

Koizumi's Financial Policy

Since Koizumi Junichiro has stayed at Japan's Prime Minister position for 17 months and he just reshuffled his cabinet, we need to take him seriously.

Koizumi greatly recovered his image damage from his North Korea visit with a historical statement for Japan's diplomatic victory since he fired the popular Foreign Minister Tanaka Makiko. Now he needs to face to his cabinet's fundamental challenge: Japan's financial ills. Although there are 6 replacements, the only significant change is Minister of Financial Services Agency. He fired the not-so-popular Minister of Financial Services Agency Yanagisawa and placed this position to another existing Minister: Minister of State for Economic and Fiscal Policy, Professor Heizo Takenaka.

The word "kinyu" (finance) has frequently appeared in the media and "kinyu" (with economy) news has become one of a few sections in daily newspapers. This is the reflection of the seriousness of Japan's financial problem since the beginning of the 1990s. When the Japanese government created this "special" Minister position to handle Japan's finance ills, people expected that this position would not last long. Now people have accepted that this is a permanent government task. Indeed, as in the other declining empires (the UK since WWII and recently, the US), financial services have become one (if not "the") main "industry" to control or influence most people's every-day life. Japan's balance of payments in 2001 shows its investment income surplus is 8,680 billion yen, an increase of 24.4% from 2000, and it exceeds all other surplus of receipts.

In contrast with the war administration under US President Bush, Koizumi's cabinet is an economy/finance government with so many officials such as Minister of Economy and Industry, Minister of Finance, Minister of Economy and Fiscal Policy, and Minister of Financial Services. It seems Japanese are blessed with an economy/finance professor as both their Minister of Economy and Fiscal Policy and Minister of Financial Services. Or are they?

The direct reason to replace Yanagisawa Hakuo is because he had been opposed the pressure from the ruling LDP and financial (bank) industry of using public funds to accelerate disposal of private banks' huge bad loans. He indicated this difference between him and Koizumi on the last day of his duty (see, for example, Mainichi September 30, 2002). Until March 2002, the largest 12 Japanese banks held 25600 billion yen of stock with only 17300 billion yen of "core self-capital." Their stock loss totaled 4000 billion yen. Who would buy these banks' stock? On September 18, 2002 Bank of Japan, Japan's central bank, decided to buy 4000 billion yen of stock from private banks without the previous condition of 8% payment. This is an unprecedented financial policy in the capitalism history, which obviously indicates the downgrading of Bank of Japan, the international currency yen, and the Japanese government. Yanagisawa could not conduct this policy, because at least he is a Japanese politician with basic financial knowledge. However, the "goyo gakusha" (official scholar) Takenaka is willing to do this.

It would be better if Takanaka could represent the Japanese mainstream politics. However, other LDP veterans, such as the former Secretary-general Nonaka, openly criticized Takenaka's new additional appointment. In contrast, Bush's Economic Advisory Committee Chairman welcomed Takanaka's appointment (Mainich October 1, 2002). Takanaka did not study the American economy in the U.S.; nor he has direct knowledge of the American society. I remember reading his "Economics" essays in a popular weekly discussing some common knowledge about America. The reason that he could write this kind of common knowledge of "Economics" for the LDP audience brought for him Obuchi, Mori and Koizumi's attention. The majority of Japanese business, except perhaps the bank industry, knows the Japanese economy much better than Takanaka, though. No wonder some Japanese magazines (such as Bungei Shunju) describe Takanaka an "agent of foreign capital." Rather than the traditional Japanese business

management to maintain employment, Koizumi and Takenaka follow the logic of Wall Street's investors: to hire more employees, employers should have more freedom to lay off people; to recover economy, more companies need to be closed.

Japanese consumer prices extended their streak of declines to 35 months in September despite Koizumi's pledge to end the deflation. In a poll taken October 1-2, 2002, 70% Japanese said Koizumi's new economic ministers won't be able to overcome deflation, while only 11% said they will (Yomiuri Daily, October 3, 2002).

Pressure mounted on the Japanese government to take revolutionary action to restructure the country's ailing banking system. With the public still confused about the details of a Bank of Japan's plan to buy shares in debt-ridden banks, the Nikkei closed below 9,000 for the first time since 1983 (October 4, 2002). Japan's financial crisis deepens.

Economics is indeed political economy. For Japan, Economics is also international political economy. The corruption of Japanese politics brought about the deterioration of Japanese economy and Japan's Economics. Koizumi's appointment of "goyo gakusha" is just another indicator that the Japanese finance and the Japanese economy are continuously directed to a dead end.

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