

JIAP OBSERVATION

JAPAN'S "GANGSTA" ECONOMY

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JIAP has long argued that the Yakuza and other questionable types have acted as Japan's financial regulators. Handshake deals were cemented less by trust than by a guarantee of immediate "enforcement." Loans were collected, agreements adhered to, and payoffs made without messy laws and lawyers. This was fine when Japan's international economic activity small, uncompetitive, unsophisticated, and uncomputerized. This is now not fine for a major industrialized country with huge capital markets, foreign reserves, and international financial transactions.

The level of illegal, corrupt, and questionable financial activity that can potentially destabilize Japan's economy has never been fully understood or studied. Economists never consider it in their calculations of factors affecting Japan's banking and monetary policies. With huge amounts of money missing, misdirected, and unregulated it is a small wonder that Western economist's predictions have been inaccurate.

One first scholarly step toward correcting this blindside of Western economists appears to be:

"The Dark Side of Private Ordering: An Institutional and Empirical Analysis of Organised Crime,"

University of Chicago Law Review, Winter 2000. Curtis J. Milhaupt and Mark D. West.

<http://lawreview.uchicago.edu> This article is reviewed by the *Financial Time's* Ms. Gillian Tett is one of the best and unheralded experts on Japan's economy in:

"Gangsters Who Hold Japan's Future To Ransom; The Government Must Build More Effective Legal Structures to Reclaim the Territory Now Occupied By Yakuza Criminal Gangs," Gillian Tett, Commentary, FT10/15/01, p21. "The significance of the yakuza, the professors argue, lies not in what they are doing, but in what the Japanese state is not doing: creating an effective, law-based culture. The yakuza fill a vacuum created by government inaction. The Japanese state has not been very effective at creating clear-cut rules for business, the study argues. Instead, it has relied heavily on "informal", socially organised solutions - a pattern the authors call "private ordering. . . .the problem Japan now faces is that yakuza do not fit easily into the type of market-based economy Japan needs to build - and that [Koizumi] claims to endorse. . . .[U]nless Japan can improve its legal structures, its chances of creating a truly vibrant financial sector seem slim. It is time for Mr. Koizumi to get serious about judicial reform." <http://globalarchive.ft.com/globalarchive/article.html?id=011015000305&query=yakuza>

[NB: the FT British editors like to humiliate writers of manufactured letters for the Japanese government who criticize Ms. Tett, by not correcting the Japanese author's miss-quotes or his references to Mr. Tett (even though her commentaries are always accompanied by a picture). Unfortunately, this subtle and very mean irony is lost on Japanese officials.]

Exposing Japan's "gangsta economy" promises to be one of the unintended consequences of US terrorism legislation that is currently making its way through Congress. With new and stringent "know your customer rules combined with the ban on dealing with shell banks and maintaining questionable correspondent banking accounts, the underside of Japan's banking system can be exposed. Other reporting requirements will severely test Japan's inadequate banking laws and record keeping system. The potential for uncovering billions of yen in illegal tax havens, deals, corporate political accounts, and dummy corporations is immense. Even more interesting than the affect on Japanese politics is that the many US tax cases against Japan that were killed by political higher ups may be reactivated by additional evidence.

Japan may dodge the bullet, as powerful lobbyists are working hard to kill the money laundering components in the terrorism bill. Indeed, Bush Administration officials such as Larry Lindsay had been in the forefront of killing any previous efforts to strengthen these laws. They remain lukewarm. See:

“Money Laundering Bill Passes; House Strips Measure of Web Gambling Limit Opposed by Banks,”

WP10/18/01, E1. Bill passed 412-1. House leadership, Majority Leader Richard K. Armey (R-TX) and House Speaker J. Dennis Hastert (R-IL), backed by lobbying efforts by credit card companies including Visa, MasterCard, Bank One, and Bank of America, stripped restrictions barring credit cards being used for “illegal internet gambling” from the version passed by Financial Services Committee.

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