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JAPAN S
PUBLIC FINANCE
AND
FINANCIAL SYSTEM

Rescue of Financial Institutions and Deposit Insurance in Japan

SAITO Yoshihiko page 3

Japan's Saving

David W. CAMPBELL page 5

Financing Japan's Social Security System

KATSUMATA Yukiko page 8

Balancing Equity and Decentralization

MOCHIDA Nobuki page 10

Review: Managing the Metropolis

HORIBA Isao page 12

Public Finance Statistics and Democracy

SHIBUYA Hiroshi page 14

The MOF History of Fiscal and Monetary Policies in Japan

HAYASHI Takehisa page 16

The "Japan Model" Financial System

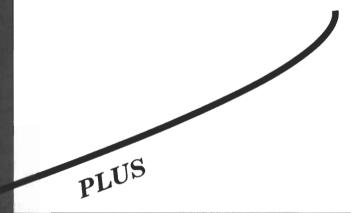
ITO Osamu page 18

Data on Japanese Shareownership

HIROTA Masato page 20

MOF Information: What is Available?

KATO Shin'ichi page 22



The Internet: A Rational Choice?

Andrew DEWIT and Jonathan LEWIS page 25

The Nuclear Family in Postwar Japan

KASE Kazutoshi page 28

The Kansai International Airport

Purnendra C. JAIN page 30

Wasting Wealth

Stephan KUNZE page 32

Japanese Studies in the Philippines

Sylvano D. MAHIWO page 34

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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., FUJIYOSHI Shinji, and in Western names the family name is given second, e.g., Duncan FERGUSON.

Romanization

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

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Japan's Public Finance and Financial System

In this issue of *Social Science Japan* we focus on Japan's public finance and financial system. We have two aims. The first is to give an up-to-date and down-to-earth assessment of current issues in the two areas. The second is to survey the sources of basic information and important literature available to social scientists. To these ends we have commissioned articles from researchers working for organizations in the field (for example, the Ministry of Finance and the Tokyo Stock Exchange) and researchers participating in research projects carried out under those organizations' auspices.

The ideas of "small government" and "trust in market mechanisms" emerged in the late 1970s and have been growing stronger ever since, due in part to the collapse of socialism from the mid-1980s. In the fields of public finance and the financial system, these ideas took concrete shape as tax reductions and deregulation respectively. However, when tax reductions and deregulation came up against the socio-economic realities of the late 20th century, the results were fiscal deficits and failure to manage market risks. Whatever one's position on these issues, there is no doubt that public finance and the financial system are currently going through a period of upheaval, the outcome of which will have far-reaching social consequences. However, much of the present writing on these problems consists of half-baked ideas and platitudes to the effect that "history repeats itself." In order truly to understand what is happening, we need accurate, objective information and analysis. Furthermore, researchers producing that information and analysis must have a proper awareness of the historical background to the problems they are investigating.

Next issue: February 1996.

Theme: Japan's International Relations

Note. Previous issues of *Social Science Japan* have carried a call for articles. Our thanks go to all those who have sent manuscripts. Unfortunately, due to space limitations we have been unable to print many of the articles. Because this situation is unlikely to be remedied in the foreseeable future, we are reluctantly discontinuing the call for articles.

Rescue of Financial Institutions and Deposit Insurance in Japan

SAITO Yoshihiko



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Japan Securities Research Institute (日本正券経済研究所) Tokyo Shoken Kaikan, 1-5-8 Nihonbashi-Kayabacho, Chuo-ku Tokyo 103 JAPAN. PEC04444@niftyserve.or.jp IN the mid- to late-1960s, doubt began to grow regarding the likely longevity of Japan's industrial investment-led high economic growth. Principally because of these concerns, Japan's deposit insurance system was established in 1971. During the late 1960s and early 1970s policymakers were increasingly conscious of the need to bolster Japan's international competitiveness to cope with capital liberalization, which was being strongly demanded by Japan's trading partners.

Those responsible for financial institutions at the Ministry of Finance came to share this consciousness, adopting the slogan "efficient finance" (kinyû kôritsu ka). The new slogan heralded a change of direction in financial administration away from "convoy administration" (gosôsendan gyôsei). One precondition for deregulation was the establishment of a deposit insurance system.

Deliberations over the form the system should take centered upon the Financial System Research Council (kinyû seido chôsa kai; established 1965). The Deposit Insurance Bill, based on the Council's report, was approved by the Diet in July 1971, and led to the establishment of the Deposit Insurance Corporation (yokin hoken kikô). When it was established, the Corporation's operation was limited to the direct payoff method, and the limit on insurance payments was 1 million yen. The Ministry of Finance claimed that the establishment of the Corporation separated protection of depositors from protection of financial institutions. Many financial experts, however, doubted whether the Corporation would actually carry out its functions, and in fact more than twenty years passed before it was called upon to act. During those twenty years, several financial institutions ran into management difficulties, but their problems were dealt with in the same way as crises that had occurred before the Deposit Insurance

management difficulties, but their problems were dealt with in the same way as crises that had occurred before the Deposit Insurance Corporation was established. Specifically, the government authorities intervened to allow the institution to reorganize itself, and when this proved impossible the authorities "requested" related banks and industrial organizations to support the troubled institution, and acted as mediators in negotiating rescue mergers. As a result, the existence of the Deposit Insurance Corporation was not widely known, and the myth of indestructibility surrounding Japan's financial institutions gained widespread currency.

This situation changed in the 1980s. As financial liberalization started in earnest, financial experts started to recognize the real possibility that financial institutions could go bankrupt. As a result, many experts started to advocate a more active role for the Deposit Insurance Corporation, which had become like the proverbial family sword gathering dust in MOF's attic. The Financial System Research Council, addressing the problem, focussed on the merits of establishing inside the Deposit Insurance Corporation a body along

99

the lines of the US Federal Deposit Insurance Corporation. Such a body would be able to use a variety of measures to rescue troubled institutions, and not be limited to the Corporation's only present measure, direct payoff, which meant paying insurance up to a certain limit.

The deliberations led in 1986 to an amendment of the Deposit Insurance Law. The main points of the amendment were a raise in insurance premiums and in the level of insurance payouts, and the introduction of a financial assistance system for mergers and other rescue schemes. Under the financial assistance system, the Deposit Insurance Corporation would provide funds to financial institutions merging with troubled institutions. In other words, the Corporation would not be bailing out institutions directly. On the other hand, the Deposit Insurance Corporation would have to obtain the permission of the Minister of Finance before providing financial assistance, so the Corporation had no real autonomous powers. Taken together, these qualifications meant that despite the introduction of the financial assistance system, measures for rescuing troubled financial institutions in Japan had not really changed.

This became clear when the Deposit Insurance Corporation finally swung into action following the collapse of the bubble economy in 1990. The Corporation provided financial assistance to several bailout mergers from 1992 onwards, mostly because the large financial institutions which had previously financed such mergers were themselves facing difficulties. The point worth noting here is that although the Deposit Insurance Corporation has now finally started to act, it has never once made a direct payoff, the task it was originally established to perform.

Japan's deposit insurance system has thus played only a very minor role in the rescue of troubled financial institutions. Even when the system has operated, it has been in an extremely limited and marginal capacity. Furthermore, government measures to cope with crises in financial institutions have not changed significantly since the 1950s. This does not mean that Japan's deposit insurance system or the way Japanese financial institutions are rescued are unique or particularly old-fashioned. But neither does it mean that they are without their difficulties. The main problem is the lack of transparency. As a result, nobody is certain under what conditions the safety net will operate. This in turn makes it difficult to hold managers and shareholders responsible for their institutions and, just as seriously, tends to result in rescue measures coming too late, by which time the institution's problems have grown even worse. The further reform of the deposit insurance system will have to address these fundamental problems.

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Japan's Saving

David W. CAMPBELL



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Contemporary Japan Centre. University of Essex Wivenhoe Park, Colchester CO4 3SQ UNITED KINGDOM campdw@essex.ac.uk IN the last ten years Japan's postwar saving performance has received an extraordinary amount of attention from the mass media, academics, and policy makers. In particular it has probably been the most hotly researched topic on Japan's economy next to trade issues. In this essay I would first like to explain why Japan's saving has attracted so much attention and then recap the astounding progress that has been made over the last decade in our understanding of Japan's saving.

Japan's saving has been a focus of interest for three reasons. First, saving—particularly household saving—provided the funds for corporate investment that were critical for the stunning growth of the Japanese economy over the postwar period. Unlike many developing countries, Japan did not have to depend on massive capital infusions from abroad to finance its investment. Second, the high level of Japan's saving has been identified as the most significant structural factor in Japan's series of substantial current account surpluses since 1983. The sustained dramatic reduction in Japan's economic growth in the wake of the first oil shock reduced the corporate sector's demand for funds from the household sector. This, together with steadily increasing public sector saving, has meant that more of Japan's net saving is available for investment overseas. Finally, Japan's example has provided a policy lesson for many countries, in particular the United States. In the US it is now conventional wisdom to believe that imitating Japan by reducing the fiscal deficit and increasing household and business saving will lead to an amelioration of the US current account, heightened growth, and increased US international competitiveness.

Turning to the rather startling advances in research on Japan's saving in the last decade, I would like to highlight three areas: research on reconciling the US and Japanese saving rates, an examination of the "Japan is different hypothesis", and the importance of heterogeneity in saving behavior.

Japanese saving rates are typically thought to be much higher than those in the US. This is apparently borne out in Figure 1 by a comparison of the top and bottom lines of the graph, which represent respectively the Japanese and US national saving rates as listed in each country's national accounts. Taking these at face value we see that the national saving rate in Japan has usually been twice and sometimes as much as three times as large as the US rate.

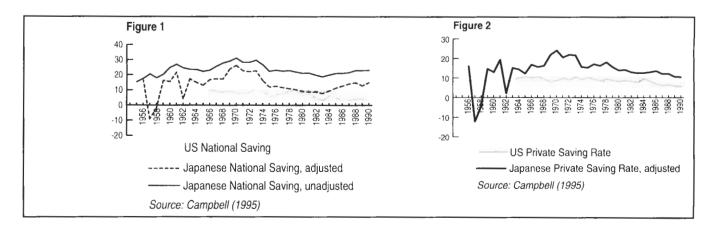
In a seminal article in 1986, however, Hayashi pointed out that these rates were not comparable and developed a method to reconcile them. In brief, in the US all government expenditure is classified as consumption (i.e., government investment is not classified as saving), and depreciation is calculated on a replacement cost basis (rather than

at book value as in Japan). When these conventions are applied to the Japanese national saving rate the US-Japan saving gap is slashed by about ten percentage points; the adjusted Japanese national saving rate is illustrated in Figure 1 by the dotted line.

Examining the adjusted Japanese national saving rate and the US rate in Figure 1, it is apparent that during the high growth period in Japan the Japanese saving rate was much higher than the US's; coincident with the onset of the low growth era in 1973, the saving rates began to converge rapidly. From 1983, however, they began diverging again quite remarkably. One possible explanation of this divergence is the differing fiscal policies of the two countries in the 1980's. Figure 2 therefore abstracts from government saving by presenting the fully comparable private saving rates.

It appears that differing fiscal policies in the 1980's did cause the divergence of the national saving rates during that period. Otherwise private saving rates, broadly speaking, tracked national saving rates. Of special interest is the fact that the private saving rate differential since 1980 has remained constant at about six percentage points. If one adjusts the private saving rates for consumer durables the differential is reduced by two to three percentage points (Hayashi (1986)). Paraphrasing Hayashi, the difference in the US and Japanese private saving rates over the past fifteen years has been largely a statistical artifact.

Probably no less shocking to non-specialists is a conclusion in Campbell (1995) that the "Japan is different" hypothesis as applied to saving is dead. This hypothesis holds that institutional and other factors distinctive to Japan figure significantly in the apparently high level of the aggregate saving rate. Among the factors that have been cited are: the bonus system, tax breaks for saving, the low level of Social Security benefits, high housing prices, the high costs of education, the high costs of marriage, and bequests and other transfers (Horioka (1990)).



⁶⁶ the "Japan is different" hypothesis as applied to saving is dead ⁹⁹

Although much research has been undertaken there is little evidence that any of these factors has been important vis-a-vis aggregate saving. A few examples will suffice to demonstrate this point. The most authoritative article on the bonus system, Ishikawa and Ueda (1984), finds that bonuses at best played a minor role in household saving in the 1958 to 1978 period. Horioka (1991), perhaps the best empirical study on the effect of high housing prices on Japan's saving, calculates that during 1965-75 housing-related saving represented on average -.9 percent of household saving. During 1976-82 this ratio was only marginally larger at .5 percent. Finally, a number of authors agree that for salaried households in Japan in the postwar era bequests and transfers have not contributed significantly to wealth accumulation (Cf., Campbell (1995)).

If over the last fifteen years differences in the private saving rates of the US and Japan can be largely attributed to differing accounting conventions and if institutional factors peculiar to Japan have had little impact on Japan's saving, then it does not take a giant leap of faith to suggest that the fundamentals of American and Japanese private saving behavior have for some years now been the same. Supposing this is true, the question naturally follows: is there anything that can be learned from current thought on American aggregate saving that might apply to the Japanese case? The answer here is in my view clearly yes. Over just the past few years, diversity in saving behavior has been emphasized as important in determining American aggregate saving.

A few statistics will bear this out (Cf., Avery and Kennickell (1991)). The wealthiest ten percent of Americans in 1986 accounted for 98.4 percent of real saving between 1983 and 1986 and in 1986 held a full 62 percent of the household sector's assets. Even more strikingly the wealthiest one-half percent of Americans accounted for 41.6 percent of real saving over the period and held an extraordinary 24.4 percent of the household sector's assets. Contrasted to this the poorest ten percent of Americans were responsible for -3.3 percent of real saving and owned only .3 percent of the assets of the household sector. It seems likely then that savers in the US can be divided into at least three groups: a substantial number who save nothing or dissave, a relative few who accumulate great wealth and who may dominate aggregate saving, and a large number who fall between these two extremes.

Research on Japan's saving over the next several years will also, I suspect, be driven by this idea of heterogeneity in saving.

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Recent Trends in Research

Financing Japan's Social Security System

KATSUMATA Yukiko



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(See bottom of page 9 for address).



Designated Cities

政令指定都市

Cities with populations over 500,000 with administrative rights on a par with Prefectures. There are currently 12 Designated Cities, including Tokyo and Yokohama.

System of National Accounts

(SNA)

国民経済計算

International statistical system laid down by the UN. The Japanese statistics are published annually by the Economic Planning Agency.

OECD Social Database

OECD社会支出統計

A wide-ranging database covering public expenditure on social security, education, housing and other areas. Allows international comparisons of spending in different areas. Still under construction and not yet publicly available. BY 2020, 23% of Japanese will be aged 65 or over; Japan will have the oldest population of any country in the world. Japan's population is currently ageing faster than that of any other country. The United Nations' definition of an "aged" population is 7% of citizens aged 65 or over; the United States took 70 years to go from 7% to 14%, the United Kingdom and Germany 45 years, Sweden 85 years, and Japan only 25 years. Furthermore, the proportion of very elderly people (aged 75 or over) in Japan (10.8%) will be among the highest in the world by 2020. Japan's ageing society looms ever larger, and economists and public finance scholars are devoting incresing attention to the questions it raises.

Social security can be divided into three categories: pensions, medical care, and social welfare. Of the three, pensions currently attract the most attention from scholars. Recent research on pensions has pointed to the threat to the present public pensions system posed by the imbalance between the burdens placed on the younger generation and the benefits required by the elderly. This imbalance results from a mixing of the pay as you go principle with the savings principle in the public pensions system. Other scholars have concentrated on the effect on financial markets of the growing independent investment of savings accumulated under the national pensions system. In addition, much work has been done on reforms such as raising the pensionable age and moving to sliding-scale pensions indexed by net income (netto suraido).

The second major focus of social security research is medical care. Work in this field concentrates on examining why medical costs continue to increase, how health insurance could be managed more efficiently, and how best to coordinate public spending on health with spending in other areas. To examine such problems, the Institute for Health Economics and Policy (*iryô keizai kenkyû kikô*) was established as a joint public-private body in 1993. Several pharmaceuticals and health insurance companies have also established research centers or subsidised academic research looking into these questions.

However, economists and public finance specialists have done comparatively little research into the third area of social security, social welfare. One reason for this is that the administration of welfare is carried out by local government. Another is that welfare spending goes through three separate accounts: central government spending goes through the general account (*ippan kaikei*) and the special account (*tokubetsu kaikei*), while local government spending goes through the regular account (*futsû kaikei*). As a result, only a few scholars, those familiar with both local government and the intricacies of central government finance, are able to produce effective research on welfare. During the 1970s, increases in welfare spending were mostly covered

by central government subsidies, but local governments such as the Designated Cities (*seirei shitei toshi*) became able to use their own funds for welfare spending, and their independent welfare programs resulted in regional differences in welfare benefits. In the second half of the 1980s responsibility for welfare administration was moved from central institutions to welfare organizations themselves, enabling all local governments to implement their own welfare programs. However, the recent recession has slowed the increase in local governments' revenues, forcing the postponement and scaling-down of many programs.

In March 1994 the Council on Welfare Vision for the Ageing Society submitted to the Minister of Health and Welfare a report entitled A Welfare Vision for the 21st Century. The report represented the first attempt to draw up a national policy for coping with the inevitable increase in social security spending and the problem of how to fund the increase. The report estimated future levels of social security spending, extrapolating from current spending trends. Social security spending in FY1993 was 16% of national income, and 12% of GDP.

In order to establish an accurate picture of the future shape of social security, macro data are an absolute necessity. Until now projections have been derived from figures in the system of national accounts for social security contributions and general government final consumption expenditure by purpose. But the system of national accounts data does not allow analysis of social security spending on particular sectors of the population, and it permits only limited analysis of particular sources of revenue. A further problem is that, as the population continues to age, measures for care of the elderly will increasingly overlap each other; as a result, the separation in the system of national accounts of health and welfare spending will become less and less valid. One of the main tasks for researchers on social security, therefore, is to establish reliable statistics on social security expenditure, including data suitable for analysis under the OECD's Social Database program.

Further Reading

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Statistics on Japanese social security

spending are calculated for the Ministry of Health and Welfare by the Social Development Research Institute. These statistics, published annually in both English and Japanese, meet ILO standards and can thus be used for international comparisons. When the social security system changes, the Institute reanalysizes figures for previous years. A time-series analysis of spending statistics from 1969 to 1990 is also available in English. The Institute also issues spending estimates as part of the OECD's Social Database.

One function of the Social
Development Research Institute
is to provide information on
Japan's social security system to
researchers overseas. The
Institute sends information in
English on request without
charge, and welcomes visitors.
Enquiries about information or
visits should be sent by letter or
fax to:

The Social Development Research Institute (社会保障研究所)
Akasaka 2chome Annex Building 2-19-8, Akasaka, Minato-ku
Tokyo 107, JAPAN
Fax 03-3589-3864

The Challenge for Public Finance Research

Balancing Equity and Decentralization

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IN recent years decentralization has never been far from the top of Japan's political agenda. In 1993 the Upper and Lower Houses of the Diet passed a resolution calling for decentralization, and this year the Murayama coalition government has enacted the Decentralization Promotion Law (chihô bunken suishin hô), which will be effective for five years. These developments are all the more welcome nearly half a century after Shoup delivered his recommendations, a long period during which little significant progress has been made towards decentralization.

However, there is a tendency today for people to jump on the decentralization bandwagon without asking either what tune the band is playing or where the wagon is heading. Japanese industry and financial institutions are attempting to link decentralization with their conservative ideology of small government, but many scholars of public finance are stressing the need to restore local self-determination to respond more closely to citizens' needs.

Japan's local public finance system diverges from the European and American "model" in several respects: (1) local spending accounts for a relatively high proportion of general expenditures by government departments; (2) there is large-scale redistribution of sources of revenue through earmarked and general subsidies (*chihô kôfu zei*); (3) there is no diversity in local sources of revenue, and local governments are not permitted to set their own tax rates; (4) current and capital accounts are not separated, and bond issues are controlled; (5) local public finance policy contains a commitment to meeting macroeconomic policy targets.

Japan's local public finance system is milder and more refined than the truly centralized systems of France, Spain and Italy. The system is administered in local areas rather than centrally, and central government's role is to guide local areas towards a common fiscal situation by means of subsidies, tax allocations and local bonds. The questions at the heart of the current debate are: What are the strengths and weaknesses of the present system, and would decentralization bring net benefits sufficient to justify reform?

The academic debate on local public finance focuses on the trade-off between equity and decentralization. At its broadest, decentralization means a shift away from a society which emphasizes equal access to public services and equitable sharing of the burden of paying for them, towards a society which gives priority to individual citizens' expressed preferences. In Japan, where local governments are unable to set their own rates of taxation, the Layfield Committee's concept of local accountablity (chihô no zaisei sekinin) does not function effectively. To public bodies lacking the ability to raise revenues, decentralization may mean the "freedom to go bankrupt." The

*To public bodies lacking the ability to raise revenues, decentralization may mean the "freedom to go bankrupt."

Japanese debate on decentralization, however, has revealed a deeprooted resistance to the neo-classical stress on individual preferences and local accountability when they are taken to extremes. Japan's system of equitable tax allocations to the regions, which has no equivalent in the West, drastically reduces residents' Tieboutian voting with their feet between regions. At the same time, Japanese society also places great value on long-term relationships and *ex post facto* equity, and this shared idea of fairness prevents the American idea that bankruptcies are an integral part of decentralization from gaining acceptance in Japan.

The balancing of equity and decentralization is not a new topic of argument in Japan. In the 1950s FUJITA Takeo, arguing from the standpoint of "classical local self-government" (kotenteki chihô jichi), criticized the Japanese local finance system as "government by bureaucrats" (kanchi teki). He was opposed by SHIMA Yasuhiko, who criticized the Shoup recommendations from the perspective of "unequal development" (fukintô hatten ron) and called instead for "democratic centralization" (minshuteki chûôshûken). Their dispute was settled when Shima moved towards Fujita's position, but the problems they debated remain unresolved today. In the 1980s academic opinion was split over the questions of how to divide the functions of central and local government and how to divide their sources of revenue. One camp espoused traditional fiscal federalism (zaisei renpô shugi), whereby central and local government would be clearly segregated. The other camp focussed on the historical tendency of central and local government to overlap, and emphasised welfare state public finance (fukushi kokka zaisei). Now in the 1990s the belated moves towards decentralization present Japanese social science with another challenge, to provide academic answers to very real social questions.



The Shoup Recommendations

シャウプ勧告

Refer to the First and Second Reports on the Japanese Tax System, submitted to General MacArthur in 1949 by Prof. Carl S. Shoup of Columbia University. The two reports, particularly the first, formed the basis of Japan's postwar tax system.

The Layfield Committee

Established in June 1974 to carry out a comprehensive examination of British local government, the Layfield Committee proposed the "central accountability" and the "local accountability" models of government. The Committee was divided over which model should be adopted, and the Labour Government of the time did not implement its proposals. Nevertheless the Committee made an historic contibution to thinking on local government.

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Managing the Metropolis

reviewed by HORIBA Isao

『都市を経営する』 (Managing the Metropolis)

Edited by JINNO Naohiko

シリーズ東京を考える(Thinking About Tokyo series)

Tokyo: Toshi Shuppan, 1995. ISBN4-924831-16-6.

Introduction

JINNO Naohiko

とし ざいせい けいざいがく Chapter 1 都市財政の経済学

(An economic analysis of Tokyo's public finance)

MOCHIDA Nobuki

El けいえい はたん さいけん Chapter 2 都市経営の破綻から再建へ

(From bankruptcy to reconstruction in the management of Tokyo)

JINNO Naohiko

けいざいしゃかいかんきょう へんか とし けいえい

Chapter 3 経済社会環境の変化と都市経営

(Changes in the socio-economic environment and their effect on the city's management)

HANAl Kiyohito

とうきょう けいざいせいさく

Chapter 4 東京の経済政策

(Tokyo's economic policy)

KUROKAWA Kazuvoshi

ざだんかい せんご にほん けいざい と

Chapter 5 座談会・戦後日本経済のなかの東京

(Roundtable discussion: Tokyo's role in the postwar Japanese economy)

ÔTANI Ken, TAKEUCHI Hiroshi and NAKAMURA Takafusa

THE Thinking about Tokyo series, of which Managing the Metropolis is the fourth book, assesses the past, present and future of the Japanese capital from various perspectives. Urban management, the perspective adopted by the reviewed volume, is a slippery term, but as used in this book it has two meanings. The first is the administration of public finance and taxation in the city, the subject of three of the book's four essays. The second is intervention by the city government in the private economy under the guise of economic policy, the subject of the fourth essay. The overall emphasis of the book is therefore very much on public finance.

The three essays on public finance all adopt an historical approach to their subject. As Jinno writes in his introduction, the fifty postwar years have been the Japanese economy's *Sturm und Drang* period. During that period, to extend the simile, the regional government in



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Japan's largest city has experienced highs and lows worthy of young Werther himself. Managing the Metropolis charts these past highs and lows in the public finances of Tokyo, and shows hows they related to the city's current problems.

The three public finance essays describe in detail the city's finances and their broad political economic context during different periods. Mochida's essay deals with Minobe's first and second terms as mayor; Jinno focuses on Minobe's first and Suzuki's first and second terms; finally, Hanai discusses Suzuki's third and fourth terms. However, the authors are not content with mere historical relation. Their common purpose is to explain, through the medium of fiscal history, the complex web of politics and economics confronting those who would "manage" Tokyo. At the centre of this web throughout the past fifty years, in Tokyo as in all regional government in Japan, has been the issue of how regional government, amidst changing economic circumstances and changing voter preferences, and with only limited means of raising revenue, can satisfy changing demands for public spending. In other words, regional public finance has been determined by the terms that regional governments have managed to reach in their negotiations with central government.

Jinno describes Japan's public finance system as centralized and deconcentrated. Decisions are made by central government, and the Tokyo government has insufficient authority to raise either taxes or loans. As a result, the city's income is at the mercy of economic cycles. Meanwhile, its spending priorities are also out of its control, being subject to changing voter preferences and economic conditions.

While the subject of this book is Tokyo, the essays together provide a valuable analysis of Japan's changing postwar public finance system. The authors' historical approach has resulted in a study that has much to offer not only to those interested in the capital's history, but to anyone interested in decentralization as well as those exploring the pressing issue of how Japanese regional public finance as a whole will cope with low economic growth and the ageing society.

Public Finance Statistics and Democracy

SHIBUYA Hiroshi



SHIBUYA Hiroshi is Professor of Economics at the Institute of Social Science, University of Tokyo.

Institute of Social Science University ofTokyo 7-3-1 Hongo, Bunkyo-ku, Tokyo 113. **DEMOCRACY** is the mechanism whereby taxpayers who bear the cost of government approve the scale, content and use of government spending. In order for the mechanism to operate properly, taxpayers must receive objective and accurate information regarding the scale, content and use of government spending.

In practice this information takes the form of budget documents. The government and bureaucracy must furnish the taxpayers and their representatives, the Dietmembers, with intelligible data and explanations in order for the democratic mechanism to function. Debates in the Diet are the starting point for this mechanism; the formation of a national consensus on policy matters requires a comprehensible dialogue between Dietmembers representing different interests, as well as between Dietmembers and bureaucrats.

It is frequently said that in Japan the process that takes place between the clash of "different interests" and the emergence of a "national consensus" is opaque. The crux of this criticism is that budget bills are drafted by bureaucrats, particularly Ministry of Finance officials, before being presented to the Diet as government bills by the ruling party or parties, and inevitably approved by the Diet with at most minimal changes.

In other words, according to this widely-held view the "national consensus" as reflected in the budget is reached, not by debate between the taxpayers' representatives in the Diet, but through negotiations between bureaucrats centering on the Ministry of Finance. However, it does not follow from this that bureaucrats rule over public spending with complete impunity. Seen from the perspective of commonly held ideas of what democracy is, the current system certainly appears anomalous, but it is not without its positive aspects. Compared to people outside government organizations, bureaucratic groups do tend to give serious consideration to the interests of society and the nation as a whole. Therefore bureaucrats can use their reason and expertise to draw up efficient and fair budgets which reflect a national consensus. This seems to be the principle on which the current system is based. But even if this were the case the constitution and fiscal law would need to be amended to systematize this "principle of national consensus." I would like to demonstrate the importance of this point by referring to recent issues of government spending.

The decisions to change Japan's fiscal structure in the 1980s by introducing a consumption tax and cutting public spending (the so-called "small government" policy) were given a great deal of momentum by a campaign for reforms to reduce the fiscal deficit. A striking aspect of the campaign, which was mounted mostly by Ministry of Finance officials, was its effective use of statistics showing the relative dependence on debt of the general account (which, for example, reached 32.6% in 1980).

Page 14



General Government TOTAL	Social Security Fund	Local Government	Central Government	Year
1.86	2.30	-0.42	-0.03	1970
-4.05	2.64	-1.28	-5.41	1980
2.52	3.10	0.57	-1.14	1990

Changes in the Japanese fiscal account (as percentage of GDP)

Source: Economic Planning Agency, Annual Report on National Acounts, passim.

On the other hand, the increased competitiveness of the Japanese economy in the 1980s made the reduction of Japan's trade surplus a matter of increasing urgency in Japan-US and multilateral negotiations. Japan's trading partners demanded that the Japanese government should reduce or reverse its fiscal surpluses (in other words, it should stop saving money) and increase public spending in order to stimulate the domestic economy, thereby increasing demand for imports. These demands used as their figure for fiscal surpluses or deficits the balance for general government as a whole, as used when calculating national income. The general government total is made up of central government, local government and the social security fund. The general account, from which the relative dependence on debt, the MOF's index of the fiscal deficit, is calculated, forms the core of central government, when seen from the perspective of the national income calculation, which is the index used by the US when it demands an increase in Japanese public spending. As the table shows, central government's fiscal balance worsened considerably during the 1970s, passing -5%, but – as a result of the fiscal reforms of the 1980s – recovered strongly by the 1990s. This vindicated the Ministry of Finance's campaign for fiscal reforms. On the other hand, the overall general government balance, adding local government and the social security fund to central government, showed a large deficit of -4% in 1980. But during the 1980s the pension system reserves within the social security funds accumulated and central and local government deficits were reduced, so that by 1990 there was an overall surplus of 2.5%. This surplus bolstered US demands for increased public spending.

In hindsight, the question of whether to decrease public spending or to seize the opportunity provided by the trade surplus to increase social capital, was a vitally important matter of national choice in the 1980s. If the general public had been given clearer information, and some time and effort had been spent, even at the cost of efficiency, on holding a democratic discussion of the problem, then a choice based on national consensus could have been achieved.

Some would argue that in Japan, most people tend to hold the same opinion, so the effort put into such a national discussion would have changed nothing. Even if that has been true in the past, the pressing need to prepare for a rapidly ageing society in the 21st century makes such national discussions and consensus-forming more vital than ever. In order to facilitate such discussions, we need systems for providing easily accessible information on public spending, starting with statistical data. The key to democracy is the supply of clear and accurate information.

The Ministry of Finance History of Fiscal and Monetary Policies in Japan

Series 1 明治財政史 (History of Fiscal and Monetary Policies in Japan, 1868-1902), B5, 15 vols.

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Series 4 『昭和財政史・終戦から講和まで』 (History of Fiscal and Monetary Policies in Japan, 1945-1952), A5, 17 vols plus B5, 5 vols. Published 1976-1984- public finance during the Occupation.

Series 5 『昭和財政史・昭和27-48年度』

(History of Fiscal and Monetary Policies in Japan, 1952-1973)

- A5, 20 vols. (Published 1990-1995 and forthcoming).
- public finance during the high-growth era.
- an English summary of the series is shortly to be published by Oxford University Press.

Volumes 1-12: Description

Vols. 1-12 cover almost every activity under the MOF's jurisdiction, describing the basic ideas, plans, drafting and implementation of policies.

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 2 Public Finance: systems and policies 8 Government investments and loans
 3 Budgets, 1952-1964 9 Finance I (Financial policies and securities)
- 4 Budgets, 1965-1973 10 Finance II (Financial policies and insurance)
- Special accounts, govt-related organizations, national property.
 Taxation
 International finance and international financial policies I
 International finance and international financial policies II

Volumes 13-18: Materials

Most of these materials, which form the basis for the description in the first 12 volumes, are published here for the first time. By referring to these materials, the researcher can go beyond the description in Vols. 1-12 to gain a more detailed picture of particular policy processes.

- 13 General materials, systems, institutions and personnel.
- 14 Budgets
- 15 Taxations
- 16 Public investments, special accounts, government-related organizations, and national property.
- 17 Finance
- 18 International finance and international financial policies

Volumes 19-20: Statistics, annual tables, and index



An Editor's View of the Public Finance History Series HAYASHI Takehisa

THE five series of public finance history published by the Ministry of Finance are without doubt the richest and most authoritative source of historical information on Japanese public finance. With the exception of the first series, written by MOF bureaucrats, the histories have been almost entirely written by academic researchers on public finance and economics commissioned by MOF (when the first series was being written, European-style universities had only just been established in Japan, so there were probably too few academic specialists available to undertake the work). Despite being written by academics, the series contain few of the writers' own opinions; the dominant approach is to present the facts as clearly and in as much detail as possible, in order to leave an equitable and unbiased record to posterity. All the series make great use of materials made and kept by the Ministry of Finance, and offer much information that is unavailable from any other source. However, from my experience as an editor of three volumes in the fourth and fifth series, editing scholars are frequently prevented by MOF bureaucrats from including particularly important materials. This is to some extent understandable in the case of recent volumes, where the materials in question might contain information pertaining to the Ministry's current work, but bureaucrats also object to the publication of surprisingly old materials. This is a basic problem in Japan, which lacks rules on the disclosure of public documents. Japan needs to learn from countries such as the United States about ensuring public access to government documents.

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CONTEMPORARY JAPANESE STUDIES IN SOCIAL SCIENCE

Announcemen; International Conference. Free University of Berlin, December 5th-7th, 1995 Organized by the East Asian Institute, Free University of Berlin in cooperation with the Institute of Social Science, University of Tokyo and the Nissan Institute, University of Oxford. Papers will be given by the following:

POLITICS AND GOVERNMENT

LABOR AND LABOR RELATIONS

J. Banno (Tokyo)

I. Lenz (Bochum)

A. Stockwin (Oxford) E. Harari (Jerusalem) M. Osawa (Tokyo) M. Nitta (Tokyo)

G. Foljanty-Jost (Halle)

W. Seifert (Heidelberg)

ECONOMY AND MANAGEMENT - DEBATES ON THE PRODUCTION SYSTEM

M. Ikeda (Tokyo)

T. Abo (Tokyo) M.Kenney (Davis, Calif.)

R. Boyer (Paris)

Contact: Prof. Sung-Jo Park

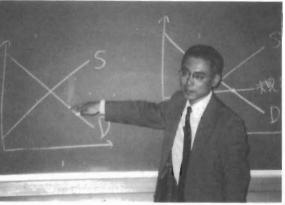
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Recent Trends in Research

The "Japan Model" Financial System

ITO Osamu



ITO Osamu is Associate Professor of Economics at Kanagawa University.

RECENT research on the Japanese financial system has focussed on three main topics.

First, there has been a debate over the question of whether the Japanese government led economic growth by means of controls on loan allocations. In other words, scholars have discussed the validity in the field of finance of the "Japan Inc." model and the model of "government-led" growth using industrial policies.

Second, there is a debate about the main bank system, whereby each firm maintain a long-term and close relationship with one bank – the "main bank." Some scholars claim that this system has led economic growth by implementing the "delegated monitoring system," under which main banks produce and propagate information about firms extremely efficiently as delegates of joint financing banks.

The above two debates concern the question of whether the "Japan model" financial system facilitated and even encouraged economic growth. Recent books by Okazaki Tetsuji and Noguchi Yukio(1) are representative of the latest research in this field. They argue that the contemporary corporate governance system, with the main banks at its core, dates back to wartime Japan, around 1940.

Third, there is a debate about financial regulations in Japan, which are both detailed and discretionary. This debate about financial administration has become more intensive with the recent increase of instability in the financial system.

My recent work (2) has considered these three debates from a wider historical perspective. Japan's financial system has undergone several important changes since the 1920s: the tightening of regulations following the bank panics of the 1920s; the forced amalgamation of banks before and during the war; wartime control of the financial system; postwar reforms; the high investment rate and expansionist behavior of economic units starting during the war and continuing afterwards. All these changes were factors in the evolution of the contemporary Japanese financial system, and therefore rule out single-variable explanations such as those outlined above. Controls of loan allocations played an important role in accelerating economic growth only from 1937 until the early 1950s. From the 1950s the main banks provided a lifeboat for firms in trouble (in other words, they had an insurance function), and the main banks' stability was strongly protected by government regulations. These conditions encouraged expansionist behavior by firms, and such indirect effects were an important factor in economic growth.

1 OKAZAKI, Tetsuji, et al, eds. (1993): 『現代日本経済システムの源流』 (Origins of the Contemporary Japanese Economic System) Tokyo: Nihon Keizai Shimbunsha. ISBN4-532-13036-0

NOGUCHI, Yukio (1995): 1940年 体制: (The 1940 System) Tokyo: Tôyô Keizai Shimpôsha. ISBN4-492-39204-1

2 ITO, Osamu (1995): 『日本型金融の 歴史的構造』(The Historical Structure of Japan's Financial System) Tokyo: University of Tokyo Press. ISBN4-13-046055-2

Sources of Information on the Japanese Financial System

ITO Osamu

Published by the Ministry of Finance

『財政史』 (History of fiscal and monetary policies in Japan)

– see page 16 for a detailed summary of the five series, which cover public finance since the Meiji Era. Each series contains separate volumes on financial institutions.

『銀行局金融年報』 (Annual report on finance of the MOF Bank Division). These are the core materials for a study of financial administration.

『通達集』 (Annual circulars from the MOF Bank Division). $An\ extremely\ valuable\ source\ of\ reference.$

Published by the Bank of Japan:

『日本銀行100年史』 (100 year history of the Bank of Japan). Published 1982-1986.

『日本金融史資料』 (Historical materials on Japanese finance). These are extremely detailed.

『経済統計年報』 (Economic statistics annual)

『国際比較統計』 (International comparative statistics). Published annually.

Published by MITI:

「通商產業政策史』 (History of trade and industrial policy)

NB It might be possible to obtain further information by contacting the editing sections of the above organizations.

Published by the Federation of Bankers Associations of Japan (全国銀行協会連合会):

『全国銀行財務諸表分析』 (Tables and analysis of the financial affairs of Japanese banks). *Published annually*. 『金融』 (Kinyû). *Monthly*. *Useful information and explanations*.

Published by the Keizai Chôsa Kyôkai:

『金融機関の投融資』 (Investments and financing by financial institutions). Published annually.

Data on Japanese Shareownership

HIROTA Masato

SURVEY data on shareownership in Japan is available from 1949 to the present day. From 1949 to 1966 the surveys were carried out by the Ministry of Finance. Since 1967, Japan's eight stock exchanges have carried out joint annual surveys to track developments in patterns of shareownership in different investment sectors. However, the survey design has changed several times over the decades. An advance report (sokuhô) on the previous financial year is published each July, followed by the full report (hôkokusho) at the end of each August. An English summary of the main findings is published annually as the TSE Fact Book. Data is currently only available as hard copy, and data for individual companies is not published.

The surveys cover the regular shares of all domestic companies listed on any of the eight stock exchanges during the previous financial year, and analyze shareholding based on companies' final business figures for the previous financial year. The survey response rate is never less than 100%.

The surveys produce the following data, both by investment sector and by size of holding:

- (1) number of shareholders
- (2) number of shares (since 1985, by units of shares)
- (3) estimated market value, by investment sector only.

In each of above three categories, data is available both as simple figures and as component ratios.

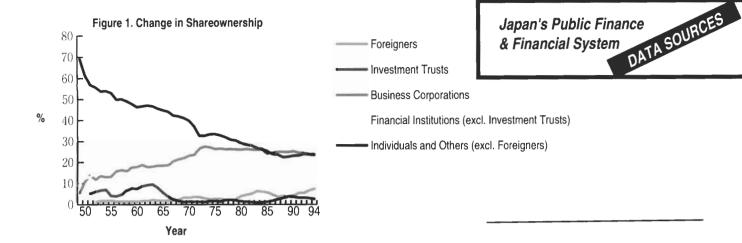
The survey also produces numbers of shares by industrial sector and investment sector, and a ranking of relative numbers of shares by industrial sector and investment sector. There are also consolidated statistics for all companies, in both the 1st section and the 2nd section and on the six local stock exchanges.

Investment sectors are divided as follows:

- government and local government;
- financial institutions (including all banks, investment trusts, annuity trusts, life insurance companies, non-life insurance companies, and other financial institutions);
- business corporations;
- securities companies;
- individuals and others;
- foreigners.

Additional Data

• Since 1973, the survey has also gathered data on the extent of employee stock ownership in companies, as part of the analysis of shareholding distribution for all Japanese stock exchanges.



- Data for the volume and value of stock trading is available from April 1981 for the Tokyo, Osaka and Nagoya stock exchanges, and from July 1974 for TSE only. These flow stock statistics allow calculation of stock market turnover for each investment sector.
- Using the Bank of Japan money flow tables, it is possible to see trends in individual investors' ownership of shares and investment trusts.

Changes in Shareownership by Investment Sector

Figure 1 shows that individual investors' shareownership as a percentage of all shares has gradually fallen during the postwar period, hiting a low of 22.4% and recovering very little since. Even including investment trusts only increases these figures by a little over 3%. Shareownership by financial institutions, in contrast, has grown gradually during the same period. These statistics do not give a direct answer to the most interesting matter, which is trends in "behind the scenes" shareownership (*kabushiki mochiai jôkyô*). An approximate idea of the extent of behind-the-scenes shareownership can be obtained, however, if one defines it as "holdings of listed companies' shares by listed companies".

HIROTA Masato is Assistant to the Director of the Research Department, Tokyo Stock Exchange.

For more information on data produced by the Tokyo Stock Exchange, contact: Office of Research and Planning, Research Department, Tokyo Stock Exchange (東証調査部調査企画室)

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社会科学研究 (Journal of the Institute of Social Science)

Vol.XLVII, No.3 October 1995

Articles:

An Analysis of Urbanization and Local Political Regimes in Postwar Japan (I) SHINDO Hyo

Die Eigentumsfrage in der ehemaligen DDR – eine Shaffung der Rechtsordnung des Privateigentums

HIROWATARI Seigo

The Role of Zaibatsu in the Industrial Development of Pre-WWII Japan (I) KIKKAWA Takeo
The Structure and Development of the Herring Meal Fertilizer Market from the 1820s to the 1900s (II)
NAKANISHI Satoru

Interim Research Reports

Participative Management at L-S Electrogalvanizing Co. NITTA Michio Reconsidering the History of Social Sciences: An Institutionalist View KARITA Shinji

Book Review

OHTAKI Masayuki, Theory of Business Cycles: A Structural Analysis of the Contemporary Japanese Economy HASHIMOTO Juro, KAWAI Masahiro, and SHIBUYA Hiroshi

All articles are in Japanese. Subscriptions available to academic institutions on a gift or exchange basis. Contact: Publications Committee, Institute of Social Science, University of Tokyo.

MOF Information: What is Available?

KATO Shin'ichi

RESEARCHERS investigating any area of Japanese government are frustrated by the lack of publicly available information, and those working on Japan's public finance and financial system are no exception. The continued absence of a public disclosure system in Japan leaves us with no alternative to squeezing as much information as possible out of those documents which the Ministry of Finance chooses to publish. Fortunately, MOF does publish many high quality documents which reflect the excellence of its information gathering and processing procedures. The downside of this excellence is that all information is thoroughly screened before publication. Despite this limitation, the volume of information coming out of MOF is substantial.

Reading MOF literature, therefore, is an inescapable first step in any research on Japanese fiscal and monetary affairs. This article summarizes the major MOF publications.

REPORTS OF MOF ACTIVITIES

· Division annual reports (nenpô)

There is no annual publication giving a comprehensive account of developments and policies in all areas under MOF's jurisdiction. Instead, various MOF Bureaus produce their own annual reports, which mostly run to between 600 and 700 pages of extremely detailed and reliable data. The divisions in question are:

Budget Bureau (shukeikyoku):

『国の予算』(the national budget). Since 1948.

Banking Bureau (ginkôkyoku):

『銀行局金融年報』(MOF Banking Bureau annual report on finance). Since 1952.

Securities Bureau (shôkenkyoku):

大蔵省証券局年報』(MOF Securities Bureau annual report). Since 1963.

International Finance Bureau (kokusaikinyûkyoku):

大蔵省国際金融局年報』(MOF International Finance Bureau annual report). Since 1974.

Customs Bureau (kanzeikyoku):

『大蔵省関税局年報』(MOF Customs Bureau annual report). Since 1992.

There are no annual publications giving details of the Fiscal Investment and Loans Program. However, the Finance Bureau

KATO Shin'ichi is head of the Historical Studies Section, Ministry of Finance Institute of Fiscal and Monetary Research (See page 22 for address) (*rizaikyoku*) published useful collections of data in 1958, 1959, 1973, 1977 and 1994 entitled:

『財政投融資』(The Fiscal Investment and Loans Program).

In areas of MOF activity not covered by the annual reports listed above, there is a severe lack of good information, but the researcher may be lucky enough to find some occasional publications.

· Fainansu magazine (monthly)

Published since December 1964, this is MOF's PR magazine, but nonetheless useful. Most of the articles are by MOF staff working on the policies they write about, and the explanations they give are easily understood without being condescendingly simplistic. There were several forerunners to this magazine, but not many copies were printed. Some more specialized magazines were also published before the appearance of *Fainansu*, particularly in finance and international finance.

STATISTICAL DATA

• 『財政金融統計月報』 Monthly statistical reports

There is no annual publication providing general statistics for all MOF activities. Instead, this basic data source has been published monthly since August 1948 in the *zaisei kinyû tôkei geppô*. These monthly publications do not contain statistics for the previous month, but instead each issue concentrates on a different area of activity, such as: the budget; taxation; the Fiscal Investment and Loans Program; treasury revenues and disbursements; government property; customs; finance; insurance; securities; corporate and company statistics; the balance of payments. Taken together, the monthly reports function as an annual statistical report on MOF as a whole.

Annual statistical publications by MOF divisions

The Budget Bureau's 「財政統計」(public finance statistics), published annually since 1962, is regarded as the standard source of basic data for public finance.

MOF also publishes:

『国債統計年報』 (annual statistics on the national debt) and 『国税庁統計年報書』 (annual statistical report of the National Tax Agency).

All of the current MOF publications listed above can be ordered at bookshops or bought directly at government publications centers (seifu

kankô butsu sentâ). Most large libraries in Japan have back numbers of the periodicals.

OTHER PUBLICATIONS

In addition to the publications above, there are materials such as annual budgets and statements of accounts that are made public but not in an easily viewed, edited form, and other materials that are not officially published but are in the public domain. A good place to start searching through this vast body of information is the Economics Faculty Library at the University of Tokyo (Hongo Campus), which has a large collection of MOF internal documents. MOF also has its own library, which is a branch of the National Diet Library. In principle the library is open only to MOF staff, but exceptions are made for bona fide researchers, so it is worth enquiring directly to the library. There are also several special collections of interest to scholars. One example is the Musashi University library's collection of documents belonging to the late Professor Suzuki Takeo, who was a member for many years of MOF's Fund Operation Council (Shikin unyôbu shikin unyô shingikai).

Pre-1945 Materials

The MOF buildings were twice completely destroyed by fire, in 1923 and again in 1940. The documents that survived these disasters were further depleted by dispersal out of Tokyo during the war and then by requisitioning of buildings under the Occupation, so those that remain are extremely discontinuous. They are publicly available and housed at the Historical Studies Section of the MOF Institute of Fiscal and Monetary Studies, to whom enquiries should be addressed:

MOF Institute of Fiscal and Monetary Policy Historical Studies Section (大蔵省財政金融研究所財政史室) 3-1-1 Kasumigaseki, Chiyoda-ku Tokyo 100, JAPAN Tel 81-3-3581-4111 x 5326 Fax 81-3-5251-2177

The Agricultural Economics Society of Japan (日本農業経済学会)

1996 Conference
2-3 April 1996, Tokyo University of Agriculture
Contact:
The Agricultural Economics Society of Japan,
Nihon Gakkai Jimu Center nai, Gakkai Center C21
Komagome 5-16-9, Bunkyo-ku, Tokyo 113 JAPAN

The Internet: A Rational Choice?

Andrew DEWIT and Jonathan LEWIS

The immense popularity of the Internet, especially e-mail discussion groups, in academic circles has given rise to questions about the usefulness of the medium. Some say the groups represent a new area of academic activity between journals and conferences. Others dismiss them as virtual coffeehouses for the exchange of platitudes.

The first five months of SSJ-Forum incline us to the more favorable view. SSJ-Forum offers its more than 450 geographically dispersed subscribers the opportunity to exchange information, discuss ideas, and establish contacts — activities that until recently were only possible at conferences or in major libraries.

A further goal of SSJ-Forum is to provide an environment for calm and scholarly debate on contentious issues in Japanese politics and political economy. Exchanges on unmoderated e-mail discussion lists, true to the Internet's North American origins, are noted for their often brash and confrontational nature. This repels many users who have important things to say but no stomach for ill-mannered and intemperate flamethrowing. SSJ-Forum is modelled on H-ASIA and other moderated lists, where messages are approved by the moderators before being forwarded to subscribers. Good moderating keeps the volume of mail down and messages relevant.

Some have objected that moderating a list constitutes censorship. While there is a place for unmoderated lists with no rules about content and tone and no limit on the number of posts, many academics have neither the time nor inclination to participate in such lists. Any list that tried to block politically incorrect views or criticisms of particular countries or organizations would rapidly lose its membership and credibility. The SSJ-Forum archives and *Social Science Japan* show that the Institute of Social Science certainly does not suppress criticism of itself or other Japanese institutions.

The edited debate on rational choice that follows gives a taste of SSJ-Forum. As we and our colleagues at ISS worked to establish the list, we believed that the acrimony over rational choice was impeding clear-minded study of its strengths and weaknesses, and that uncommitted observers in particular would benefit greatly from a moderated forum in which discussion could proceed freely but not descend into name-calling and accusations.

THE discussion of rational choice on SSJ-Forum was stimulated by two talks held under the auspices of the ISS Contemporary Japan Group. First, Stephen Reed gave a provocative lecture entitled "Why Not Rational Choice?" at ISS on April 20. A summary of Reed's talk was posted to the Forum on May 31, two days after the list was established. Reed criticized what he saw as the tautological character of rational choice, and claimed that its assumptions are not borne out by psychological studies:

"Rational Choice assumes that people are smart and selfish and use sophisticated mathematics to deduce conclusions from these and a set of other assumptions. This would appear to be a scientific approach to the social sciences. I argue that the path towards more scientific social sciences does not lie with rational choice."

Frances Rosenbluth, coauthor of the controversial *Japan's Political Marketplace*, responded to Reed's remarks on June 3. She pointed out that:

See back cover for details of SSJ-Forum

$^{f 56}$ Disagreements over methodology are the life blood of science $^{f 59}$



- Stephen Reed

"few rational choice theorists believe that people are fully rational in the way posited. Rather, the point is that 1) psychologists have yet to offer a SYSTEMATIC alternative explanation for human behavior. We have a Kuhnian paradigm in rational choice, and until another theory proves systematically more useful, the best way to advance science (producing and testing hypotheses about political behavior) is to use the existing paradigm. 2) in realms where there is competition (elections, for example), people who behave irrationally (inappropriately in response to incentives) will lose."

> Rosenbluth and others highlighted the polarization of the debate on rational choice. A measured and perceptive post by Reed on June 4 addressed this problem:

"I do not consider myself a rat choicer but neither do I consider rat choicers my 'enemies' in any sense. Disagreements over methodology are the life blood of science. Physicists do it. I am reading a collection of interviews with leading lights in the "cognitive sciences" called SPEAKING MINDS. These people all think their friends are badly mistaken, but they are all friends engaged in a common enterprise. They admit when the other guy has made a good point and even admit when they have been wrong.

Why can't we do this? My guess is that the perceived influence academic studies have on US-Japan relations is the key to understanding how such an academic debate can get so far out of hand. 'They' become the enemies because if their advice were followed, it would lead to ruin and destruction."

> The next major contribution to the debate was Masaru Kohno's summary of his May 18 talk on "The State of Japanese Political Studies: Rational Choice and Its Critics." His June 8 post noted that rational choice institutionalism has many variants, of which Japanology's principal-agent paradigm is only one. Kohno argued:

"the contributions of Ramseyer/Rosenbluth's book [Japan's Political Marketplace] to the field of Japanese political studies are three-fold. First is their innovativeness: they have adopted one of the most popular rational-choice frameworks now used in American Politics (the Principal-Agent Model) to study Japanese politics.

Second is their normative implication, which is either 1) that Japan is not unique, or 2) that (even if Japan might be unique) we do not need an approach that emphasizes factors unique or distinctive to the Japanese context to study Japan. Third, and often overlooked, is their consistency in analyzing various aspects of Japanese political economy. The P-A model is essentially a "thin rational" model (without "thick" specifications of utility-functions), which thus can be applied to wide range of P-A types of relations. The book is a great contribution in that they applied the same framework to various kinds of analytical questions consistently, including the politician-bureaucrat relationship, the voter-politician relationship, the politician-judge relationship, etc. in Japan."

> Later posts from Professors John Campbell, Ellis Krauss, Margaret McKean, T.J. Pempel, Len Schoppa, Bernard Silberman, Sven Steinmo, and others paid much attention to the questions of what rationality is and how the assertions of rational choice work can be tested. McKean pointed out in her September 12 post that "ratch" can be seen as a tautology, a set of assumptions to work with, and a set of hypotheses to test:

"It can function [in] all three ways. The first is silly (as Sven Steinmo said, fun but not very useful), but the second and third can be very useful. In fact, using ratch as a set of hypotheses to test does not even ASSUME that individuals are rational utility maximizers. It asks if we can figure out what's going on by

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66 like a group of six year olds playing soccer, everyone may be chasing the same ball around the field, trying to kick it once or twice



— T.J. Pempel

making those assumptions, and leaves open the possibility that if our predictions don't pan out then the assumptions themselves are open to question."

The debate over the place of rational choice in Japanese studies appears to flow naturally into the groove carved by years of speculation on the relative powers of the bureaucratic state and politicians. Hence, Michael Thies initiated a round of very interesting posts with his September 13 comments on the relationship between politicians and bureaucrats. Thies tentatively attributed the following view to Pempel:

"politicians began after the first Oil Shock to reverse the power asymmetry that until then had favored the bureaucrats. P-A theory suggests that no such change could have taken place without a prior, exogenous change in the parameters of that relationship. If politicians had the authority to step in and affect policy after 1973, they must have had it as well before 1973."

This was, however, challenged by Pempel himself as well as Campbell and Krauss. Their posts emphasized important differences between the institutionalist study of policymaking as a process that is not reducible to simple causal statements versus the more formal and simplified approach favoured by the rational choice school. They also noted the near-consensus on the increased influence of politicians in policymaking after the oil shocks. But they rejected the implied depiction of policymaking as a struggle between bureaucrats and politicians, because divisions over policies rarely split actors into two such camps. Splits develop among different groups of politicians and bureaucrats, depending on the issue. Pempel, somewhat exasperated, wrote on September 22nd:

"Clearly a lot of ink is now being spilled on both sides of the Pacific on this issue of the relative power of bureaucrats and politicians. This in itself, however, does not 'prove' the importance of the issue. It merely suggests that like a group of six year olds playing soccer, everyone may be chasing the same ball around the field, trying to kick it once or twice. And wherever the ball goes, the six year olds will follow. But as any good soccer player can attest, that is not 'good soccer,' although it may be great exercise. But in the longer run, I am convinced we will learn more about Japan, more about Japanese politics, and more about political science if we choose interesting and complex problems that have real and empirical roots and outcomes, and hypotheses that are subjected to the tests of falsifiability. I could be wrong, but so far, it seems to me the stuff we all draw on for our insights, and the stuff that seems so far to be standing the test of time, is of that order."

By extension, rational choice will find a secure place in studies of Japanese politics when its research program has been brought to bear, persuasively, on a sufficiently large number of empirical examples.

Andrew DEWIT and Jonathan LEWIS were founding co-moderators of SSJ-Forum. After two years at the Institute of Social Science, Andrew Dewit is currently affiliated to the Australian National University. Jonathan Lewis is a Research Associate at ISS.

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Review Essay

The Nuclear Family in Postwar Japan

KASE Kazutoshi

MORIOKA Kiyomi (1993) 『現代家族変動論』 (Changes in the Contemporary Family). Tokyo: Minerva. ISBN4-623-02301-X. OCHIAI Emiko (1994) 『2 1 世紀家族へ』 (The Family in the 21st Century). Tokyo: Yûhikaku. ISBN4-641-18205-1.

THE relationship between parents and their married children differs greatly between Japan, America and Europe. In Japan, the causes, advantages and disadvantages, and future development of this family relationship are the subject of great debate. This debate is directly relevant to the question of how much responsibility families should bear for looking after the increasing number of elderly people.

The conventional view of the Japanese family is that after the Second World War it began a rapid shift towards the two-generation nuclear or "western" family model. Morioka is representative of this mainstream view, pointing to the rapid jump in the number of nuclear families in the postwar years and the continuing fall in the proportion of multi-generation families. In essence, Morioka finds industrialization and a longing for a western-style family life responsible for the shift to the nuclear family, part of a gradual westernization of Japanese society as a whole. But his argument is not clear-cut. Sometimes his causal chain is an active one, as follows:

industrialization \rightarrow improved economic situation of the family \rightarrow parents and married children become able to live independently

but sometimes he switches to a passive causality:

regional differences in job opportunities → young people have to leave home → multi-generation families become impossible to maintain

Unable to give a consistent explanation for the change, Morioka is reduced to attributing the growth of the nuclear family primarily to a longing for "westernization."

Attacks on this orthodox view have not been slow in arriving, and have singled out for criticism the assumption that the increase in nuclear families has caused a decline in multi-generation families. Ochiai has been the most systematic proponent of this critique. She argues that during the 1960s and early 1970s, when the number of nuclear families rose rapidly, heirs continued to live with their parents while their siblings left home to start nuclear families. This claim is borne out by the statistics, which show that the absolute number of multi-generation families did not fall during this period. The increase in nuclear families is instead explained by the "population explosion" generation, those born in the period 1925-1950, forming households in the traditional manner, that is, leaving the heir at home with the parents. The younger generation clearly did not reject the idea of the multi-generation family. After this demographic phase ended around 1975, the increase



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in the proportion of nuclear families also slowed, undermining the conventional view that the nuclear family is continuing to gain ground at the expense of the multi-generation family.

Ochiai's demographic approach successfully explains most of the sudden increase in nuclear families during the high-growth era. In portraying the following twenty years as static because of a slower rise in the proportion of nuclear families, however, Ochiai overlooks important recent changes in Japanese families. If Ochiai's argument that there has been no change in the character of the multi-generation family is true, we would expect to see a rapid increase in the total number of multi-generation families, because the number of old parents has grown rapidly. But no such increase is to be observed.

Neither Morioka nor Ochiai, therefore, is able to offer a satisfactory explanation of the mechanisms by which nuclear families have increased, nor of the relationship between the ideological and economic causes of the increase.

A further shortcoming of both authors' work is that they concentrate on urban families, almost completely ignoring the continued prevalence of multi-generation families in rural communities. This durability of multi-generation rural families has, in fact, held in check the national trend towards nuclear families. The authors' shared blind spot in this regard is perhaps best explained by their tendency to learn from foreign family sociology rather than to address properly the wealth of analysis and arguments regarding the family put forward by Japanese agricultural economists and rural sociologists. This is indicative of a deeper problem, the lack of dialogue between family sociology on the one hand and agricultural economics and rural sociology on the other. The major obstacle to such a dialogue is the assumption by the latter disciplines that rural families are by nature multi-generational.

Scholars in many areas of social science can and should contribute to clarifying the character of the Japanese family. Statistical analysis alone has a tendency towards over-simplification, which must be corrected by scholars in other disciplines and countries.

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Decentralisation in Japan's Political Economy

The Kansai International Airport

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Kansai

関西

The term refers to the region comprising the prefectures of Osaka, Kyoto, Hyogo, Nara, Shiga and Wakayama. Sometimes the Osaka-Kobe area is referred to as *Hanshin*. Another term, *Keihanshin*, includes Kyoto, Osaka and Kobe, the three major cities of Kansai. Neither Kansai, Hanshin nor Keihanshin are administrative units.

With 16.4% of the total population, the Kansai economy currently generates approximately 20% of the national economy. If it were an independent country, Kansai would qualify to be a member of G-7 on economic criteria and would rank eighth on the world's GNP table (Kansai Economic Federation, 1993).

SINCE the prewar period, the highest and fastest economic growth in Japan has occurred in and around Tokyo. With just 3.6 percent of the total land area, in the late 1980s the Tokyo Metropolitan region (Tokyo, Kanagawa, Saitama and Chiba Prefectures) had 25% of Japan's population, 45% of its university students, 62% of the headquarters of companies with a capital of over 10 billion yen, and 86% of foreign firms (Yamazaki, 1991:87).

While most regions outside Tokyo resent this uneven development and Tokyo's strong hold on the nation's high-profile facilities, rivalry is at its most intense in the Kansai region. The Kansai region was at the centre of the country's commercial activities during much of the Edo Period and into the early 20th century, but it never recovered its status after the war. In attempts to restore "prestige" and provide a fillip to the region economically, one strategy of the Kansai regional authorities has been to push for large public projects that would make the region commercially as attractive to national and international firms as the Tokyo metropolitan area. Many urban sociologists and economists have been firmly behind this strategy (Miyamoto, 1993: 80). For several decades regional visionaries argued that a modern, round-the-clock international airport would be the key to the economic development of the Kansai area, that it would serve to launch other planned large projects on to the global stage.

The New Kansai International Airport, which became operational in September 1994, is the world's first offshore airport. It is also Japan's first twenty-four hour airport. Along with the Kansai Science City and Osaka Bay Area Development programmes, the Kansai Airport is one of the mega-projects in a package of 882 projects with a budget of more than 42 trillion yen (\$400 bn) currently under way in the Kansai region (Kansai Economic Federation, 1993:12).

Although the Kansai International Airport has been a massive project with national and international implications, the plan itself was the product of a regional initiative in which local governments and other regional interests, particularly business groups, played a vital role. Hitherto international airports in Japan (Haneda, Narita, and Itami in Osaka) were built with one hundred percent national finance, and this is the first case where local governments and regional business groups have made significant financial contributions to such a project.

My current research therefore considers the Kansai International Airport with its admixture of political players at the national and regional levels of government in the context of "decentralisation". The case demonstrates new dimensions in the politics played out between these levels of government with the corporate sector, bureaucrats and individual politicians further adding to the two-level fray. In particular, I examine the role played by local governments

what is really crucial is with whom the local actors can forge alliances at the centre

and business groups in initiating and winning approval for the airport. My central questions are: how strong have Japan's subnational governments been in setting agendas that affect their economies, and what are their sources of strength vis-à-vis the national government? How influential are regional business groups and what role do they play in regional economic development by forming alliances at their own or other levels?

My research finds that local businesses and other governments play a key role in initiating large public projects and lobbying actively through to the projects' realisation. As Japan's production and trade systems become more complex and heavily integrated (vertically as well as horizontally) with the regional and global economies, new channels open up through which regional level actors can influence policy decisions affecting their region. These local actors recognise and take advantage of new opportunities to initiate local economic policies and thereby increase their power and autonomy from central government. In some circumstances local governments unite in attempts to win the central government round to their plans. In other circumstances they engage in horizontal conflict (between local actors, for example, conflict of interests between business associations of Kobe and Osaka in relation to the siting of the international airport in the Kansai region) in a bid to win key projects for their own "territory," resulting in delays in finalising plans and their implementation. Just as the central level actors keep an eye open for opportunities to "divide and rule" or at least exploit vulnerabilities, local actors too adopt their own ploys to maximise their interests. We find that politics and economics became an unwieldy mix of local versus central (Kansai actors versus national level actors), local versus local (Kobe versus Osaka) and local-central (Kobe and the Ministry of Finance) versus local-central (Osaka and the Ministry of Transport) power relations.

Although the plan for the Kansai International Airport was initiated at the local level, when the crunch came centre-level actors determined site and budget. It seems that what is really crucial is with whom the local actors can forge alliances at the centre. Whatever else this case tells us, it clearly points to how money, votes and personal connections (for example, Kankeiren's financial backing for the 1982 prime ministerial bid by Nakasone, who had promised to support Osaka's preferred site for the airport) are crucial to the outcome of large projects in Japan, though of course Japan is no exception in this regard. Clearly changes in the structure of the Japanese economy are facilitating shifts in the power relations between different levels of actors. In the case of the Kansai International Airport we find that local level actors have made significant gains and their quest for autonomy from the central government is surely furthered by these developments.

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Wasting Wealth

Stephan KUNZE

RECENT financial history in many industrialized countries shows that the most frequent reason for financial crises is financial deregulation accompanied by regulatory failure to prevent moral hazard-like behavior by deteriorating financial institutions. Financial deregulation, in other words, often causes systemic instability as well as increasing efficiency. The US savings and loan disaster is a good example of this: a series of well intended regulatory measures only hid, delayed and magnified the bad debt problem. Finding that major commercial banks, also beset with serious asset quality problems, were unable to help, the regulators changed their stance. In cooperation with the banks, they undertook radical disclosure of bad loans and active disposal of problem assets through securitization, and presented the unavoidable final bill to taxpayers. Five years later, American banks are making an astonishing comeback.

One would perhaps expect Japanese regulators and banks to imitate the American success story. They are not doing so; there is a wide gap between the amount of bad loans that Japanese officials will admit to and the amount of bad loans the market perceives, and exacerbating this is the fact that the market for securitized problem assets hardly exists in Japan. One might argue that the Cooperative Credit Purchasing Company (CCPC) and other Special Purpose Companies have bought substantial numbers of discounted problem loans from banks (using credit provided by those banks). Unfortunately, the CCPC has almost completely failed to dispose of the collateral, which, in the meantime, depreciates further. Hence, in the early 2000s the CCPC may start transferring problem loans back to banks, which so far show no signs of providing for that risk. The only tangible effect of the CCPC, therefore, has been to ease the supply-and-demand situation on the beleaguered Japanese real estate market. So far, the CCPC has been nothing more than a price-keeping operation (PKO), one of a number of "muddling through" policies that have wasted large amounts of capital.

PKOs interfere in the process of price formation because they increase the quality of expected returns by decreasing expected risk. When the market crashed in October 1987, MOF organized PKOs through changes in margin requirements, administrative guidance of financial institutions, and doubtful changes in accounting rules. These measures turned risk-conscious individual margin investors and investment trusts into stabilizing speculators. These investors' willingness to follow PKOs in October 1987 was generously rewarded by the market.

However, when the same investors again joined PKOs in 1990 they took serious losses. Having learned their lesson, since 1990 individual margin investors and investment trusts have not taken part in

it is worth suffering the short-term pain of waiving the PKO drug and unravelling the main bank system ⁹⁹

stabilizing speculation. The role of private contributors to PKOs has therefore been passed on to public financial institutions. Since September 1992 the independently managed public pension funds, the postal savings and life insurance system have beefed up their purchases on the Japanese stock market through *tokkin* funds (specified money in trust) and similar instruments. In order to sweeten this – in 1992 market conditions – extremely courageous behavior, *tokkin* managers' dividend payments were rescheduled at intervals of between one to five years. But the fact is that PKOs are producing for public financial institutions today the same results that they previously did for private investors: heavy losses.

Cross-shareholding relationships cementing the business ties of the main bank system and corporate groupings expose about 50% of all stock owners to stock market risks without letting them participate in price formation. Furthermore the specifically Japanese adoption of the BIS capital adequacy standards allows undercapitalized Japanese banks to count 45% of the "hidden" profits on their stock portfolio as second tier capital. Together, these facts explain MOF's keen interest in the fluctuations of the stock market, and suggest that PKOs are government-organized hedge substitutes. But PKOs as hedge instruments have a basic flaw: they do not simply redistribute risks to those willing to take them, but manipulate the entire risk environment. PKOs have achieved short-term systemic stability by distorting return/risk-efficient capital allocation through the stock market. The two main causes of instability, namely vast reciprocal share-holding with its attendant distortion of price formation, and regulatory interference, have not changed at all. Since stockholders who are not cross-shareholders are systematically excluded from banks' and corporations' corporate governance, there is little willingness to provide funds for ventures whose risk-taking in the process of generating returns is beyond control and whose risk profiles depend on the uncertain commitment of public financial institutions to sustain a sufficient level of PKOs. Consequently, the primary market for risk capital has almost ceased to exist, leaving not only banks but also startup companies unable to recapitalize themselves. The author's belief is that even in the medium-term it is worth suffering the short-term pain of waiving the PKO drug and unravelling the main bank system, which has outlived its usefulness. If done seriously, this would restore interest in corporate governance by non-cross-holding-investors. Advocating an ideology of maximizing value to shareholders for Japan is unorthdox. But it could bring – albeit with some initial public capital outlay – the Japanese financial system quickly back on track without wasting further trillions of savers' and pensioners' wealth.

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Japanese Studies in the Philippines

Sylvano D. MAHIWO

THE study of Japan in the Philippines is rather a recent phenomenon. The development of interest in Japan in Philippine institutions has been greatly influenced by the currents of Asian and international relations. During the 333 years under Spanish and then fifty under American colonial rule, Philippine educational institutions came to view through the world from a colonial perspective. When Japan conquered the Southeast Asian region fifty years ago, it attempted in three short years to change the region's view of Japan from a Western colonialist to an Asian-oriented perspective. Through all these periods, the Filipinos were largely passive participants in the evolution of a national perspective on foreign countries in general and Japan in particular.

During the post-World War II years institutional interest in Japan started to develop in some Philippine colleges and universities, many of which now offer Japanese Studies courses. The University of the Philippines offered graduate Asian Studies with Japanese Studies components in the early 1950s. Some decades later, major schools in Metro-Manila such as De La Salle University, Ateneo de Manila University, and other private educational institutions began to develop their own Japanese studies programs, mostly at undergraduate level.

There are three impetuses for this growth of interest in recent decades: first, the expanding Philippines-Japan bilateral relations in many areas of activity; second, the growing influence of Japan in Asia-Pacific regional affairs, as a consequence of which Japan is pursuing cultural and educational diplomacy (bunka gaikô and kyôiku gaikô) along with the promotion of economic and political cooperation in the region; third, the expanding "region-nation-state" levels of interaction between Asia-Pacific countries, including interactions between educational and research institutions. As a result, the Western orientation of Philippine foreign relations has been replaced by an Asia-Pacific perspective.

Some Trends in Contemporary Japanese Studies

Figure A shows the number of published works by Filipino authors on Japan since before WWII, categorized by academic field. Books have been published most frequently in international relations, particularly Philippines-Japan relations, followed by books on Japanese society and culture. Economics comes a distant third. As a very general trend, Filipino works on Japan are being published with ever greater frequency.

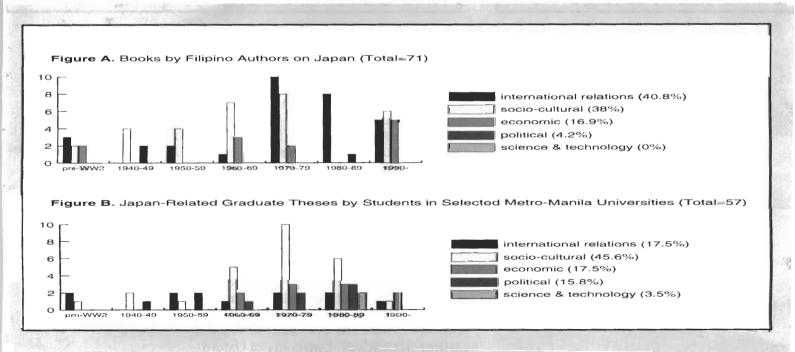
Graduate theses by Filipino students focusing on Japan are one if the most reliable barometers of trends in academic interests in Japanese studies. Figure B shows the total number of graduate (mostly Masters) theses written by students at five selected universities and colleges in Metro-Manila. The figures are by no means exhaustive, but they do indicate certain trends. Nearly half the theses are on Japanese society and culture. The rest are more or less evenly distributed between economics, international relations, and politics.

Issues and Prospects

One of the greatest difficulties in Japanese studies is the Japanese language. Few Filipino researchers have the necessary language training to undertake in-depth studies in Japan, especially in the social sciences and humanities. This is symptomatic of a deeper problem, namely the lack of institutionalized capability in Japanese studies in the Philippines. Unlike Thailand, Indonesia, Singapore, and Malaysia, there is no full-fledged Japanese Studies department or autonomous unit in any major Philippine university to provide training for future Japan experts. Japanese studies in the Philippines need better qualified human resources, better library facilities, and an improved management mix if they are to show real quantitative and qualitative growth. Finally, Japanese studies programs in the Philippines and elsewhere cannot thrive without personal, professional and institutional links with Japan and third countries.

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