Titanic Japan: The Iceberg Hits But the Dancing Goes On

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Today, our economy is in crisis. It has not recovered from the many wrong decisions made by Mr. Murayama and his successor Mr. Hashimoto, who is of course a Liberal Democrat. The Socialists are still in coalition with the LDP, but as the House of Councilors election in July comes closer, it looks as though the Socialists are finally deciding to leave the coalition. If they do, the political blockade will be broken and we may see liveliness return to the Japanese political scene.

After all, much of the political turmoil of the past four years comes from chaos within the ruling coalition itself - from the fact that the LDP and the Socialists policies are so far apart. They must spend most of their time and effort in trying to find compromises between these two different points of view. Besides these differences, there are struggle between the reformers and the Old Guard, the Elders and the Youth, the 20th Century and the next, national interests and domestic politics. I should say that the coalition government's main purpose has been to cling to power, not to revitalize the economy or to restructure society. This led to inconsistent policies and caused Japan to lose credibility in the world community.

I must admit that confusion among opposition ranks also spurred political turmoil. My political career started in 1992 with the Japan New Party under the leadership of Morihiro Hosokawa, so my political path overlaps the comings and goings of various parties. In 1993, Mr. Hosokawa became Japan's first non-LDP Prime Minister in nearly half a century. But the Hosokawa government, which was also a coalition, collapsed after just eight months. Later, I joined the New Frontier Party, Shinshinto, which was composed of six parties including the Japan New Party. When the New Frontier Party disbanded at the end of last year, I joined the Liberal Party, led by Ichiro Ozawa who had been the leader of the NFP.

Last week, I was surprised to receive an urgent message from Tokyo saying that Hosokawa, my former comrade, had suddenly quit Parliament. That is only three days after the New Democratic Party was formed at last by Hosokawa’s great efforts. These efforts were themselves a kind of atonement for his abrupt resignation in April 1994. If so, at least he should remain until the first national election of the House of Councilors in July is over. Hosokawa must have been fed up with the squabbles going on around him. I think that Hosokawa has a lot to learn from President Clinton's tenacity in the face of adversity.

Leaving aside his personality, I do understand and agree with Hosokawa's ideals and policies for reforming Japan. That is why I followed him once. He is a valuable and unusual statesman who can draw a grand design of a nation. In that sense, he is like Mr. Ozawa. In fact, Hosokawa and Ozawa have many
similarities although their appearances don't look alike at all, and this is probably why the two of them could not get along with each other. As we say in Japanese, "Ryouyu Narabitatazu" or, "Two cocks in one yard cocks in one do not agree."

By the way, I recently had the opportunity to see the Academy Award sweeping movie - "Titanic." Why did the enormous luxury liner sink? Why could not it avoid colliding with an iceberg? I found the movie very interesting because there were so many similarities between the supposedly unsinkable ship and Japan.

Here are a few examples. Captain Smith's misjudged selection of the voyage's path. The watchmen who forgot to bring their binoculars. The ship owner Robert Ismay who was among the first on the rescue boats. The passengers who danced away the night unaware that the ship was taking on water. All of these description can be applied to Japan now.

Prime Minister Ryutaro Hashimoto, the captain of the 'good ship Japan' has steered the country in the wrong direction. Even while an iceberg was looming ahead, instead of even attempting to slow down, his government hiked the consumption tax, increased the medical costs and abandoned special tax concessions. In 1997, the Hashimoto government increased taxes by 9 trillion yen total. In a two-year period of either zero or negative growth, Hashimoto didn't lower taxes, he raised them. He kept on rejecting our consecutive requests for a permanent tax cut but all of a sudden, he reintroduced a temporary tax cut.

All this was in spite of our warnings against a deflationary budget and introducing the Fiscal Structural Reform Law which has similar effect as Gramm-Rudman Law of the United States. Only four months after the bill was passed by force, he changed his mind knowing that the law became a hurdle to revitalizing the active economy. I should say that this is clearly a grave policy error. Thus Hashimoto is called Hoover Hashimoto. Lack of consistency on policies loses confidence of people, the market and the world.

During the general election of 1996, the New Frontier Party, to which I then belonged called for a major 18 trillion yen in tax cuts. Our figure – 18 trillion yen - may sound similar to the LDP's most recent urgent measures to inject 16 trillion yen into the economy. But the purpose and content of the two proposals are entirely different. Ours were aimed at thoroughly changing Japan's outdated economic and social systems, while the LDP wants to maintain the ancient regime as long as possible.

As the leading opposition party, we have submitted many bills proposals,
however, the bills were ignored and killed by Hashimoto's government and have never been discussed at the Diet. I was particularly surprised that the Socialists rejected our proposal to keep the consumption tax rate at 3 percent, when the government insisted on raising it 5 percent. After all, it was the Socialists, who strongly opposed the introduction of a consumption tax in 1989, saying it would hit senior citizens and low income families. They changed their tune just so that they could remain in the governing coalition.

By the way, whenever we bring a new bill or proposal to the Diet, the LDP and the Socialists reject them, but within a year or so they bring their own bill with a title very similar to ours, though the actual contents may be far different from ours. Sometimes I think we are merely their think tank. As both of the LDP and the Socialists, as well as bureaucrats are sort of charter members of the Ancient Regime Club so it is difficult to expect them to draw drastic reform plan. It may lose their raison d'être.

In any case, the time lag between our proposals, the government's proposals, and the actual implementation of these proposals can be fatal. For instance, the LDP is talking about introducing a permanent tax cut after the House of Councilors' election in July. But that seems just a tactic to win the election while calming pressure from the media and abroad.

Now, speaking about the statistics or information, many of the economic indices are announced by the Economic Planning Agency. Even though many of Japanese people have already recognized there are problems with the Japanese economy, the Economic Planning Agency has continued to claim that the economy is recovering. A monopoly of information originates the power of bureaucrats. Bureaucrats often manipulate information according to their own convenience. The Economic Planning Agency, which is under the strong influence of the Ministry of Finance, had no choice but to keep making that claim to justify the consumption tax hike by the MOF.

Actually, the Management and Coordination Agency, for which I served as the Vice Minister, is located in the same building as the Economic Planning Agency. This building is also connected to the adjacent building that houses the Ministry of Finance. For that reason, officials of the MOF often referred to our building as the MOF "Annex". The position of Director General of the Economic Planning Agency is a reserved seat for the Ministry of Finance. Whatever the case, like the Titanic Japan appears to have run willfully into an iceberg.

To make matter worse, both the governments of Prime Ministers Murayama and Hashimoto failed in their handling of over 100 trillion in bad debts carried by financial institutions. One of the biggest problems was the governments' decision to protect farmers' cooperatives, the foundations of the LDP's political support.
Another major problem was the MOF’s reluctance to expose and disclose the responsibility of banks in the financial fiasco, as banks are primary destinations of retired Finance Ministry bureaucrats. 117 former officials are now presidents or chairmen of banks, 25 are in security houses, 22 in insurance companies. It was only in January of this year that the staggering sum of 76 trillion finally emerged— as the true amount of bad debts.

Mitsubishi Bank, the only Japanese bank to be listed on the New York Stock Exchange, demanding the disclosure of bad debts as soon as possible. However, the Japanese financial industry showed its true colors as a convoy that is guided by the MOF. The industry's top representative, Chairman Matsushita of the Sakura Bank, who was the chairman of the Federation of Bankers Association of Japan at the time, balked at opening the books of financial institutions. Matsushita, by the way, is a former Administrative Vice Minister of the MOF. After retiring from the Ministry, he was appointed as the Chairman at Sakura Bank. He also served as the Governor of the Bank of Japan until last month. His resignation was due to take responsibilities for the scandals that the officials had excessive dining and wining and leakage of confidential information to a commercial bank.

Incidentally, the Federation of Bankers Association of Japan represents all 150 banks in Japan. Its one year chairmanship rotates among the six main banks. Last year, the Japanese financial industry was rocked by several scandals involving all major banks, such as confirmed links between it and Sokaiya, and illegal wining and dining of MOF officials. As a consequence, Sanwa Bank Chairman Saeki resigned as the Federation Chairman mid-term to be replaced by Tokyo Mitsubishi Bank Chairman Kishi. However, because the Japanese banking industry has adhered to the Ministry of Finance's convoy policies, all banks are guilty of excessively wining and dining Ministry officials. It is all a matter of degree. In a perfect world, none of the major banks should have the right chair the Federation.

I am one of the leading proponents for the dismantling the Federation of Bankers Association of Japan. The Federation was founded 1942 as the National Finance Regulation Association for obtaining war funds under the provisions of the National Mobilization Act. The Federation d as the foundation of Japan's indirect financing of the War.

In 1945, National Finance Regulation Association became the Federation of Bankers Association of Japan. However, the change was in name only. With deep ties to the Finance Ministry, the banking industry steadily became more uniform through emphasis on indirect financing and the all-for-one, one-for-all,
convoy system. In other words, the Federation can be considered a historical anachronism that came about because of war-time economy. It is relic, just like Japan's withholding tax system. If you would like, please feel free to exhibit Japan's banking system in Smithsonian Institute.

The Federation of Bankers Association of Japan's present day role is not only to serve as the interface between the Ministry of Finance and the banking industry, but also to operate as an organization for collecting war funds for the Liberal Democratic Party. For example, when the LDP approaches the Federation for political donations, say one billion yen, the Federation will collect the amount by cleverly assigning donation amounts to the various member financial institutions. It should be noted that the banking industry is the second largest contributor to the LDP war chest following the construction industry. As you know, these industries are at the root of Japan's present economic turmoil. The function of financial approval system that the Federation has can be privatized and Federation should be altered to be a real social club.

Japan should have implemented so-called Maekawa Reports' recommendations of 86 to structurally alter Japan's finance and business environments. Although deregulation has been made to varying degrees in several areas, changes were the slowest to reach the construction and financial industries. These industries had managed to avoid deregulation by pumping political donations into the LDP. The LDP has played the game smartly by demanding donations from these industries using the threat of deregulation. That's why deregulation has come so slowly-the IDP doesn't want to lose the hold it has over industries that contribute to its coffers. Simply put, true economic reform under the current government is nothing more than a mirage.

The LDP government also prepared 13 trillion yen ostensibly to protect the Japanese financial system. After the fund was announced, all the Japanese banks uniformly placed requests for 100 billion yen handouts from the Government. Every bank, be they in good business shape or close to bankruptcy, all asked for the same amount of money. As a matter of fact, some of banks' CEOs told me that they were reluctant to receive the public money as they are confident to be able to raise money through the market. It is obvious that the Federation is still allocating funds within the industry. Even though the government proposes to make the Japanese financial industry 'free, fair and global' by undertaking the so-called big bang financial deregulation, as it is obvious the banks are still engaging in convoy behavior.

As I said, the Federation is the interface between Japanese banks and the MOF. The Ministry wields power over the industry by issuing directives in addition to laws. The Ministry issues one directive everyday to the Federation or to banks by mouth. Namely, 300 verbal instructions are notified by the Ministry every year.
Let me give you an example, the calendars distributed by banks to their customers at the end of the year are single sheet design of approximately the same size. This calendar design was mandated by the Finance Ministry both directly and indirectly, and communicated through the Federation to prevent banks from competing for customers with fancy year end calendars. Banks are also prevented from of over a certain value to people opening saving accounts.

How then do consumers choose between banks that do not compete terms of interest rates? The answers are the closeness of a bank to the customer, the presence of relatives or friends among the bank staff and the design of account books. For example, several top banks offer pass books featuring cartoon characters like Mickey Mouse and Snoopy. Just recently, Daiichi Kangin, which was involved in a scandal with Sokaiya gangsters, introduced a passbook bearing a cute Hello Kitty character. The bank managed to attract 60,000 new savings account holders with this marketing ploy. As far as the bank customers are concerned, it ultimately doesn't matter where they save their money if the interest rates are identical and the bank is certain not to go belly up. After all, people of Japan are passengers on the convoy too.

In Japan, some claim that the concept of a global standard is a strategy promoted by America or Anglo-Saxons. However, savings account holders would naturally want to deposit their money in a bank that offers greater safety and higher interest rates. They would happily place their money in a bank that would maximize the value of their money whether bank happens to be American, Swiss, or Chinese.

Because of repeated policy efforts, the Japanese financial market is in turmoil. Japan's economic recession is attracting attention for its contrast to the robust US economy which has seen the Dow-Jones around $9100 while the Nikkei average is 15,000 yen. That said, there are those who claim the Nikkei average should be lower at around 12,000 yen given the state of the Japanese economy and the real power of its industries. The unemployment rate reached the record high 3.9 percent.

There are two prime causes of policy errors. One problem is that the industry is bureaucrat-driven. In particular, the Hashimoto government relies far too much on the policies put forth by MOF. This problem, by the way, isn't something that just started now. The second key probable is that the Hashimoto government and LDP lack economic professionals. Although there is much attention focused on corruption among bureaucrats, the most pressing problem is that we, Japanese politicians are not exercising our power. That is why I feel the Diet's functions should increase the staffing of Diet members. It is necessary to increase the staffing of Diet members. It is also essential to bring about changes in the perceptions of Prime Minister Hashimoto made the mistake of letting the
bureaucrats manage the economy. The Prime Minister, without strong support in the LDP has led a lonely existence in office, which is perhaps why he has embraced the beloved bureaucrats of the immensely powerful Ministry of Finance.

By the way, in Japan, the Prime Minister's activities are reported daily in the mass media. As the Japanese media is unaware of crisis management, it simply reports the Prime Minister's movements in the order that they happened including who he saw, when and where. Checking the Prime Minister's activities, it becomes clear that he sees many bureaucrats every day but only infrequently meets with LDP members. At least he isn't seeing them publicly- But who knows, maybe he is also seeing a beautiful Chinese intelligence agent as we speak.

In January this year, I was impressed by President Clinton's public address when he proudly said that one of the twin debts, the budget deficit is "simply zero." In contrast, Japan is currently running a budget deficit for the national and regional governments combined totaling "Simply 500 million yen". Therefore, in December of last year, the government pushed through the Fiscal Structural Reform Law which gave priority to balancing the government's budget over revitalizing the economy.

The act was put together by Prime Minister Hashimoto who assemble so assembled the Fiscal Structural Reform Committee. This move was suggested basically by the Ministry of Finance. The group included such faces as former prime ministers Nakasone, Takeshita, Miyazawa and Murayama, forme finance ministers Takemura and Mitsuzuka, the present Finance Minister Matsunaga and executives of the ruling party. Some critics have likened Japan's economic stagnation after decades of growth to the defeat in World War II. In other words, this is the second time in this century that Japan has been defeated by stubbornly sticking to wrong policies. It may be too cruel to liken the prestigious leaders of the Structural Reform Committee to the A-class war criminals brought to trial after that war. But much of the self-justifying language they use is very to that of the leaders who conducted that disastrous war. After all, Mr. Hashimoto himself was the Finance Minister during the speculative bubble economy of the 1980's that created today's stagnation.

However, I feel that there are other A-class criminals who are biding behind the backs of our political leaders. I mean the bureaucrats of the Ministry of Finance - the MOF - are extremely powerful. Then, why? Unlike the United States' system, the Ministry controls both the Budget Bureau and Tax Bureau. In other words, the Ministry controls both the outflow and inflow of money. As other
government ministries and agencies must obtain funding approval from the
MOF, it has become common practice for bureaucrats of other ministries to take
Finance Ministry bureaucrats and so on.

At present, there is a movement underway to reorganize the twenty ministries
and agencies in Japan to just twelve. This issue has become the hottest topic of
discussion in the closing end of this Diet assembly.

However, the Ministry of Finance remains unfazed. The only thing that will
happen is that its Japanese name will be changed from Ohkura Sho to Zaimu
Sho, which also translates to Finance Ministry. The English name of the ministry
may not change at all. The MOF should be divided into three parts according to
functions. Monetary policy should be transferred to the Bank of Japan, which is
our central bank, while the compiling of the annual budget should be
transferred
to the Prime Minister's office, like your own Office of Management and the
Budget (OMB). That would leave only financial affairs properly speaking within
the jurisdiction of the Ministry of Finance. Actually, I am not so sure that the
budget should go to the Prime Minister's office, as long as the LDP remains in
power. That might give the party too much of an incentive to scatter goodies
around the country without any overall national design. The result might just be
more roads benefiting only raccoons and dogs.

The MOF too, is like a tightly guarded convoy. From entry into the Ministry to
retirement and amakudari, everything is available to the Finance Family as a set.
You might consider it lifetime employment in the MOF from the cradle to the
grave.

After entering the Ministry of Finance, the cream of the crop are selected as
career bureaucrats. They are usually graduates of the Tokyo University's Faculty
of Law. The elite of the elite are given basic training then sent to study overseas,
especially to gain credibility. On returning to Japan, the power elite are
assigned
as the heads of region tax offices. At around the age of 27 or 28, these boys
and girls learn ways of the world, in other words the pleasure of being wined
and dined. After all, the head of any tax office would be the most fearsome
presence to business owners anywhere. Which is why these young tax managers
get invited out to dinners and golf natches all the time.

The MOF also employs people called non-carrerists. They are graduates of
universities other than Tokyo University and of high schools who have passed
public service exams. While career bureaucrats are moved from post to post in
one or two-years stints, non-careerists move up slowly through the ranks and
often end up assigned to the same department for years. Because of that,
non-careerists often tend to have deeper specialist knowledge. It is said that the
Ministry couldn't function day-to-day without the non-careerists. Sadly, it is also true that whenever a problem arises, non-careerists are made to take the blame. Since scandals involving the MOF came to light, there have been four suicides - among Ministry workers, all of them non-careerists. Last week, the Ministry punished over 100 officials for accepting entertainment from commercial banks, imposing measures ranging from warnings to temporary cuts. Three carrier officials quit the Ministry but they will receive 30 million yen each as ordinarily retiring allowance.

When it comes to arresting and prosecuting bureaucrats for accepting bribes in the form of dinners and golf, the key issue is the extent of privileges while on official duty. Career finance bureaucrats, the elite who switch posts every two years and have little specialist knowledge, are treated to dinners and so on constantly by virtually all financial institutions. In their case, the prosecutors claim that it would be difficult to determine if they crossed the limits. However, society's displeasure at the scandals isn't about to go away if someone isn't arrested and charged. As a result, it is much easier for the prosecutors to go after non-careerists for whom the limits of privileges can be established. That is why non-careerists are more likely to be sacrificed in scandals involving the Ministry. However, it seems terribly unfair that while career bureaucrats are treated to fine French cuisine and traditional Japanese feasts with geishas in attendance, non-careerists were being arrested for accepting cheap grilled chicken yakitori dinners.

Of course, the problem isn't the difference between career bureaucrats - and non-careerists - or French cuisine and Yakatori. The big question is why the financial institutions want to wine and dine bureaucrats so much. The reason is simple, as I said before, the financial industry is regulated not by law so much as the discretion of bureaucrats.

As a result, bureaucrats are subjected endless offers of dinners and golf outings. Even foreign financial institutions do the same in Japan. Now, I have heard that there are many bureaucrats who are happy to have been forced from endless dinners after the bribery scandals came to light. Of course, there are also many people who miss their evenings out.

We also must change the ways information is administered as they help keep the bureaucratic system entrenched. They have an monopoly on information. The national government's ministries have been much slower a releasing information to be public than local governments. It has taken already 20 years since discussions were first started on how the government should unveil official information. By making government information more accessible, it is hoped that it would be easier to check public works expenditures for waste or study the problematical issue of licensing HIV drugs, for example. Right now, the bureaucrats control information. From time to time, bureaucrats release
statistics and data as they see fit. One example of how data could be
manipulated is how the Ministry of Finance keeps claiming the economy is
recovering as I mentioned before.

Whatever the case may be, only politicians are capable of radically altering and
removing the problems associated to the bureaucracies. However, we, politicians
are usually busy dedicating our efforts winning and keeping the support of their
constituents. Rather than dedicating their time and passion on individual acts,
our time is used up attending local weddings, funerals, fund-raisers and other
events. Bureaucrats, on the other hand, even if they are busy with dinner dates,
can concentrate on key issues surrounding their department or section.

Also when politicians try to bring money to local areas in the form of public
works and so on, they have to call upon the appropriate Finance Ministry
bureaucrats who has the authority to approve and/or disapprove spending.
Once that contact has been made, a give-and-take relationship is almost certain
to follow. Also, the Ministry of Finance has the Tax bureau under its wing. The
Tax Bureau can track the cash flow of politicians and identify irregularities.

The problem is that if the minority of the Diet members were reluctant to force
the change on bureaucracies, then nothing can be done. As I mentioned before,
Japanese choose between banks that offer virtually identical services for saving
their money on trivial reasons such as the design of account books - do you
prefer Snoopy, Mickey Mouse or another cartoon character? I believe it is the
almost same way with politicians, too.

During the Cold War, we could concentrate on building up our economy and
enjoy peaceful and prosperous days. Japan was the only nation that truly
enjoyed "the cold war dividends". In that circumstances, it was not so important
for people of Japan to pay desperate attention to politics and policies. It is as if
the Japanese people were still sailing along on the Titanic, while the Americans
had long since transferred to another ship. Don't you see the iceberg, they ask.
My task as a politician is to sound the alarm as loudly as I can. We do have
1,200 trillion yen in personal assets and 800 billion dollars in net assets
overseas. Those assets are the fruit that our hard-working people obtained. Why
not use these assets intelligently, with wise tax policies and systematic
deregulation, to create new industries and stabilize financial in Asia and the
world? With the new century unfolding before us, I hope to join a crew under a
captain who can read marine charts and heed warning to steer Japan in the right
direction. What a century it can be! Thank you.

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National Diet of Japan. In 1998, Ms. Koike participated in the formation of the
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was elected to the House of Representatives for the first time in 1993, and has served on a number of committees, including the Standing Committee on Finance, the Standing Committee on Commerce and Industry, and was appointed the chair of the Standing Committee on Science and Technology in 1997. Mr. Koike was awarded the Omega Prize by the World Economic Forum in 1993, and appointed a Global Leader of Tomorrow by the same organization in 1992. She is a former journalist who hosted a number of television shows in Japan, including Money Information, Current Issues, and World Business Satellite, and is the author of five books, among them Arabic Conversation, Climbing the Pyramid in a Kimono, and Network for Women. Ms. Koike holds a B.A. in sociology from Cairo University, attended the American University of Cairo, and was on the Faculty of Sociology at Kwansei Gakuin University.