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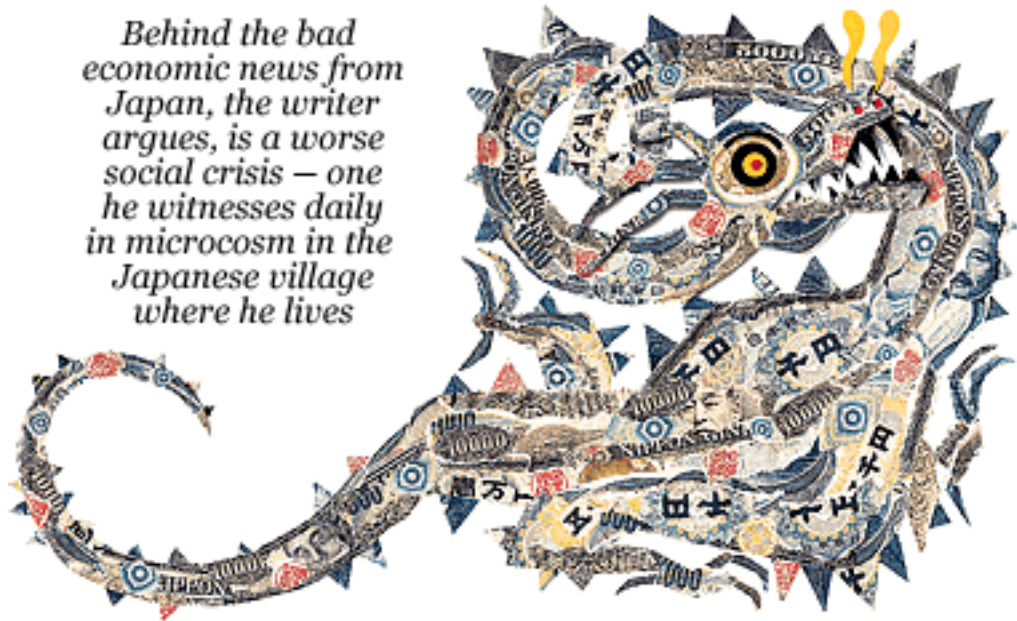
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The Social Contradictions of Japanese Capitalism

by [Murray Sayle](#)

Behind the bad economic news from Japan, the writer argues, is a worse social crisis — one he witnesses daily in microcosm in the Japanese village where he lives



The online version of this article appears in two parts. [Click here to go to part two.](#)

IT'S not every day that a nation's economic woes -- and the whole world's -- come knocking at your door, especially when you are the only foreign family in a Japanese mountain village a couple of hours outside Tokyo. But by the turn of the year we had already heard so much amazing news about what everyone said was the world's richest and most admired economy that we were ready for -- well, almost anything. Even so, the request of the polite young man at our door on a snowy Monday morning was, to put it mildly, a surprise.

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● **The Nikkei Weekly**

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From the archives:

● **Flashback: "Indonesia's Search for Order" (March, 1998)**

Asia and the world have changed dramatically since Suharto came to power -- but the fundamental questions facing Indonesia remain the same.

● **Flashback: "How the World Works" (December, 1997)**

East Asia's financial woes have prompted claims of victory for American-style capitalism. But as James Fallows argued in December, 1993, Asia was actually following our example.

"Can you help us out, Sayle-san?" our visitor asked. We know him well. He works at our village credit union, which accepts savings and lends so that people can buy homes. "If you have any spare cash around the house, please come and pay it in straightaway. It's only for twenty-four hours. You can take it out again tomorrow."

"We'd like to help," my wife, Jenny, said, "but as it happens, we don't have an account with you. And what you have just said doesn't exactly encourage us to open one. Why do you need my housekeeping money?"

"Well, it's no big deal," he said. "I'll try next door." And off he went.

Here I should explain that I am Australian and Jenny is English, but our three children were born and raised in this village, and the villagers treat us like family. When our house burned down, by accident, nine years ago, our neighbors collected close to \$13,000; insisted that we accept it, along with old clothes, dishes, pots and pans, and a typewriter for me to get back to work on; found us the house where we now live; and generally made it clear that they wanted us to stay among them. As other villagers have hit trouble, we have slowly been repaying their bounty.

I stopped by later to ask our visitor what was going on. His new office, all glass and chrome, stands out among the old wooden houses on the village street. "We don't usually keep cash over the weekend," he explained. "I was afraid that someone would try to take money out this morning, the word would get round that we couldn't pay, and in an hour we'd be cleaned out."

It didn't happen, but an hour later a neighbor called us with some breathless advice. "If you have any money in the Yokohama Bank, take it out," our caller advised. "They'll be the next to go." Jenny went down to take a look, and sure enough, lines of people were making withdrawals. It turned out to be just a rumor, but it showed how jumpy ordinary Japanese are getting these days.

I called a friend from Sydney, who is one of Tokyo's most successful currency traders. "We're expecting forty to fifty banks and insurance companies to go under, merge, or be taken over in the next few months," my friend said. "Good business for us, if we play it right." That night a banker friend of ours called from

Geneva. "How's the mood there?" he asked. "If the Nikkei [the Tokyo stock index] drops below twelve thousand, the world economy goes bust." I checked the papers: the Nikkei, which touched 38,915 on December 29, 1989, was yo-yoing between 14,000 and 15,000. (It is since up.) New York in 1929 felt edgy and nervous, old-timers say, just as Japan does in the spring of 1998.

Next I did a mood check at our village post office. I am there most days, posting letters, but mail delivery is not its main business. Japan has 24,638 post offices, big and small, which also accept savings and offer insurance policies. A flashing sign over the counter showed the day's interest rates: 0.25 percent for deposits held for a year, 0.455 percent for those held for five years. Despite these microscopic rates, I saw our gray-haired neighbors paying in thick wads of cash, the yen equivalent of \$10,000 or so at a time, to be rewarded with a low bow from the postmaster (an honored man in our village) and a packet of tissues, as a small, friendly gift. Money has been pouring into postal savings since the crisis began, last year, and the system now holds, with insurance and pensions, the yen equivalent of \$3 trillion -- enough to pay off three fifths of America's national debt. It is by far the biggest (and most stagnant) pool of capital in the world. Japanese savings in banks and the post-office system have been said to be two thirds of all the money readily available to lend to our indebted planet.

With that majestic Mount Fuji of all-but-free capital, how can Japan be in economic trouble, and why is it not rescuing the rest of Asia? Well may we ask. That Japan's crisis is deep is obvious, even in our sleepy village. For months doom has crowded the Japanese media: first a major bank on the northern island, Hokkaido, collapsed, then one of Japan's "big four" stockbroking firms, and then another bank. Almost every day a new case has surfaced of [corruption in the heart of Japan's](#) national administration, with payoffs to gangsters and crooked politicians, and lavish wining and dining of top Japanese bureaucrats and ex-bureaucrats, who increasingly resemble the terminally corrupt *nomenklatura* of Soviet communism's last days. Exports are soaring, but Japan's economy has paradoxically gone into deep recession. As the Bank of Japan delicately puts it, "A prominent recovery in final demand is hardly foreseeable." The Finance Ministry has confessed that Japanese banks hold bad loans worth a confidence-crushing 76.7 trillion yen (\$614 billion), proportionally ten times as much as America's savings-and-loan failures cost.

On January 13 a right-wing gunman took a Finance Ministry official hostage at the Tokyo Stock Exchange and fired a shot into the ceiling. Later that month two Finance Ministry officials were arrested and their offices searched; another committed suicide on March 12. Finance Minister Hiroshi Mitsuzuka and his deputy were forced to resign. An up-and-coming member of the Japanese parliament, accused of pocketing \$2 million in secret payoffs from a securities firm, hanged himself in a Tokyo hotel in February. In mid-March a high official of the Bank of Japan was arrested on a charge of bribery -- the first-ever arrest in the Japanese central bank's 116-year history -- and the bank's governor and his deputy have been replaced by two nonbankers, a businessman and a journalist. Many Japanese are wondering, Has peaceful, prosperous Japan been hijacked by criminals?

The Fiery Birth of Ethno-Economics

THE Second World War ended fifty-three years ago this August, with Japan devastated as no other industrialized nation, even Germany, had ever been before. The Allies began dismantling their war economies within weeks of victory. Japan -- its cities ruined, its factories leveled or seized for reparations, its treasury empty; occupied by Americans at first bent on punishment; unable to feed itself, especially with millions of refugees and disarmed soldiers back from occupied China and Southeast Asia -- could afford no such luxury. But Japan had a secret asset: the single-minded organization that had equipped its fleets and armies. Within days of Japan's surrender the Munitions Ministry became the Ministry of Commerce and Industry; in 1949 this became the Ministry of International Trade and Industry (MITI). Its wartime partner, the Finance Ministry, kept its innocuous name, which goes back to the eighth century. The same officials sat at the same desks and arm-twisted the same industrialists over the same battered telephones. In bypassing Japan's rubber-stamp parliament and governing through its efficient, biddable bureaucracy, the American Occupation unintentionally removed the last restraints on the bureaucrats' powers. Whereas it is said that other countries have administrations, Japan's administration has a country. But Japanese official corruption is deeply rooted in history too: the picturesque Japanese euphemism for a bribe, *sodenoshita*, means "something in the sleeve" -- and only the shogun's officials wore wide sleeves.

Related link:

● **"The Origins and Meaning of Corruption in Japanese Ministries: One Hypothesis"**

A 1996 article published in a University of California online journal that focuses on U.S.-Japan relations.

The Japanese bureaucracy has never governed strictly under law. Japan has laws, but the officials supposedly bound by them have wide discretionary powers, freedom from public scrutiny, and a code of covering up one another's lapses. Bureaucrats, and not elected politicians, negotiate the deals between ministries -- or, to put it in more basic terms, decide who gets what. The rare politicians who have tried to change the system have simply been ignored until they went away. Rule by officials was originally justified by the theory under which Japan fought its war: all Japanese, the thesis goes, are one big family, bound by blood and descended from the Sun Goddess; the Emperor is her direct descendant and hereditary high priest. Long after the war ended, the top layer of bureaucrats, fewer than a thousand strong, still held commissions personally brushed by Emperor Hirohito, which gave them the aura of demigods in the eyes of simple folks. Today the successors to those bureaucrats no longer hold imperial warrants, but they expect to be revered as if they did. Japanese politicians are held in public contempt as mere peddlers of influence -- with the bureaucracy. "To expect integrity or honesty in a politician is like trying to buy fish at a produce market," a blunt Minister for Justice (and former Tokyo police chief) once remarked. Elite officials, qualified by stiff examinations and bound by school and college ties, were long held in awe, almost like a quasi-priesthood of the national religion, Shinto. Until the present crisis these officials ran Japan much as they collectively saw fit.

The semilegal means by which Japan is governed have had profound economic consequences. Postwar Japan had a surplus of highly skilled hands and, with a squeeze, enough land to live on. The third ingredient necessary for economic growth, according to classical theory, is capital. With few exceptions (such as Burma and, until quite recently, China), other countries seeking to build or rebuild their economies have taken the easy option and borrowed from abroad. Japan right after the war held little appeal for foreign lenders. The young bureaucrats left over from the war, using their vague, unquestioned powers, set about coaxing and squeezing capital from their ruined country, devising inducements for Japanese who had a little money to invest it at home. Thus was born the poorly understood but much praised "Japanese model" -- what we might call ethno-economics, Japanese-style.



Banks were allowed to buy and hold corporate stock and real estate as capital reserves, against which to make loans worth ten or twenty times as much. Japanese stockbrokers, functionally descended from the traders who bribed the shoguns' officials and gambled on rice futures, were tacitly allowed to make secret deals with favored clients and to trade on their own account -- or, to speak plainly, to rig the markets for their political and business friends. After the stock-market crisis of 1965 securities companies were licensed almost as if they were banks. Ordinary wage-earners were encouraged to keep their savings at frugal rates of interest in the local post office (one inducement being exemption from income tax up to a limit, currently around \$100,000, which is easily evaded). Set up in 1875 on a long-since-vanished British model, the postal-savings system is the one Japanese financial institution that, despite some corrupt mismanagement, has kept faith with its depositors, honoring even the tattered savings books that Japanese refugees brought back from Korea and China after the war.

Controlled by the Finance Ministry, postal savings paid for the rebirth of Japanese industry after the war and then financed much of its stunning export success. Now no one really knows what to do with all that money.

Every distinguishing feature of the Japanese economy comes from the national theory of unity through ties of blood, and from the desperate and often semi-secret strategies devised in the postwar years to exploit that theory for bare national survival. Official manipulation of markets? Families are ruled by love, not markets. Preference for costly local products over cheaper imports? Don't break Granny's rice bowl. Only token strikes? Families don't strike against kin. The rejection of foreign capital (the only significant exceptions are IBM, let in because of its technology, and two foreign oil companies with wells in the Middle East)? Don't sell the family business to strangers. The exclusion of new immigrants and foreign "guest workers"? Outsiders shouldn't enjoy what Japanese have slaved to build. (The only substantial exception, some quarter of a million Latin Americans, are, or claim to be, of Japanese descent.) The equitable distribution of income -- still the most egalitarian the industrialized world has ever seen? Families share. Deals with labor unions that have consistently kept wage raises below increases in productivity? We're all Japanese here, not bosses and workers, and inflation will hurt the whole Japanese family. Nearly full employment? A family owes all its members the dignity of work. The legendary Japanese work ethic? Don't let the family down. Self-policed quality control? A defect harms every Japanese. And so on.

The uglier aspects of the system, which so disturb non-Japanese, all come from the identical theory. Bid-rigging on private and government contracts is nearly universal: big firms get the big jobs, little ones get the scraps, but everyone stays in business. Japan has far too many banks, bars, building firms, mom-and-pop retailers, and post offices for economic efficiency -- but they provide a living for some Japanese. Japan has the safest streets in the world but also the biggest criminal organizations. Why do the police tolerate these pests? They're Japanese too, and so they tend not to prey on ordinary citizens, and they report freelance muggers and burglars to the police. Older people even see them almost as patriots, because they rescued the Japanese underworld from Chinese and Korean mobsters after Japan's lost war. Why are semi-fascist right-wing thugs allowed to blare their stale wartime propaganda at bored

passers-by from armored loudspeaker trucks in city centers, including Tokyo's? Because they use the metaphor of the Japanese family. Why are Japanese corporations obsessed with market share and unconcerned about profits? Because market share means jobs for Japanese, and mere shareholders, who did little or nothing to finance or run the business, have no right to criticize the management or ask for dividends. Well-known Japanese companies routinely hire gangsters to rough up shareholders who ask embarrassing questions at company meetings. Even Japan's "convoy system" (often denounced as a devilish plot to destroy foreign competitors), in which weaker exporting firms are propped up by stronger, is merely ethno-economics in action in a multi-ethnic world marketplace. The current shoring up of insolvent banks with taxpayers' money is ethno-economics too. After all, the bad loans were made by Japanese to other Japanese, so the whole family has to help repair the damage -- like repaying a brother's debts.

What Has Gone Wrong?

WHY are the Japanese now so nervous, and why are other Asian economies being destabilized by Japan's jitters? Because Japan's prized ethno-economics has come to a dead end, presaged by the bursting of its late-1980s bubble economy and by intractable social failures that are now painfully obvious. The Japan of the late 1980s has already joined the South Sea Bubble, the Dutch Tulipomania, the Florida Land Boom, and Wall Street 1929 as a textbook example of what happens when enough naive people wish to become rich, and unscrupulous people see them coming. When the bubble was at its height, in June of 1990, the grounds of the Emperor's palace in Tokyo, smaller than New York's Central Park, were informally valued at more than all of Canada, while skinny Japan itself was supposedly worth more than the broad USA. Soon after, the bubble burst.

Atlantic articles written during the height of Japan's seeming economic invincibility:

● **"How the World Works," by James Fallows (December, 1993)**

"Starting in 1990 a number of Japanese businessmen and scholars began publicly saying the same thing, suggesting that Japan's business system might be based on premises different from those that prevailed in the West."

● **"What Is an Economy For?," by James Fallows (January, 1994)**

"Anglo-American theory instructs Westerners that economics is a 'positive-sum game,' from which all can emerge as winners. Asian history instructs many Koreans, Chinese, Japanese, and others that economic competition is a form of war."

● **"Getting Along With Japan," by James Fallows (December, 1989)**

Instead of nagging the Japanese to change their society and economy, we should protect our own interests by acting on the new realities of international trade.

● **"Japan: Let Them Defend Themselves," by James Fallows (April,**

The bubble brought some public benefits, to be sure. Our village spent its extra tax revenue from nearby export industries on a library, a skating rink, and a heated pool, in which our children and their Japanese friends frolic. Enormous investment went into Japan's already grotesquely overcapitalized export industries, with the blessing of bureaucrats who planned to join them as "advisers" after retirement. Meanwhile, the flat post-bubble economy encouraged consumer savings and discouraged imports. The result was a surging trade surplus and a rapid rise of the yen against the dollar. Even before the yen touched 79.75 to the dollar, in April of 1995 (a long way from the 360 of the "miracle" growth years), Japanese products became just about unexportable. Soon after the collapse of the bubble, in 1990, many Japanese flagship companies started moving production of Japanese-brand-name goods offshore, to Thailand, Indonesia, Malaysia, and South Korea -- all well known in Japan as parts of Japan's wartime Greater East Asia Co-Prospersity Sphere. The evidence is strong that a flood of Japanese money, in the form of loans and direct investments, touched off the speculative bubbles that have now burst in those countries.

Altogether, Japanese banks (hiding huge bad loans at home) sent \$265 billion to the rest of Asia, well after Japan's own bubble had burst. Of \$58.7 billion owed by Indonesia, \$23 billion came from Japan. Japan holds about 60 percent of Thailand's debt, and was by far the biggest lender to South Korea, with \$68 billion of unpayable debts that will soon come due. Seeing Asia's bubbles rising, other gullible bankers followed Japan's lead. The Japanese banks hoped to reap abroad the profits they could no longer make in their depressed home economy, and to cover some of their bad loans. Despite the high yen, Japanese export industries hoped to stay competitive by using components made abroad at sweatshop wages. And in their bubble eras other Asian countries were taking nearly half of Japan's exports.

1989)

Americans want Japan to spend more on its military, thinking that will equalize economic competition. It won't.

● "The World According to Ohmae,"
by James Fallows (June, 1988)

An unconventional look at the U.S. trade deficit.



Confident that inevitable miscalculations would be covered by their wine-and-dined friends in the bureaucracy, the Japanese banks lent in their usual reckless style. But this time they were on their own. Tokyo's wartime government had little control over its armies abroad; now its finance bureaucrats had even less over the Japanese money pouring into Asian neighbors. The result was to duplicate in these countries Japan's bloated export industries, all competing for the same markets in the United States, Australia, and Europe. And Japan's new co-prosperity sphere, like the original one, had fatal weaknesses. Japan had used mainly its own money to industrialize; all the others had borrowed, mostly from Japan. So after China in 1994 devalued its currency by 33 percent, none of the others could hope to compete with the

motherland of all sweatshops, or to keep up interest payments on its loans. No wonder Japan has eagerly joined the International Monetary Fund's \$118 billion "Asian bailout" scheme: the scheme will bail out not so much borrowers as lenders, and Japan has been by far the biggest lender of them all.

Why did European, North American, and even some Australian banks add another \$200 billion or more to the Japanese money inundating Asia? Partly in the mistaken belief that the Japanese must have known what they were doing; partly because of the traditional argument about cheap labor; but mainly because something called the Asian economic model had been discovered, and it, like many another mirage, was mistaken for the wave of the future. In truth, there is only a Japanese model -- the accidental consequence of an overwhelming defeat. South Korea, with its even more homogeneous and just as diligent population, and the same disdain for foreigners and their products, has a homegrown version of Japanese ethno-economics -- along with a fatal weakness for unrestrained private short-term borrowing. As for the others, they are ever-new variations on the old Latin American model of shortsighted elites, long-suffering peasants, and grandiose schemes: the world's tallest buildings in Kuala Lumpur, for instance, are

reminders of the opera houses crumbling in Brazilian jungles. Such credit-swollen fantasies have for centuries been a bottomless sink for naive foreigners' money, and will often be again.

The online version of this article appears in two parts. [Click here to go to part two.](#)

Murray Sayle has traveled widely in Asia and has written for "most of the magazines that still publish substantial pieces in English." He has addressed the Japan Policy Research Institute of San Diego on some of the themes in his article in this issue.

Illustrations by [David McLimans](#)

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A Pre-Modern Society

WITH its immense cushion of cash, Japan faces no immediate crisis on the scale of what the "tiger" economies have suffered. It is the world's top creditor, with external holdings worth close to a trillion dollars. The Bank of Japan has \$225 billion in foreign-exchange reserves, nearly twice what the IMF's bailout plan is to cost. Japan's current-account surplus will be \$100 billion this year, and probably \$150 billion next year. The United States, which absorbs most of this Niagara of exports, will grumble as usual, but Japan lends it the money to buy Japanese goods, and if Japan ever stopped recycling much of its trade surplus into U.S. Treasury bonds, or sold them to buy gold, the current U.S. bubble would probably collapse too, with interest rates at depression-triggering double digits. A cosmetic cleanup of the Japanese banking system is under way -- with the firing of a minister, the arrest of a few unlucky officials for doing what everyone does, the promised use of public funds, and more gestures probably to come. These have persuaded the markets that ethno-economics is alive and well; Japanese taxpayers will cover the banks' bad loans, and so the crisis is for the moment under control. There will be no panic layoffs in Japan, no mass unemployment, no revolution -- for the time being, anyway. Yet



Japan's crisis is basically more serious than the tigers', and time can only make it worse. Ethno-economics, the locomotive of Japan's success, has reached the end of the line.

The problem isn't money, as it is in the rest of Asia; Japan has far too much -- mostly in the wrong places. The problem is people of the right age, of whom it will soon have too few. When Japan began its stunning revival, it had modern medicine and public-health measures, a postwar baby boom, and one of the highest birth rates in the industrialized world. As Japan has prospered, the birth rate has steadily fallen; it is now at a crisis point: 1.43 births per woman, well below replacement level. Fewer babies were born in Japan in 1995 than in any year since 1899. Two thirds of Japanese women between twenty and thirty have never married. Last year the number of Japanese over sixty-five exceeded the number under fifteen; Japan is one of the oldest societies on earth. Its population, currently increasing at a glacial 0.21 percent annually, will peak early in the next century at around 127 million and will then begin a long decline. Meanwhile, Japan's archrival China is in population-growth terms where Japan was just after the war, only ten times as big -- with 26 percent of its people under the age of fifteen and only seven percent over sixty-five, China has more than 300 million youngsters with a working life ahead, and few old people to support.

Why don't today's Japanese marry or have more children? In part because all developed societies have low birth rates. But ethno-economics has also frozen Japan into many Third World social patterns of the nineteenth century. Traditionally, low starting wages mean that newly married couples have to move in with parents, in tiny houses where brides are often tyrannized by mothers-in-law embittered by their own subjugation. Grossly unequal pay and few career paths for women mean that wives in unhappy marriages cannot afford to leave -- a trap widely exploited by philandering husbands. A wife is still expected to be an unpaid nurse to her husband's parents, who might live forever, or close to it (the Japanese are the longest-lived people on earth). Once, families were large and only the eldest was stuck with this filial duty; he was rewarded by inheriting the family farm or business. With one- and two-child families, most sons are now eldest sons; young women are reluctant to marry them. Living together on a trial basis, fast becoming a Western norm, is all but unknown in heartland Japan. So are mixed parties, camping weekends, dances, high

school dates, and most of the unsupervised meetings between young people that give Cupid's growth economics a start in the West -- and swell the illegitimacy rate (still, at 1.1 percent of births, vanishingly low in Japan).

From the archives:

● **"Kids as Capital," by Jonathan Rauch (August, 1989)**

"The two ways that a society provides for its future ... are its level of physical capital accumulation ... and the number and the quality of its kids. In both cases, you can cheat on the accumulation and, by doing that, raise your current consumption. But eventually it comes back to haunt you."

Japanese weddings are ruinously expensive displays of family wealth, Third World style. Childbirth is not covered by the yen-pinching Japanese health-care system, so tax-avoiding doctors demand the equivalent of \$3,000 and up, in cash, before a new baby is released to its parents. Access to higher education is fiercely competitive and -- with private after-school cramming all but universal -- costly. Student loans are meager, and parents are expected to supplement the low salaries of young people. Early marriage and large families were once enforced by community pressure, as a duty to the Emperor. Now marriage has become both voluntary and unfashionable, and young people are increasingly saying no, thanks. Result: the one big happy family, for which so much has been sacrificed, is fast running out of new members. Not even the ethnic Japanese from Latin America are tempted to join this socially backward society; they want to make money in Japan and then take their children back home, to Peru or Brazil. Here is proof, if any were needed, that Japan was never guilty of the oft-described diabolically clever conspiracy to take over the world. There cannot now be, if there ever was, an economic general staff running Japan, Inc.; there are only nests of bureaucrats who, expecting future favors, are more concerned with cosseting the special interests that they are paid to supervise than with worrying about the future of the big Japanese family, and coteries of politicians looking for secret money to buy votes. Busy propping up insolvent banks, for instance, the administration has taken no realistic steps to increase the supply of future members of the Japanese family, without whom ethno-economics must ultimately be futile. Our village last year had thirteen funerals, three weddings, and only one new baby.

Old, Rich, and Cautious

ALMOST every day in our village post office old people, fixed in their neighborly, uncompetitive ways, nervously deposit enormous bundles of money. Japanese who retire (often to a succession of post-retirement jobs) traditionally get hefty bonuses. Since there are now no safe and profitable investments to be made in the sluggish Japanese economy, they

hoard their bonuses in the post office. Some don't even trust our honorable postmaster: sales of home safes have been brisk since the bank and brokerage crashes.

"The traditional financial system is not well equipped to meet their needs," Kazuhito Ikeo, a professor of economics at Keio University, in Tokyo, [told the Japan National Press Club](#) in May of last year. "What we must basically aim for is a transformation from a system based on bank credit to one based on the capital market." Ikeo later amplified his thinking: "The Japanese financial system has been a financial-institutions-oriented one, which gives higher priority to the interest of banks and other financial institutions than to that of users. The system must be changed into a user-oriented one." If in the future the young Japanese cannot support the old, Ikeo was in effect arguing, then Japanese savings must. "The financial system should be sound, stable, efficient, and progressive," he urged. "It is manifestly none of these things. The whole ragbag of single-purpose institutions, restrictions, and bureaucratic administration has to go." The colossus among such institutions, the postal-savings system, is controlled by bureaucrats and their political allies, who have been using it to finance Japan's gigantic new bridges and tunnels; concrete roads leading to isolated farmhouses in politically sensitive regions; duplicated bullet and conventional trains; and railways that can never turn a profit but have already served their reputed real purpose by paying the standard three-percent rakeoff to politicians ever hungry for funds. The cost of getting out the vote has, like all Japanese prices, risen steadily over the years, and it is estimated that an entry-level member of the Japanese parliament needs \$2 million a year to run his or her operation. None of these public-works projects has had any obvious effect on Japan's domestic slump, now in its eighth year, but without them, of course, things would have been worse.

From the archives:

● **"The World's Economic Outlook," by John Maynard Keynes (May, 1932)**

During the depression that followed the stock market crash of 1929, Keynes wrote hopefully, "A process has been set moving which may relieve in the end the deflationary pressure. The question is whether this will have time to happen before financial organization and the system of international credit break under the strain."

Ikeo headed the working group that prepared the current financial-reform plan, known as Nihonban Biggu Ban, "Japan's Big Bang," after a superficially similar exercise in London. ("He should never have called it that!" a Finance Ministry bureaucrat wailed to a mutual friend recently.) The Biggu Ban calls for market principles, transparency, accountability, deregulation, and internationalization - in sum, it calls for converting Japan from the centralized, implicitly mono-ethnic, bank-financed, national-development economics that it copied from Prussia in the 1880s and has followed ever since into something more like the system that evolved in English-speaking countries from the free-trade doctrines of Adam Smith and Smith's self-proclaimed disciples Ronald Reagan and Margaret Thatcher. Such ideas have long been esteemed at Ikeo's university, from which Prime Minister Ryutaro Hashimoto, the promoter of the current reform plan (at least the third in ten years), graduated. More like a string of damp firecrackers, the Biggu Ban is being put into effect in stages, starting this past April 1 -- a day of no particular significance in the Japanese calendar -- and continuing until March of 2001. Its details were publicly described in June of last year, about the time that Japan's banking system started to come apart.



One Biggu Ban requirement is that all Japanese banks trading abroad should meet the modest capital-adequacy-ratio standard of the venerable Bank for International Settlements -- that eight percent of loans be backed by real assets. One way Japan's banks could begin to meet the target was to stop lending, a step that has pushed the teetering economy over the edge into recession. As John Maynard Keynes observed, there is a level of deflation that no banking system can withstand. When Japanese banks suddenly stopped lending to the rest of Asia, and probably recalled some existing loans as well, they burst the bubbles they had done so much to

inflate. Allowing a major brokerage firm and several banks to go under -- the first open breach of ethno-economics in almost four decades -- may have begun as the cautious attempt of a rattled Japanese bureaucracy to restore confidence by tidying up the worst of the mess. If so, it has had exactly the opposite effect.

The Asian bubbles were going to burst anyway, as all speculative bubbles must, but a comparison of dates implicates the announcement of the approaching Biggu Ban as the pin that did the puncturing. As long as only a few complacent, complicit Japanese insiders glanced selectively through the books of the Japanese banks, ethno-economics still worked, after a fashion. *Credit*, we should remember, is also Latin for "he believes," and most Japanese, having no reason not to, loyally believed. To discover in the pitiless glare of "internationalization" that the banking system is sinking under bad debts, is hospitable to criminals, and is an informal, noncontributory welfare scheme for politicians and bureaucrats was, to say the least, destabilizing. The current crisis might have been a chance for true reform -- the "creative destruction" that free-market economic theory demands. But almost the opposite has happened.

The key question after a speculative bubble bursts is who suffers the pain. Free-market purists select first the guilty, if they can be identified, and then the imprudent (who have knowingly dealt with corporations with limited liability). But in the case of the wholly innocent -- small bank depositors, for instance -- even free-market fundamentalists mostly agree, reluctantly, to compensation from "public funds." Thus the taxpayers are collectively billed for the downside of the widely touted system. The ethno-economic position is that speculative bubbles are impossible under the wise guidance of officials -- but if by ill chance one should happen, it is best to conceal the bad news, as Japan has been doing for almost eight years. Only when that becomes impossible is scapegoating the Band-Aid of choice. Thus small-fry bank inspectors were arrested and publicly humiliated by being shown on TV with their neckties removed to prevent suicide -- the mark of guilt in Japan. The ideal scapegoat, however, is someone who doesn't really belong to the Japanese family.

Shokei Arai, the politician who hanged himself, was of Korean ancestry and had moved through several "reform" parties before rejoining the ruling Liberal Democrats -- a grim object lesson to other friendless, not-wholly-Japanese reformers. Arai held a "VIP"

account with his brokers, which was guaranteed to make money no matter what happened in the market -- an arrangement perilously close to bribery. At least 10,000 such accounts are known to exist. Who holds them? Of the \$614 billion in bad debts, at least \$50 billion was, reportedly, lent to gangsters who blackmailed bank executives and threatened them with violence. Finance Minister Hiroshi Mitsuzuka was forced to resign to "take responsibility" for a state of affairs he had done nothing to bring about. Shocked editorials, revealing what insiders have known for years, dominate the financial press. Glimpsing the abyss, the government of Prime Minister Hashimoto, whose Liberal Democratic Party, the One Big Party for the One Big Family, has presided over the triumph and decline of ethno-economics for all but three of the past forty-three years, interrupted its drive toward accountability, transparency, and the rest of the free-market program to stage what may be the biggest bailout, or cover-up, in financial history. Thirty trillion yen (\$240 billion) is promised to "stabilize the nation's financial system" -- that is, to manipulate the same stock and property markets that are supposedly being freed from bureaucratic baby-sitting -- in the hope of keeping the erring banks solvent. At the same time, Hashimoto has vowed to reduce the government's dependence on loans wrung from captive financial institutions by the ethno-economic "administrative guidance" of bureaucrats -- loans that equal a full year's GDP, one of the heaviest per capita national debts in the world, and all run up in less than three decades of ethno-economics, without a single war to be paid for.

What Happens Now?

ONCE again the Japanese family is borrowing from itself, not to pay for a better future but just to keep afloat. Who is going to repay all the loans, the service of which already takes a fifth of the national budget? In the end it has to be the Japanese people, who can pay taxes in yen. Japan's foreign holdings cannot be brought home without depressing its customers' economies, thus crippling the export industries that keep the Japanese in work. The export factories clank away like the fairy-tale machine under the sea that makes salt and that no one knows how to stop. But machines don't make babies, and they don't consume foreign products. Unless the laws of the marketplace really have been repealed, Japan's ballooning exports -- particularly to the United States -- and dwindling imports must force the yen up again, compelling more offshore investment in sweatshop

production and more belt-tightening at home, for as far into the future as anyone can see. Japan is hostage to American prosperity, and America is hostage to Japanese frugality. Ethno-economics has locked the two nations into a loveless embrace, and smaller Asian economies into a sumo wrestler's hug by Japan. Something has to give. But what?

Japan needs to modernize not its all-too-modern industries, or even its rickety financial system, but its society, so that more young people will earn enough to marry and start families in adequate housing, generating the increased domestic demand (for which read "leading the fuller lives") long promised by Japan and long demanded by its exasperated trading partners. In short, Japan needs a social revolution inspired, for the first time ever in its history, by ordinary people, in their own interest. But who is going to make this revolution? I study my gray-haired neighbors as they check their postal savings. They won't have any more babies, and I doubt they will make any revolutions. They earned their money the hard way, and I can understand why they don't want to trust it to bankers with criminal connections, or risk it on a stock market manipulated by sly insiders. The security of safe savings, of neighbor helping neighbor, as we were helped, of trust born of centuries of surviving earthquakes, typhoons, and rapacious landlords together, may die with them; but while they are here, they have a growing proportion of the votes, and they will not use them to destroy the old certainties. Japan *is* a democracy, and its aging population grows ever more conservative and more supportive of the status quo, which means the conservative, rural-based Liberal Democratic Party.

Not all Japanese, however, meekly accept the use of public funds to shore up the erring banks, another sign that ethno-economics is in terminal decline. "GIVE US BACK OUR TAX MONEY, YOU BIG THIEVES!" demanded the headline, in the March 14 issue of the magazine *Shukan Gendai* (*Modern Times Weekly*), over an article charging that the banks that have driven many small businessmen to suicide by refusing them credit have assets -- fancy buildings, private clubs, and luxury holiday resorts -- that could be sold to cover some of their bad loans. The social critic Jun Ito, writing in the influential magazine *Bungei Shunju* (*Spring and Autumn Literary Art*), sees international investors and speculators behind what he calls "American pressure" for opening Japan's closed financial markets. These charges are reminiscent of some of

the anti-capitalist themes that were used in the 1930s by Japanese ultra-nationalists, who claimed that pure-minded Japanese had been corrupted by greedy businessmen in league with foreigners -- themes the far-right gunman in the Tokyo Stock Exchange was evidently hoping to revive. If Japanese unemployment climbs much above the present 3.6 percent, some of the political violence sleeping under Japan's orderly surface could erupt; but Japan's economy is nowhere near a 1930s crisis -- yet -- and the tiny Japanese far right has no military arm. The lone ultra-nationalist living in our village is quiescent, and shunned by his neighbors.

For the present the likeliest outcome for Japan is drift, and for its Asian neighbors the slump that inevitably follows a speculative boom. The Biggu Ban may well be sidelined or reduced to a series of gestures, like the many reform programs that have preceded it. The reformers themselves face removal from office in an intra-party maneuver. The Japanese public, if our neighbors are a reliable sample, is more bemused than alarmed by daily revelations of how the nation has been misgoverned; belief is still strong that the one big family will somehow sort out its troubles, and if a few reprobates have to go to jail, so be it; the system itself must be sound. There are a few hundred homeless sleeping in cardboard boxes in Tokyo, and lines at Salvation Army soup kitchens can sometimes be glimpsed near Tokyo University. But public pressure for real reform is still slight. Today's aging Japanese, formed by an antiquated, inward-looking, ultimately self-defeating system, have no idea how to change it -- or whether they even want to.

The online version of this article appears in two parts. [Click here to go to part one.](#)

Murray Sayle has traveled widely in Asia and has written for "most of the magazines that still publish substantial pieces in English." He has addressed the Japan Policy Research Institute of San Diego on some of the themes in his article in this issue.

Illustrations by [David McLimans](#)

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