difficulties and could trigger another round of speculative attacks. This time, contagion may not be limited to just the East Asian region. Indeed, it might spread to other emerging economies all over the world.

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Mismatched Systems and Organizations:

The Domestic Origins of the Thai Economic Crisis

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Over the past year, many in the press have used the term "bubble economy" (*setthakit fongsabu*) to describe the Thai economy in the years before Thailand tumbled into the present economic crisis. However I believe that Thailand's current economic woes are not a result of policy failures or the collapse of a bubble economy. Rather existing economic systems and organizations were mismatched to the rapidly expanding markets of the 1990s, creating structural deadlocks which have seriously hurt the economy. Hence while Thailand must deal with its non-performing loan problem (NPL) and develop policies to stabilize its currency, it must also reform existing systems and organizations before the nation can get back on the economic track.

After the economic boom began in 1988, Thailand began to import more and more capital and intermediate goods to fuel its growing industries, a situation which caused the trade deficit to swell. Foreign capital was brought in to finance this deficit, which in the period between 1992 and 1996, doubled the level of external debt. Another seed of the financial crisis was sown in 1990 when the Thai government liberalized the financial system, bringing finance companies (non-banks) and foreign banks into the domestic market. Anxious to get a foothold, these new financial players eagerly competed with existing banks to make loans. The establishment of an offshore market (the Bangkok International Banking Facilities; BIBF) in 1993 accelerated this movement. The subsequent lending frenzy helped create stock and real estate speculation booms. Then in late 1996, the Thai government placed limits on the previously unregulated loans made in regional areas. This latter measure was intended to tighten the financial markets and to promote reconstructing of financial institutions and was accompanied by a departure from the policy of pegging the baht to the US dollar. Thereafter, a float system was implemented for the Thai currency in July 1997.

It has been widely reported in the domestic and international press that a bubble economy developed in Thailand in the early 1990s because of the large amount of loans made for real estate development and for the purchase of private homes and durable goods. Certainly a good portion of finance company loans were made to real estate firms (24%) and for private use (13%). However we cannot overlook the amount of loans to the manufacturing sector (27%) and to wholesale and retail businesses (18%) made by the end of 1996.

Beginning in the late 1980s, Thai garment exports (one of Thailand's primary export industries) were shifted away from countries which had import quotas, namely the US, Canada, and the EC, to countries without quotas, Japan, East European states, and nations in the Middle and Near East. This

move showed the ability of Thailand to effectively use price competition to expand exports. However, Thai firms did not invest enough in new machinery or cultivate their human resources to help improve overall labor productivity. As a result, Thai garment firms did not substantially improve the quality of their goods to allow them to continue to compete internationally. Consequently, the reliance on price competition brought only short term success as by 1996, textile exports to non-quota areas fell dramatically (over 50%), with Eastern Europe importing more from China while Middle and Near Eastern countries began to buy more from Indonesia.

Much has been said about the income and economic gaps that exist in Thailand, especially between Bangkok and other parts of the country. Many believe that the economic boom of the 1990s has been limited to the Bangkok area. Yet in my travels throughout the country, I have seen the tremendous growth that has also taken place in regional cities. In reality, if there is a disparity of economic development, it exists between cities and the countryside. The growth in regional cities has been similar to that experienced in Bangkok, mainly a boom in the construction of housing, department stores, and large supermarkets, economic activity that has been fueled by the loan competition between finance companies and commercial banks.

One particularly interesting example of how the existing economic systems have been mismatched to the expansion of the economy can be found in the automobile industry, which grew tremendously in the early 1990s. Since the 1960s, each automobile assembler granted exclusive dealerships to well respected and powerful local figures, men who had strong ties to local politicians and police. During the loan boom period, these dealers received loans from finance companies to purchase autos from assemblers, in turn selling cars to consumers while also using much of the loan money to speculate in stocks and real estate. When the money market tightened and restrictions were placed on finance companies, these dealers began to experience financial difficulties and were unable to order new cars from assemblers, even though there were customers ready to purchase automobiles. As a result, sales of new cars dropped from 590,000 in 1996 to 336, 000 in 1997.

The labor policies of the government have also proved to be mismatched to the actual circumstances of unemployment. For example, although in August 1997 the government established an ad hoc committee to develop policies to deal with unemployment (to provide financial assistance and vocational retraining to unemployed persons), no programs were ever implemented. Instead the Minister of Labor encouraged Thai men and women to travel to the Philippines or Japan in search of temporary work and proposed the elimination of laws which guaranteed minimum wages in favor of the introduction of a free wage system. The latter measure was vigorously opposed by labor unions and withdrawn in September of last year.

Overall the agricultural sector has picked up much of the slack for the economic slowdown in other areas, acting as a social safety net by providing work for migrant workers who have lost their jobs in urban industries. Unlike the Philippines and Malaysia where the agricultural sector has ceased to be a significant part of the overall economy, Thailand has continued to ship rice, sugar, natural rubber and processed foods abroad, trade that today amounts for 25% of the nation's total exports. Nonetheless, it goes without saying that the agricultural sector has its limits and will not continue to absorb unemployed from other sectors of the economy.

In the end, two necessary steps to solving Thailand's present economic difficulties (particularly tension in the labor market) are resolution of the non-performing loan problem and more appropriate connections between economic and political systems and actual market conditions. Moreover as reform moves ahead, it is also necessary to provide financial aid to the agricultural sector and export-oriented manufacturing industries, aid which should be earmarked to improve labor productivity and overall competitiveness. These two key sectors must perform if the Thai economy is to rehabilitate itself.

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This article is an excerpt of Professor Suehiro's article (in Japanese) "Tai Keizai Kiki no Naijyô" *Sekai* (December 1997): 142-150.

SYMPOSIUM REPORT

IMF and World Bank Representatives Discuss the Asian Financial Crisis

Institute of Social Science, University of Tokyo, May 19, 1998

SAITÔ Kunio, Director of the Tokyo Regional Office for Asia and the Pacific of the International Monetary Fund (IMF)

Mr. Saitô began by outlining the causes of the current Asian financial crisis and IMF's response measures. The remainder of his talk focused on possible ways to keep the current financial crisis from expanding to other nations and how in the future, the IMF can become more proactive, working with national governments and regional organizations to identify nations that are in danger of falling into economic crisis. He suggested that instead of merely being the "bank of last resort" after a crisis has hit, the IMF should expand its system of observation to allow it to judge the health of national and regional economies on a continuing basis. The IMF could then publicly praise sound fiscal practices and offer warnings (akin to a "yellow card" in soccer) for countries that may be on the verge of financial peril.

MIYAMURA Satoru, Director of the Tokyo Office of the World Bank

Mr. Miyamura expressed concern that the present financial crisis might halt an important trend over the past twenty years: the reduction in the poverty level throughout East Asia. He stressed that the World Bank is supporting reform efforts in East Asian nations in order to restore economic growth and thereby limit the impact of the crisis on the poor and disadvantaged throughout the region. Mr. Miyamura also discussed the views of other World Bank officials, noting that many in the World Bank believe that the present crisis has been caused by too little government regulation in some areas and misguided government administrative controls in other areas. He concluded that we are an important stage in the history of the world economy. Namely he emphasized that reform and intensified international dialogue on issues of globalization in the next few years will help build a positive environment for continued economic growth in the next century.

SYMPOSIUM REPORT

Social Science Japan Data Archive Commemorative Seminar

The Role of Data Archives in Social Science Research

A large audience gathered to hear two presentations about the use of data archives in social science research and to learn more about the Social Science Japan Data Archive (SSJDA), established in April of this year by the Information Center for Social Science Research on Japan, at the Institute of Social Science of the University of Tokyo.

MIYAKE Ichirô

Professor, Faculty of Informatics, Kansai University

"Empirical Research and Replicability"

Mr. Miyake tackled a concern that some have about data archives, namely that unscrupulous and lazy individuals might simply raid an archive and use data compiled by the hard work of others for their own, unoriginal research. He countered this argument by noting that in the fields of political and diplomatic history, books and journal articles include notes and a detailed bibliography of the historical sources used. Such documentation allows other researchers to undertake a replication of research. He suggested that social science data archives can provide the same positive role by becoming ready data sources which scholars in the social sciences can use as a base for scientific replication which, in turn, can lead to further empirical research.

Institute of Social Science, University of Tokyo July 10, 1998

Harry HEEMSKERK

Head of Department of
Digital Archives at NIWI, the Netherlands

“The Role of Data Archives in Social Science Research and Education”

Mr. Heemskerk provided an expansive look at the historical background of social science data archives and explained how data archives provide not only ease of access for data users, but also are an effective means for secure data storage and documentation. He described the existing international network of twenty seven member institutions (noting that there is no Japanese representative) that supports data archives through annual international meetings and an integrated data catalogue (which can be accessed at http://www.nsd.uib.no/cessda/IDC). Mr. Heemskerk ended by outlining his ideal model of a social science archive, one which becomes a proactive partner in research rather than simply an organ for data production.

MATSUI Hiroshi

Associate Professor, The Information Center for
Social Science Research on Japan,
Institute of Social Science,
University of Tokyo

“An Introduction to the SSJ Data Archive”

Mr. Matsui provided the audience with an on-line tour of SSJDA’s homepage, explaining how to access different areas of the homepage, examine a list of the various social science surveys available there, and how to submit an application to use the SSJDA. He also touched on the steps taken to preserve the privacy of those who responded to the surveys stored in the SSJDA, the security measures established to protect SSJDA from unauthorized use, and plans to expand the SSJDA. He also introduced several summaries of surveys available on the SSJDA, some which have been translated into English.

For More on the Social Science Japan Data Archive Check Out Our Website: http://www.iss.u-tokyo.ac.jp/ssjda/

Breaking through Viscosity:

The Three Modes of Conflict in the Diet, 1947-1996

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In 1994, soon after regaining the office of prime minister after several decades in opposition, the Japanese Socialist Party (JSP) abandoned its symbolic defense policy centered upon opposition to the Self Defense Forces (SDF). Many believe that internally, the JSP abandoned the anti-SDF stance sometime before the establishment of the Murayama cabinet. Nonetheless, there is much debate about when this change of policy, which was part of an overall change in the party's stance versus the Liberal Democratic Party (LDP), actually occurred. Generally speaking, during the thirty eight years of one party dominant system, it was hard to determine whether opposition parties objected to government bills because of their content or simply because they were "opposition" parties. My research shows that in the Japanese legislative process there are subtle differences of attitudes about the reasons for opposition. I have constructed a database of all the 7535 bills proposed by the government from the first postwar session of the Diet in 1947 to the last general election in 1996. I have classified the bill deliberation process quantitatively into three "modes of conflict" to show on which issues (not only ideological points) the government and opposition parties conflict and in what style this conflict manifests itself, either seriously or merely as a public display of opposition. (*tatemae*)

Many regard the Diet as a "rubber stamp," a body without great influence that simply passes bills.[1] In contrast, "viscosity theory," now dominant in political science, argues that legislatures in the parliamentary system can kill or amend a fair number of government bills by taking advantage of the "scarce time resource."[2] In the case of the Japanese Diet, the "scarce time resource" is a result of four factors: control of the agenda and the deliberation timetable, time limitations of the session system, the committee system, and bicameralism. That is, the legislative schedule of a bill (even a controversial one) must be decided by consensus, and parties objecting to the bill can halt its deliberation with a veto. A quick end to a session brings about the death of a bill or its amendment by compromise. Therefore according to viscosity theory, the more important a bill is or the more parties oppose it, the longer (the more viscous) its deliberation becomes. Additionally, the shorter a session is, the more bills fail.[3] My statistical analysis, however, denies such propositions of viscosity theory as outlined above and suggests that there is another way of mounting opposition to bills other than by simply refusing deliberation.

I was able to develop another type of deliberative process by first using principal component analysis to translate numerous variables into four components. The first component I developed indicates how early or late a bill passes each legislative step. The second is the length of deliberation. The interval from the proposition of a bill to its referral to committee (*tsurushi* literally the time when a bill is in "suspension") constitutes a third factor. This is a period when a bill is in limbo because opposition parties suspend a bill at the house, preventing it from moving on to committee. The last is a degree of "deliberative partisan conflict," a mixed index of the number of parties opposing a bill and the frequency of discussion. While the first three components are related to viscosity, "deliberative partisan conflict" reveals a different dimension.

Plotting these four components in all bills between 1947-1996, I used clustering analysis to divide all bills into three groups according to "modes of conflict." The first of these is the "non-conflict mode," where bills have a low score on every dimension (60%). This indicates little or no political conflict among parties over the content of the bill. Next, bills with a high score on any of three viscosity components form a "viscous mode" (22%). In this mode, although opposition parties delay deliberation by making gestures of objection, they offer little opposition to the substance of the bill. As a result, there is next to no discussion of the bill despite its long stay in the Diet. Finally, the "deliberative mode" can be found in the group of high "deliberative partisan conflict" bills (18%, nearly as much as the viscous mode). We can see truly serious confrontation between the government and opposition over bills in this mode, marked by heated and repeated discussion and the fiery objections of opposition parties. In sum, looking back at the first generation of Japanese legislative studies, it is clear that the "rubber stamp view," deals with the "non-conflict mode". The revised view of the traditional approach, viscosity theory, focuses on the viscous mode, "resistance without discussion." Yet both theories overlook the deliberative mode, "confrontation with discussion," to which I pay special attention here.

So which mode of conflict prevails in which policy areas? The deliberative mode is predominant in bills relating to tax and defense. Welfare (including public insurance and pension), labor, public personnel, postal services, and science and technology issues tend to assume the "viscous mode." Surprisingly, parties rarely come into conflict (the non-conflict mode) over bills dealing with education, police, justice, environment, foreign affairs and antimonopoly measures. Hence I call these "silent ideological issues." According to the conventional view, confrontation between the government and opposition is fiercer concerning ideological issues than interest issues. Yet statistically speaking, I find that parties are not more inclined to oppose or attempt to amend ideological bills, and do not think of them as more important than interest ones. I believe that this phenomenon is due in part to "silent ideological issues."

Notes

[1] Hans H. BAEWARD, *Japan's Parliament: An Introduction.* (Cambridge: Cambridge University Press, 1974).

[2] Jean BLONDEL, et al. "Legislative Behavior: Some Steps toward a Cross National Measurement," *Government and Opposition* Vol. 5, No. 1. (1969).

[3] Mike M. MOCHIZUKI, "Managing and Influencing the Japanese Legislative Process: The Role of the Parties and the National Diet" Unpublished, Ph.D. Dissertation, Harvard University. (Ann Arbor: University Microfilm International, 1986).
IWAI Tomoaki. *Rippô Katei* [Legislative Process] (Tokyo: Tokyo University Press, 1988).
TANI Katsutoshi. *Gendai Nihon no Rippô Katei* [Legislative Process in Contemporary Japan] (Tokyo: Shinzan-sha, 1995).

It is particularly interesting that even bills concerning defense do not always fall into the “deliberative mode.” While it is true that until the 1960s, defense bills were likely to assume the “deliberative mode,” those since the 1970s have tended end up in the “viscous mode.” That is, opposition parties simply prolong deliberation and do not attempt to ignite hot debate about the issue in question.

So to answer the question posed at the beginning of this essay, I believe that in truth, the JSP gave up intensely challenging the SDF as early as the 1970s. By analyzing the Japanese Diet, a legislature in a parliamentary system, through a statistical method usually applied to legislative studies of the U.S. Congress, I have developed a conclusion which challenges the orthodox view of confrontation between the LDP and the JSP in the postwar period. ❑

This article is a summary of: FUKUMOTO Kentarô (1998), “Kokkai no Yoyato Tairitsu: 1947-1996” (Government and Opposition in the Diet: 1947-1996), Research Thesis, Faculty of Law, University of Tokyo, forthcoming.

Icons in Moral Education:

Noguchi Hideyo and Modern Japan

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NOGUCHI Hideyo is a household name in Japan with his story presented in school textbooks from 1932 to 1980 as an example of the good Japanese citizen. His transformation through hard work and scholastic achievement from peasant boy to world-renowned bacteriologist placed him squarely in the nation's iconographic tradition. Through Noguchi, the state sought to unify the disparate values of the provinces into a coherent entity that reflected the universal aspirations of the modern Japanese state. Within that context, Noguchi came to represent and personify Japan's ambition to catch up with the West following the Meiji Restoration. He was therefore "applied" through the medium of school textbooks and other relevant channels to teach youth about what was considered right for the nation. Representations of Noguchi changed dramatically from the prewar to the postwar period, as I will discuss below.

Overall, my study is about the moral and strategic importance of the national hero to those who control the reigns of power. Specifically, it looks at how the Japanese state "adopted" Noguchi and transformed him into a folk hero and a historical figure to instruct the common people, and youth in particular about filial piety, loyalty to authority, the relationship between hard work and personal success, and selfless devotion to the nation.

Prewar Narratives

Noguchi was a self-made man, a success story of profound importance to a modernizing Japan in the early twentieth century. Thus by the early 1930s, the Japanese government "adopted" him for the purposes of civic education for the youth of Japan. Noguchi was a likely choice for a hero because by 1912 he had achieved prominence, recognition and prestige in the world of medical science in the West. Moreover the fact that Noguchi overcome a personal handicap (a childhood accident robbed him of full use of his left hand) to achieve this success, enhanced his story.

On the whole, the stories about Noguchi that appear in prewar texts revolve around the same recurring themes: poverty and hardship, hard work and a desire to succeed, loyalty and patriotism, self-sacrifice, filial devotion, humility and respect for one's elders and mentors. The first of these texts (published in 1932) starts with a rather unambiguous title, "Noguchi Hideyo, the Hero" includes a passage that is essentially a requiem: "The death of the bacteriologist Noguchi Hideyo has deprived the Rockefeller Research Institute (where Noguchi worked as a bacteriologist from 1903 until his death in 1927) of an extremely talented and much loved and respected member. His death has also brought sadness to us and to people everywhere." The author of the text eulogies Noguchi as a hero and a model for moral education. He asserts that he is "acclaimed as the saviour of the world" and known as "the affectionate father of the whole of humanity," who in 1927, went to Accra in West Africa and sacrificed himself for the study of this dangerous disease, yellow fever.[1] The fact that Noguchi died from the same disease during the course of his research is used to further enhance his moral qualifications, and he is canonised as an act of self-sacrifice. Noguchi therefore becomes a messiah, a theme which resonates in references to him in prewar textbooks.

In later texts, Noguchi was used to show that loyalty and patriotism do not go unnoticed and unrewarded. A 1942 textbook tells us that "when [Noguchi's] achievements came to the attention of the Imperial family, he was awarded the Order of the Rising Sun."[2] In other words, the subject's reward comes from being a good citizen, one who is loyal and patriotic. The references of being commendable to the nation began to appear just after the outbreak of the Pacific War. By that time, the essence of loyalty and duty to the state had matured beyond a mere slogan. The moral behind the mention of an award from the Imperial family is therefore transparent. It was meant to inspire the subject to commit himself / herself to the national cause. That is again clear in an elementary school song popular in 1942 that provides a resounding melody to Noguchi's acts of bravery and self-sacrifice. Clearly, this symbolic repertoire was designed to convey the message of self-sacrifice within a polity to enhance national harmony.

Postwar Narratives

Postwar narratives introduce us to a more "private" Noguchi, erasing the prewar representation of him as a "humanist" and a "public property" who sacrificed himself for the sake of humanity. And the narrative, as can be expected, is devoid of references to a hero committed to the national cause. Postwar narratives treat Noguchi more as a historical figure, and not as a cultural hero. In other words, although he was used in early postwar publications to convey the values of hard work and scholastic achievement, he is no longer used to suggest that one should work selflessly for any particular national cause, at least not overtly. In a more general sense, the narrative becomes less dogmatic, with the hero assuming less of an iconic posture, and with no prescribed "humanistic pretensions." This creates the impression (at least in school textbooks from the late 1960s) that the heroic importance of Noguchi was devalued. Thus although there continued to be more references to him as a scientist, they are often without much elaboration.

It is pertinent to note that in one early post-war narrative, and indeed for the first time, the reader is confronted with a criticism of Noguchi. A literature textbook published in 1951 reads as a parody written out of affection for the

Notes

[1] "Ijin Noguchi Hideyo," in *Joshi shinkokubun shinpan.* (Tokyo: Fujiyamabô, 1937), 136; "Ijin Noguchi Hideyo," in *Teikoku jitsugyô tokuhon.* (Tokyo: Fujiyamabô, 1937), 103.

[2] Monbushô, *Shotôka shûshin 2.* (Tokyo, 1942), 26.

hero who had fallen from grace. The text provides key scenes of Noguchi's life and affirms that there are certain characteristics that immediately spring to mind when we think of him and his achievements. These are diligence, endeavour, perseverance and an unyielding spirit. The text expostulates that Noguchi embodied all of these traits because he was full of ambition and craved fame. The author of the passage also asserts that Noguchi was very childish, wildly extravagant and even uncouth. On the basis of the above description, we could argue that the text was a plain attempt to deflate the "folk hero," and to deprive Noguchi of the superman qualities accorded him in the prewar period. Thus, although the author agrees that as a child Noguchi was bright and talented, he suggests that he was no child prodigy. In general terms, this narrative is a criticism of the prewar establishment, personified in the "strawman" Noguchi against whom the author vents a long-nurtured angst.

Conclusion

Noguchi's importance to the state's exercises in moral suasion survived the war and attempts by Occupation leaders to redeem Japan from its immediate history. The continuities and changes in how he was portrayed in the postwar and prewar eras shed light on continuities and changes in modern Japan. That the Noguchi narrative has survived the changes in political attitudes since the 1930s, and still remained a national medium for moral precepts in the postwar era, reflects the fact that the construction of a sense of nation is a continuous process involving the pragmatic application of self-perpetuating national archetypes. It also confirms that the process concerns the identification by state officials of areas of ideological importance that can be used as tools to enhance the power of the state. Needless to say, this is a problem with which all modern states must contend, both during their formation and indeed in their mature stages.

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ISS CONTEMPORARY JAPAN GROUP

ISS Contemporary Japan Group at the Institute of Social Science

"Japan's Telecommunications Revolution: Deregulation, Divestiture and the Dominant Firm"

Ian GOW
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April 23,1998

Professor Gow presented his initial findings on the recent debate (1994-1998) over the divestiture of NTT and contrasted it with earlier debates. In particular, he showed that especially during the recent coalitions era of Japanese politics, the Japanese Telecommunications Union has reemerged as a major actor in the policy community. He also examined the recent decisions on the divestiture (*bunkatsu*) or more correctly, the reorganization (*saihensei*) of NTT. Furthermore, he explained the reasons behind the 1995 failure to divest NTT and the successful 1997 decision to reorganize NTT and to permit it to offer international services.

Uplifting the Individual for Organizational Renewal – A New HRM Success Formula for Japanese Firms?

Daniel DIRKS
Head of the Economics Section and
Deputy Director of the German
Institute for Japanese Studies, Tokyo

May 12, 1998

In Japanese firms, current programs to restructure organizational and human resource management (HRM) practices aim to introduce new forms of standardized personnel evaluation and results-oriented compensation schemes based on individual performance. At the same time, these companies are looking to safeguard the existing competitive advantages that result from group-based work environments. Based on his research of related experiences and use of relevant theories, Dr. Dirks argued that these rationalization efforts may result in a number of unintended consequences that might, in the end, undermine at least some of the advantages inherent in existing personnel systems.

The ISS Contemporary Japan Group serves as a forum to provide foreign researchers at the Institute with critical feedback on their work. It also often invites non-affiliated scholars to present their research. Researchers visiting Tokyo are most welcome to attend Group meetings. Contact Professor HIWATARI Nobuhiro (hiwatari@iss.u-tokyo.ac.jp) or MIYAOKA Isao (miyaoka@iss.u-tokyo.ac.jp).

IMAGE, IDENTITY, and POLICY: Japanese Approaches to China

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June 4, 1998

Japanese conceptions of self have long been framed against China as the "other." Dramatic swings in the Japanese self-image during the 1980s and 1990s mirror changes in China and in the surrounding world during the same period. Borrowing insights from constructivism to highlight the role of Japanese identity in shaping the context of policy formulation, Mr. Self maintained that it is possible to form two links between the image of China and policy - one via the impact of image change on perception, and another through identity. According to Mr. Self, China's role as the "other" has placed contested interpretations of China at the center of the struggle to define Japan's identity since the emergence of a Japanese state, particularly in the postwar period.

"Maternal and Child Health Care for Undocumented Foreigners in Yokohama"

Carolyn S. STEVENS
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July 8, 1998

Dr. Stevens, the author of *On the Margins of Japanese Society: Volunteers and the Welfare of the Urban Underclass* (Routledge, 1997) discussed the activities of the volunteer group, SABAY, which works with undocumented migrant mothers in the Kotobuki-chô district of Yokohama. She described how SABAY volunteers function as intermediaries in the area, helping pregnant women and those with small children to obtain health care benefits offered by the far from "user-friendly" Japanese welfare system. Her talk tackled the contemporary social problems of discrimination against foreigners in the area of health care and discrepancies between domestic and international laws. She stressed that the situation of these foreign women is an "intermestic" problem, at once a domestic and international issue.

SSJ-FORUM: Steve Reed on the House of Councillors Election

In the August 1997 issue of Social Science Japan Professor Steven Reed of Chuo University argued that political scientists should be able to make accurate, if not perfect, predictions of election rsults. He challenged Social Science Japan readers and subscribers to the SSJ-Forum email discussion list to make their own predictions regarding Japanese politics. The response was enthusiastic, and a few highlights were printed in the November 1997 issue. The following message to SSJ-Forum contains Prof. Reed's immediate reactions to the result of the House of Councillor election held on 12 July 1998.

(As a result of the election, the LDP's total strength in the Upper House dropped from 118 seats to 103, the Democratic Party of Japan boosted its number of seats to 47 from 38, and the Communists gained 9 seats for a total strength of 23. Voter turnout was more than 58 percent, a rise of 13 percentage points from July 1995.)

How about that: turnout up, LDP vote down, the Democratic and Communist vote up. Japanese voters are not so different from voters in other countries after all. I made no predictions about the House of Councillors election because I have not studied House of Councillor elections. Nevertheless, I was surprised at both the turnout and the LDP loss.

Polls a week or two before the election had voters really upset with the LDP but the LDP still winning. Either the polls were wrong or something happened in the last few days of the campaign. I would like to believe that the Sunday morning programs a week before the election made the difference. Hashimoto put on a pitiful performance. When asked about his economic policy, his (truthful) answer was, "We will debate it thoroughly and listen to all opinions." How's that for leadership? It was only after Hashimoto was replaced by Kato that a vote for the LDP began to look reasonable again. While it would fit democratic theory to claim that Hashimoto's performance and the unanimous anti-LDP stance of all the other parties (most forcefully, Komei) made the difference, I know of no evidence to indicate that many people were watching or paying attention.

I kept telling my students that the most important question in this election was, "If not the LDP, then who?" To the degree that the answer after the election became "the Democrats", movement toward (but not necessarily to) a two-party system would be accelerated. The results make the Democratic nomination a more valuable commodity in the next general election and make the Democrats the obvious place for those who want to beat the LDP to gather. Although resistance to two-party politics will remain, especially from Komei, we should begin to see loose independents moving closer to the Democrats. Others who were hoping that the Democrats would fail will now move toward the LDP.

Interestingly, the main barrier to coordination on the Democrats as the alternative to the LDP is now the JCP, a return to the 1970s. May I remind everyone of my prediction that the JCP vote will go down in the next general election. Looks like an easy way to make a buck now, doesn't it.

Take up the Steve Reed Challenge and make your predictions on SSJ-Forum! To subscribe, send an email with the subject header "subscribe" to: ssjmod@iss.u-tokyo.ac.jp. For more information, please visit the Institue of Social Science website at: http://www.iss.u-tokyo.ac.jp

COMING SOON:

Social Science Japan Journal, Vol. 1 No. 2

SSJJ is a new, international journal published jointly by the Institute of Social Science at the University of Tokyo and Oxford University Press. It includes original, refereed papers that analyze modern Japan from a social science perspective. We encourage academics from all over the world to submit manuscripts (including book reviews). Although each issue contains several articles on a special topic, unsolicited articles are also included to maintain a wide range of coverage.

Our first issue, which came out in spring, focused on “the Japan factor” in the Korean War. Our upcoming issue, coming out this fall, focuses on Japanese society and “community.”

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