Fixing Japan’s Economy

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Japan Information Access Project
2000 P Street, NW, Suite 620
Washington, DC 20036
(202) 822-6040
http://www.jiaponline.org

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The papers in these proceedings were presented at an April 8, 2002 symposium “Fixing Japan’s Economy.” They reflect a growing understanding of the underlying tensions of industrial and economic transformation in Japan. Throughout modern Japanese history, institutional realignment has been critical to change. As Japan has shifted from feudalism to empire to democracy, Japan’s economic and political institutions have had to adjust. Today, Japan is a democracy and change in democracies is slow and time consuming.

The current transformation finds a process of tearing down or weakening of many fundamental institutions, such as political parties, bureaucrats, diplomats, law enforcement, corporations, financial groups, health organizations, and trade associations. These institutions, public and private, are being discredited and are losing public support.

The next transformation in Japan will be one of replacing and rebuilding these economic and political organizations. The result is likely to be less government interference in the economy, more citizen activism, greater emphasis on small- and medium-sized businesses, and freer markets. The challenge for Japan is to ensure that the next phase of Japanese development is an investment in the dynamic growth sectors of Japan’s economy, such as information technology and services. In the end, as in all previous transformations, the key is an enlightened political leadership reallocating the human capital and technology resources of the economy in new directions.

The Japan Information Access Project is indebted to many people who helped make this symposium and its proceedings possible. As timely as this topic appears, the issue of examining the Japanese economic crisis through institutional change was first proposed by University of Hawaii professor Sumner La Croix and Stockholm School of Economics professor Magnus Blomström in the fall of 2000. The period that followed has been one of intense domestic and international political change. Japan’s economic crisis deepened. These scholars were prescient to recognize the importance of examining the sources of change within Japan’s political and economic culture.

The JIAP is grateful to the Japan-US Friendship Commission (www.jusfc.gov) for their financial support of this project “Institutional Change in Japan: How It Affects Economic Reform.” The Commission has a long history of funding important research on the US-Japan relationship. The Friendship Commission supported many of the studies and books referenced in these proceedings. The Commission’s Executive Director, Dr. Eric Gangloff, has guided with foresight and patience a generation of scholars on Japan who have improved measurably US-Japan understanding.

The JIAP is also grateful to the European Institute for Japanese Studies (EIJS), Stockholm School of Economics for their financial support. The EIJS is the leading center for the study of Japan in Europe and is today at the forefront of scholarly studies on Japan’s economy.
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Also supporting the research and the symposium for this project are the East-West Center and the University of Hawaii which contributed staff time and moral support. The final product of this project will be an edited book on institutional change in Japan that is expected by November 2003.

Dr. Sumner La Croix of the University of Hawaii oversaw and provided inspiration for the Washington symposium phase of the project. Ms. Mindy L. Kotler, director of Japan Information Access Project, organized the Washington symposium and its proceedings. The Japan Information Access Project (www.jiaponline.org) is a nonprofit research center that studies security, technology and public policy in Japan and Northeast Asia. Assisting Ms. Kotler were Japan Project senior research associates, Mr. Seth Drewry, Mr. Daisuke Okuyama, and Mr. Masamichi Kira. Mr. Drewry and Mr. Okuyama prepared the resource guide on Japanese economic resources. Ms. Rosanna Phelan proofread and formatted the final document. That last minute spark of encouragement came from Dr. Ron Morse of UCLA.

And we are all indebted to our families for their understanding of the time we devoted to this project.

Mindy L. Kotler
Director
Japan Information Access Project

April 4, 2002
Impediments to Growth in Japan

R. Glenn Hubbard
Chairman, Council of Economic Advisers

Keynote Address

Having given numerous presentations over the past year on the Japanese economy, I hope I am not at risk of wearing out my welcome in audiences like this one. This is especially true because the problems that face Japan have been well diagnosed for many years. However, I continue to believe that thoughts from friends can be useful to Japan, especially those that help to bolster the important reform efforts of Prime Minister Koizumi.

The revitalization of Japan in the post-war period is one of the world’s true growth miracles, with real GDP increasing at an annual rate of 9.6 percent from 1955-1970. Japan also outperformed the industrial economies over the more recent past, growing at an annual rate of 4.3 percent from 1970 through 1990. In contrast, OECD growth (excluding Japan) averaged only 3.3 percent. It is in no small part this great potential that renders Japan’s economic performance over the past decade extremely disappointing. Output growth for the decade ending in the fourth quarter of 2001 averaged an annual rate of 0.8 percent (far below potential), creating a huge output gap that translates into a lost opportunity for improving living standards in Japan. Poor economic performance also limits Japan’s important role on the global stage and poses a drag on the global economy.

Reviving the Japanese economy will involve politically difficult decisions. In this context, the role of the United States should be to acknowledge the steps that have been taken in Japan and call attention to those steps that remain to be carried out. Three actions remain the key to reform and revitalization: (1) stopping deflation, (2) reviving the financial system and putting the collateral behind the non-performing loans in the hands of private market participants, and (3) structural reform. I will leave the third issue to other colleagues in the administration, and spend the remainder of my remarks on the first two issues. By way of a preview, some preliminary congratulations may well be in order in the efforts to counter deflation. With regard to the reallocation of resources involved in the resolution of the non-performing loans, additional necessary steps remain to be taken.

Stopping Deflation

Deflation is an economic cancer that eats away at the productive and entrepreneurial sectors of an economy. While each of us as an individual benefits from falling goods prices as long as our income does not change, deflation wreaks havoc with business balance sheets, reducing production, incomes, and employment. In Japan, deflationary pressures exacerbate structural difficulties in reallocating capital, aggravating the non-performing loan problem by increasing the ranks of non-performing assets warehoused in the banking system.
With this diagnosis in mind, many commentators have envisioned a sort of “grand bargain” to revive the Japanese economy. Such a bargain would be between the Bank of Japan and the government, whereby the Bank of Japan would provide an accommodative monetary policy in exchange for implementation of a tough-minded reform agenda on the part of the administration. Are we in fact seeing the first steps of such a “grand bargain” on the part of the Bank of Japan? Since moving to a quantitative easing policy in March of last year, the Bank of Japan has eased policy four times, upping the target for reserves on deposit at the Bank of Japan (current account balances at the Bank of Japan) in August, September and again in December. Most recently, the Bank of Japan announced late in February that it would increase its purchase of long-term Japanese government bonds (JGBs) to ¥1 trillion per month and vowed to provide sufficient liquidity to the financial system as the end of the fiscal year approaches.

Over the past year, current account balances held at the Bank of Japan have quadrupled from an average of ¥5 trillion to the current level of ¥20 trillion. The results of this easing of monetary policy have been apparent, with the monetary base up 32.6 percent year-over-year in March. However, growth in M2 plus CDs is disappointing – up only 3.7 percent year-over-year in February (data for March will be released on April 10).

Some commentators have portrayed the latest policy changes as ineffective, until recently arguing that the consumer price index data show that Japan is still “mired in deflation.” Some caution is in order given the famous long and variable lags implicit in monetary policy, especially with the bulk of the easing coming in only the past three months. Nonetheless, the increase in Tokyo consumer prices in March, the first increase in seven months, is a positive development.

Because asset prices are forward-looking, they are an avenue to achieve a more immediate read-out of the ultimate impact of monetary policy. A standard analysis, for example, would be that in the face of a significant monetary easing, one might expect an increase in long-term bond yields due to an increase in expected changes in the price level. And there is some indication that price expectations, as reflected in JGB yields, have responded to BoJ easing measures, although there may be other reasons for the rise in JGB yields since early November. Still, the evidence is consistent with a current and expected easing of monetary policy, the Bank of Japan has taken a first step and should be encouraged to continue its current policy, and do more if necessary, until consumer prices do respond. The Bank of Japan has begun to deliver on its side of any possible “bargain.”

Non-Performing Loans and Corporate Restructuring

The key to understanding the issue of financial and corporate revival is to understand that the non-performing loans (NPLs) in bank portfolios are only a symptom of the underlying problem. The real problem is that capital is not being allocated to its most productive uses. If banks continue to roll over loans to firms that have no hope of turning a profit, fewer scarce financial resources are available to those firms that can turn a profit. Understanding and solving the non-performing loan problem requires understanding and solving the non-performing asset problem. Indeed the two are mirror images.
A few numbers illustrate the crux of the problem facing the Japanese economy and corporate sector. The simplest starting point is to look at productivity. After averaging 2.0 percent in the 1980s, multi-factor productivity growth in Japan fell to 1.3 percent for the 1990-95 period and tumbled to 0.5 percent for the three years ending in 1998. Obviously, the impact of this decline is felt in the corporate sector. The non-financial corporate sector’s return on assets, using the latest Financial Statements Statistics of Corporations from the Ministry of Finance, stood at 2.7 percent in the fourth quarter. This is above the recent trough of 2.0 percent, but well below the historical Japanese average of 4.0 percent.

In some respects, the situation in Japan is similar to what was faced in the United States and the United Kingdom, in the 1980s. Policies put in place by strong leaders such as U.S. President Reagan and U.K. Prime Minister Thatcher helped encourage the necessary restructuring, laying the groundwork for rapid growth in both economies over the past decade. In the non-financial corporate sector, by the mid-1980s the return on assets for large firms in the United States fell as low as 0.9 percent (after-tax). However, spurred by deregulation and reform, the corporate sector was transformed and returns on assets surged, as employment fell and balance sheets improved from a deleveraging. Gains in manufacturing have been truly impressive. Returns on assets for these firms stood at 5.9 percent in 2000. Capital that was inefficiently devoted to this sector was allocated elsewhere. The job losses in manufacturing were more than made up by job gains in other sectors, with the U.S. economy enjoying the longest economic expansion in its history.

If the problem is as straightforward as I describe, why has more progress not been made in Japan toward resolving the problem? The answer, as I emphasized in Japan this past December, is incentives on the part of bank management, bank regulators, and the political process. Bank managers are loath to force a loan customer into restructuring as it reflects poorly on past management decisions. Bank regulators are often unwilling to force banks into action, since such a move would call into question past regulatory practice. Finally, the political process may find it difficult to take tough actions that disadvantage key constituencies.

Of course, there are always reasons to be offered other reasons for delay and forbearance, most prominently the argument that foreclosure and restructuring must wait for a more supportive macroeconomic environment. Waiting for such a fortunate circumstance is a mirage: The macroeconomy will not meaningfully recover until capital is allocated to its most efficient uses. This has been Japan’s experience for the past decade. Proponents of the “wait for recovery” view also claim that moving capital from struggling firms to more productive firms will depress asset prices, adding insult to injury and further depressing economic activity.

In this regard, I have a surprising story: The opposite is true. Rapid restructuring likely will lift asset prices, which will buoy economic activity. Rational market participants are fully aware of the assets that need to be reallocated – for example the real estate held as collateral that must be sold when firms are restructured. Prior to actions toward restructuring, asset prices are low because forward-looking markets take into account the large supply of distressed assets that will be made available once restructuring begins. Asset prices do not rise until the sales actually begin, when market participants can be sure that the supply is starting to be worked off.
Empirically, this can be seen at both the firm level and in the aggregate data, in Japan, the United States, and other countries as well.

To begin, let me examine both the U.S. experience and the Nordic banking crises for evidence that restructuring bolsters prices and economic activity. At the firm level, the United States has witnessed many successful corporate restructurings, where firm values rose as soon as markets believed restructuring would take place. For example, this is precisely what happened when Mellon Bank restructured by spinning off its problem assets into Grant Street Bank – in three months, Mellon’s share price was up 10.5 percent as compared to a 2.5 percent increase in the S&P 500 index. In the three months after Humana announced the separation of its hospital and health plan operations, its share price rose 32 percent compared to a three percent increase in the S&P 500. Finally, in the three months following Scott Paper’s decision to undertake a serious restructuring by bringing in its first outside chief executive in 115 years, its share price rose 41 percent compared to a less than three percent increase in the S&P 500. In each case, markets did not reward the restructuring until the restructuring took place. It would have been pointless to wait until prices rose before beginning the restructuring, as it was the delay in restructuring that kept prices depressed.

The same can be seen in more aggregate data. Let me start with Texas in the late 1980s and early 1990s. Some will argue that the Texas experience – while an easy example - is not relevant for Japan. Now, the problems in Texas certainly never threatened the payments system in the way that the banking problems in Japan have. However, in another sense, the problems in Texas, when Texas is treated as its own economy, were in fact at least as large as those faced by Japan. In Texas, 844 banks and savings and loans failed, the resolution of these institutions cost $80 billion, or 21 percent of annual Texas gross state product. In Japan, public funds allocated to financial crisis resolution are estimated to amount to 12 percent of GDP, with only a fraction of these funds actually spent. Japan has some way to go before its resolution costs compare to those in Texas.

The prices of the assets of the failed banks and thrifts in Texas remained depressed for years, as markets were well aware of the large overhang of distressed assets that needed to be liquidated or resolved. Prices did not rise until the first sales took place. For example, loans at the first auction in Dallas sold for 21 percent of book value. At the next auction, loans sold for 62 percent of book value. The same story was seen in San Antonio, where at an initial auction loans sold for 18 percent of book value while at the second auction loans fetched 36 percent of book value. The lesson is clear: Holding assets off the market in the hopes of a price rise is self-defeating.

This relationship between asset sales and economic recovery can also be seen in the experience of other economies as well. The Nordic banking crises of the early 1990s are arguably the most applicable for Japan. In all of these cases, the crisis was so widespread that the payments system was at risk, and the size of the crises relative to GDP rivals estimates of the current problem in Japan. In Finland, recapitalization costs of the government are estimated to have amounted to 11 percent of GDP. Costs in Norway and Sweden were smaller, at eight and four percent of GDP, respectively. One reason for the disparity in costs is the difference in speed with which the problems were resolved. Sweden is held up as a model of rapid resolution, but in all three
economies, economic activity was quickly revived. Two years after the establishment of Securum, Sweden’s main asset management company, real GDP growth had rebounded from an annual rate of –1.4 percent to an annual rate of 3.3 percent. Within five years, Securum had disposed of 98 percent of its assets. Activity also rebounded in Finland, where government recapitalization costs were higher. In the year after the Arsenal asset management company was founded, real GDP growth rebounded from an annual rate of –1.2 percent to an annual rate of 4.6 percent. In contrast, Norway did not use the asset management company approach to dealing with the problems in its financial system, rather the Government Bank Insurance Fund recapitalized financial institutions but insisted on capital write-downs, the replacement of management, and cost cutting. This decisive action mostly took place in 1991 and paid large dividends—real GDP grew at 3.3 percent in 1992, well above the 2.1 percent growth rate recorded in 1990. It is worth noting that in all three of these Nordic economies, monetary policy was accommodative while the restructuring was underway.

Recent events in Japan also confirm the lesson that prices will not recover until true restructuring begins. The stock market has clearly rewarded announcements of restructuring. Let me list a few concrete examples. The bankruptcy of Mycal pushed the Nikkei up 4.1 percent in September of last year, and most recently the Nikkei surged 5.9 percent on March 4 with the news of the Sato Kogyo bankruptcy. Markets will reward the news that banks are really addressing their problems. By the same token, markets will punish continuation of the flawed strategy of propping up failing firms.

With this clear lesson and especially clear examples in mind, what should one make of recent governmental efforts in Japan? The RCC should not be a vehicle for recapitalizing the banks through inflated purchase prices that reward bad decisions and weak provisioning. Rather, the RCC should be willing to take some risks on individual loan purchases. What is key is that purchases are made and that the assets are put in the hands of private market participants. The RCC must not become a warehouse of bad loans, it must act as a nimble middleman that quickly moves troubled assets from bank balance sheets into the hands of those who can undertake the necessary restructuring. In this regard, I look forward to the promised public disclosure of the Financial Services Agency’s round of special inspections. I hope that these inspections signal the end of regulatory forbearance and the beginning of a hard-nosed, realistic evaluation of bank assets.

In a similar vein, I do not understand the need for new restrictions and tighter supervision of short selling of equities, particularly when they are introduced before market participants and the exchanges have their systems in place to ensure compliance. This can only distort the valuable signals sent by the equity market, reducing liquidity and dulling the positive reception that true reform measures would receive. Some have compared the equity markets to gambling casinos. In fact, market participants risk their wealth on identifying both the productive and unproductive firms. This informed identification based on millions of informed opinions is extremely valuable and should not be diluted with misguided regulations that seek short-term results.
Tax Policy and the Reform Process

A review of impediments to growth in Japan gives me the opportunity to turn from thoughts on the need to avoid regulatory forbearance and promote quick disposal of troubled assets to an analysis of a topic that I have studied over much of my professional career. Prime Minister Koizumi has called for a major tax reform agenda to be prepared by the end of June, and I have spent time with those involved in preparing various tax reform proposals. Reports that the tax reform plans focus on the need to lower tax rates and broaden tax bases are a promising development.

It is essential that Japan’s economy return to healthy rates of growth in order to meet the needs of an aging population. In this sense it is easy to think of tax reform as a sensible “long-run” policy. But tax policy can also support the necessary quick action on banking and corporate restructuring that is needed to restart growth. Prudent tax changes can lead to better functioning capital markets and make important contributions to the process of structural adjustment. (Such contributions significantly exceed those of spending changes – Kenneth Kuttner and Adam Posen estimate that, for Japan, the economic multiplier on tax changes is almost three times as large as the economic multiplier on expenditure changes.) Transactions taxes and taxes on dividends and capital gains are capitalized in asset values. A move to a broader tax base with lower rates on capital income and transactions would, other things equal, raise asset prices and thereby facilitate structural adjustment.

Income taxes present significant opportunities for lower rates and broader bases. The Japanese tax code identifies ten different types of income, each taxed at a different rate. In particular, interest income, capital gains, and dividends are all taxed at separate rates. The net effect of this disparity gives debt financing an advantage. In addition, longer-term capital gains are taxed at one-half the rate of short-term capital gains, providing an incentive to delay transactions. This asymmetry hinders the promotion of deep and well-functioning asset markets, markets that will be key in Japan’s restructuring process. Equalizing the effective tax rate on all returns to equity is good tax policy. Lowering the effective rate will aid asset market performance.

The 1998 reduction in corporate tax rates – which moved Japan to parity with most other industrialized nations – is a good step in this regard. The planned introduction of consolidated taxation in the 2002 fiscal year is also quite welcome. To facilitate corporate restructuring, firms must be able to offset losses in one subsidiary against profits in others. Viewed from this perspective, the proposed two percent surcharge for those firms using consolidated accounting discourages restructuring.

Tax reform efforts also appear to be focusing on the inheritance and gift tax as well as the land registration tax. A significant element for Japan’s revitalization is that the real estate market – a particularly important asset market – operate with as few distortions as possible. That is, the transfer of the collateral behind problem loans must be as quick, transparent, and seamless as possible. In this environment, a registration tax as high as five percent on real estate transactions is particularly unhelpful.
Looking over a long horizon, there is little doubt that broadening the income tax base and lowering income tax rates will help to stabilize tax revenues as the needs of an aging population begin to mount. Although statutory marginal income tax rates are close to those in the United States, the many allowances have made for a relatively narrow base -- 15 to 20 percent of all employment income tax earners pay no tax. A calculation by the OECD indicates that the combined exemptions and allowances at the local and national level have reduced income tax collections by ten percent of GDP (without taking into account behavioral effects of tax policy).

Strengthening the tax system is good economic policy, especially for Japan in the current environment. A more unified treatment of income, both for households and businesses, and treating land like any other asset to reduce the tax drag on asset values and transactions will help to solidify and advance the other planks of the Prime Minister’s reform and recovery agenda.

With all of these planks in place, the outlook for Japan will improve. The lessons are clear, both from a historical perspective and from current events: Markets have and will continue to reward forward progress – action – on the Japanese reform agenda.

Thank you, and I look forward to your questions.
Japan’s economic performance over the last decade has been miserable and the financial system is in shambles. Yet, there is little consensus among policymakers either inside or outside Japan over what can be done to improve the situation. The solution is not simple. There is no easy single monetary or fiscal fix. Japan’s economic problems result from a complex web of dysfunctional financial institutions. What is needed is a comprehensive and coordinated set of policies that involve monetary stimulus, bank recapitalization, and regulatory reform.

The financial crisis is sufficiently broad and deep that the necessary institutional changes cannot be initiated or implemented immediately. Nevertheless, several basic principles can be used to guide the process. The overarching principle is that Japan’s banks, insurance companies, and government financial agencies all suffer different problems and require different solutions. All three sectors are connected and a failure to tackle concurrently the problems of each promises to doom any reform plan.

Banking Sector

Japanese commercial banks have incurred huge loan losses and there are continued questions about the solvency of many of the incumbents. The banking industry has not had an operating profit since fiscal year 1993. The banks have written off ¥72 trillion (over 14 percent of GDP through March 2001) and yet the losses are expected to continue for the foreseeable future (Fukao, 2002). These losses are too large and persistent to be blamed solely on the rapid decline in asset prices at the beginning of the 1990s. Rather they are indicative of deeper underlying problems facing the industry.

Profit Margins

There are two complementary ways to analyze the banks’ current problems that ultimately lead to similar solutions about what might be done to reverse their continued decline. One focuses on the banks’ current costs and revenue structure, while the other looks at the economic forces operating in the industry.

In the former, the continuing losses can be traced to the failure of the banks to generate enough revenue on their loans and other assets to cover their funding and operating costs. From this
perspective, the key policy actions should be steps that allow the banks to boost their profit margins.

**Deflation**

The first step to raise profit margins is to end deflation (Fukao, 2002). The GDP price deflator in Japan has been falling since 1994. With deflation, banks find it difficult to charge more than one or two percent to their borrowers (since the inflation adjusted interest burden is much higher). Because deposits rates can go no lower than zero, these lending rates do not allow the banks to earn an adequate spread. If the inflation rate were positive, the banks would have more room to maneuver.

Lending rates are low, in part, because the corporate sector is also in distress. Most of these corporate problems are attributable to real operating inefficiencies. Ultimately, many of these firms will fail.

These operating inefficiencies are also exacerbated by the deflation. Borrowers who took out long-term loans, at historically low rates of interest (three or four percent) have seen the inflation-adjusted burden of their debt grow. This is the converse of the more typical phenomena whereby borrowers benefit from unexpected jumps in inflation at the expense of lenders. A substantial increase in prices (even by as much as 10 percent) for a short time would therefore be beneficial. It would correct for the unintentional increase in debt burdens that has accompanied the deflation. Moreover, when the inevitable bankruptcies come, they will cause the economy to contract. A loose monetary policy would also help with this problem by keeping financing costs low (perhaps only by a bit, but every bit counts!).

Stopping Japan’s deflation would further help with the financial sector problems. This can be done by the Bank of Japan injecting massive amounts of money into the economy and buying a range of assets other than government bonds. With near zero interest rates, exchanging bonds for money makes little difference. But exchanging money for other assets (particularly foreign assets that have higher yields) would lead to rising prices (Bernanke, 2000 and Svensson, 2001). Throughout history central banks that have sought to generate inflation have succeeded.

If the Bank of Japan does follow this course, the exchange rate is likely to depreciate. U.S. policymakers should recognize that recovery in Japan is beneficial for the entire world. Thus, the U.S. should allow the market to determine the exchange rate and not harangue the Japanese over the yen’s decline and the temporary increase of Japan’s price competitiveness. As Japan recovers, the yen will rebound.

Additionally, the problem of regulating the banks would also be easier if the banks charged their customers higher rates of interest. With near zero interest rates, almost all borrowers can make their required interest payments. Only when a loan comes due, and the principal is payable can one gauge the health of the borrower. Since regulators are not necessarily privy to the negotiations that accompany a loan renewal, it can be difficult for them to spot the problem borrowers. Many borrowers with no hope of repayment are often allowed to continue to operate by Japan’s lenders. If interest rates were three or four percent, many of these “zombie” borrowers would soon be unable to make their interest payments. This would make the process
more transparent, sooner, and these companies would be easier to identify, and presumably easier to cut off before they lose more money.

A second problem results from many government-sponsored financial agencies that fail to break even and operate in ways that undercut the profitability of their private sector competitors (Fukao, 2002). It is difficult for banks make profits when Japan’s government-sponsored Postal Savings system has 40 times the number of offices the largest banking group, pays roughly the same rate on deposits as the banks, and charges no maintenance fees. These kinds of market distortions must be removed.

**Product Offerings**
A third problem faced by Japan’s banks is that they have no important profit-making products or services for which they are international leaders (Hoshi and Kashyap, 2001). For years, Japanese banks have been the largest in the world, yet when they compete with the other world financial leaders they almost never win business or make a profit. Remarkably their fee income today accounts for about the same fraction of their overall profitability as it did 20 years ago. In contrast, U.S. banks have more than doubled the percentage of their profits from these activities. The fact that they are not players in these critical high-margin businesses is just one indication of the size of the “competence” gap facing Japanese banks. This product mix problem is their fundamental economic problem.

One way to address this problem would be for Japan’s major banks to scale back on their operations and to focus on niche needs of Japanese customers (mostly small- and medium-sized businesses). The Japanese banks might be arguably better than foreign banks operating in Japan in this product line. The loan demand of these customers, however, is much lower than the assets of the current banking system; therefore, if they shifted in this direction in order to raise profitability, considerable downsizing can be anticipated.

Alternatively, they can maintain their current size and try to compete by moving into new product areas. The limiting case would be to offer a full range of services, such as insurance, securities underwriting, and customized derivative products. The danger is that they will incur greater losses as they attempt to offer new products in services where they have had no experience and are far less competent than the world financial leaders. There are no examples in recent history of any major Japanese bank becoming competitive in new products. This route seems fraught with danger and is most likely to lead to larger losses.

**Revealing Insolvency**
Based on current estimates, many of Japan’s banks would be insolvent if all the bad loans were recognized. The banks themselves have little incentive to admit these problems since revealing them would force the banks to be closed and the management to lose their jobs. Given this alternative, the banks have an incentive to gamble by continuing to roll over problem loans and hope that the borrowers’ health improves.

But misallocation of credit by the banks has other costs. To increase their revenues, “zombie” firms continue to fund price products aggressively regardless of whether this raises profitability.
The “zombie’s” pricing behavior undercuts the profitability of their competitors. Thus, firms that might be profitable if normal competition took place also lose money.

The formation of new firms is consequently impaired, since they also must compete with the “zombies.” Unless a new firm has a huge cost advantage it cannot operate profitably. Since most new firms start out with high costs and then improve their efficiencies, this is very unlikely.

Reversing this cycle requires banks to recognize their past losses, cut off their deadbeat borrowers, and find new, better borrowers. The banks also need to be discouraged from continuing to hold large equity investments in their clients. This equity ownership essentially constitutes another form of gambling. The banks will not choose to stop the gambling when they do not have the money to cover their past losses. If the banking sector is to be rebuilt, the government, not private investors, will have to provide this money.

**Bank Recapitalization**

The Japanese government needs to provide funding to make the banks solvent again. This is imperative to restore the normal flow of savings to deserving borrowers. The money involved will be large, certainly in the tens of trillion of yen. One possible result of this policy move is simply a “disaster” in which the government offers yet another capital injection that the banks squander as they indiscriminately troll for new profits. The bank’s realignment into several large groups that appear “too big to fail” makes this scenario particularly scary.

This assessment leads to two criteria that can be used to judge policy proposals regarding bank recapitalization. First, the policy should facilitate the downsizing and consolidation of the banking sector. Second, since money to bailout the banks is limited, any refinancing proposed should be done in a focused fashion. In particular, if exit is inevitable, then it is poor policy to prop up some banks that will soon go out of business. Past recapitalizations in Japan did not meet these tests. Consequently, across-the-board rescue programs should no longer be adopted.

A better alternative is to use market signals to decide which banks merit funding. Banks that cannot attract private financing as part of their recapitalization should not be refinanced with government money. This type of selective rehabilitation would lead to the best banks being rebuilt—rather than those that might be politically connected. The resulting banking sector would be more efficient at directing funds to deserving borrowers.

**Insurance Sector**

Life insurance companies pose a different problem. Primarily, they have been crippled by their overly optimistic assessment of anticipated investment returns. Consequently, they face a steady drain on their resources because the promised level of repayments exceeds their income. The March 2000 data indicate that this so-called “negative spread” generated losses of roughly ¥1.6 trillion. Therefore, the capitalized value that would have to be financed in a bailout would be far lower than would be required for the banks. Nonetheless, given the already large budget deficits

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2 Fukao (2002) estimates the banks’ equity holdings (at market prices) are roughly twice the value of their net capital position—correcting for the capital they got from the government and through quid pro quo arrangements with insurance companies. This makes their equity values extremely sensitive to movements in the stock market.
and the fact that the Policy Protection Corporation (the insurance fund for the industry) is out of money, a bailout anytime soon seems unlikely.

No Bailout
Most important, a bailout is a bad idea. Unlike the banks, many insurers would be profitable if they had not made such aggressive payout promises. If these returns were negotiated downwards to more realistic levels, then the firms could be sold at a positive price or regain profitability in the future. Determining how to make this inevitable adjustment should be a policy priority. Under this scenario, however, the policyholders rather than the government bear the costs of readjustment. These costs, it can be noted, would be reduced if the Bank of Japan were to end the deflation.

The recovery of the insurance companies could have major spillover effects. These companies continue to have significant holdings of other Japanese firms’ equity, most notably banks. For instance, as of March 2001, insurance companies owned ¥5.4 trillion of bank equity and ¥5.1 trillion of subordinated bank debt (Fukao, 2002). If they were forced to sell quickly their shares, this would put negative pressure on the stock prices that could lead to problems for the banks. More important, the banks also would incur significant losses from their holdings of roughly ¥2.5 trillion of subordinated debt and equity of insurers.

Because of these linkages, it is critical to tackle the insurance reforms and bank re-capitalization simultaneously. If the banks are propped up again, but the insurance sector problems are ignored, then there will be another banking crisis whenever the insurance reform is undertaken. In the meantime, it would be prudent to encourage the banks and insurance companies to sever their linkages.

Government-Sponsored Agencies

Finally, there is a tangled web of debts inside Japan’s government financial institutions. These organizations engage in a host of activities ranging from offering home mortgages, providing life insurance and savings accounts, to financing highway development.

There are two problems with these organizations. The first is that many of these agencies are losing money and will ultimately require a taxpayer bailout. The money that will be spent here constrains the funding that is available for the insurance and banking restructuring. Second, these agencies’ losses are often related to operating practices that limit the viability of complementary private sector firms.

Gauging the size of the taxpayer exposure is very complicated since financial disclosure is poor and many of the assets of these institutions are obligations of other government institutions. A typical transaction starts with a home loan extended by the Housing Loan Corporation (HLC). The HLC would raise the money to provide the loan by issuing debt that is bought by other government financial institutions. If all the underlying assets are solid (in this case the assets associated with the property loan), then the relatively low net position of the government is what matters. If the assets are bad, as is now the case, then the much higher gross figures are relevant. The key issue is what is the asset quality underlying these type of transactions.
There are four recurring problems that suggest asset quality is low (Doi and Hoshi, 2002). First, there are a number of agencies including the HLC where past losses are recorded on the agency books as an asset. Second, in other cases, such as the Public Highway Corporation, the depreciation of assets has not been recorded in order to allow the agency to book “profits.” For these agencies, if assets were written down to realistic levels they would be found insolvent. A third problem is that some agencies acknowledge loan losses that exceed their reserves. This is further exacerbated because almost all agencies show very low levels of provisions, so that even small corrections exhaust the reserves. Finally, on a flow basis most agencies are shown as making small profits (relative to assets), but once central government subsidies are taken into account, the profits often disappear. Conservative estimates indicate that this kind of game playing covers up at least ¥35 trillion in losses (over 7 percent of GDP), with reasonable estimates about further undiscovered loan losses pushing the estimates significantly higher (Doi and Hoshi, 2002).

**Fiscal Investment and Loan Program**

The various government agencies also lend large amounts to local governments. Much of this financing is mediated through the Fiscal Investment and Loan Program (FILP). The FILP is often called the Japanese government’s second general account budget. Historically, most of the money in this program was collected from people’s deposits in the Postal Savings program. The ubiquitous branching system of the Post Office combined with branching restrictions that prevailed until recently for commercial banks led many Japanese to keep their wealth in Postal Savings accounts. The money in these accounts was then turned over to the Trust Fund Bureau of the Ministry of Finance (MOF) and loaned out as the MOF officials saw fit.

As of March 2001, about ¥70 trillion of the FILP funding (26 percent of the FILP budget) was directed to local governments. Assessing the quality of these loans is difficult since local governments are not required to produce balance sheets or other financial statements that would allow a direct estimate of the quality. However, the fact that local governments have substantial debts and are running very small surpluses lead to the conclusion that they will not be able to repay fully these debts.

To quantify this situation, a variety of simulations have been done to show how the local governments’ ability to pay compares to their debt levels. Under the most optimistic scenario, roughly ¥15 trillion owed by the local governments cannot be fully repaid (with ¥6 trillion owed to FILP). Most estimates, however, are considerably higher, clustering around ¥80 trillion (with FILP exposures around ¥30 trillion). The governments who cannot pay will not totally default, but even partial defaults will be very costly for the Japanese taxpayer.

Thus, one policy recommendation is to reduce the flow of FILP money to insolvent borrowers. A FILP reform was enacted in April 2001 that could lead to this outcome. As part of the reform, government agencies are supposed to increase their funding through public bond issuance rather than relying on captive FILP financing. The reform, however, is inadequate in two respects. First, it provides a generous transition period during which money can continue to flow as it had in the past. Second, it does not contain any provisions for shutting down money-losing public corporations. Without such provisions, market discipline cannot take hold.
In addition, there are continuing distortions from allowing money-losing government sponsored agencies to undercut private sector competitors. Besides the Postal Savings system that has deposits of roughly 50 percent of GDP (about one-third of overall deposits in the country), government sponsored agencies account for over 20 percent of all domestic lending, and about 40 percent of the life insurance market (through the Postal life insurance system). There is no reason why the private sector cannot adequately supply these services.

Japan’s government agencies rely on subsidies to break even while engaging in practices that undercut private sector competitors (Fukao, 2002). For instance, government agencies typically will make long-term loans at rates comparable to those banks would charge for short-term credit. Moreover, there is typically no prepayment penalty, giving borrowers a free option from the government. This is particularly problematic in the housing loan business, where the HLC passes on some of the direct subsidies they receive from the government to borrowers and makes loans with no prepayment penalties.

The government should withdraw from these activities. There have been attempts to reform a few of these agencies (including the HLC), however, the reforms appear to be inadequate and are likely to permit most of the agencies to continue in more or less as they had been. If the government agencies continue, operate, they should be forced to compete on a level playing field with private sector firms.

Finally, it is imperative to support policies that improve disclosure and transparency of the net government financial position. A first step is to eliminate the deceptive accounting practices mentioned above. Next, there should be serious attempts to provide more realistic assessments of asset quality, particularly for the local governments. Doing so would likely reveal greater losses than have thus far been exposed.

Conclusion

There are different reasons for the losses lurking in the banking, insurance, and government agency sectors. Yet, the problems in each sector are inter-related. The banking problems that attract so much attention will persist until the troubles in the other two sectors are also addressed. A satisfactory resolution requires recognition of the different driving factors behind the problems in all three sectors and includes measures that address all at the same time.

Time is running out for the Koizumi government. After a year of talking about reform many people have lost faith that Mr. Koizumi will actually move on these problems (unless an unavoidable crisis forces action). The delay also suggests that bold, comprehensive steps are very unlikely. At this point, it is doubtful that this type of plan could make it through the Diet (Japan’s legislature).

Until a comprehensive proposal is put forward, it is important that the reform mantra is not tarnished. The groups that benefit from the status quo are already fighting a public relations battle over what to try next. These people argue that the failure of the (partial) reform attempts thus far prove that further reforms will fail too. It is essential that we recognize that the problem has been too little real reform, not too much.
Recommendations

Policy officials should pursue the following to ensure that true reform takes hold:

1. The Bank of Japan should stop deflation by expanding money growth as much as is needed. (The U.S. and the rest of the world should accept any consequences that this might have for exchange rates.)

2. Stop Japanese banks from continuing to supply credit to deadbeat borrowers.

3. Selectively, but adequately re-capitalize the banks. Use market signals to decide which ones to rehabilitate.

4. Force life insurance companies to renegotiate their promised pay out rates. Do not bail them out.

5. Close money-losing subsidized government financial institutions. Wherever possible, replace government agencies with privately-owned firms.

6. Force the FILP and any remaining government financial agencies to raise their financing by paying market prices.

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ECONOMIC REFORM IN JAPAN: WHY IT HAPPENS, WHY IT DOESN’T

Sumner La Croix
University of Hawaii and East-West Center

Japan’s economic crisis has left many to question the wisdom of Japanese economic organization. The current system is viewed as so cozy and inflexible that reformers may be rendered ineffective. They are viewed as unable to muster sufficient political power to force change until the system is confronted with a major crisis. Conventional wisdom, in both media analysis and academic research, is that a coalition of powerful, political interest groups is blocking critically needed reforms because these groups would lose wealth and power. This view, however, provides a too simplistic picture of institutional change in Japan.

A combination of economic, political, and social policies must work in tandem to affect meaningful institutional change in Japan. Elements necessary for Japanese economic reform to be successfully accomplished include:

- Ending a deflationary monetary policy and radically reconsidering stimulatory fiscal policy;
- Designing new economic institutions that are compatible with global competition in manufacturing and services and with unique Japanese needs;
- Compensating key groups that lose in the reform process;
- Augmenting existing reform measures with additional power when they are ineffective.

Japan, in effect, must reposition and modernize its institutions.

Japan’s Crisis in Perspective

Two assumptions lie hidden beneath the question, Why doesn’t Japan change?: (1) Japan’s long economic crisis is unique among industrialized countries in the post-WWII period; and (2) Japan’s response to crisis has been particularly slow. Both views are unwarranted.

Japan is not unique

The widespread assertion that Japan’s decade-long economic crisis is unprecedented among industrialized countries in the post-WWII period is false. Timothy Kehoe and Edward Prescott (2002) have studied economic depressions in both developing and developed countries and have established a useful benchmark for categorizing depressions. They define an economy as in depression if there is a time period when output per working-age person falls 20 percent below...
the trend growth path and at least 15 percent of that decline occurs over a ten-year period.\(^3\) Japan’s current economic crisis fits the Kehoe-Prescott criteria for a depression, as over the 1991-2001 period, the gap between actual and trend output was approximately 20 percent.\(^4\)

Kehoe and Prescott also find that two other industrialized countries have experienced depressions since WWII: Switzerland (1973-2000; 30 percent drop) and New Zealand (1974-1992; 32 percent drop). At the start of their crises, both countries had high per capita incomes, long experience with market institutions, and rich traditions of democracy. Both countries were also slow to initiate major economic reforms. New Zealand did not embark on major reforms until 1984—ten years into its depression. The impact of New Zealand’s microeconomic reforms was dulled by poor monetary policy, and their implementation took well over a decade.\(^5\) Swiss policymakers reacted even slower, waiting almost two decades to respond to their economic stagnation. The slow Swiss response may have been due to Switzerland’s high per capita income; its ability to expel guest workers during times of crisis; and the difficulty in gaining consensus in such a linguistically and culturally heterogeneous nation.\(^6\) Given New Zealand’s and Switzerland’s slow responses to their depressions, Japan’s response appears more typical—the usual case rather than the outlier.

**Japan has a tradition of change**

Japan’s slow response to its depressed economy also has precedents in its own modern history. During two long periods, 1895-1914 and 1919-1932, Japanese per capita income growth rates averaged less than 0.6 percent, slow growth rates for a developing country. Both long periods of stagnation were, however, followed by robust economic growth, albeit in wartime environments. One should not conclude from Japan’s recent performance that it is incapable of carrying out necessary institutional reforms. Change is a tradition in Japan. The historical record since Commodore Mathew Perry’s black ships first appeared in Yokohama Bay serves as a vivid reminder that Japan has constantly changed over the last 150 years.\(^7\) The successful borrowing and transplantation of foreign political and economic institutions during the 1870s and 1880s serves as a reminder of Japanese willingness to borrow organizational as well as production technology from overseas and to adapt them to Japanese circumstances.

Institutional change carried out during the post-WWII occupation and embedded in the postwar Constitution quickly became part of the fabric of Japanese life. Labor unrest during the 1950s gave way to new labor market institutions, including lifetime employment. As in Italy, parliamentary democracy coalesced around one party—the LDP—and a transition of power was uneventful in 1993. Unwanted institutional change imposed during the postwar occupation was quickly reversed, the most prominent example being the re-centralization of education in the national government.

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\(^3\) Kehoe and Prescott (2002) adopt an annual per capita growth rate of 2 percent as the trend growth path for all countries in their study.

\(^4\) The gap was calculated using preliminary 2001 GDP data.

\(^5\) See Evans, Grimes, and Wilkinson (1996) for an extensive analysis of New Zealand’s reforms.

\(^6\) See OECD (2001) for a discussion of Switzerland’s economic reforms and ongoing problems.

\(^7\) See Weinstein (2001) for an excellent discussion of Japan’s experience with stagnation and reform.
Change is central to Japan’s economy

Japan’s ability to engage in structural reform during its four decades of high growth after WWII has been a central feature of its economy. From initial specialization in coal, silk and cotton textiles, processed foods, and toys came the transition in the 1970s and 1980s to cars, electronics, steel, and semiconductors. Today’s critical question is whether Japan can make the next shift to finance, insurance, computer software, and telecommunications. Studies of productivity in these sectors during the 1990s show them lagging far behind the United States. Yet institutional change that facilitates adoption of the latest organizational technologies by Japanese firms could push these industries to the forefront and produce a sustained phase of economic growth. So what’s Japan waiting for?

Picking Dance Partners: Monetary and Fiscal Policy or Institutional Change?

Why do rich countries in depression wait so long to undertake reforms? One obvious reason is that their wealth and high per capita income provide individuals and firms with a hedge against hard times. This means that prolonged economic stagnation is less likely to cause a precipitous crisis that could force policymakers to undertake major reforms. With its high household savings rates and high incomes, Japan fits this model well. The absence of a crisis in the 1990s that could have forced reform was a major factor in turning stagnation into depression. New Zealand, by contrast, was forced by an exchange rate crisis to begin implementing reforms in 1984.

A second reason is that by their very nature institutions cannot be too pliant. Institutions are a set of shared expectations about how individuals interact in a society, i.e., the shared perceptions of the rules of the game. Japan has grown rich because its institutions functioned well, and individuals will resist changing them until enough pressure arises to force change.

A third reason is that most rich countries became rich because their governments had ongoing commitments to economic reform. Thus, when stagnation appears, policymakers reasonably believe that they are already undertaking extensive reform measures. They view most downturns as the product of unexpected, temporary, negative shocks—such as higher oil prices—and believe their impact can be minimized with timely, expansionary monetary and fiscal policies. In this environment, policymakers are unlikely to initiate extensive reform programs.

The above explanations fit well Japan’s experience with its first two periods of economic stagnation after growth resumed in the early 1950s—the first (1973-1975) and second (1979-1981) OPEC oil shocks. During both episodes, the Japanese government used expansionary monetary and fiscal policies to stimulate the economy after higher oil prices had reduced growth rates. Equally important, when growth resumed in the early 1980s, the Japanese government implemented several deregulatory and privatization programs to restore budget balance and adjusted monetary growth to achieve low inflation—critical steps that other industrialized nations often fail to take.

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8 Weinstein (2001), 37.
9 Over-expansive monetary policy prior to the first OPEC oil shock resulted in high inflation rates in 1974. Management by the Bank of Japan of the second OPEC oil shock was considerably better.
**Monetary and fiscal policy has been dismal**

Since the late 1980s, Japan’s use of monetary and fiscal policy has been dismal. Unnecessarily loose monetary policy contributed to Japan’s land and stock market price bubbles, while tight monetary policy subsequently helped to burst both bubbles in the early 1990s. Expansionary monetary and fiscal policy helped revive the economy in the mid-1990s, but since 1997 the Bank of Japan has engineered a monetary policy that appears to be expansionary—nominal interest rates are close to zero—but is actually contractionary—real (inflation-adjusted) interest rates are high. This tight monetary policy has offset a decade of massive deficit spending by the national government and resulted in deflation and negative growth rates.

Economists are virtually unanimous in their judgment that deflation in Japan must be halted if its economy is to prosper. Unlike the media, economists stress that the main channel through which deflation hurts the economy is its negative impact on firm balance sheets. With nominal interest rates near zero in Japan, deflation raises the burden of firms’ debt; increases the likelihood that firms will not be able to service bank loans; and reduces or even eliminates bank profits. The combination of financially weak firms and struggling banks works to reduce the efficiency of investment and impair the ability of the economy to restructure and to respond to new opportunities.

Deflation also works through a second less noticed channel: *It harms the economy by reducing the demand by existing firms for economic reform.* Consider, for example, deregulation of fare and entry restrictions in taxi industries in large cities. Such deregulation presents significant opportunities to low-cost taxi companies, as they can expand their market share and earn higher profits in the new regime. If, however, these efficient taxi companies have found their debt burden increasing due to deflation, banks will perceive them as poor credit risks, access to capital markets will be limited, and expansion of taxi fleets will become a mirage. Low-cost taxi firms may now become opponents rather than supporters of deregulation. The moral of the story? Ending deflation sets the stage for successful economic reform.

**Interest Groups, Institutional Change, and Compensation**

Media and academic analysis of Japan’s slow reforms has rightly emphasized the central role of interest group politics in Japan’s economic stagnation. There are constant reminders of how organized interest groups in Japan have blocked needed institutional change in the 1990s and are likely to continue to block it over the next decade. Although there is much truth in this perspective, it is too pessimistic. In particular, it ignores the basic insight that good economic reforms provide net benefits to Japan. Some groups gain and others lose from reform, but the gains always outweigh the losses from carefully designed and properly executed reforms. The existence of net gains to society is particularly important for two reasons.

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10 Japanese economists have cited numerous reasons why monetary policy cannot be made more expansionary without risking serious consequences such as hyper-inflation or severe problems with the central bank balance sheet. Foreign economists have emphasized that there are many additional tools that can be used to increase the money supply without impairing the future viability of the Bank of Japan. See Cargill (2001) for a full discussion.

11 Media discussions have emphasized that deflation provides incentives for consumers to defer consumption to future periods, thereby contributing to a fall in aggregate demand today and a stagnating economy. See Kroszner and Strahan (2001) for a recent analysis of factors driving industry deregulation.
**Potential for Winning Groups to Organize**

Net gains mean that the winners have more at stake than the losers in pushing for reform. Since the gains are larger to potential winners than potential losers, these groups should prevail if they can overcome free-riding problems and other organizing costs that impair coordinated political action. While potential winning groups may be poorly organized initially, there are incentives—reaping part of the social gains—for political entrepreneurs to take action to organize them and lobby effectively for institutional changes. The rapid emergence of Prime Minister Koizumi within the LDP is a prime example of such political entrepreneurship. And the resurgence of traditional forces within the LDP also shows how difficult it can be to overcome established forces. If Mr. Koizumi fails to produce critical reforms, such political entrepreneurship may come from outside the LDP. The process of mobilizing potential winning groups is hampered in Japan due to the late development of consumer and public interest groups to counter well-organized industry associations. Until a few years ago, non-profit organizations could not become legal entities without government approval and supervision.

For example, high-tech Japanese manufacturing firms could reap significant gains if Japanese trade with Pacific Rim countries were to be liberalized. These gains would come at the expense of significant losses to Japanese farmers, manufacturers of processed goods, and other firms in low-skilled labor-intensive sectors.\(^{13}\) The Singapore-Japan Free Trade Agreement, concluded in January 2002, signals Japanese interest in more liberal trade, yet was relatively easy to conclude due to Singapore’s lack of a significant agricultural sector, its relatively high wage rates, and its small size.

Nonetheless, recent Japanese interest in free-trade areas with the Association of Southeast Asian Nations (ASEAN), South Korea, and China signals that potential winners, i.e., hi-tech Japanese manufacturing firms, may finally be organizing more effectively to press their interests in liberalizing trade. Liberalized trade with Pacific Rim countries (the participants in the Asia Pacific Economic Cooperation (APEC)) would have three major consequences: (1) It would shift the Japanese economy towards its comparative advantage—just the recipe for a long-lived burst of growth; (2) It would reduce pressure on Asian governments to resist yen depreciation, as new markets would open to offset any losses to their existing exporters from yen depreciation; and (3) lower prices on goods produced in deregulated foreign markets will produce pressure for additional reform in Japan. The pressure that WTO membership is exerting on China’s inefficient firms could well be replicated for Japan if it participated in new regional trade agreements.

**Potential to Compensate Losing Groups**

The existence of net gains also implies that reform packages could be structured to partially or fully compensate losing groups. Since even partial compensation can markedly reduce the opposition to reform from losing groups, reform packages that embody, even indirectly, at least partial compensation for losers are more likely to be implemented. For example, extensions in the duration and size of unemployment benefits may not only provide workers who lose their

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\(^{13}\) Increased imports in these sectors could induce Japanese firms to improve their productivity. See Weinstein (2001), 39.
jobs due to increased trade with a better safety net but they may also reduce worker opposition to increased international trade or labor market reform.

Direct compensatory payments could facilitate reform measures if it is necessary to close down or severely shrink an entire industry. Until the 1970s, the Japanese government facilitated “recession cartels” to aid in restructuring and shrinking flagging industries, but such devices would not pass WTO muster today. Instead, direct payments to shut down such industries or their web of support may be a preferred tool. For example, compensating farmers who agree to give up price supports, import quotas and other subsidies would help to soften farmer resistance to liberalized trade. Where would the resources be found? Paying compensation to close down uncompetitive, subsidized farms would be a better use of deficit spending by the national government than building more unneeded bridges, roads, and railways. If properly balanced against decreased construction spending, compensation could reduce future deficits by reducing subsidy payments and transferring resources to more productive tax-paying industries.

### Adding Power to Existing Reforms

It is a mistake to accept the premise that the Japanese government has done nothing to reform its economy over the last three decades. To name just a few prominent examples:


- During the 1990s, major deregulation initiatives were undertaken in the trucking, airlines, taxi, telecommunications, and electricity industries.

- In 1997 Japan repealed its Large-Scale Retail Store Law, returning limited regulatory powers over construction of large retail stores to provincial and local governments.

- The “Big Bang” financial reforms, implemented between 1998 and 2001, were just the latest steps in a long string of deregulatory measures in finance and banking.

- In April 2001, there was a reform of the Fiscal Investment and Loan Program (FILP), which channels funds from Postal Savings to public corporations and local governments. FILP corporations are forced to raise funds directly from financial markets; their bonds are not guaranteed by the national government; and the Postal Savings Bank does not have to purchase FILP bonds.

#### Incremental reform

Many of these reforms have been incrementally adopted, and creeping incremental change leaves a danger that neither Japanese nor foreign observers will recognize it until long after it has transformed Japanese industry. On the other hand, many of these reforms would be more effective if they were implemented in a non-deflationary environment with a well-functioning

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14 See Doi and Hoshi (2001) for a full discussion of FILP reforms.
financial system. Nonetheless, many of the reforms are limited in their impact because they lack critical elements. Two notable examples follow:

- The FILP reform program broke the long-standing requirement that the Postal Savings system invest its deposits in FILP public corporations and programs sponsored by local governments. However, despite no longer being required to invest in FILP corporations, Postal Savings system continues to purchase bonds issued by FILP corporations! Thus, the traditional financial flows continue, and reform has failed to change outcomes substantially. Real reform is, however, just one step away. Barring Postal Savings from buying FILP corporation bonds would complete the reform and force the FILP corporations to face a market test in their investment decisions.

- Airline deregulation now allows regulatory authorities to allow airlines to enter new routes. Regulatory authorities have approved numerous applications from new entrants, competition on these routes has increased, and fares have fallen. Deregulation does not, however, mean open entry; permission from regulators is still needed to enter a route. This has the effect of reducing competition from potential entrants and may raise prices. And, as in the United States, inefficient allocation of landing and takeoff slots restricts entrance of new carriers and expansion of existing carriers. Moving to open entry and an auction system for allocating airport runway slots could substantially improve airline efficiency, reduce prices, and increase efficiency of airport investment.

Conclusions

Institutional reform is critical if Japan is to end its decade-long economic crisis. Many economic institutions implemented after WWII to facilitate economic development need to be modernized to fit the demands of a modern global economy. Several economists have suggested that “growth with equity” is the most basic and fundamental of Japanese institutional concepts. A successful restructuring of Japan’s economy requires that this basic societal institution be preserved. If compensating groups that lose in the reform process helps to reduce their opposition to reforms, then attention to equity issues can facilitate rather than hamper economic reform.

Suggestions for Japan’s policymakers

What should Japan’s policymakers do to end its depression? Four steps are particularly vital.

- Bank of Japan officials should take immediate steps to end deflation and commence moderate inflation. Until deflation ends, needed economic reforms will not be enacted or will not succeed. Ending deflation must be coupled with critical reforms to the banking, insurance, and FILP sectors detailed in Kashyap (2002, this volume).

- Accelerate liberalized trade with Pacific Rim countries. Signals that Japan is serious about lowering trade barriers would help to reduce concerns among other Asian countries regarding yen depreciation. This would allow Japan more flexibility in ending deflation and would place pressure on its inefficient industries to restructure.
• **Extend existing deregulatory reforms to give them more power.** Several deregulatory programs in key industries are just “one step away” from being successful.

• **Compensate losing groups to speed reforms.** Fiscal policy should be restructured to spend less on public works programs and more on “pensioning” off losing groups.

**Suggestions for U.S. policymakers**

What should the United States government do? The most important step is to recognize that U.S. influence over Japanese economic policy is limited. For example, recent studies of U.S. trade agreements with Japan have shown that they typically have little effect.\(^{15}\) One narrow and one broad initiative would be helpful:

• **Support measures taken by the Bank of Japan to end deflation.** Until deflation ends, other reform measures will not succeed. The U.S. government should accept yen devaluation stemming from such policies, as the yen will rebound once the Japanese economy begins to revive.

• **Advise the Japanese government to liberalize trade with Pacific Rim partners.** The process of trade liberalization under the auspices of APEC has flagged due to renewed concentration on political and security issues. To fill this void, the U.S. government should initiate new regional trade proposals that help to ensure that new Japanese trade agreements benefit the entire Asia-Pacific region rather than just divert trade from one part of the region to another. Japan’s renewed interest in more liberal trade with the Asia-Pacific region provides a valuable opportunity for the United States and Japan to cooperate in an arena where they have often been antagonists. Such an opportunity should not be missed.

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WHAT CAN JAPAN LEARN FROM THE SWEDISH CRISIS IN THE 1990s?

Magnus Blomström
Stockholm School of Economics

In Sweden, it is fascinating to listen to the debate about Japan’s current economic problems. It is like *deja-vue*, as Sweden recently went through the trauma that Japan is currently experiencing. In 1992, the Swedes were finally forced to accept that the “Swedish Model” no longer worked. This was hard to understand, since everything had gone so well in Sweden for such a long time.

The Swedish Crisis

Critical questioning of the Swedish system came about after five related crises hit Sweden’s economy in rapid succession and exposed its weaknesses. These were:

*First*, there was a collapse of the Swedish real estate market. Real estate prices had risen continuously for a period of 15 years, to a peak in 1989. Over the following five years, property prices fell by 75 percent. Three-quarters of the 40 or so real estate companies listed on the Stockholm Stock Exchange during the 1980s encountered such serious problems that they went bankrupt or had to be restructured.

*Second*, the stock market bubble burst. Between 1980 and 1989, prices on the Stockholm Stock Exchange rose by 1,144 percent, compared with a world average of 333 percent. Over the next three years, the index fell by 50 percent.

*Third*, the financial market went into deep crisis. Weighed down by substantial credit losses from bad loans on real estate and for share purchases, three major banks—*Nordbanken*, *Första Sparbanken* and *Gota Bank*—went bankrupt, while the two largest banks—*SE Banken* and *Handelsbanken*—saw their share prices fall by around 80 percent. Two hundred of roughly 300 finance companies disappeared from the market. Total credit losses during the period 1990-1993 are estimated at almost SEK 200 billion, or roughly 10 percent of GDP.

*Fourth*, there was a currency crisis. The fixed exchange rate that was seen as an anchor for Swedish economic policy could no longer be maintained in the face of an economy weakened by overheating and financial crisis. Despite the stubborn defense of the *Krona*—with short-term interest rates reaching 500 percent, several crisis packages intended to strengthen Sweden’s international competitiveness, and the commitment of around USD 30 billion in defense of the currency—*Riksbanken*, the Swedish Central Bank, was forced to abandon the fixed exchange rate for the *Krona* on November 19, 1992. Over the next few months, the floating *Krona* fell by 25 percent against the D-mark, 40 percent against the U.S. dollar, and 60 percent against the Japanese yen.
Fifth, there was a crisis in the real economy and in government finances. The banking crisis led to a tougher credit policy, with higher interest rates and stricter requirements for collateral. At the same time, the collapse in asset values led to a reduction in private consumption and a reduced willingness to invest on the part of companies. For example, the level of industrial investment halved between 1989 and 1993. The result was a fall in total demand on the domestic market, with a consequent reduction in the demand for labor. The stimulus from the export sector, which benefited from the devaluation, was insufficient to “restart” domestic demand for several years. Open unemployment rose from 1.1 percent in June 1990, to nine percent three years later, and real GDP fell every year during the period 1991-1993, by six percent in all. This led in turn to problems with government finances. The rapid growth in unemployment increased public spending at the same time as tax receipts fell. At its peak, during 1994, the budget deficit in the Swedish public sector had grown to almost 12 percent of GDP. With the exception of the acute currency crisis, all of these elements will sound familiar also to a Japanese audience.

Why Was There a Crisis?

These severe crises arose simply because there was an asset bubble that inflated over a period of years, and then suddenly burst. The causes of the growth of the bubble are found in the simultaneous increases in the supply of and the demand for capital and credit during the 1980s. The most important factors on the supply side were the deregulation of the financial sector and expansive monetary and fiscal policies.

Deregulation of the Swedish financial market in 1985 led to a very substantial increase in the supply of credit. Both the liberalization of various lending restrictions—interest rates were freed and property could now be fully mortgaged—and the fact that the banks were now permitted to compete fully with the finance companies contributed to the credit expansion. The increased competition meant that the banks and the other financial institutions replaced their traditional strategy of minimizing risk and maximizing profitability on a fairly constant volume of loans, with a new strategy, which involved instead chasing volume and market share.

In only five years, the indebtedness of the private sector increased from 100 percent to 150 percent of GDP. At the same time, the average lending risk also rose. For example, the first-mortgage loan institutions increased their loan ratio from 75 percent to 85-90 percent. Deregulation also supported the internationalization of the Swedish capital market, and an increasing share of bank lending was financed on the international interbank market. Almost one-third of Gota Bank’s borrowing in 1990, for example, came from foreign bankers. This introduced an important element of currency risk.

The increase in private indebtedness was facilitated by expansive monetary and fiscal policies. Throughout the 1980s, Sweden had a regime of fixed exchange rates, which meant that monetary policy could not be used to counteract a credit expansion. A more restrictive monetary policy would have involved higher interest rates, and an inflow of capital from abroad, which would have made it difficult to keep the exchange rate unchanged. Any tightening would have had to come from fiscal policy, and no such proposals were made.
One reason was that the central government budget looked unusually strong in the mid-1980s, thanks to full employment and the economic boom. In addition, there seemed to be no political reasons for a tightening of policy. The preference, with the pending 1988 election, was for tax cuts and a guaranteed fifth week of vacation for all employees.

The demand side of asset markets was also stimulated by financial deregulation. Since requirements for security were eased, the collateral value of property and other assets increased. Yet, the most important events on the demand side were the devaluations of 1981 and 1982, which created a long-lasting boom and rapid increases in the demand for credits, both from business and the household sector. Profits in export industries doubled both in 1983 and 1984, and remained high over the following five years.

Despite substantial investment, both at home and abroad, several of the leading export companies had problems with "excess liquidity", which was invested in the share and money markets. Investment in commercial property and financial investments both contributed to the high level of asset prices. Furthermore, the high level of current demand resulted in high inflation and wage increases. In combination with the fixed exchange rate, these cost increases would gradually lead to the erosion of industry’s competitiveness, and the bursting of the bubble. Before this happened, inflation had expanded the bubble even more. The real interest rate on borrowing (after tax deductions) fell continuously during the second half of the 1980s, from about 2 percent in 1986 to minus 1 percent in 1990. This contributed to a reduction in households’ financial savings during the period 1985-1990, to a nadir of minus 8 percent of GDP in 1990. Quite simply, households were lured to live beyond their assets.

The Crash

The history books show that the Swedish bubble began to burst on September 25, 1990. A leading finance company, Nyckeln, announced that it expected credit losses of SEK 250 million for the year. This meant that the general public and the banks began to back off and refuse to “roll over” the maturing securities of Nyckeln and the other finance companies, i.e., the short-term assets that financed a large part of their long-term lending.

Nyckeln, Gamlestad, Independent, and most other finance companies found themselves in an acute liquidity crisis. They struggled to obtain capital injections and guarantees from their shareholders, but their credit losses grew too rapidly. Several companies were forced into bankruptcy, and the great majority went into liquidation over the following years.

The cause of the credit losses was, naturally, that the rate of growth of asset values began to weaken. There were several concurrent reasons for this. The overheating of the economy had created a cost crisis and, given the fixed exchange rate, eroded the competitiveness of export industries. Interest rates had begun to rise as a result of the reunification of Germany. Iraq’s invasion of Kuwait in August 1990 had led to declines in many stock markets. Each of these factors on its own could have burst the bubble. Now they came almost together, and as the beginning of the recession became more obvious and the increases in interest rates drove property prices down further, the banks also found themselves in a crisis. The situation was
aggravated by a tax reform in 1991, which limited interest deductions and made it more expensive to borrow, reducing asset prices still further.

**Bank Support and Recovery**

With an economy falling apart and a bankrupt financial sector, it was clear that something radically new had to be implemented. The banking sector came to play a central role for the recovery, just as it had been at the center of the crisis. All the large Swedish banks were burdened by heavy losses, and six of the seven largest banks required capital injections from the state or from their shareholders.

For example, the government injected over SEK 16 billion into *Nordbanken* in 1991 and 1992. The growing credit losses were also a contributory factor in the currency crisis in autumn 1992, since the reduced international confidence in the Swedish banking system made it more difficult for several banks to manage their foreign borrowing. The loss of foreign credits not only led to a weakening of the *Krona* when the inflow of foreign currency slowed, but also threatened the liquidity of the financial system.

In September 1992, therefore, the government introduced a bank guarantee that meant that all creditors—apart from shareholders—were protected against loss. A special Bank Support Board, *Bankstödsnämnd*, was established to administer the guarantee. The aim was to avoid a liquidity crisis—*Riksbanken* used a great part of its foreign exchange reserves for deposits in the banks—and to maintain or restore confidence in the Swedish banking system. For this latter aim, transparent accounting of problem loans was particularly important.

The bank support was used largely as a shareholder’s contribution to *Nordbanken* and *Gota Bank*, and to detach the delinquent loans of these banks into two separate companies, *Securum* and *Retriva*. In all, the payment of bank support amounted to SEK 63.3 billion, which was balanced by the government’s holdings and income from shares and equity in *Nordbanken*, *Securum* and *Retriva* with an estimated value of more than SEK 60 billion in July 1977. The guarantees to the rest of the banking system, which amounted to more than SEK 84 billion, were not utilized.

The recovery was surprisingly quick. After 1993, *Bankstödsnämnden* made no new commitments, and the banking sector as a whole showed a profit as early as 1994. One reason was that the banks’ interest margins rose substantially. Other important reasons were that the tight economic policy caused real interest rates to fall and that an upturn in the international economic situation contributed to an expansion in the export sector. Most important, however, was that the restructuring of the banking system was both rapid and radical. In the Swedish debate, it has been suggested that the emergency treatment and aftercare given to cure the Swedish crisis were comparatively successful for four reasons:

- First, a political consensus was created around a broad solution to the crisis.
- Second, the authorities encouraged the greatest possible openness about the problems and the financial situation of the individual banks.
• Third, bad loans and property values were entered in the accounts in an open and transparent way, and the banks and finance companies that were unlikely to recover from the credit losses were liquidated.
• Fourth, bad loans were transferred to special companies, but at realistic market values.

Lessons for Japan

By 1995, the Swedish economy was more or less back to normal. The Swedish experience suggests that the most urgent problem to be solved in Japan is the financial crisis. Just as in Sweden ten years ago, there is simply too much bad debt and too many banks in Japan today.

The insolvency of the financial sector spills over into other sectors of the economy as well, and Japan is currently experiencing a credit crunch arising from the unwillingness of Japanese banks to lend money. Obviously, the resolution of this banking crisis is of paramount importance for Japanese economic prosperity. A quick and forceful restructuring of the banking crisis will lay the foundations for the future growth in Japan, just as it did in Sweden.
Pressures to reform and restructure the Japanese economy are often taken to be synonymous with the dismantling of the very institutions that were viewed as the pillars of Japan’s postwar economic success. The restructuring plan proposed by the Koizumi government calls for “no pain no gain” measures. Policymakers and academics, both inside and outside Japan, have proposed that reform focus on making Japan a true market-oriented economy. To many, this means that Japan must become more Westernized, or less Japanese, in order to break out of the decade-long economic recession.

The pains of restructuring will be many, but the pain in the labor market is already heartfelt and spreading. By February 2002, Japan’s unemployment rate reached postwar record levels as bankruptcies and downsizing reduced the workforce. Exacerbating this situation is that the Japanese labor market matured in the tradition of long-term employment where mobility takes place within firms, but not between firms. The practice of job mobility among firms is new and underdeveloped in Japan. Without a market that can facilitate the efficient re-allocation and mobility of workers, economic reform will continue hesitantly and painfully.

**Barriers to Mobility in the Japanese Labor Market**

Labor market transactions in Japan are embedded in an intricate web of social relations or social exchanges. Economic exchanges are characterized by short-lasting impersonal transactions between anonymous actors. In contrast, there is an implicit understanding and trust in social exchanges that the relationship will be long lasting, and transactions will lead to a deepening of the social relationship.

This highly personalized aspect of Japan’s employment system is not without its drawbacks. There is increasing tension that the costs of maintaining such social relationships now outweigh the benefits. For example, as firms are obliged to retain excess labor in times of hardship, the labor market loses its fluidity. The lack of fluidity, in particular the lack of exit of redundant workers, impedes the entry of newcomers such as new graduates and fresh recruits. This undermines efficiency and productivity. The practice of training workers from within instead

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16 I am grateful to Kenn Ariga, Masayuki Kakuho, Ari Kokko, and Fumio Ohtake for comments and suggestions.
17 Ono and Rebick argue that the lack of mobility in the labor market has a sizable negative impact on Japan’s economic growth. See Ono, Hiroshi and Marcus E. Rebick, “Impediments to the Productive Employment of Labor in Japan.” In Structural Impediments to Growth in Japan. Edited by Magnus Blomström, Jennifer Corbett, Fumio Hayashi and Anil Kashyap. NBER/University of Chicago Press, forthcoming.
of hiring specialists from outside also becomes costly in the face of rapid technological change that demands a more diversified and specialized work force.

Why Japanese do not change jobs
The top five reasons why workers do not (or cannot) change jobs in Japan are summarized in Table 1. This list only provides a one-sided view of the labor market, i.e., the worker’s perspective. However, behind each reason there is an employer’s explanation that points to deeper problems.

### Table 1. Top 5 Reasons Why Workers Don’t Change Jobs

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I exceed the age limit of the job postings</td>
<td>40.8%</td>
</tr>
<tr>
<td>My work experience is not transferable to the general society</td>
<td>23.4%</td>
</tr>
<tr>
<td>Returns to seniority will be lost and I will suffer wage loss</td>
<td>21.8%</td>
</tr>
<tr>
<td>I do not know how to look for jobs</td>
<td>19.1%</td>
</tr>
<tr>
<td>I will lose personal contacts established through my work</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

(Source: Recruit 2000)

Remnants of long-term employment and the seniority system
To claim that long-term employment is a thing of the past may be an overstatement. There is, however, a growing consensus that the practice is becoming difficult to maintain amidst the current economic crisis. The Economic Planning Agency (EPA) reports that the proportion of firms that “emphasizes permanent employment” was 27 percent in 1990, but has declined to 10 percent in 1999. A February 2002 survey conducted by Nikkei Research reports that over half the firms surveyed can no longer sustain permanent employment practices. In business circles, Matsushita’s announcement to cut 8,000 jobs through voluntary layoffs by the end of fiscal year 2002 was viewed as a marked turning point in Japanese labor relations. Matsushita, its organization and history, had always been seen as the microcosm of the Japanese firm. Their announcement was an impetus to change as it triggered an avalanche of corporate downsizing plans among other Japanese companies.

A long-standing tradition cannot change overnight. There are several factors stemming from the legacy of long-term employment that impede the transition to a more fluid system. First, because the labor market matured presuming long-term employment, job-movers are viewed as job-quitters or defects. Similar to a marriage, a breakup signals failure of goodwill or lack of sincerity. The stigma attached to job-movers thus discourages workers from quitting their jobs, and employers from hiring mid-career job seekers.

Second, workers have accumulated skills that are deeply rooted in their employers; such that their skills are rendered useless in other firms, i.e., their skills have no option value outside of the firm. As documented in numerous studies, Japanese workers accumulate considerable firm-

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18 The EPA is now part of the Cabinet Office.
20 This view has been popularized in the media. See for example, a Nikkei article entitled “Can Matsushita Come Back?” (August 4, 2001).
specific skills in comparison to their U.S. counterparts. These firm-specific skills are products of a risk-sharing agreement, or an implicit understanding that workers do not engage in opportunistic behavior, and employers do not dismiss workers, regardless of fluctuations in the business environment. The obvious drawback of such an intimate relationship is that workers are endowed with skills that are only useful with their current employer. This inhibits their mobility to other firms. Hence, mid-career workers are trapped in something of a Catch-22: They cannot quit their jobs because they have accumulated firm-specific skills, and they accumulate firm-specific skills because they cannot quit.

Third, strong legal employment protection hinders the dismissal of workers. Japanese labor law does not, in itself, provide guarantees to employees. The Japanese Constitution, however, enshrines the individual’s right to work (Article 27) and the right to a minimum standard of “wholesome and cultured living” (Article 25). On this basis, the process of providing justifiable evidence for employee dismissal becomes overburdening for employers.

And fourth, dismissal of workers, even in cases of redundancy, signals a breach of the implicit social contract that is the very foundation of the Japanese employment system. Repercussions of such violations will be far-reaching, as they will inevitably affect the psychology of other workers. Recent government statistics report that employee dismissal is still the last tactic used in Japanese firms in adjusting their employment levels.

The age-limit problem and notions of equity
One of the consequences of the legacy of long-term employment and the seniority system is that Japanese firms impose age limits on their recruiting and hiring. This problem, specifically that workers exceed the age limit of the jobs posted, continues to be the most common reason for workers not changing jobs in the Japanese labor market. Table 1 above supports this reason as do many government studies and statistics. The Japan Institute of Labor reports...
that over 90 percent of Japanese firms impose age restrictions ranging from under the ages of 35 to 40 on their job openings with little variation across industry, firm size, and city size.

The reasons why firms impose age limits are many, but the primary belief is that older workers do not fit into the firm’s current employment system (Table 2). Because of the prevailing norm of long-term employment, there remains a stigma attached to older or mid-career job seekers. They are viewed as “hard to handle” or that they “do not fit well into the corporate culture.” Moreover, because older workers have accumulated firm-specific skills, there is a mismatch problem between the supply and demand for skills, leading potential employers to judge that their skills do not match the firm’s expectations.

The hesitation for Japanese firms to hire mid-career workers is partly rooted in the notion of equity and the desire to preserve homogeneity among Japanese firms. Under a system where wages and promotion are determined primarily by age and seniority, careful measures are taken to ensure that workers are promoted in accordance with seniority, and that deviations from the main career track are minimized. Empirically, Japan-U.S. comparisons have consistently shown that the variance in wages and promotion patterns among Japanese organizations is smaller than their U.S. counterparts. Hence, hiring older workers disrupts the firm’s wage and promotion structures, because the pre-existing seniority system presumes entry from below.

Pressures for employment reform have pushed forward “guidelines” to abolish age limits in recruiting and hiring. Introduced in October 2001 as part of the revised Employment Measures Law, the guidelines specify ten cases or exceptions where imposing age limits are acceptable. Most notably, one of the exceptions is phrased almost specifically to prevent disruptions in the seniority system.

As it stands, the new guidelines are viewed mainly as a cosmetic gesture. They simply state that employers should voluntarily make efforts to abolish age limits. Unlike the legal sanctions that are enforced in certain countries in violation of age discrimination legislation, the Japanese guidelines do not impose any penalty on violators. A cursory glance at job postings after the guidelines were put into affect confirms that a majority, if not all job-postings, continues to require age limits. It is questionable whether the guidelines will have any effective results in the foreseeable future.

Firm-size differences and the hierarchical structure of organizations
The keiretsu system and the hierarchical segmentation of organizations by establishment size have facilitated a pattern of asymmetric downward mobility where workers in large firms may migrate downward to smaller firms, but not vice versa. On the other hand, horizontal mobility,

26 Under Guideline Number 4, employers are allowed to impose age limits in “(c)ases where recruiting or hiring is intended for workers under a certain age in situations where in order to make wage payments regardless of age to new employees, companies will be required to revise present regulations determining wages mainly in accordance with age.”
or mobility across firms of similar scale, e.g., from Sumitomo to Mitsubishi, is also complicated given the *keiretsu* grouping of firms.

In the wake of the current economic downturn, large firms took advantage of their extensive network of subsidiaries and group firms (e.g., suppliers) as potential employers for their redundant workers. Today, the smaller firms can no longer absorb such “redundancies from above,” as they face labor problems themselves. Personnel managers in smaller firms now decline requests for personnel transfers from larger companies, forcing large firms to seek other ways to transfer their workers.

As such, these are difficult times for Japanese firms as they run out of ways to adjust their employment levels. It is not surprising that recent headlines in Japanese newspapers report the large-scale voluntary retirement programs underway among Japan’s most prestigious firms such as Mitsubishi Motors, Matsushita, Hitachi, and Toshiba. As of November 2001, 82 firms have announced plans to dismiss a total of 120,000 workers within the next few years, mainly through voluntary retirement plans. Most are targeted toward older employees with at least ten years of tenure. However, some economists have estimated that on average, a voluntary retirement package is a bad deal, i.e., the loss in lifetime earnings resulting from early retirement is greater than the lump sum benefits offered by these packages. Moreover, voluntary retirement risks adverse selection problems: It is often the higher-ability workers that quit, and not the lower-ability workers who the firm wants to dismiss. Japanese firms that have offered voluntary retirement programs in the past no longer do as they realize that they risk losing their best workers.

### Information problems

An emerging problem among recent job-changers is a lack of employment information available about the labor market. Workers do not know what skills they have, and employers do not know what skills they need. “Better information for job seekers” has been a persistent problem in the Japanese labor market where job postings tend to be ambiguous and crucial information such as job descriptions and required skills are missing.

It is, therefore, not surprising that human resource firms that specialize in headhunting and re-employment services are rapidly growing in a society where a market for job-changers is only just evolving. As indicated by one of the top responses for barriers to job changes in Japan (see Table 1), many workers simply “do not know how to look for jobs.”

### Policy Implications

In his 1987 book, *Pack Your Own Parachute*, management professor Paul Hirsch outlined the following five career strategies for managers that enable them to survive corporate disasters.

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29 Ichinose, Tomohiro. “Early Retirement Plans and the Decline in Lifetime Income Resulting from Job Changes” (*Tenshoku ni yoru shougai chingin no gensho to souki taishoku yugu seido*). *Rosei Jiho*. No. 3484, (2001): 27-34. The discussion here concerns pecuniary benefits. It can be argued that early retirement packages maximize workers’ non-pecuniary benefits more than the pecuniary benefits.
1. Cultivate networks, maintain visibility
2. Return recruiters’ calls, maintain marketability
3. Avoid overspecialization, maintain generality
4. Avoid long-term and group assignments, maintain credibility
5. Keep your bags packed, maintain mobility

The average Japanese worker does not meet any of these “qualifications.” Meanwhile, Japanese workers face the risk of becoming victims of restructuring much like their U.S. counterparts did in the 1980s when the book was originally written. Although the proposed strategies partly reflect differences in the corporate cultures between the U.S. and Japan and should not be taken at face value, the Japanese labor market may benefit from incorporating some of the messages underlying these propositions—mainly that workers must increase their option value. Indeed, if officials in the Japanese government are seriously committed to their restructuring efforts, then it is time that they start thinking about how mobility can be facilitated, and not how employment can be protected.

Policy Prescriptions

**Abolish age restrictions.** The age-limit problem remains the number one reason inhibiting mid-career workers from changing jobs. The current guidelines are cosmetic, and abolishing the age limit remains a voluntary gesture. Stricter legislation must be imposed where sanctions are enforced and violations are penalized.

**Facilitate the dismissal of workers.** Labor laws must be revised to facilitate the dismissal of workers. Labor contracts must allow for more flexible and diverse work arrangements. For example, employers should be allowed to hire workers on a probationary basis.

**Develop external labor market.** Under the current internal labor market structure, the only port of entry for new hires comes from below, and workers are nurtured within the firm through in-house and on-the-job training. The internal labor market is an institutional feature that cannot be deconstructed in the short-run, but there are still ways to facilitate labor mobility while keeping the internal labor market structure intact. One way is to develop an external labor market, where employers can shop around for labor and skills on an as-needed basis. As firms face tough times, the internal labor market structure becomes increasingly difficult and costly to maintain. An external labor market consisting of contingent workers, such as contract and temporary workers, can both absorb and supply workers in accordance to demand fluctuations.

**Establish external training programs.** A market for job-changers by definition entails a market for general or professional skills (as opposed to firm-specific skills). There are some early indications that workers are responding to this change, for example, by acquiring licenses and certifications. In recent years, the government program to subsidize the general training of workers has been met with great demand. Some critics point out that the skills acquired from

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32 Workers may take courses from accredited institutions and receive a maximum subsidy of 300,000 yen.
the training do not always meet the skills demanded by employers. To the extent that it increases the outside opportunities of workers, the program is on the right track. Further initiatives, be they public or private, should be introduced that foster the development of general professional skills.

**Educational reform.** Educational institutions must respond to the changing demand for skills in the labor market. Japanese universities in particular have been criticized for their “leisure land” culture of allowing students to graduate without much effort. But as firms lower their emphasis on in-house training and seek professional and specialized skills, institutions of higher learning must respond by training students to match those skills. As it stands, there is a considerable mismatch problem between the supply and demand for skills, and valuable human capital is lost.

**Conclusion**

Economists ascertain that “the world has moved, and is moving, from social to economic exchange, and is inherently destined to be governed by economic exchange in the future.”\(^{33}\) Amidst the economic downturn, the benefits of social exchange in Japan are overshadowed by its costs, and there is mounting pressure that transactions must become more market driven. However, to the extent that social exchange can be a complement to economic exchange, it is perilous to assume that all aspects of social exchange relationships inflict harm and should be dismantled. Proponents of the Japanese system warn that organizations should maintain a longer time horizon and not act in the interest of short-term gains.\(^{34}\) Hence, the Japanese economy faces a difficult task of preserving Japan’s heritage, while attempting to internalize the gains that are realized from transactions based on economic exchange.

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JAPAN’S INDUSTRY ASSOCIATIONS
RECONSIDERING BUSINESS RELATIONS

Jay Tate
University of California, Berkeley

Japan’s distinctive industry associations, both sectoral and regional, have become obstacles to the structural reform of the Japanese economy. The existing framework is no longer able to shepherd collective action, yet business actors still lack the freedom either to re-shape existing associations without state interference, or to create alternative forms of sectoral and regional cooperation. After years of discussion, the government of Japan is formulating definite and specific plans for “radical reform” of trade association governance. These plans are to be proposed during 2002 and implemented by 2005. Successful reform of Japan’s business associations would enhance any efforts toward broader economic reform.

Sectoral Trade and Industry Associations

Associations are highly regulated
Japan has roughly 26,000 “public interest corporations” (*koueki houjin*), 27 percent supervised by a national ministry, the rest supervised by prefectural governments. Each is subject to discretionary, potentially time-consuming, permission (*kyoka*) or approval (*ninka*) from a supervising ministry. Initial approval can take a year or more, and applicants must demonstrate substantial assets, typically ¥100-300 million ($8-25 million). Approval is also ongoing: roughly half of all approved associations are subject to one or more on-the-spot inspections within a three-year period.

Subsidies are one reason that associations bother to seek approval. Article 89 of the Japanese Constitution declares that private organizations not within public control are ineligible to receive public funds. “Path dependence” (i.e., history) is one reason associations maintain the status. Many of Japan’s leading associations began as public interest corporations decades ago, and the effort required to change status would be greater than remaining with the status quo.

Executives from government backgrounds at the helm
The golden parachute or “*amakudari*” (“descent from heaven”) that a truly senior bureaucrat enjoys—whether into electoral politics, a major company, or a special public policy corporation (*tokushu houjin*)—has a more widespread, if more mundane, counterpart in the systematic transfer of mid-career officials into approved industry associations. Government officials in their 40s or early 50s frequently and systematically “sideslip” (*yokosuberi*) from a supervising ministry into the most prominent *koueki houjin* as full-time executive directors (*senmu riji*), managing directors (*joumu riji*), and office managers (*jimu kyokuchou*), positions that they may hold for a decade or more.
In 2000, 35 percent of all nationally supervised public corporations (2,469 out of 7,154) had bureaucrats among their directors ( rijji ), and those that did had an average of 2.5 former bureaucrats. (Note that this count omits bureaucrats in posts below the director ( rijji ) level, e.g., office manager.) The directorships were evenly divided: half were directors who worked full-time, the other half held less demanding, though still remunerative, positions. Moreover, 10 nationally-supervised associations still had more than one-third of their directors coming from a supervising ministry (down from 20 in the previous year), thereby exceeding the proportion allowed under 1996 Cabinet guidelines. Three percent of prefectural public corporations remained in violation (Soumushou, 2001).

Public interest associations and foundations monopolize collective action
Public interest organizations as defined by Article 34 of the Civil Code have two sub-types: incorporated associations ( shadan houjin ), where corporate status attaches to members, and incorporated foundations ( zaidan houjin ), where corporate status attaches to assets. With a few exceptions, major sectoral associations are among Japan’s 12,500 shadan houjin, including steel (JISF), automobiles and parts (JAMA, JAPIA), electronics (EIAJ), machinery (JMF), and chemicals (JCIA) associations. Many incorporated associations have a corresponding incorporated foundation that focuses on research, information dissemination, and targeted pooling of financial assets. An overview of incorporated associations and foundations appears in the Table 1 below.

Table 1. Public Interest Corporations And Amakudari Directors (2000)

<table>
<thead>
<tr>
<th>Supervision</th>
<th>Associations</th>
<th>Foundations</th>
<th>Total</th>
<th>Those with amakudari Directors</th>
<th>No. of amakudari Directors (of which full-time)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>3,883</td>
<td>3,271</td>
<td>7,154</td>
<td>2,469 (35%)</td>
<td>6,134 (1,644)</td>
</tr>
<tr>
<td>Prefectural</td>
<td>9,139</td>
<td>10,145</td>
<td>19,284</td>
<td>5,523 (29%)</td>
<td>14,458 (3,254)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12,889</td>
<td>13,375</td>
<td>26,264</td>
<td>7,992 (30%)</td>
<td>20,592 (4,898)</td>
</tr>
</tbody>
</table>


The largest industry associations and foundations have long been pivotal in the formulation of sectoral policies in Japan. They set product standards. They also organize market entry, cartels, and exit. Their market research provides a baseline for government policies and company

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35 Compared to the Civil Code, Japan’s Tax Code takes a broader view of public interest corporations ( Koueki houjin ) and includes school corporations ( Gakkou houjin ), social welfare corporations ( Fukushi houjin ), and religious corporations ( Shuukyou houjin ).

36 The U.S. distinction between 501(c)(3) professional associations and 501(c)(6) industry associations is not important in the Japanese context; professional associations such as the Japan Medical Association are also shadan houjin.
strategies. The near stranglehold that ministries exercise over intermediate organizations weakens the prospects for purely business-led reforms: ministerial overseers hold a still-potent veto.

**Special And Specially-Approved Corporations**

Legally distinct from public interest corporations, the special public corporations (*tokushu houjin*) and the specially approved corporations (*tokubetsu ninka houjin*)—also called public policy companies—are more elaborate versions of the approved associations (Johnson, 1978). Each *tokushu houjin* may own or control several dozen public interest corporations and operate as many as hundreds of affiliated companies. During the past decade, the number of *tokushu houjin* declined from over 100 to 74 by 2002. Koizumi’s recent proposals for the public policy companies—close 17, privatize 45, and streamline 101—continue this incremental approach to the public policy companies.

**Regional Associations: chambers of commerce and industry**

Chambers of commerce and industry are an especially prominent example of a specially approved corporation. The Japan Chamber of Commerce and Industry, which shares several key personnel with the Tokyo Chamber of Commerce and Industry, is the umbrella association for all city chambers (numbering 512 in 1995) in Japan, with a wide range of responsibilities for giving guidance to individual chambers as well as representing their interests domestically and abroad.

Japan has been absent from a lively debate taking place elsewhere over the advantages and disadvantages of different chamber systems, a debate stimulated foremost by Central and East European efforts to establish viable chambers. Most discussion centers on two types. The English type—subsequently adopted in Belgium, Denmark, Ireland, the Philippines, Portugal, Sweden, and the United States, among other places—relies upon voluntary chambers organized under private law. A statist type spread under Napoleon to European countries including Austria, France, Germany, Italy, and the Netherlands, relies upon compulsory chambers organized under public law—though some countries in this group, such as Germany, have essentially placed the statist framework in the hands of organized business interests.

Japan has a mixture of these two models. Japanese cities established statist chambers in 1878-80, but political fights over the chambers broke out repeatedly during the first half of the 20th century. Japanese chambers became voluntary in 1902 to break the power of small business, compulsory again in 1927 under the dominance of big business, voluntary during the Occupation, and semi-compulsory for large firms in 1953.

The semi-compulsory hybrid Japan instituted in 1953 continues today. Japanese chambers are “specially approved corporations” (*tokubetsu ninka houjin*) governed by the Chamber of Commerce and Industry.
commerce Law of 1953. The law forces large firms to maintain a skeleton membership, but it allows small firms to choose whether or not to participate. The semi-compulsory status of large firms, voting rules that favor large firms, organizational rules that favor large cities, and staffing by bureaucrats creates a series of tipping points that make the Japanese chamber system, in comparative perspective, unusually tilted toward large firms.

In addition, Japan’s chamber system divides small firms into urban and rural partitions. Those in rural areas can join a village or town association of commerce and industry (shoukoukai), but the rural associations are not members of the Japan Chamber. Although the success of Sakaki, a township in Nagano prefecture with a world-class machine-tool industry has been attributed in part to its shoukoukai (Friedman, 1988), the vast majority of towns and villages have been far more likely to use their shoukoukai to extract pork barrel expenditures from the central government.

Unlike in the U.S., where chambers on multiple levels are possible: Japan has no prefectural or regional chambers. Unlike in Germany, Japan’s public-law framework requires each city to have a separate chamber: there is no ready way for two cities with shared economic interests to create a single chamber. (By contrast, towns and villages may combine their shoukoukai if a ministry deems it necessary.) Only firms and chambers located in one of Japan’s 671 official cities—30 percent of all Japanese firms are not located in one of the cities—have any access to the Japan Chamber, the ostensible peak organization for the entire country. Overall, the chamber structure remains tilted against small firms: while all large firms are compelled to participate, even those small firms that do bother to join have no organizational outlet within the Japan Chamber system to create alliances with similar firms across the urban-rural divide. Small firms, rather than uniting in favor of less red tape, fragment into neighborhood protectionism in the cities and pork in the countryside.

**Peak Associations**

Postwar Japan has traditionally had four umbrella or “peak” business associations: the Japan Chamber, Keidanren as the federation of sectoral associations, Nikkeiren for employers’ wage negotiations, and Keizai Doyukai (Association of Corporate Executives) for 1,400 top business executives. The four associations often agree with one another, indeed, senior business figures sometimes occupy leading positions in more than one of these organizations simultaneously. Structurally, the four differ somewhat: the Japan Chamber is the most statist, Keidanren and Keizai Doyukai are approved associations whose ties to the state have weakened, and Nikkeiren is a voluntary organization that did not rely upon ministerial subsidies or approval.

**Keidanren**

Keidanren was originally far more statist. During its first decades, Keidanren drew its top staff and its business leaders from ministerial backgrounds, but during the 1980s, both top staff and business leadership ceased to come from government backgrounds (Allinson, 1987). Simultaneously, Keidanren began pushing deregulatory reforms, though member organizations such as the Japan Petroleum Association or the tobacco industry have vetoed some major initiatives. Fights between reform-minded leaders of the peak federation zaikai and protectionist leaders of sectoral association “gyoukai” intensified (Yoshimatsu, 1997).
For the 1993 Lower House elections, Keidanren decided not to collect and distribute the funds it had traditionally given to the LDP. The idea was to allow more vigorous two-party competition in hopes that such competition would increase the visibility and viability of Keidanren’s reform agenda. The change worked well in that first election, which brought Morihiro Hosokawa and the first non-LDP government in 53 years to power. In subsequent elections, however, politicians simply raised funds more intensively from industry associations and individual companies. Keidanren’s influence in electoral politics waned, but instead of opening the way for more policy-oriented campaigns, elections became even more particularistic, fragmented, and driven by narrow *quid pro quo*.

The re-organization of government ministries in 2000 spurred Keidanren and Nikkeiren to begin plans for a merger scheduled for 28 May 2002. Unfortunately for the cause of reform, instead of adopting the “voluntary” (*nin’i dantai*) status that has given Nikkeiren greater freedom over the years, the merged organization will adopt Keidanren’s status as an approved public interest association (*shadan houjin*).

**The New “Incorporated NPOs”**

As special public corporations have slowly declined, reformers have pushed through provisions for a new type of organization. Incorporated NPOs (the English letters are used in Japanese, but in a more restrictive sense than in the English expression “non-profit organization”), first permitted under a 1998 law, numbered 5,680 at the end of 2001. The NPO Law recognizes civic organizations with no minimum assets and less onerous certification (*ninshou*) requirements, though also fewer tax advantages, than public interest corporations do. Specified areas aim primarily to provide legal scaffolding for a more vigorous civil society: health and welfare, disaster relief, culture, safety, education, environment, gender equality, human rights or peace, international exchange.

In an effort to identify potential incorporated NPOs, the Japanese government has been tracking what it calls “volunteer activity” groups (*borantia katsudou*), many of which are registered or recognized by municipal councils of social welfare, 7 million individual members.

Incorporated NPOs and the promotion of “voluntary activity” groups have had little or no impact on traditional business associations, whether government approved or voluntary. If, however, incorporated NPOs gain tax exemptions or other advantages then they might serve as a model, or even a vehicle, to improve the status of voluntary business organizations. Moreover, the current reform framework explicitly calls for reconsideration of public interest corporations in light of experience with incorporated NPOs. One truly “drastic” way to meet that challenge would be to revise the NPO law to encourage public interest corporations to transform into incorporated NPOs.

**Overview Of All Non-Commercial Organizations In Japan**

Other things being equal, a rough hierarchy of non-commercial organizations in Japan would run from special public corporations and specially approved corporations at the top, where prestige and influence are greatest, through public interest corporations, further down to the newly
created category of incorporated NPOs, with voluntary and otherwise unincorporated organizations at the bottom. Table 2 below has further details.

**Table 2. Non-Commercial Organizations In Japan**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>special public corporations (tokushu houjin)</td>
<td>74</td>
<td>(tokushu houjin), public policy companies e.g., governmental banks, privatized national railway companies, public construction companies.</td>
</tr>
<tr>
<td>specially approved corporations (tokubetsu ninka houjin)</td>
<td>84</td>
<td>regulated under a separate law, e.g., the 1954 Chamber of Commerce Law regulates chambers of commerce.</td>
</tr>
<tr>
<td>public interest corporations (koueki houjin)</td>
<td>26,000</td>
<td>under Civil Law 12,500 public interest associations (shadan houjin) 13,500 public interest foundations (zaidan houjin).</td>
</tr>
<tr>
<td>other public interest corporations (koueki houjin)</td>
<td>210,000</td>
<td>recognized under tax law though not under the Civil Code 185,000 religious corporations (shuukyou houjin) 15,000 social welfare corporations (shakai fukushi houjin) 7,500 school corporations (gakkou houjin): private schools and universities 7,000 medical corporations (iryou houjin) 150 readjustment relief corporations (kosei hogo houjin).</td>
</tr>
<tr>
<td>charitable trusts (koueki shintaku)</td>
<td>566</td>
<td>simple grant making organizations, exempt from income tax, lack legal personality, usually founded by an individual.</td>
</tr>
<tr>
<td>specified nonprofit corporations (“NPO houjin”: tokutei hieiri katsudouu houjin)</td>
<td>5,680</td>
<td>(2001)</td>
</tr>
<tr>
<td>voluntary organizations (nin’i dantai), also known as unincorporated organizations (jinkaku naki shadan)</td>
<td>1,100,000</td>
<td>556,000 civic groups (shimin dantai), as of 1983 275,000 neighborhood associations (jichi-kai/chounai-kai); some are incorporated 150,000 children’s associations (kodomo-kai) 130,000 seniors’ clubs (roujin-kai) [95,741 “volunteer” activity groups (borantia katsudou); included in above totals].</td>
</tr>
</tbody>
</table>

Sources: Amenomori, 1997; Economic Planning Agency 2001; Soumushou 2001; Soumushou interview, 2002

Although generally reliable, this hierarchy is far from absolute. To recall perhaps the most dramatic exception, Nikkeiren, long one of Japan’s four peak business associations, has spent the entire postwar period as a “voluntary organization” (nin’i dantai). Although Nikkeiren is merging with Keidanren and becoming an approved association–allegedly because it was considered easier to absorb Nikkeiren within an existing public interest corporation than it would have been to strip Keidanren of that status–Nikkeiren’s own distinguished history suggests that many other business organizations could thrive as voluntary organizations.
What Has Happened Thus Far

The government was already talking about reforming public interest corporations in 1996. In August 2000, the Administrative Reform Council (ARC) laid out a timetable for sweeping reforms of public interest corporations in terms of finance, rationalization, balance of public and private roles. On July 23, 2001, the administrative reform division of the Prime Minister’s office resolved to develop a plan toward “radical reform” of koueki houjin by March 2002, with the plan to be implemented by 2005.

In late December 2001, the three ruling parties agreed on the outlines of a plan for “radical reform” (bappon kaikaku), of koueki houjin to take place by 2005. The first step, scheduled for the end of March 2002, was to determine the fundamental principles under which reform would take place.

On 28 March 2002, the tripartite Administrative Reform group headed by Prime Minister Koizumi agreed on two principles for reform of koueki houjin: 1) set up a privately administered system for the registration (touroku) of future koueki houjin 2) deregulation of responsibility to business people (jigyousha sekinin).

The next step, scheduled for mid-2002, calls for drastic reconsideration of the rules governing the establishment and organization of koueki houjin vis-à-vis the new NPO houjin and older, semi-commercial chuukan houjin (intermediate corporations) that are a legacy of a 1972 tightening of the original koueki houjin category.

Policy Implications

From an international perspective, Japan’s sectoral and regional business associations are institutional outliers. Japan has monopoly business associations, yet lacks the compulsory membership that facilitates comprehensive coordination in other countries with civil law systems. Conversely, although membership is largely voluntary, pluralistic experimentation is also blocked: multiple, overlapping sectoral or regional business organizations such as exist in the U.S. are currently unthinkable.

During the period when outsiders had relatively little access to the Japanese economy, informal mechanisms may have been sufficient to compensate for formal weaknesses in association governance. Indeed, quasi-compulsory frameworks may have worked especially well in the context of a relatively closed economy: firms could not exit, so the framework facilitated collective action but also allowed determined mavericks to break through.

In any case, Japan’s old associational structures have less to offer in the contemporary globalizing economy. Innovative mavericks and low-cost producers can now exit Japan rather easily, seeking capital or labor elsewhere. Meanwhile, monopoly interest organizations that do not represent all members tend to lapse into instruments of rent seeking. Public law associations with voluntary membership become pork-barrel utensils rather than tools for solving collective action problems.
Policy Recommendations

Japan
1. Choose between the German and the U.S. models of trade association governance. Japan’s current hybrid approach combines the worst of both worlds. Reformers should either strengthen or weaken (deregulate) what is currently a dysfunctional public law framework.

2. Place more stringent constraints on the supply of present and former government officials available to serve in koueki houjin. For example, reduce the total permitted number (not just the proportion) and increase the number of proscribed years.

3. Reduce the bureaucratic demand for amakudari by raising the retirement age for public officials well beyond 55 years of age.

4. Conversely, establish mandatory retirement for top association leaders. Business representatives to Japan’s peak business associations are, on average, probably too old. The early postwar period saw dynamic leaders in their 40s at the helm of Nikkeiren and Keizai Doyukai. Today, by contrast, virtually all participants are overwhelmingly in their 60s and not a few are in their 70s. Especially valuable older business figures could assume special advisor positions, but the day-to-day leadership should pass to younger hands, just as it does in Japanese firms and government.

5. Small firms and small business associations are increasingly remote from the most innovative firms in the economy. Bring rural commerce and industry associations (shoukoukai), whose members account for 30 percent of all firms in Japan, under the Japan Chamber rubric, through either direct membership and/or creation of prefectural chambers.

6. Keidanren’s organizational structure, which currently has 117 member associations and over a thousand individual members, resembles the fragmented structure of Germany’s peak business association during the chaotic Weimar period. To limit the ability of minor interests to veto broadly-desired reforms, Keidanren needs a more rationalized organizational structure. The merger with Nikkeiren in late May 2002 would be a good opportunity to undertake rationalization.

7. The Japan Business Federation, Keidanren’s successor as of May 2002, should consider resuming donations to political parties. Absence of the peak business association has merely allowed more narrow sectoral (gyoukai) interests to expand their political influence.

United States
1. Be aware that Japan’s most important discussions about reform of public interest corporations in the post-war period will take place during mid-2002. The schedule, and the objective of “radical reform”, antedate Koizumi and do not depend directly upon his continuing popularity. Decisions made during 2002, and implementation over the next two years, are likely to put in place settlements that will last a generation.
2. Thanks to a 1996 Cabinet order, Japan is now gathering and disseminating a substantial amount of centralized information about public interest corporations. This makes it easier for outside interests to follow and contribute to reform.

3. In battles over deregulation and protectionism, U.S. interests are likely to remain closer to the peak business association “zaikai” of Keidanren’s successor, the Japan Business Federation, and against sectoral “gyoukai.”

4. At the sectoral level, U.S. interests would benefit from greater flourishing of “voluntary” associations (nin’i dantai) and a continued decline, or outright abolition, of approved associations (shadan houjin).

5. Given Japan’s stated intention to introduce private-sector registration of non-commercial organizations, U.S. organizations with expertise in the management of private registration systems have an excellent opportunity to help shape an environment where their skills would be more welcome.

References


JAPAN’S PROPERTY MARKET NEEDS A LEAP OF FAITH: THE GOVERNMENT SHOULD DEAL WITH FALLING REAL-ESTATE PRICES IN THE SAME WAY THE US SOLVED ITS SAVINGS & LOANS PROBLEM

Gillian Tett

A little more than a decade ago Japan shot into the record books as property prices spiralled higher. So inflated was the asset-price bubble that the technical value of the small plot of land occupied by the Imperial Palace in Tokyo was worth more than California.

Not any more. Property prices have been falling for 10 years. And although average prices are now back to their mid-1980s levels, most bankers expect the decline to continue. This is catastrophic for the country’s banks because the collateral behind their loans is shrinking. It is also damaging the economy because the fall in property prices increases the amount of bad loans and erodes consumer confidence. The question now, as Japan languishes in recession, is how to deal with the slide. Should Japan just hope that time will solve the problem or is there something the government can do?

If the Republican US administration is to be believed, the answer is that the government should take action. That was the unusually clear message Kenneth Dam, US deputy Treasury secretary, and Glenn Hubbard, chairman of the US Council of Economic Advisers, delivered when they met in recent days with their Japanese counterparts. Japan must do something it has hitherto avoided, they said: introduce real free-market forces into the property world.

More specifically, Mr Dam and Mr Hubbard called for the Japanese banks to start selling their bad loans and real-estate collateral on the open market, on a large scale. They also suggested that a government agency that has been storing additional bad assets should auction these to private sector bidders. It is only by letting prices fall temporarily in a free market, they argued, that Japan can find a “clearing price” for land - and bring about conditions for a sustainable rally.

This argument is based on classic, free-market economics. And it is highly distasteful for some Japanese. The banks have sold some bad loans in recent years. But if the banks make large-scale asset sales at depressed prices, they would have to recognise significant losses - and erode their capital. Not only that, but the banks hate the idea of selling assets in an open market to anonymous investors as it would destroy their close corporate relations. Worse, some assets are linked to the yakuza, Japan’s mafia. And most important, many Japanese economists fear that large-scale property sales could create a deflationary spiral. They argue that a deluge of sales would kill off any remaining confidence. As a result, prices would fall much further than they would through a more orderly “Japanese” approach.
Such fears are understandable. But while US judgment on Japan has sometimes erred, on this issue, at least, the message to Tokyo seems absolutely right. For, as Mr Dam stressed, Japan only needs to glance at the US’s past policy mistakes to see the folly of trying to avoid establishing a clearing price.

The illustrative episode is the US’s own banking crisis, which erupted in the mid-1980s around its Savings & Loans institutions. For years, Washington prevaricated. And when it eventually tried to sell the S&L bad loans, it tried artificially to prop up prices by decreeing sales could not occur for less than 95 per cent of face value. The result was that few sales occurred, in effect freezing the property markets.

The policy’s failure was such that the government was eventually forced to auction the loans in a free market. After an initial fall, prices began to recover as investors sensed a bargain. At the first auction of S&L loans in July 1991, the sales price was just 20 per cent of face value; by May 1992 it was 17 per cent; and by October 1992 it was 62 per cent. As Mr Dam says: “Greed proved to be a valuable incentive.”

Of course, the US experience cannot be transplanted wholesale - not least because Japanese culture does not consider greed to be a good thing. It was also easier for the US to act as it did because the S&L bad loans were held by a single government agency and many S&Ls had collapsed. In Japan, by contrast, most bad assets are spread among surviving private banks. In the US, the S&L bad loans represented a small proportion of the economy and there were multiple domestic buyers; in Japan the bad asset problem is so much larger that there are few domestic companies with enough confidence to make new investments. Worse, the most obvious potential investors are US vulture funds and banks. For many Japanese, therefore, Mr Dam’s proposal seems tantamount to an appeal to let Wall Street buy up Japan.

This is where the Japanese government needs to take a leap of faith. Irrespective of its corporate woes, Japan has a vast pool of consumer savings. Most households will not invest their cash in real estate because a decade of deflation has left them terrified that prices will keep falling. But if consumers believed that property prices had been discounted so much that they saw a potential upside, their perception would change. The US proposal might lead to a first wave of foreign investors, but there is no reason why the following wave would not be Japanese. After all, the Japanese are adept at copying good ideas.

Will the government of Junichiro Koizumi take this bold gamble? Perhaps not. This is a country that hates hard landings so much that many Japanese prefer stealthy decline to an “embarrassing” shake-out. But if there is any lesson from the past decade, it is that staving off pain does not stop prices from falling - it only drags out the process. There is little reason to think the next decade might be any different. The choice for Mr Koizumi is clear: accept a real shake-out and create the conditions for a sustained recovery, or simply watch as the cancer slowly attacks the heart of Japan’s economy.

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A HARD CHOICE FOR JAPAN: THE HEAD OF THE CENTRAL BANK IS ON A MISSION TO PROTECT THE INTEGRITY OF THE YEN. BUT EXTRAORDINARY MEASURES WILL BE NEEDED TO REINSTIL FAITH IN THE SLIDING ECONOMY

Gillian Tett

Masaru Hayami, governor of the Bank of Japan, purses his lips and defiantly stabs a chart with a pen. The graph shows that the country’s money base has been growing at a heady 10 per cent a year. But, in defiance of logic, the economy is not growing and prices are falling.

“Even if we provide a lot of liquidity in the markets it does not lead to increased economy activity . . . it is like a liquidity trap,” says Mr Hayami in an interview with the FT. “So why should supplying more money be any better?”

It is the big question haunting - and dividing - global policy makers. As the world recoils from the shock of the recent terrorist attacks, Japan is slipping into a new downturn. Unemployment is at a postwar high of 5.4 per cent; Japan’s debt has just been downgraded by two US credit rating agencies; deflation is intensifying; and the economy is slipping into recession. More alarming still, Japan’s government has exhausted conventional policy tools to tackle the downturn. Interest rates are already virtually zero. Fiscal spending is constrained by debt levels that are 130 per cent of gross domestic product. And, though the government of Junichiro Koizumi is promoting restructuring, this seems likely to dampen - not boost - growth in the short term.

This has left some economists and politicians concluding that Japan must now turn to unconventional measures. Last month, a senior official in Washington hinted that the US would tolerate Japan buying foreign currency bonds to drive down its currency in order to boost growth - and fight deflation.

Some Japanese politicians want the bank to inject even more liquidity into the market through measures such as underwriting directly government bonds. But so far, the bank has resisted these demands. When it held its regular policy board last week, it upheld a strategy that aims to keep overnight rates at around zero by flooding the markets with liquidity, and demanding that private banks keep at least Y6,000bn (Pounds 34bn) of spare funds at the central bank.

This cautious stance infuriates some politicians - and leaves some economists fearing that Mr Hayami could create a new depression in Japan, and undermine the whole concept of central
bank independence. Other economists insist that Mr Hayami is being targeted as a scapegoat for the broader failures of the government.

Either way, the controversy over monetary policy looks set to deepen. Increasingly, financial markets are wondering whether the 76-year-old Mr Hayami is just a monetary hawk or whether he could eventually be persuaded to be more accommodating.

Mr Hayami is driven by a sense of political and moral mission that is far broader than any macro-economic agenda or academic theory. Like many men of his generation in Japan, Mr Hayami’s first exposure to monetary policy was through the trauma of hyperinflation. When he joined the bank in 1947, prices were spiraling out of control because the Bank of Japan had been underwriting government bonds.

“This was a horrifying experience for me,” he recalls. “I do not think that it will happen again if we do the right thing - but our country needs to remember it.”

As Mr Hayami rose through the ranks of the bank - and later served overseas in London - he became convinced of the need to maintain a strong yen as a symbol of national pride.

“The central bank should be the guardian of the integrity of our country’s money,” he explains. “This the most important responsibility for a central banker.”

This does not add up to a rigid economic policy - not least because Mr Hayami is not a trained economist. He was named governor in 1998 primarily because the bank was embroiled in a scandal and it needed a leader with “clean hands”. Since Mr Hayami had left the bank in the preceding decade to work in the private sector, he seemed the ideal scandal-free candidate who was both an “insider” and “outsider”.

But however weak his grasp of detailed economic theory, Mr Hayami’s sense of mission leaves him instinctively opposed to the radical monetary policy options now being proposed. “We are against buying any asset such as stocks or real estate (to inject more liquidity into the market),” he insists.

He also dislikes the idea of rapidly weakening the yen, saying that “it will not be welcome for neighbouring Asian countries”. “It is hard to believe that a senior US official really suggested that (we should buy) foreign bonds,” he adds. “Using the currency we issue to buy foreign bonds might create problems if investors started to think that Japan was selling itself. But the issue needs more debate.”

Indeed, he has little faith that injecting liquidity into the market in any form will help because companies and consumers are refusing to use the funds, and the banks are too damaged to promote growth, he says. “It seems that financial institutions have lost their functions as financial intermediaries. Even if you bring a horse to a river it doesn’t mean that it will drink.”

Mr Hayami is convinced that Japan needs to undergo radical corporate restructuring and banking reforms before it can recover - and that he has a duty to promote this. Indeed, his sense of
mission is so strong that some of his colleagues suspect that it reflects his religious beliefs: unusually for a senior Japanese, he is a committed Christian.

The ruling Liberal Democratic party has traditionally seemed opposed to structural reform. The unexpected emergence of Junichiro Koizumi as prime minister this year, however, has changed that. As a result, Mr Hayami believes he has a real ally for almost the first time.

“Japan may have been sleeping in the last 10 years, but I believe because of structural reforms we will now finally start to wake up. We need to do in Japan what Margaret Thatcher did in England nearly 20 years ago,” he says.

“The reforms that Mr Koizumi wants to address may have been delayed by the tragic events in the US for one month or so. But now he has started to work on the forthcoming budgets and framework for reform.”

However, Mr Hayami’s passion for reform also has a flavour of austerity. On paper, most economists--and politicians--think it would be sensible to offset the pain of restructuring with ultra-loose monetary policy. But Mr Hayami fears that if he loosens policy too quickly, it would remove the pressure for reform.

In a political sense, this seems a reasonable suspicion. Virtually the only thing that has ever prompted Japanese politicians or business leaders to implement reform in recent years has been a market crisis or shortage of cash. In an economic sense, however, many feel that inflicting further pain on an economy that is already suffering would be catastrophic.

Whether Mr Hayami is able to stick to his austere guns remains to be seen. There have been hints recently that his influence may be slipping, and during the summer he considered resigning before his term finished in 2003. Even if he stays, some of Mr Hayami’s colleagues suspect that he could eventually be forced to accommodate his critics, not least because of his overriding desire to support Mr Koizumi.

However, other colleagues point out that the governor is becoming more, not less, belligerent. Indeed, the more the outside world criticises him - or US officials float ideas he dislikes - the firmer his resolve to “defend” his vision of central banking.

For the moment, at least, there are no signs that Mr Hayami will abandon his self-appointed mission, regardless of what the US or the other leading industrialised countries may think. “We are doing our best,” he says, hunching his shoulders. “The outside world should not make hasty criticism.”
A decade ago, Japan terrified the world with its economic strength. The country had rebuilt itself so effectively after the second world war that it was challenging the US as the world’s largest economy.

These days Japan is alarming the Group of Seven with its weakness. A full two decades after the 1980s asset price bubble burst, the country remains mired in economic stagnation, with falling asset prices and a deeply distressed financial system. Instead of setting records for growth, Japan is making history by becoming the first country since the 1930s US depression to show signs of a full-blown liquidity trap. A couple of years ago, this situation provoked only mild concern. As long as the US economy continued to expand rapidly, this more than offset Japan’s weakness. But now, with the world apparently poised on the brink of recession, and Japanese capital still a cornerstone of the global financial system, its problems are looking more pernicious - not just for Asia, but the rest of the world. Consequently, the question the world is asking this winter is what, if anything, could pull this vast country out of its stagnant hole?

The challenge is immense because there are at least four interlocking woes dragging Japan down. First, the country’s productivity levels have slipped dramatically in recent years, as the economy has stagnated. During the past decade, the country has recorded three recessions, and is widely believed to have slipped into another one this autumn (although data is not yet available to show this).

Indeed, the government itself is forecasting a contraction of 0.9 per cent in the year to March 2002 - a projection that would represent the worst post-war performance. “The economy is very weak and it is unlikely to grow at its potential rate for the next few years,” admits Haruhiko Kuroda, vice finance minister.

Second, the country has experienced steady deflation since the mid-1990s, according to the GDP deflator index. Indeed, even according to the unreliable CPI data, prices are now falling at around 1 per cent a year.

By the standards of the 1930s US depression, this may not seem too dramatic. But it marks the first sustained bout of price declines seen in the industrialised world for 70 years. And this, coupled with anaemic growth, has produced a phenomenon seen equally rarely: an economy that is shrinking in absolute terms.
This is exacerbating a third problem: debt. A decade ago Japan had little borrowing. But after 10 years of heavy fiscal spending, debt has soared to 130 per cent of gross domestic product.

Thus far, low long-term interest rates - and the fact that domestic savers own most of the debt - have prevented panic in the markets. But, with the economy shrinking, debt levels are projected to hit 200 per cent in the next few years, threatening to unnerve even compliant domestic savers.

The fourth challenge is the financial system. As asset prices fall, the banks are facing a rising tide of bad loans, yet their spare capital is almost exhausted. This means that the only way to rapidly clean up the bad loans is to give the banks more public capital - a step that the government can ill-afford, given the pressure on public finances.

As Paul Sheard, economist at Lehman Brothers, says: “Japan faces a multitude of structural problems, but top of the list must come deflation and a financial system burdened with non-performing assets.”

So far, so alarming. What makes this cocktail of problems doubly pernicious is that the country has almost exhausted all the usual policy options to create growth. The government has spent much of the past decade attempting to reflate the economy with higher public spending.

However, this route looks increasingly difficult, given the high debt. Meanwhile, orthodox monetary policy tools have been almost exhausted, since the Bank of Japan has already cut short-term rates effectively to zero. Some economists suggest that another policy option might be to seek a weaker yen.

However, the recent slowdown in the US economy leaves Washington less ready to tolerate this. And, even if the US did accept a weaker yen, Japan’s neighbours are unlikely to do so, given that their own exports are suffering, as a result of the shrinking global demand.

There is a fourth option that the government of Junichiro Koizumi is pursuing - faster restructuring. Since he swept to power in April, Mr Koizumi has pledged to curb the issuance of new bonds to below Y30,000bn a year, force the banks to write off Y11,700bn of bad loans in the next two years, radically reform government spending and promote the type of corporate restructuring that could boost Japan’s competitiveness.

But, although most economists accept that these measures are needed to tackle the medium-term productivity problems in Japan, in the short-term they could make the slump worse.

So is there a solution? Probably the least bad policy route would be to use a combination of these measures: namely, to introduce some restructuring, combined with some unorthodox monetary policy tools to halt deflation, while keeping fiscal spending neutral - and aiming for a weaker yen.

However, to do this would require considerable policy co-ordination and diplomatic finesse. And Japan’s single biggest Achilles heel is its fragmented power structures, which make it extremely
difficult for Michiyo Koizumi, the prime minister, or any leader, to produce pro-active, co-ordinated economic plans, except when there is a serious crisis.

“Mr Koizumi is precariously floating above an economic policy team that is increasingly at a loss about how to proceed,” argues Richard Katz, of the Oriental Economist. Barring a miracle, in other words, Japan’s problems look set to grow worse, not better, in the next year ahead. The outside world has every reason to be worried.
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U.S. EMBASSY TOKYO
MARCH 19, 2002

DR. HUBBARD: Thank you. I don’t want to take too much time for a statement, but I did want to say a couple of things. First, about the U.S. economy and then, second, about the Japanese economic situation. As regards the U.S. economy, I believe we have a recovery underway and I share the sentiment of most private sector forecasts that the recovery is underway and would strengthen by the middle to end of this year. I think there are two big reasons for that, one coming from the economy itself and the other a family of reasons from public policy. From the economy itself, there had been a situation in 1999 or 2000 of an over-investment in fixed capital in the United States—often popularly called a “capital overhang.” At the Council, the work that I and my colleagues have done has suggested that outside the telecommunications sector, that capital overhang has largely been worked through by earlier this year. What does that mean for the economy? Well, one of the big headwinds to GDP growth had been a decline in business investment—particularly, equipment and software investment. We see that turning around by the early-to-middle part of this year, providing extra steam for the recovery. So that’s from the economy. From policy, first, monetary policy has been very accommodating in the United States and we know empirically that monetary policy takes between twelve to eighteen months to show up in the economy, so we’re now seeing the effects of significant Fed easing from the past year. The second big wind in the sails is from tax policy. The tax cut that the President campaigned on and then was enacted and he signed in the middle of 2001, we believe, had a very large effect on the economy’s performance, supporting the downturn or cushioning the downturn, if you will, in late 2001, and providing significant stimulus to the economy this year. As you know, the Congress passed and the President signed additional tax legislation recently, which would provide investment incentives. And those investment incentives, we believe, will likely further the capital recovery later this year. So in the U.S., I think, the recovery is there. I think it will be a reasonable recovery this year. As regards the Japanese situation, the current economic news, of course, is not so positive as it is in the United States, and there remains concern in a couple of key areas. One is the need to focus on stopping deflation and here, I believe, while the Bank of Japan has taken important steps, there is continued and more work to be done to work to arrest deflation in Japan. Deflation is a cancer that really eats away at an economy’s productive strength. As individuals, we like to see the prices of things we might buy go down, but that’s not the way to think about a deflation. A deflation can wreck balance sheet positions of firms and lead to shedding of employment, loss of output, and a general deceleration of the economy. So we feel that continued emphasis by the Bank of Japan on deflation is warranted.

The second issue relates to the non-performing loan problem in Japan, which I think is a symptom of another and quite significant problem and that’s a problem -- for lack of a better
term -- I would call “non-performing assets.” That is, capital is not being efficiently allocated in the Japanese economy. That acts as a tax on the recovery and it’s hard to imagine a very robust recovery in Japan without rigorous steps to be taken on the non-performing loan problem. Not simply as a way of tackling a problem in banking or in the financial system, but as a way of getting capital more efficiently allocated in Japan. The Koizumi administration, of course, has taken steps, has indicated concerns in these areas and those concerns are all the right things. I think that what is needed is further action toward implementation of those steps. So with those as introductory remarks, I’d really like to just have a conversation with you and take any questions you might have.

**QUESTION:** You were here in December and, of course, O’Neill was here in January and the President was here in February and you’re back here in March. And then Zoellick and the others will be here in April. Are you making any headway, to be blunt? The deflation package came out last month and kind of went over like a lead balloon and everyone has already forgotten about it. Are you talking against a brick wall? Or do you see signs of progress being made on the NPL issue?

**DR. HUBBARD:** Let me step back a little from the premise of your question. One reason that there had been so many trips to Japan is the importance the President attaches to the U.S.-Japan relationship, and it goes far beyond the economy. The President was here and, of course, he spent a great deal of time on security issues and Japan’s partnership with the United States. So the purpose of several visits to Japan is no way to hit on walls or otherwise, but really to continue a dialog that the President believes is important. We believe that U.S. experience has something to offer the Japanese context because, after all, the U.S. went through both waves of corporate restructuring and waves of financial restructuring and did so, frankly, with some mistakes as well as successes. And we did feel it was important to try to impart whatever information from U.S. experience might be warranted. I do think that the number of visits to Japan by a variety of officials has deepened relationships in the economic area and we do believe those conversations will pay fruit.

**QUESTION:** Jim mentioned the deflation package. There are some people here, who are not in the Japanese government, who look at it as essentially an opportunity, especially in the actions of the FSA against short selling, to really intervene in the market and push it higher before the end of March. Is that a concern for you, that there’s market manipulation? Is this old-fashioned PKO, price-keeping operations, that Japanese have been wont to call it in the past, and is that a concern of the American government?

**DR. HUBBARD:** Well, let me step back to your question about anti-deflation, broadly defined. I think the interest in deflation is arresting the decline in general price level more than targeting any particular asset market. There’s always concern when asset markets are propped up by regulation or by intervention-interventions that don’t reflect fundamentals. And the reason for that concern goes back to the point I made about capital being misallocated. It’s very hard to have an economy work well if financial markets don’t send signals to business people, to investors, to savers, about how to move money around. So while everyone hopes, of course, that financial markets recover optimism because of improvements in the future, it would not be wise to use regulatory means to artificially prop us asset markets.
QUESTION: And are you sharing that concern with the government?

DR. HUBBARD: I don’t really want to talk about what I might or might not say to the government. But I think speaking to you, certainly as an economist, it would be obvious in economic advice that markets ought to reflect fundamentals more than anything else.

QUESTION: Can you just comment on whether you think the recent action would fall into that category of unwise regulatory (inaudible)?

DR. HUBBARD: Well, I think you have to consider actions in a package. I would indicate some concern and some worry that the Japanese government not take steps to interfere in markets’ ability to send signals, but rather think about the underlying fundamentals themselves. And so, given an interest in stopping deflation, that could probably be addressed very forcefully by Bank of Japan policy and by general recovery policy for the economy.

QUESTION: Ambassador Baker is fond of saying, among others, that the Japanese -- when it comes to studying the U.S. model and looking at the Scandinavian model and what have you -- are extremely well informed. There’s no lack of knowledge about it. The question I have is: Does the U.S. view the current economic problem in Japan as an economic problem or more as a political problem?

DR. HUBBARD: Well, I always leave discussions of politics to colleagues in the Administration that are more political, so I’ll stick to my union card in economics. I do think there is a significant economic problem, and I think that it is still important to make the case that restructurings aren’t always as painful as is feared. I think there are examples from U.S. experience. You mentioned the Nordic banking experience that suggests that restructurings can be very salutary for the economy, frankly, in the short term. I think that’s an important point to make because, to the extent that there are political concerns about periods of pain, I at least believe as an economist that the impressions here in Japan about how significant that pain will be are overstated if there were meaningful reform or a demonstration of a meaningful reform.

QUESTION: We seem to always get back to the simple equation: Is it more costly to act or to do nothing? The price of inaction versus the price of action. Are we approaching the point where the price of doing nothing, I mean essentially the country is stagnating at the level of Zurich. It’s a great place to be stagnating, but do you get any detection that this is beginning to cost and that people are thinking, “well, maybe we should take some of these costly measures to restructure?”

DR. HUBBARD: Well, the price of inaction really is high. I mean, this is a problem that will get more costly for Japan the longer it waits. Can the problem be delayed? Of course. There are situations in many countries, including the United States, where problems are delayed, but the cost must be paid. While stagnation at the level of Zurich may in one sense not be problematic, I would say the counterfactual is something different. Japan’s post-war growth experience is amazing. And the problem for people of Japan is the lack of the further growth in standards of living that they had come to expect otherwise in the post-war period. Japan, of course, has a fiscal situation -- like many countries but accentuated in Japan -- of an aging population. And the
ability of the economy to provide for that aging population will depend on more rapid economic growth than we’re seeing now. It’s a long-winded answer to your question, but I think the costs of inaction are really very, very high for all those reasons.

**QUESTION:** Is there concern in the Administration now that these economic problems that seem so intractable will have an impact in areas outside the economy, particularly in the regional economy and in areas outside the economy, and the ability of Japan to play a leadership role in the region?

**DR. HUBBARD:** Well, it is certainly a matter of discussion and I would think a matter of concern here in Japan. Japan should, of course, play a major role in the world beyond its role as the second largest economy. The President has looked to his relationship with Prime Minister Koizumi and our country’s close relationship with Japan as a partner in the security effort. And for all that Japan wants to do internationally, a large and growing economy will be very important for that. That will also be very important for Japan’s leadership in East Asia, as well.

**QUESTION:** You’ve mentioned the BOJ a couple of times and the way that you think that the BOJ can take further action. Some people that I’ve talked to think that the BOJ actually is doing quite a lot. The 27 percent growth in monetary base is quite significant. If you think that they can do more, what is enough and how will we know it when we see it -- especially given that it takes a year or so for the effects to show?

**DR. HUBBARD:** Sure. That’s a great question. First, let me say that I don’t want to give any particular advice to the BOJ. The BOJ has lots of very good people. My own comment is that the BOJ needs to continue to do what it has already started. Because of the long and variable lags in monetary policy that you mentioned, I think the BOJ has to continue its provision of liquidity until there can be steps seen in the economy that there is upward pressure on the price level. In order to stop deflation, we have to try to restore a price level and build in expectations in the economy that the price level is going to rise so I would certainly encourage the BOJ to continue the policy that you said it has been embarked on. I think people often criticize the BOJ for not having taken steps, but the fact is that it has. There has been a significant change in liquidity provided by the BOJ, and the encouragement and hope from the U.S. position would be that the BOJ continues that action until price-level expectations improve.

**QUESTION:** It seems that there’s a level of disagreement even now, almost a year into the Koizumi government, between the BOJ, the FSA, and your counterpart in a sense, Takenaka-san, about how to finally solve this problem. Is that your sense and is there any way to get these people on the same page, so to speak? The BOJ seems to say that “if we ease and ease and ease, it takes the pressure off the banks to do what they need to do.” The FSA says, “we don’t want to inject money.” I know, at a certain level, you don’t want to get into the domestic politics of it, but it’s a little bit difficult to understand as an outsider here how we get through what a very prominent American observer of the scene called recently “sort of a game of chicken.”

**DR. HUBBARD:** Well, I don’t want to comment on domestic politics in Japan, but I think action by all the players in concert is going to be important. Disagreements over policy happen all the time. I don’t think it’s the case that U.S. policymakers always agree going into every
decision. But I think it is important that action be taken on fronts simultaneously. As I said, the Bank of Japan has taken some steps. It needs to continue those steps, but it has taken steps. So I think the flip side of that would be that, in the government, steps need to be taken to address more rigorously and more vigorously the non-performing loan problem.

**QUESTION**: Before you came in, a colleague asked me whether I was having success interesting my editors about the Japanese economy and I mumbled something in response. But remind us why our readers should care, essentially. The U.S. economy roared during the 1990s, while Japan was kind of treading water. The U.S. economy may or may not have gone through a recession—we can debate that. It’s now coming out; nothing’s really happened here. Why should our readers care?

**DR. HUBBARD**: Well, let me start from the Administration’s perspective and then I’ll get to the readers. From the Administration’s perspective, the President cares first and foremost because he cares about Japan. I think the pure economic linkages argument for the U.S. caring about Japan is not altogether that strong. I think the concern is broader than simple economics. It’s more the role that Japan can play in the world, the role Japan can play in East Asia, and the relationship between Japan and the United States. I think those are all very important for readers, and the fact that the world’s second largest economy has within it delayed policy actions that could impose enormous financial costs is really a matter of concern.

**QUESTION**: Could you clarify the financial costs? Are you worried about JGB interest rates going through the roof or some kind of crack where they have to pull money out of treasuries? What are some of the thunderclouds on the horizon that, were problems here not addressed could be three or four years out there?

**DR. HUBBARD**: Well, I don’t want to speculate on particular problems, but I think in general the longer this problem is put aside, the more costly it will be to the Japanese people in terms of tax burdens, in terms of lost wealth, and lost opportunities. And when those costs get to be very large, it raises quite significant issues in a country.

**QUESTION**: How do you think about the fiscal policy of Japan? Do you think the tax cut is needed?

**DR. HUBBARD**: Well, I don’t want to give advice on any particular policy. I can say from U.S. experience, we know that tax cuts can help a recovery and there are some tax reform issues, frankly, that can help a recovery. Taxes like turnover taxes of a variety of kinds, real estate taxes, capital gains taxes, dividend taxes are capitalized or buried into asset values. And so lowering marginal tax rates in those areas can raise the value of assets, which obviously helps the recovery. Over the medium term, I think there’s a need to think about tax reform in Japan and I know that’s being done in a variety of places in the government: in the government’s tax committee, in the Council on Economic and Fiscal Policy, and in the LDP tax committee. And my guess is that, during this year, there will be a great deal of discussion of that in Japan.
QUESTION: The Japanese government is going to file a suit at the WTO on March 20 against U.S. steel import curbs. Are you concerned with the trade dispute between the United States and Japan (inaudible), causing damage to the talks at Doha?

DR. HUBBARD: Well, the President, of course, has a great deal of concern about the trade talks. And you know that one of the President’s leading objectives is to get trade promotion authority from the U.S. Congress and more multilateral trade agreements. And so it is important not to let individual episodes escalate. I’d like to explain to you the President’s views in the steel decision, because this is a very complicated and controversial decision and I understand how it is viewed here. In the U.S., there are safeguards allowed under Section 201 of our trade laws that would direct the President to take means that he feels would facilitate structural adjustment for a short period of time. The steel industry in the United States and around the world is not really a single industry. It’s a set of different industries. There are large integrated steel companies, there are mills, there are re-rollers, and a variety of fringe competitors in the steel industry. It’s true that in many countries, the integrated steel companies have been experiencing difficulty. And I think the President’s view was that it was necessary to take steps to give a period for short-term adjustment. Those steps would not take very long and could take a maximum of three years. It is complicated; it is a controversial decision. It was his view that the social and economic benefits of that decision exceeded the social and economic costs.

QUESTION: Professor, with all the gloom and doom about the Japanese economy, what do you make of Wal-Mart’s decision to move into Japan? Do they know something that we don’t?

DR. HUBBARD: Well, I think that Wal-Mart is making a-well, I don’t want to comment on Wal-Mart’s business decision. Decisions like Wal-Mart’s reflect a sense of potential in the Japanese economy. The Japanese economy is one in which some reforms of business would lead to very significant improvements in economic growth. Distribution in retail has long been an area in which those improvements are needed. Wal-Mart, of course, provided a great deal of competitive pressure for reforms in the United States in the retailing and distribution efforts. So I think that Wal-Mart’s interest reflects what many businesses probably believe, which is that there are enormous opportunities for business in Japan if one can get past the current economic situation.

QUESTION: There’s much talk about the bad debt problem for the banks. In terms of public finances, (inaudible). If they’re going to close this system down-this channel for funds for public projects and road building, eventually that might mean a high tax payment for the Japanese -- if they want to fund new social projects. I mean how do you view that? I mean, that’s more of a longer-term view on the economy.

DR. HUBBARD: Well, first I think it’s important to talk about what you really mean by a tax burden in a country. A country’s tax burden is not just the taxes we pay today, but the taxes we expect to pay to cover debt. There’s no free lunch in terms of financing government spending. So I think, for Japan there is a need to think about ways to close the deficit gap over the medium to long term. Certainly, we don’t have magic bullets for Japan, but the two obvious things to do are to think about public sector spending and to think about a variety of ways in tax reform to improve tax collections in Japan.
QUESTION: We spoke a little bit about the costs of inaction. Another related issue is the cost of incremental action. And as the markets become more and more of a player in the economy vis-a-vis policymakers, I’m wondering your thoughts on the process of sort of what we’ve seen in Japan of over a decade moving one step gradually, looking around to see if a 25-basis point interest rate cut will do anything. And pretty soon you’re against the wall and you’re down to zero. The same with other areas of policy where perhaps a bold step, as we’ve seen with the interest-rate cuts in the U.S., may have actually accomplished a great deal more. Any thoughts on that?

DR. HUBBARD: Well, I think incremental policy can be OK. The question is what do you mean by incremental. I would think that doing meaningful demonstration projects -- for example, getting a tranche of loans out into the private sector for resolution and having a meaningful judgment of how that worked. That may be incremental, but would still be very salutary. What I think is not particularly helpful is to, you know, simply take baby steps that don’t involve real action, like getting some of the loans out. And as you suggested, markets take a hard look at those steps.

QUESTION: Do you have any sense that in recent months, I know you don’t want to call it specifically the political situation, but that the momentum towards various necessary reforms is slowing down?

DR. HUBBARD: I don’t really want to venture a political speculation. From an economic point of view the pressure for these reforms is as large or larger. There is a bit of breathing room perhaps at moment because of the recovery in the United States, but I think that is only a band-aid, frankly as far as the Japanese situation is concerned. I think the pressure for reform remains high from an economic perspective.

QUESTION: Can I follow up on that? I think there is a sense among some in Japan that maybe a full-blown American recovery helps Japan out, but you’ve just suggested that it may just be baby steps. That is going to lead to a follow-on argument by people here that it is time for yet another stimulus package.

DR. HUBBARD: Let me take the two parts of your question. The sign’s right, on the first part, a good rule of thumb would be that if GNP growth advances by a percent in the U.S., Japan could probably see .2 to .25 percent increases. That is a meaningful increase, but it is not enough to provide anything like a long-term potential growth in Japan. As regards a stimulus packages, if by that you mean you public spending, it is hard to argue that that would be the right policy for Japan. Everything we know about comparing increases in public spending to tax cuts suggests that, one, tax cuts have a larger multiplying effect on the economy that spending and, second, tax cuts that are targeted to reflate asset prices, in terms of tax reductions, dividend, capital gains, taxes and so on, could actually help the country recover.

QUESTION: On numbers: A) were we really in recession last year, and B) what is your prognosis for U.S. GDP growth for the second half of this year or for the entire year?
DR. HUBBARD: Well, whether or not the U.S. is in recession of course is a decision the National Bureau of Economic Research makes. As you know, there is no single indicator that defines a recession in the U.S. Sometimes people use the rule of thumb of two quarters of negative GDP growth, but in fact a recession is whether the NBER decides it is. To date, we are looking at peaks in employment as defining a recession. I think what is important is not that semantic debate among economists, but U.S. economy had been growing in 2001 substantially broadens potential growth rate, and had been significant employment losses, and in particular in the manufacturing sector there had been a down turn going back to the middle of 2000. So all of those are real concerns in respect to what the NBER might decide a recession to be. As I said in the beginning, I think the recovery is underway in the U.S. and I think growth rates for the second half in the 3 1/2 percent range which would roughly what product sector forecasters are saying are quite reasonably.

QUESTION: 3.5 percent?

DR. HUBBARD: Right.

QUESTION: For the second calendar year?

DR. HUBBARD: The second half of the year, of this calendar year. I think that is very rigorous by recent standards, although it is not as large a rebound as in some previous recessions, but those recessions have been much deeper. The current recession has been very, very mild and so one wouldn’t expect a recovery to be as sharp as in some past episodes.

QUESTION: When you mentioned concerns about Japan’s economy are broader than simple economics, are you talking about things like Japan’s ability to project power in the region, and things like that? Or what, specifically, are you talking about?

DR. HUBBARD: Yes, I am. I think it is difficult to project influence and to project power, to be a major player on the world stage without a very vigorous economy. The U.S. position in influence and military power derives in no small part from the health of the U.S. economy.

QUESTION: How will you know a proper fix to Japan’s NPL system problem when you see it?

DR. HUBBARD: Good question. I think what would be very useful is to have particular demonstration projects again that get non-performing loans sent back out to the private sector and have them successfully resolved. Once that is in place and shown to be successful, I believe the process will largely take off from there. There’s often a discussion in Japan of the need to take non-performing loans off the books of banks and put them into the RCC, and that is an important discussion to have, but that is not really a key economic distinction. A bad loan seen on the RCC’s books is still a bad loan. The question is how to get the assets, the collateral underlying those loans out in the private sector where they can be sent to better use. I think when there is a meaningful demonstration of that and it is successful, then we will know this is a problem that is going to be solved. And there is no reason such a demonstration couldn’t happen quickly.
QUESTION: Then what has been the delay?

DR. HUBBARD: That would just be speculation on my part. Speaking from an economic perspective, it would be both the logical thing to do and something that could be done relatively quickly.

QUESTION: Well, now we have bail-outs like the Daiei bail-out. How did that go over in U.S./Washington/New York?

DR. HUBBARD: Well I don’t want to speak for the entire cities of Washington and New York, although I live in both of them. Again from my own perspective, I think that it is important to make sure that resolutions happen in the marketplace and that there are not excessive attempts to prop up and bail out companies. Again, it is going back to the problem, it is not really the issue just of non-performing loans, it is the non-performing assets. You can’t fix the non-performing assets if companies can’t fail, and we know that the markets in Japan have tended in recent months to reward situations in which a failure has been allowed to happen as opposed to failure that hasn’t.

QUESTION: You spoke a little bit about the link between the U.S. recovery and Japan’s economic future. A couple of questions about an export-led recovery in Japan. One, given the chances we’ve seen in the Japanese economy over the decade, the fact that more of the export capacity is now overseas, the fact that the economy tends to be more open, both in and out, how effective can that be as a multiplier relative to what it used to be, first of all? Second of all, we’ve seen the steel trade issue rear its ugly head. Sort of the link of economics and politics tend to be when a country’s doing well, they are less concerned with trade issues, the U.S. is not doing quite as well now and it may have less tolerance for this. How do you see that in terms of pressure on Japan to avoid another export lead recovery per se?

DR. HUBBARD: Well in thinking of an export-led recovery for Japan, the core problem in Japan in terms of non-performing assets is not in the tradable goods sector of the economy. Japan’s large multi-nationals remain envies of the world, as companies and as efficient businesses. The issues in the Japanese context tend to be more companies in the non-traded goods sector of the economy. So it is hard imagine a meaningful recovery in Japan that doesn’t really address the problems of those sectors of the economy. So, yeah, putting politics aside, it is just difficult to imagine a recovery that could happen purely on the basis of exports.

QUESTION: You said the U.S. economy is giving Japan breathing space. How much of a breathing space will that give Japan? (inaudible) an encouraging sign that the Japanese economy, would you, for example say a major bankruptcy (inaudible)?

DR. HUBBARD: Economists are so cold blooded when you ask a question like that. I think the amount of breathing space from the macro-economy from U.S. growth is modest. It is there, but it is not going to be enough breathing space. That is why I used the term band-aid before. It is not really enough to fix the problem. I think what is encouraging is not so much that you find a bankruptcy encouraging. I don’t think anybody takes delight in a company going out of business. It is more a question of getting the underlying assets and employees to other firms. Just to call on
U.S. experience, if you think back up to the break up of the Bell system, back to the days when AT&T was a telecom monopoly in the U.S., there was a lot of hand wringing about the job shedding that AT&T would have to do as it moved from a monopoly telecom provider to a competitor. In fact, that job shedding spawned whole new companies, whole new telecommunications projects, and really improved the industry. So, when economists are looking at the bankruptcy as a signal, it is not because they like bankruptcy, but more the re-allocation is really what is important.

QUESTION: Let’s just go back to the Bank of Japan for a moment. I’m a bit confused. When you say there is more work to be done, they need to continue what they are doing, do you want them to do more or do you just want them to continue as they are right at the moment?

DR. HUBBARD: Well, it is a question of the tools of monetary policy as opposed to the goal. The goal for most central banks, including the Bank of Japan, would be something that approaches price stability. That’s what central banks usually set as an object. Japan is deflating, which that would imply that a goal of the Bank of Japan would be to restore something closer to price stability or an increase in the price level. So, to do that would require much more continued increase in liquidity. It wouldn’t be enough to have provided an increase of liquidity for a period of time and say, well we’ve done our job and that is that. We won’t know the job is done until we see the price level and expectations of the price level and surveys rising and we don’t see that yet.

QUESTION: It was kind of hard to match export-led recovery, so what is your view on Japan possibly using a weak yen to help it out of its current recession?

DR. HUBBARD: Let me go back to what I said on the export-led recovery. What I said was that it is hard to imagine a meaningful, general recovery for Japan that’s purely exports. However, recovery might well begin with exports but, given that the problems in the economy really aren’t as much in the traded goods sector, it is not sufficient and as regards the yen, I never comment on the value of the yen other than to give a standard homily that it is set in the market.

QUESTION: There is a comparison made, sometimes flippantly, about Japan and Argentina but sometimes the analysis that I have read indicates there are a couple of key differences, one, of course, is the huge current account surplus in Japan. The second is the number of assets overseas. This, some believe, tends to separate potentially vulnerable economies from those that aren’t. Given, as you had mentioned, that market pressure is a force for reform, how long can Japan continue, essentially under economic theory here, to be in a situation where it can more or less ignore the pressure from -- or certainly minimize the pressure from -- global economic forces?

DR. HUBBARD: Well, I know that there have been comparisons made, including in leading newspapers jokes comparing Japan and Argentina, but I don’t think the comparison is apt. I think that one obvious difference is that Argentina experienced difficulties in part because its debt was denominated in a currency that wasn’t its own. And that is where marketplaces can have a very powerful influencing effect, when your debt is denominated in your own currency, it doesn’t raise some of the specters of the Argentine problem. An issue that is common to both, I wouldn’t say that it makes them comparable, is the issue of fiscal policy going forward and whether it is
sustainable. I think an important difference is, in Japan the topic of tax reform and addressing the fiscal situation is front and center in the government. As I mentioned earlier there are no fewer than three groups working on the problem. You asked how long it can go on. The fact that the debt is in yen and largely to the Japanese public, it is really up to the patience of the Japanese public.

**QUESTION:** This is a couple of years off yet, but Japan’s planning to introduce the Freddie Mac system for home loans and corporations. What kind of impact do you see that having on the Japanese economy? Do you think it will be successful in the (inaudible) with liquidity to provide home loans, and will the banks be more willing to lend money?

**DR. HUBBARD:** Well, let’s step back from the literal Freddie Mac comparison. It think that it is very important for a well functioning housing market to have a lot of liquidity. And I think one reason the housing market has been so robust in the States is the liquidity provided by the housing lenders. In that sense, that can only be a good thing. I don’t want to talk about any specific reforms or specific institutions Japan might set up, but that ensuring liquidity in housing finance is clearly a good thing.

**QUESTION:** Now that the stock market has picked up, the Japan meltdown talk has died down, but for a while there was a lot of it in the market that Japan could melt down, meaning an uncontrollable or financial crisis that spun out of control, whether it is through bonds or some other way. There was a lot of that talk in the market. Did you ever subscribe to that? Do you think that is possible, and do you still think that it might be possible? Also is there a scenario in which you think that Japan could be a threat to the health of the U.S. economy if some disaster occurred?

**DR. HUBBARD:** The way I would approach your questions is to say there are a lot of difficult problems in Japan. I think one of the reasons that the U.S. has suggested to Japanese colleagues that deflation and non-performing loans are a problem is because costs of inaction really are large and could lead to large events down the road. I don’t want to speculate as to whether or not there could be a financial crisis. I think that is sheer speculation, but I think it is important to acknowledge that those problems are very real and very present, and not resolving them is going to lead to sure costs, not speculative costs, down the road.

**QUESTION:** It is sort of a division thing which, in this country, as a matter fact, is kind of hollowing out because the Chinese do the same thing at 5% of the labor costs, and there seems to be a debate or a quandary where should Japan go or what should it look like in 2010. I’m just interested in your thoughts as you watch the American economy, like an amoeba, changing and taking different courses. Any thoughts were the Japanese economy should be going in the next 10 or 20 years?

**DR. HUBBARD:** Well let me start off with the hollowing out because it reminiscing of discussions that took place in the States in the late 70s and throughout the 80s and I think one of the things we’ve learned is that that kind of competition and importance of U.S. multinationals actually helped the United States a great deal. The flip side of that was that internally in the United States it was important to develop programs for training and structural adjustment for

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workers. So that is something one learns from the U.S. experience. As to what a strategy would be for Japan, I am going to say something that I don’t mean to sound flip, but it is really something that is not for the government. It is more for the business people. I think what the government can best do is to provide an enabling infrastructure, intellectual property protection, the right kind of competition policy, the right kind of financial markets, and let the private sector decide what the right strategy is.

QUESTION: One quick question on the banking issue, you spoke a bit about Japan and the past in the U.S. and Scandinavia, but a lot of other of economies in Asia also have significant banking problems. They pale next to Japan, obviously, but we’ve had problems in the past and on the currency front with integration some of that has now been broken apart because of changes in the market, but from the debt perspective from this banking issues across Japan, any thoughts on what the danger is there of linkage or perhaps the problem in one marker affecting another, or is Japan so divorced from the other Asian economies that that is less of a concern?

DR. HUBBARD: Well, of course the scale of problems, as you said, in Japan is much different, but all the experiences that you mention highlight the need to focus on, again, non-performing assets. Some of the issues in the economies you mentioned have to do with corporate governance and the need for strong anti-corruption moves, better securities markets and markets for corporate control, and I think you will see work over the next year not only by the U.S., but by the G-7 on discussions of the need to improve these measures in economies, and particularly in East Asia.

QUESTION: A former USTR, (inaudible) talked about the danger of the eroding foundation of the U.S.-Japan’s relationship because the Japanese economy has been languishing for a decade. Do you share such kind of concern?

DR. HUBBARD: It is very unfortunate to see, not only the second largest economy, but an economy that has enormous potential growth, stagnated for a decade. I don’t think that it is so much that puts a tax on the U.S.-Japan relationship as it hampers the ability of Japan itself to deal with long-term fiscal problems and its large role in the world.

Thank you.

(end transcript)
INFORMATION RESOURCES ON THE
JAPANESE ECONOMY

Prepared by the
Japan Information Access Project

April 2002

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POLITICAL PARTIES

Ruling Coalition

Liberal Democratic Party (J, E)
http://www.jimin.or.jp/jimin/title.html

New Komeito (J, E)
http://www.komei.or.jp

New Conservative Party (J)
http://www.hoshutoh.com

Opposition

Democratic Party (J, E)
http://www.dpj.or.jp

Liberal Party (J, E)
http://www.jiyuto.or.jp

Japanese Communist Party (J, E)
http://www.jcp.or.jp

Social Democratic Party (J)
http://www5.sdp.or.jp

Liberal League (J, E)
http://www.jiyuren.or.jp

Association of Independents (J)
http://mushozoku.com

Dai Ni In Kurabu (J)
http://www.niinkurabu.gr.jp

Ishinseitou Shinpuu (J)
http://www.shimpu.jpn.org

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GOVERNMENT

Diet (Parliament)

House of Representatives Home Page (J, E)
http://www.shugiin.go.jp

House of Councilors Home Page (J, E)
http://www.sangiin.go.jp

National Diet Library (NDL) (J, E)
http://www.ndl.go.jp/index.html

Cabinet Level Agencies

Kantei – Office of the Prime Minister (J, E)
http://www.kantei.go.jp

Central Government Reform Homepage (J, E)

Koizumi Kouzou Kaikaku (Structural Reform) (J)
http://www.kantei.go.jp/jp/kouzoukaikaku/index.html

Administrative Reform Committee (J)
http://www.gyokaku.go.jp/index.html

Reform Plan for the Government-Public Corporation Relations (March 28, 2002) (J)
http://www.kantei.go.jp/jp/singi/gyokaku/keittei/020328koueki.html

Reform Plan for the Public Servant System (December 25, 2001) (J)

Reform Plan for the Special Public Corporations (December 18, 2001) (J)
http://www.gyokaku.go.jp/jimukyoku/tokusyu/gourika/index.html

Administrative Reform General Principles (December 1, 2000) (J)
http://www.gyokaku.go.jp/about/taiko.html

Basic Plan for the Reform of the Central Government Ministries (June 9, 1998) (J)
http://www.gyokaku.go.jp/siryou/souron/kihou.html

Administrative Reform Committee - Final Report (December 28, 1997) (J, E)
http://www.kantei.go.jp/foreign/971228finalreport.html

Cabinet Office (J, E)
http://www.cao.go.jp

Economic and Fiscal Policy (former Economic Planning Agency [EPA]) (J, E)
http://www5.cao.go.jp/keizai/index-e.html

Council on Economic and Fiscal Policy (CEFP) (J, E)
http://www5.cao.go.jp/shimon/index-e.html

Policy Documents
Basic Policy for Macroeconomic Management and Structural Reform of the Japanese Economy (June 21, 2001) (J)

Outline of Structural Reform Of The Japanese Economy: Basic Policies For Macroeconomic Management (June 21, 2001) (E)
http://www5.cao.go.jp/shimon/2001/0621outline-e.html

White Papers and Reports
White Paper on the Economy and Finance (December 4, 2001) (J)
http://www5.cao.go.jp/j-j/wp/wp-je01/wp-je01.html
Annual Report On The Asian Economies (June 21, 2000) (E)

Annual Report on Japan’s Economy And Public Finance (December 4, 2001)

http://www5.cao.go.jp/j-cr/cr01/chiikireport01/index.html

White Paper on the World Economy 2000 (December 5, 2000)

Council for Regulatory Reform (J)
http://www8.cao.go.jp/kisei/index.html

3-year Plan on the Promotion of Regulatory Reform (as revised) (March 29, 2002) (J)
http://www8.cao.go.jp/kisei/siryo/020329/

Economic and Social Research Institute (J, E)
http://www.esri.cao.go.jp/index-e.html

Nuclear Safety Commission
http://nsc.jst.go.jp/index.htm

Science & Technology Policy (J, E)
http://www8.cao.go.jp/cstp/english/s&tmain-e.html

Financial Services Agency (FSA) (J, E)
http://www.fsa.go.jp

Securities and Exchange Surveillance Commission (J, E)

Japan Defense Agency (J, E)
http://www.jda.go.jp

National Public Safety Commission (J)
http://www.npsc.go.jp

National Police Agency (NPA) (J, E)
http://www.npa.go.jp

Ministry of Agriculture, Forestry and Fisheries (MAFF) (J, E)
http://www.maff.go.jp

Ministry of Economy, Trade and Industry (METI) (J, E)
http://www.meti.go.jp

Agency of Natural Resources and Energy (J, E)
http://www.enecho.meti.go.jp

Small and Medium Enterprise Agency (J, E)
http://www.chusho.meti.go.jp

Nuclear and Industrial Safety Agency (J, E)
http://www.nisa.meti.go.jp/

Japan Patent Office (J, E)
http://www.jpo.go.jp/indexj.htm

New Energy and Industrial Technology Development Organization (J, E)
http://www.nedo.go.jp/

White Paper on International Trade 2001
http://www.meti.go.jp/english/whatsnew/data/gWP2001e.html

White Paper on International Trade 2000
http://www.meti.go.jp/english/report/data/gWP2000e.html

White Paper on International Trade 1999
http://www.meti.go.jp/english/report/data/gWP1999e.html

Ministry of Education, Culture, Sports, Science & Technology (MEXT) (J, E)
http://www.mext.go.jp

Ministry of Environment (ENV) (J, E)
http://www.env.go.jp

Ministry of Finance (MOF) (J, E)
http://www.mof.go.jp

National Tax Administration Agency (NTA) (J, E)
http://www.nta.go.jp/index.htm

Mint Bureau (J)

Printing Bureau (J)
http://www.pb-mof.go.jp/
Local Finance Bureau (J)
http://www.mof.go.jp/zaimu/zaimu.htm

Policy Research Institute (J, E)
http://www.mof.go.jp/jouhou/soken/soken.htm

Highlights of the Budget for FY2002 (Feb. 2002)
FY2002 Tax Reform (December 2001)
FILP Report 2001 (November 2001)
http://www.mof.go.jp/zaito/zaito2001e/zaito2001e.htm

Ministry of Foreign Affairs (MOFA) (J, E)
http://www.mofa.go.jp

Foreign Press Center (J, E)
http://www.nttls.co.jp/fpc

Embassy of Japan, US (J, E)
http://www.embjapan.org

Diplomatic Blue Book 2001

Ministry of Health, Labour and Welfare (MHLW) (J, E)
http://www.mhlw.go.jp

Employment and Human Resources Development Organization of Japan (J)
http://www.ehdo.go.jp

Japan Institute of Labor (J, E)
http://www.jil.go.jp/index-e.htm

Japan Labor Bulletin
http://www.jil.go.jp/bulletin/index.htm

Ministry of Justice (MOJ) (J, E)
http://www.moj.go.jp

Ministry of Land, Infrastructure and Transport (MLIT) (J, E)
http://www.mlit.go.jp

Ministry of Public Management, Home Affairs, Posts and Telecommunications (J, E)
http://www.soumu.go.jp

Administrative Evaluation Bureau (J)
http://www.soumu.go.jp/kansatu/index.htm

Administrative Management Bureau (J)

Regulatory Reform Committee (J, E)
http://www.soumu.go.jp/gyoukan/kanri/top.html

Chronology of Regulatory Reform since 12/94 (J, E)
http://www.soumu.go.jp/gyoukan/kanri/chronology.htm

Election System Reform (J)
http://www.mha.go.jp/senkyo/index.html

Fair Trade Commission (JFTC) (J, E)
http://www.jftc.go.jp

Information & Telecommunications (J, E)
http://www.soumu.go.jp/joho_tsusin/joho_tsusin.html

Statistics Bureau (formerly the Management Coordination Agency [MCA]) (J, E)
http://www.stat.go.jp/english/1.htm

PUBLIC CORPORATIONS

Center for International Cooperation and Computerization (CICC) – [METI] (J, E)
http://www.cicc.or.jp/japanese/index.html

Cooperative Credit Purchasing Company [MOF] (J)
http://www.ccpc.co.jp

Deposit Insurance Corporation of Japan – [MOF] (J) – English version under construction
http://www.dic.go.jp/

Development Bank of Japan [MOF] (J, E)
http://www.dbj.go.jp/

Japan Bank of International Cooperation – [MOF] (J, E)

Japan External Trade Organization (JETRO) [METI]
http://www.jetro.go.jp/

Institute for Developing Economies (IDE) (J, E)
Japan Finance Cooperation for Small Business – [METI] (J, E)  

Japan International Cooperation Agency [MOFA]  

Japan Overseas Development Corporation [METI]  
(J, E)  
[http://www.jodc.or.jp/](http://www.jodc.or.jp/)

Japan Highway Public Corporation [MLIT] (J, E)  
[http://www.japan-highway.go.jp](http://www.japan-highway.go.jp)

Japan Science and Technology Corporation (JST) [MEXT]  
[http://www.jst.go.jp](http://www.jst.go.jp)

Japan Small Business Research Institute [METI]  
(J, E)  
[http://www.jsbri.or.jp/](http://www.jsbri.or.jp/)

Japan Trade and Investment Insurance Organization [METI] (J)  
[http://www.itio.or.jp/](http://www.itio.or.jp/)

National Life Finance Cooperation [MOF] (J, E)  
[http://www.kokukin.go.jp/](http://www.kokukin.go.jp/)

Nippon Export and Investment Insurance – [METI](J, E)  
[http://nexi.go.jp/](http://nexi.go.jp/)

The Resolution and Collection Corporation [MOF] (J)  
[http://www.kaisyukikou.co.jp/](http://www.kaisyukikou.co.jp/)

**TRADE ASSOCIATIONS**

N.B. All associated with a Japanese government ministry.

Association for Economic Planning (J, E)  
[http://www1.meshnet.or.jp/aep_home](http://www1.meshnet.or.jp/aep_home)

Brewers Association of Japan  
[http://www.brewers.or.jp](http://www.brewers.or.jp)

Business Policy Forum, Japan (J)  
[http://www.bpf-f.or.jp](http://www.bpf-f.or.jp)

Electronic Commerce Promotion Council of Japan (ECOM) (J, E)  
[http://www.ecom.or.jp](http://www.ecom.or.jp)

Federal Bankers Associations of Japan (Zenginkyo) (J, E)  
[http://www.zenginkyo.or.jp](http://www.zenginkyo.or.jp)

Federation of Electric Power Companies (J, E)  
[http://www.fepe.or.jp](http://www.fepe.or.jp)

Iron and Steel Institute of Japan (J, E)  
[http://www.isii.or.jp](http://www.isii.or.jp)

Japan Association of Corporate Executives (Keizai Doyukai) (J, E)  
[http://www.doyukai.or.jp](http://www.doyukai.or.jp)

Japan Automobile Importers Association  
[http://www.jaia-jp.org](http://www.jaia-jp.org)

Japan Automobile Manufacturers Association (J, E)  
[http://www.jama.or.jp](http://www.jama.or.jp)

Japan Book Publishers Association (J, E)  
[http://www.jbpa.or.jp](http://www.jbpa.or.jp)

Japan Bicycle Racing Association (J)  
[MITI affiliated organization that provides funds to Japanese industry]  
81-6-6762-7373 FAX +81-6-6762-4102  
[http://www.keirin.go.jp](http://www.keirin.go.jp)

Japan Chamber of Commerce & Industry (J, E)  
[http://www.jcci.or.jp](http://www.jcci.or.jp)

Japan Department Stores Association (J)  
[http://www.depart.or.jp](http://www.depart.or.jp)

Japan Electronics and Information Technology Industries Association (JEITA)  
[http://www.jeita.or.jp/japanese/index.htm](http://www.jeita.or.jp/japanese/index.htm)

Japan Federation of Economic Organizations (Keidanren) (J, E)  
[http://www.keidanren.or.jp](http://www.keidanren.or.jp)

Japan Federation of Employers’ Association (Nikkeiren) (J, E)  
[http://www.nikkeiren.or.jp](http://www.nikkeiren.or.jp)

Japan Food Service Association  
[http://www.jfsa.or.jp](http://www.jfsa.or.jp)
Japan Foreign Trade Association  
http://www.jftc.or.jp/english/home_e.htm

Japan Hotel Association (J)  
http://www.j-hotel.or.jp

Japanese Institute of Certified Public Accountants (J, E)  
http://www.jicpa.or.jp/

Japan Iron & Steel Federation (J)  
http://www.jisf.or.jp

Japan Machine Tool Builder’s Association  
http://www.jmtba.or.jp

Japan Machine Tool Distributor’s Association  
http://www.nikkohan.or.jp/e

Japan Magazine Publishers Association (J, E)  
http://www.j-magazine.or.jp/FIPP/index.html

Japan Medical Association (J, E)  
http://www.med.or.jp

Japan Mini Vehicles Association  
http://www.zenkeijikyo.or.jp

Japan Petrochemical Association  
http://www.jpca.or.jp

Japan Pharmaceutical Manufacturers Association (J, E)  
http://www.jpma.or.jp/

Japan Securities Dealers Association (J)  
http://www.jsda.or.jp

Japan Society of Industrial Machinery Manufacturers (J)  
http://www.jsim.or.jp

Japan Tariff Association (J, E)  
http://www.kanzei.or.jp/

Japan Used Car Dealership Association (J)  
http://www.jucda.or.jp

Japan Whaling Association (J, E)  
http://www.jp-whaling-assn.com/

Kyoto Tourism Association  
http://www.kyotokanko.co.jp

Regional Banks Association of Japan (J)  
http://www.chiginkyo.or.jp

The Second Association of Regional Banks (J)  
http://www.dainichiginkyo.or.jp/

Trust Companies Association of Japan (J)  
http://www.shintaku-kyokai.or.jp

TRADE UNIONS

Central Union of Agricultural Co-operatives of Japan (JA-Zenchu) (J, E)  
http://www.zenchu-ja.org

Confederation of Japan Automobile Workers’ Unions (JAW) (J, E)  
http://www.jaw.or.jp

Japanese Trade Union Confederation (Rengo) (J, E)  
http://www.jtuc-rengo.or.jp/

National Confederation of Trade Unions (Zenroren) (J, E)  
http://www.iijin.or.jp/c-pro/union/aa_j/index_j.html

National Trade Union Council (Zenko-yo)  
+81-3-5403-1650 FAX +81-3-5403-1653

MEDIA

Japanese

Newspapers

Akahata - JCP’s Newspaper (J, E)  
http://www.jcp.or.jp/akahata/index.html

Asahi Shimbun (J, E)  
http://www.asahi.com

Japan Times (E)  
http://www.japantimes.co.jp

Japan Echo (E)  
http://www.japanecho.co.jp

Jiji Press (J)  
http://www.jiji.com/

Kyodo News Service (C, J, E)  
http://home.kyodo.co.jp
Financial Times (E)  
http://www.ft.com

International Herald Tribune (E)  
http://www.iht.com

Japan Digest (E)  
http://www.japandigest.com

New York Times (E)  
http://www.nytimes.com

NewsOnJapan.com (E)  
http://www.newsonjapan.com

South China Morning Post (E)  
http://www.scmp.com/

Stars and Stripes (E)  
http://www.pstripes.com

Time Asia (E)  
http://www.time.com/time/asia/index.html

Washington Post (E)  
http://www.washingtonpost.com

ECONOMIC COMMENTATORS

The 21st Century Public Policy Institute (Naoki Tanaka) (J, E)  
http://www.21ppi.org/

Financial One: The Alliance for the Future (J)  
http://www.financialone.co.jp/nasapp/foc/TopServlet

Economy Column by Iwao Nakatani (J)  
http://www.financialone.co.jp/nasapp/foc/Colum nServlet?CLM_NM=11&CLM_PG=1

Haruo Shimada Website (J, E)  
http://www.ss.iij4u.or.jp/~haruo/

Hiroshi Takeichi’s Economic Information (J)  
http://www.ne.jp/asahi/takeuchi/hiroshi/

Keitaro Hasegawa’s “Following the Trends” (J)  
http://www.yamagatashoken.co.jp/hasegawa/

Mihara-Net (Atsuo Mihara) (J)  
http://www.mihara-net.co.jp/

Morita Research Institute (Minoru Morita) (J)  
http://www.pluto.dti.ne.jp/~mor97512/

Morgan Stanley, Global Economic Forum (E)  
http://www.morganstanley.com/GEFdata/digests/late st-digest.html

Morgan Stanley, Japan Economic Forum (J)  
http://www.morganstanley.co.jp/jef/index.html

Naoki Inose (J)  
http://www02.so-net.ne.jp/~inose/index1.html

Pesek Jr., William, Bloomberg.com (E)  

Seiichi Takarabe Official Homepage (J)  
http://www.takarabe-hrj.co.jp/takarabe/index.htm

Shusei Tanaka’s (former EPA minister) Minken-Jyuku (J)  
http://www.alpha-g.ne.jp/~mknjuku/framesyuppan.htm

Yoichi Funabashi’s World Briefing (J)  
http://opendoors.asahi-np.co.jp/span/briefing/

Yukio Noguchi Online (J)  
http://www.noguchi.co.jp/

Shukan Kinyobi (Weekly Friday) (J) see Fusokukei (Column)  
http://www1.jca.ax.apc.org/kinyobi/

RATING AGENCIES

Fitch Ratings  
http://www.fitchratings.com/

Japan Rating and Investment Information. Inc. (J, E)  
http://www.r-i.co.jp/

Japan Credit Rating Agency (J, E)  
http://www.jcr.co.jp/

Moody's  
http://www.moodys.com/moodys/cust/default.asp
INTERNATIONAL ORGANIZATIONS

Asian Development Bank
http://www.adb.org

Asia-Pacific Economic Cooperation (APEC)
http://www.apecsec.org.sg

U.S. Index APEC
http://www.apec.org/

Association of Southeast Asian Nations (ASEAN)
http://www.aseansec.org

ASEAN Regional Forum (ARF) at ASEAN Homepage
http://www.aseansec.org/amm/prog_arf.htm

International Atomic Energy Agency
http://www.iaea.or.at

International Energy Agency (IEA)
http://www.iea.org

International Monetary Fund (IMF)
http://www.imf.org

International Labor Organization (ILO)
http://www.ilo.org/

International Standardization Organization (ISO)
http://www.iso.org/iso/en/ISOOnline.frontpage

Organization for Economic Co-operation and Development (OECD)
http://www.oecd.org

United Nations
http://www.un.org/

World Bank
http://www.worldbank.org

World Intellectual Property Organization (WIPO)
http://www.wipo.org

World Trade Organization (WTO)
http://www.wto.org

RESEARCH CENTERS

Japan Center for Information on Security Trade Control (J)
http://www.cistec.or.jp/

Daiwa Institute of Research (J, E)
http://www.dir.co.jp/Reception/welcome.html

Economic Policy Institute for Quality Life (J, E)
http://www.hi-ho.ne.jp/seikatuken/

Fuji Keizai (J)
http://www.fuji-keizai.co.jp/

Fuji Research Institute Cooperation (J, E)
http://www.fuji-ric.co.jp/

Fujitsu Research Institute (J, E)
http://www.fri.fujitsu.com/

Funai Consulting Co., Ltd (J)
http://www.funaisoken.co.jp

Fair Trade Center (J)
http://web.infoweb.ne.jp/fairtrade/

Global Industrial and Social Progress Research Institute (J, E)
http://www.gispri.or.jp/menu.html

Institute of Developing Economies (under JETRO) (J, E)
http://www.ide.go.jp/

Institute for International Monetary Affairs (J, E)
http://www.ijma.or.jp/

Institute for International Trade and Investment (J)
http://www.iti.or.jp/

International Development Center of Japan (J, E)
http://www.idcj.or.jp/

International Research Center for Japanese Studies (J, E)
http://www.nichibun.ac.jp/

Japan Center for Economic Research (JCER) (J, E)
http://www.jcer.or.jp
<table>
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<th>Organization Name</th>
<th>Type</th>
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<tr>
<td>Japan Center for International Exchange (JCIE)</td>
<td>(J, E)</td>
<td><a href="http://www.jcie.or.jp">http://www.jcie.or.jp</a></td>
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<td>Japan Center for International Finance (JCE)</td>
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<td><a href="http://www.jcif.or.jp/">http://www.jcif.or.jp/</a></td>
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<td>Japan Economic Research Institute (J,E)</td>
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<td><a href="http://www.nikkeicho.or.jp/">http://www.nikkeicho.or.jp/</a></td>
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<td>Japan Foreign Trade Association (J, E)</td>
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<td>Japan Research Institute (J, E)</td>
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<td><a href="http://www.jri.co.jp/">http://www.jri.co.jp/</a></td>
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<td>Japan Securities Research Institute (J)</td>
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<td><a href="http://www.jsri.or.jp/">http://www.jsri.or.jp/</a></td>
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<td>Japan Productivity Center for Socio-Economic Development (J, E)</td>
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<td><a href="http://www.jpec-sed.or.jp/">http://www.jpec-sed.or.jp/</a></td>
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<td>Japan Quality Assurance Corporation (J, E)</td>
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<td><a href="http://www.jqa.or.jp/j/index_e.html">http://www.jqa.or.jp/j/index_e.html</a></td>
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<td>Matsushita Institute of Governance and Management (J, E)</td>
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<td><a href="http://www.mskj.or.jp/">http://www.mskj.or.jp/</a></td>
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<td>Mitsubishi Research Institute (MRI)</td>
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<td><a href="http://www.mri.co.jp/top.html">http://www.mri.co.jp/top.html</a></td>
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<td>Mitsui Global Strategic Studies Institute (J, E)</td>
<td>(J, E)</td>
<td><a href="http://mitsui.mgssi.com/">http://mitsui.mgssi.com/</a></td>
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<td>National Institute for Research Advancement (NIRA) (J, E)</td>
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<td><a href="http://www.nira.go.jp">http://www.nira.go.jp</a></td>
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<td>National Institute of Technology and Evaluation (J, E)</td>
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<td><a href="http://www.nite.go.jp/index-e.htm">http://www.nite.go.jp/index-e.htm</a></td>
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<td>NLI (Nihon Life Insurance Company) Research Institute (J, E)</td>
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<td><a href="http://www.nli-research.co.jp/">http://www.nli-research.co.jp/</a></td>
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<td>Nomura Research Institute (NRI) (J, E)</td>
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<td>Oil Information Center, Japan (J)</td>
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<td><a href="http://oil-info.ieej.or.jp/">http://oil-info.ieej.or.jp/</a></td>
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<td>Okamato Associates (J)</td>
<td>(J)</td>
<td><a href="http://www.yukio-okamoto.com/">http://www.yukio-okamoto.com/</a></td>
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<td>Okazaki Institute (J, E)</td>
<td>(J, E)</td>
<td><a href="http://www.glocomnet.or.jp/okazaki-inst/okazaki-jap.html">http://www.glocomnet.or.jp/okazaki-inst/okazaki-jap.html</a></td>
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<td>PHP Research Institute (J, E)</td>
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<td><a href="http://www.php.co.jp/cgi-web/business/top.cgi?select=research">http://www.php.co.jp/cgi-web/business/top.cgi?select=research</a></td>
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<td>Research Institute of Construction and Economy (Ministry of Construction)</td>
<td>(J, E)</td>
<td><a href="http://www.rice.or.jp/e-home/e-home.html">http://www.rice.or.jp/e-home/e-home.html</a></td>
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<td>Research Institute of Economy, Trade, and Industry (J, E)</td>
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<td><a href="http://www.rieti.go.jp/index.html">http://www.rieti.go.jp/index.html</a></td>
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<td>Research Institute of Innovative Technology for the Earth (J, E)</td>
<td>(J, E)</td>
<td><a href="http://www.rite.or.jp/English/E-home-frame.html">http://www.rite.or.jp/English/E-home-frame.html</a></td>
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<td>Research Institute on the National Economy (J, E)</td>
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<td><a href="http://www.kkri.org/">http://www.kkri.org/</a></td>
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<td>Sanwa Research Institute &amp; Consulting Corporation (J, E)</td>
<td>(J, E)</td>
<td><a href="http://www.sric.co.jp/">http://www.sric.co.jp/</a></td>
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<td>Seiji Koho Center (J)</td>
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<td><a href="http://www.seiji-koho.co.jp">http://www.seiji-koho.co.jp</a></td>
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<td>Institute of Economic Research, Hitotsubashi University (J, E)</td>
<td>(J, E)</td>
<td><a href="http://www.ier.hit-u.ac.jp/">http://www.ier.hit-u.ac.jp/</a></td>
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Keio University (J, E)
http://www.keio.ac.jp

Institute for Economic and Industry Studies
(Keio Economic Observatory) (J, E)
http://www.sanken.keio.ac.jp/index.html

Kyoto University (J, E)
http://www.kyoto-u.ac.jp/

Center for Law and Policy Studies, Kyoto University (J)
http://www.law.kyoto-u.ac.jp/I-Shisetsu.htm

Kyoto University Institute of Economic Research (J, E)
http://www.kier.kyoto-u.ac.jp/index.html

Ohara Institute for Social Research, Hosei University (J, E)
http://oohara.mt.tama.hosei.ac.jp/english/toc06.html

University of Tokyo (J, E)
http://www.u-tokyo.ac.jp

Institute of Social Science (J, E)
http://jww.iss.u-tokyo.ac.jp/

School of Law and Politics (J, E)
http://www.j.u-tokyo.ac.jp/index.htm

Center for International Research on Japanese Economy (J, E)
http://www.e.u-tokyo.ac.jp/cirje/indexj.htm

Waseda University (C, J, E)
http://www.waseda.ac.jp

Institute of Asia Pacific Studies (J, E)
http://www.wiaps.waseda.ac.jp/Wiaps/EN/index.asp

United States and Europe

Asia Pacific Policy Program, Center for Business and Government, Harvard University
http://www.ap.harvard.edu/

Asia-Pacific Research Center (Stanford)
http://aparc.stanford.edu

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Center for Japanese Studies, University of Michigan
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European Institute of Japanese Studies,
Stockholm School of Economics (Sweden)
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Program on U.S.-Japan Relations, Harvard University
http://www-vdc.fas.harvard.edu/cfia/us-japan

Reischauer Center for East Asian Studies, Johns-Hopkins SAIS
http://www.sais-jhu.edu/depts/asia/reischauer

Think Tanks

Liberal
Center for Defense Information (CDI)
http://www.cdi.org

Institute for Policy Studies (IPS)
http://www.igc.org/ifps

Japan Policy Research Institute (JPRI)
http://www.jpri.org

Moderate
Brookings Institution
http://www.brook.edu

Foreign Policy Studies
http://www.brook.edu/dybdocroot/fp/fp_hp.htm

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http://wwics.si.edu/
Asia Program
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Center for International Political Economy
http://www.cipeny.org

Keizai Koho Center US (J, E)
http://www.kkc.or.jp

Sasakawa Peace Foundation, USA (J, E)
http://www.spfusa.org

Goodwill Organizations

Asia Society
http://www.asiasociety.org

International House of Japan (J, E)
http://www.i-house.or.jp

National Association of Japan America Societies
http://www.us-japan.org

Pacific Economic Cooperation Council (PECC)
http://www.pecc.org/ie.html

Sasakawa Peace Foundation Foundation (J, E)
http://www.spfusa.org

Databanks

Com Track (J)
http://www.comtrack.net/

Teikoku Data Bank (J, E)
http://www.tdb.co.jp/

Tokyo Shoko Research (J, E)

Web Toyo Keizai (J, E)
http://www.toyokeizai.co.jp/index.html

(Kaisha) Shikiho Joho Service (J)
http://shikiho.qqq.or.jp/

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Agora Political Resources - Japan (E)
http://www.politicalresources.net/japan.htm

Center for Political Public Relations, Inc. (J)
Info on political parties and politics
http://www.seiji-koho.co.jp

Duke University - Japanese Political Science
Resources (E)
http://www.lib.duke.edu/ias/eac/politicalsciences.htm

Fujita’s Homepage – Administrative Reform
http://www.law.tohoku.ac.jp/~fujita/
Ganbarou Nippon! Kokumin Kyougikai (J)
(“Let’s go, Japan! National Conference Association"
Advocates political reform
http://www.ganbarou-nippon.ne.jp

George Brown’s Japanese Politics Web Resources (E)

Internet Democracy (J)
Japan politics website with links to Japanese political parties and politicians’ websites
http://www.inet-mitakai.com/seiji.html

Japanese Constitution (E)

Japan Information Network (MOFA)-
Government and Politics (E)
hit://jin.jcic.or.jp/navi/category_2.html

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http://www.japanesepoliticians.com

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http://www.people.virginia.edu/~ljs2k/webtext.html

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Promotes “government of the people, by the people, for the people” in Japan. Members include several former Diet members
http://member.nifty.ne.jp/lincorn/index.html

Klipsan Press Homepage specializing in global electoral systems and election results (E)
http://www.klipsan.com

Rakusen Undoh (Movement to Defeat Certain Candidates) (J, E)
Includes List of candidates this organization does not want elected
http://nvc.halsnet.com/jhattori/rakusen

Seikai Matrix (J)
Lists opinion polls, voter participation rate, and other election data
http://www.bea.hi-ho.ne.jp/naito38/frcontents.htm

J-Guide - Stanford Guide to Japan Information Resources (E)
http://bases.stanford.edu/USATMC/jguide/

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http://www.xdsl.ne.jp/~nomura/Toppage.html

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http://www.page.sanet.ne.jp/hisano

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(Evaluating Support for Political Parties)
http://www.page.sanet.ne.jp/hisano/partyfnd3.htm

JAPANESE GOVERNMENT-
AFFILIATED OFFICES IN
WASHINGTON

Agricultural & Livestock Industries Corp.
(301) 664-6440

Bank of Japan (BOJ)
(202) 466-2228

Development Bank of Japan (DBJ)
(202) 331-8696

Electric Power Development Co.
(202) 429-0670

Federation of Electrical Power Companies
(202) 466-6781

Institute of Intellectual Property (IIP)
(202) 833-8565

Japan Atomic Energy Research Inst. (JAERI)
(202) 293-4551

Japan Automobile Manufacturers Assc. (JAMA)
(202) 296-8537

Japan Automobile Standards Internationalization Center (JASIC)
(202) 887-4830

Japan Bank for International Cooperation (JBIC)
(202)785-5242

Japan Center for International Finance(JCIF)
(202) 822-9635

Japan Electric Power Information Center (JEPIC)
(202) 955-5610
Japan Federation of Construction Contractors
(202) 466-3585

Japan International Cooperation Agency (JICA)
(202) 393-5422

Japan International Transport Institute (JITI)
(202) 833-9763

Japan Iron & Steel Federation
(202) 429-4766

Japan National Oil Corp (JNOC)
(202) 783-4470

Japan Nuclear Cycle Development Inst.
(202) 338-3370

Japan Productivity Center for Socio-Economic Development
(202) 955-5663

Japan Science and Technology Corp. (JSTC)
(202) 872-4707

Japan Society for the Promotion of Science (JSPS)
(202) 659-8190

JR-Tokai (Central Japan Railway Company)
(703) 979-2653

Keizai Koho Center (KKC)
(202) 293-8430

Manufactured Imports Promotion Organization
(MIPRO) [METI]
(202) 659-3729

New Energy and Industrial Technology Development Organization (NEDO)
(202) 822-9298

NTT
(202) 312-1444

Research Institute of Construction & Economy (RICE)
(202) 296-6240

Research Institute of Telecommunications and Economics (RITE)
(202) 857-0070
QUICK LINKS TO
JAPANESE ECONOMIC STATISTICS

Automobile Exports - Japan Automobile Manufacturers Association (JAMA)
http://www.jama.or.jp/e_press/index.html

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http://www.jama.or.jp/e_press/index.html

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Business Sentiment at Small and Midsize Companies - Shoko Chukin Bank
http://www.shokochukin.go.jp/

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http://www.mlit.go.jp/toukeijouhou/chojou/stat-e.htm

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http://www.research-soken.or.jp

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Consumer Price Index (Tokyo, and Nation) - Ministry of Public Management, Home Affairs, Posts, and Telecommunications, Statistics Bureau & Statistics Center (STAT)

Convenience Store Sales - Tokyo Chamber of Commerce and Industry
http://www.tokyo-cci.or.jp

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http://www.tdb.co.jp

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http://www.boj.or.jp/en/siryo/siryo_f.htm

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http://www.mof.go.jp/english/mf_review.htm

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http://www.mof.go.jp/english/e1c006.htm

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Housing Starts - MLIT
http://www.mlit.go.jp/toukeijouhou/chojou/stat-e.htm

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http://www.boj.or.jp/en/siryo/siryo_f.htm

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PARTICIPANT BIOGRAPHIES

Keynote Speaker

R. GLENN HUBBARD currently serves as Chairman of the Council of Economic Advisers in the Executive Office of the President. Dr. Hubbard is on a leave of absence from Columbia University where he is the Russell L. Carson Professor of Economics and Finance and Co-Director of the Entrepreneurship Program in the Graduate School of Business and Professor of Economics in the Faculty of Arts and Sciences. He also served as Senior Vice Dean of the Graduate School of Business. Dr. Hubbard is also a research associate at the National Bureau of Economic Research. Prior to joining the Columbia faculty in 1988, he taught at Northwestern University. He also served as a visiting professor at the John F. Kennedy School of Government at Harvard University, the Graduate School of Business of the University of Chicago, Harvard Business School, and as a John M. Olin Fellow at the National Bureau of Economic Research. From 1991-1993, he was Deputy Assistant Secretary (Tax Analysis) of the U. S. Treasury Department. Dr. Hubbard’s research interests span public economics, macroeconomics, corporate finance, and industrial organization. Dr. Hubbard has authored a textbook on financial markets and institutions, edited volumes on financial economics and international tax policy, and written more than 90 scholarly articles. Dr. Hubbard also served as the Director of the Program on Tax Policy at the American Enterprise Institute in Washington, D. C. He has been a consultant to the U. S. Department of the Treasury, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, the National Science Foundation, and numerous private corporations. Dr. Hubbard received his Ph.D. in economics from Harvard University in 1983.

Moderators

GILLIAN TETT is the former Tokyo Bureau Chief for the Financial Times (FT). She is currently on leave to write a book about Japan’s financial system while contributing occasional articles to the FT. Dr. Tett first worked as a freelance journalist in Russia, Central Asia and the Baltic States, before joining the FT in 1993 as a foreign reporter. From 1994-5, she was based at the FT’s London headquarters as UK Economics reporter. From 1995-96, she was the FT’s Economics Correspondent, with special responsibility for the European Monetary Union. Gillian has been a Financial Times Tokyo Correspondent since 1997 and became the FT Tokyo Bureau Chief in the Summer of 2000. Dr. Tett received her BA and Ph.D. in Social Anthropology from Cambridge University.
E-mail: gillianbett@hotmail.com

MINDY L. KOTLER is founder and director of the Japan Information Access Project, a nonprofit, membership research center studying Japanese and Northeast Asian security and policy developments and trends. She designs and coordinates innovative programs that bring to Washington the best international scholars and experts on Asia to brief and assist US policy
officials. Ms. Kotler is editor-in-chief of the Japan Washington Watch, a twice-weekly electronic newsletter on information relevant to US relations with Northeast Asia. Ms. Kotler’s expertise is in Japanese political and security policy and Asia’s information cultures. Her recent publications include Japanese Nuclear Energy Policy and Public Opinion for the James A. Baker Institute for Public Policy; Cyber Attacks in Asia: A Cheap War, a discussion paper; Guide to Japan’s Government Restructuring, a special report; and Japan’s June 25th Elections: Understanding the Results, an edited seminar proceedings. Ms. Kotler received her MA in International Relations from Yale University and her BA in Government and History with High Honors in Chinese history from Smith College.

E-mail: mkotler@jiaponline.org

Presenters

MAGNUS BLOMSTRÖM is Professor of Economics at the Stockholm School of Economics and the President of the European Institute of Japanese Studies in Stockholm. He is also a Research Associate at the National Bureau of Economic Research (NBER) since 1985, and a Research Fellow at the Centre for Economic Policy Research (CEPR) in the United Kingdom. He has held visiting positions at Columbia University, New York University, the Australian National University, and CIEPLAN in Chile, among others. Professor Blomström’s research has focused on the effects of foreign investment on both home and host countries, trade policy issues, and the determinants of economic growth and development. He has published numerous papers in edited journals and volumes and has written several books, including Foreign Investment and Spillovers, Globalization of Firms and the Competitiveness of Nations, and Foreign Direct Investment: Firm and Host Country Strategies. He has also been a consultant to several international organizations, governments, and corporations. Professor Blomström earned his BA and PhD in economics from the University of Gothenburg, Sweden.

E-mail: magnus.blomstrom@hhs.se

ANIL KASHYAP is Professor of Economics at the University of Chicago’s Graduate School of Business. His principal research interests include Japan, particularly the financial system, and the sources of business cycles. His research has been published in a number of academic journals and books and he has received grants from the National Science Foundation, and the Alfred P. Sloan Fellowship in Economics. His book, Corporate Financing and Governance in Japan: The Road to the Future (with Takeo Hoshi), was published in September 2001 by MIT Press. Professor Kashyap currently serves on the editorial boards of the Journal of the Japanese and International Economics, the Journal of Financial Intermediation, and the Journal of Risk Finance. Professor Kashyap serves as the head of a NBER working group that studies the Japanese economy and is currently on the Advisory Council to the Japan External Trade Organization’s research program on “Accessing the Japanese Market.” Previously he served as a staff economist for the Board of Governors of the Federal Reserve System. He earned his Ph.D. in economics from MIT and his BA in economics and statistics from the University of California at Davis.

E-mail: anil.kashyap@gsb.uchicago.edu
SUMNER LA CROIX is Professor and Chair in the Department of Economics at the University of Hawaii at Manoa (UHM), a Senior Fellow and Coordinator of China Research at the East-West Center, and an affiliate faculty member with the UHM Center for Chinese Studies. La Croix has held visiting positions at the University of Canterbury in 1984, the Australian Graduate School of Management in 1987, Fudan University in 1990, the University of California-Berkeley in 1995, and Barnard College, Columbia University from 1998-2000. Professor La Croix’s research focuses on the economic history, development, and current state of economies in the Asia-Pacific region, with an emphasis on institutional change, property rights, and organization and regulation of industry. His recent book (co-edited with Byron Gangnes and Magnus Blomström), *Japan’s New Economy: Continuity and Change in the Twenty-First Century*, was published by Oxford University Press in February 2001. Current projects include a study of institutional change in Japan and its ongoing economic crisis; a research project on intellectual property rights and R&D in Japan; a review of the relationship between globalization and major demographic trends; a book on the economic history of Hawaii; and several research projects on the political economy of modern China. Professor La Croix received a Ph.D. from University of Washington and a BA from the University of Virginia.

E-mail: lacroix@hawaii.edu

HIROSHI ONO is an Assistant Professor at the European Institute of Japanese Studies at the Stockholm School of Economics. He worked previously as a consultant at the Nomura Research Institute, Ltd. where he worked as a consultant. His research integrates microeconomics and sociology and focuses on human behavior overlapping both fields, including such topics as education, gender, inequality, and labor in Japan, the United States, and Sweden. He has examined the pathways leading to higher education in Japan; the payoffs from investments in a Japanese University education; and the incentives and motivations behind the obsessive pursuit of university prestige in Japan. His recent work includes studies of the international migration of skilled women; barriers to mobility in the Japanese labor market after the 1990s crisis; and unequal access to and use of the Internet in Japan, the United States, and Sweden. He received his Ph.D. and MA in sociology from the University of Chicago his BE in Mechanical Engineering from Waseda University.

E-mail: hiroshi.ono@hhs.se

JAY TATE is completing a Ph.D. in political science at the University of California, Berkeley. Currently affiliated with the UC-Berkeley Washington Center, he is a Research Associate at the Berkeley Roundtable on the International Economy (BRIE) and author of *Driving Production Innovation Home: Japan’s Guardian State Capitalism and the Competitiveness of the Japanese Automobile Industry*. His dissertation, *Governing Innovation in Germany, Japan, and the United States*, examines business associations, worker training, standard-setting, technology diffusion, and intellectual property. His recent publications include “National Varieties of Standardization” in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*.

E-mail: jaytate@socrates.berkeley.edu
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Fax: (202) 418-9802
jusfc@jusfc.gov
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**Japan Information Access Project**

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Fax: (202) 822-6044  
[access@jiaponline.org](mailto:access@jiaponline.org)  
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**Stockholm School of Economics**

Box 6501, SE-113 83 Stockholm, Sweden  
Phone: +46-(0)8-736 90 00  
Fax: +46-(0)8-31 81 86  
[http://www.hhs.se](http://www.hhs.se)
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EIJS aims to act as a platform for research and educational programs focusing on the dynamics of Japan and East Asia and on the links between Japan / East Asia and Europe. EIJS opened a liaison office, the EIJS Tokyo Office, in Tokyo in October 1997. The primary goal of the Tokyo branch is to act as the consultative service provider for European businesses and expatriates in Japan. The Tokyo office also arranges seminars and lectures and hosts the monthly EIJS Academy.

The European Institute of Japanese Studies
Sveavägen 65
PO Box 6501
SE-113 83 Stockholm, Sweden
Phone: +46-8-736 9360
Fax: +46-8-31 30 17
japan@hhs.se
http://www.hhs.se/eijs/

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• Educational programs to develop the human resources needed by the United States and the Asia-Pacific region in a new era of increased interdependence. The EWC’s student program supports outstanding students from the Asia-Pacific region earning degrees at the University of Hawaii.

A public, non-profit corporation, the Center receives core funding for its programs from a U.S. government appropriation. Additional support is provided by private agencies, individuals, corporations, and Asian and Pacific governments.

The East-West Center
1601 East-West Road
Honolulu, HI USA 96848-1601
Phone: (808) 944-7111
Fax: (808) 944-7376
ewcinfo@EastWestCenter.org
http://www.eastwestcenter.org

University of Hawai‘i at Manoa

The University of Hawai‘i at Manoa (UH-Manoa) is the flagship campus of the University of Hawaii. Located in Manoa valley, just a few miles from downtown Honolulu and Waikiki Beach, UH-Manoa has an enrollment of 17,000 students. The oldest UH campus, Manoa began in 1907 as a land-grant college of agriculture and mechanic arts. With the addition of a College of Arts and Sciences in 1920, the college became the University of Hawai‘i. In 1972, it became the University of Hawai‘i at Manoa to distinguish it from the other units in the growing UH system.

Students at UH-Manoa have special opportunities for Asian, Pacific, and Hawaiian educational experiences and involvement in research activities, service learning, and co-curricular activities. UH-Manoa has widely recognized strengths in tropical agriculture, tropical medicine, international and development economics, oceanography, astronomy, volcanology, evolutionary biology, comparative philosophy, comparative religion, and Hawaiian, Japanese, Korean, Chinese, and Pacific Islands studies.
The graduate program of the **UH-Manoa Department of Economics** is designed for students from across the globe who wish to specialize in the economies of the Asia-Pacific region, with particular emphasis on China and Japan. The Department has doctoral and masters degree programs, and its graduates have achieved leading roles in government, academia, and business in countries throughout the Asia-Pacific region. The Department’s location in the middle of the Pacific Ocean, its close relationship with the East-West Center, its outstanding international and development economics faculty, and its multicultural graduate student body provide a natural environments for studying the structure and public policies of Asia-Pacific economies.

**University of Hawaii-Manoa**  
Department of Economics  
2424 Maile Way, Saunder Hall 542  
Honolulu, HI 96822, USA  
Phone: (808) 956-8496  
Fax: (808) 956-4347  
[econ@hawaii.edu](mailto:econ@hawaii.edu)  
[http://www.economics.hawaii.edu](http://www.economics.hawaii.edu)
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Japan Information Access Project
2000 P Street, NW, Suite 620
Washington, D.C. 20036
(202) 822-6040, fax (202) 822-6044
access@jiaponline.org
http://www.jiaponline.org

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