論文（*Article*）

Looking Back: The Ministry of Finance and Nonproductive Loans

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After the burst of the bubble in the 1990s, Japan has continued to see a crisis in its financial sector. The elements which helped cause and continue to contribute to this crisis revolve around the issue of nonperforming loans (NPL) and include the motivations of banks to provide corporate loans, the system of regulation of banks, and the slow response of the government to the crisis. Out of these elements, the slow response of the government has allowed this crisis to continue and provided the largest impact on the situation.

Key Words : Financial policy, Nonperforming Loans, Banks

Motivations

Banks in Japan have concentrated on the business of select industrial groups (keiretsu) and become the "main" banks for companies within the group. This allowed them to offering lower rates and be a source of support for these industrial groups. "While borrowing from a number of banks, most corporations maintained close ties to one particular bank, their 'main bank.' Corporations valued these close ties because the main banks implicit commitment to bail out its firms when hit by hard times" (Rosenbluth, 1989, p.42). Continuous business contacts with the same group of companies provided a sense of familiarity for banks and allowed them to decrease costs in tracking the credit worthiness of these businesses. It was easier to provide loans to these groups without close inspection of their financial situation. One of the main objectives of banks was to provide capital for industry and to meet this end banks kept interest rates low to free money for corporate investment. "The system of controlled interest rates also helped the banks, because it guaranteed them a healthy spread between the low rate they gave to depositors and the higher rate they charged industry for loans" (Vogel, 1996, p.169). This control of interest rates was also seen as an element in the protection of banks; it would reduce bank failures. Why didn't the public take action against these low rates? "When collective action barriers operate as predicted by George Stigler's elegant, simple supply and demand theory of regulation producer groups always win and consumers always lose" (Rosenbluth, 1989, p.9). The banks responded to the groups who were organized and since the public was unorganized, interest rates on small savings deposits continued to be low. Corporations, however, were organized. "Moreover, corporate customers have access to competitive foreign suppliers of banking services, Japanese banks must offer attractive deposit yields and loans that retain their clients" (Rosenbluth, 1989, p.11). Banks had an incentive to provide loans to corporations as this was the core of their business and when these corporations had financial difficulty the banks were forced to provide more loans.

The Regulation of Banks

The Ministry of Finance (MOF) is responsible for regulating banks and up to the 1990's it was able to state that it had not allowed a single bank to fail. How did this record come to a sudden end? First it is important to look at the structure of the MOF and then second to look at problems of regulation associated with this structure.

The MOF is divided into several bureaus with different responsibilities including a bureau which is responsible for the regulation of banks. Instead of working in one bureau for the period of their employment, employees at MOF rotate through the various bureaus which limit their expertise in each area and focus their attention on the MOF as a whole instead of each select bureau. "Bureaucrats who push too hard for sectional interests at the expense of MOF's integrity can expect to be bypassed for important positions" (Rosenbluth, 1989, p.20). During their limited time in each bureau how did bureaucrats regulate the financial sector?

Akiyoshi Horiuchi describes the Japanese financial system as being backed by a safety net provided by the bureaucracy. The method used by the bureaucracy to create this safety net is not based on enforcing a strict set of regulations but instead on providing guidance. Richard Samuels states "the Japanese bureaucracy does not dominate, it negotiates" (Samuels, 1987, p.260) If a bank runs into serious trouble beyond what just guidance could resolve, the MOF would place some of its officers on the board of that bank or even try to get a larger banks to absorb the small banks. The larger bank would take on the liability of the troubled smaller bank but would benefit by being able to expand into the branches of the bank it took over. MOF would benefit by preventing a bank from failing. By using this system of guidance instead of direct intervention the MOF was able achieve several goals. It kept the intrusion of politicians to a minimum, protecting its own territory and still satisfying the financial sector. Banks would be able to save costs associated with lobbying politicians as their role was limited. MOF could also influence banks to follow its advice by controlling the opening of new branches. Banks which followed MOF guidance would have an easier time opening new branches than a bank which didn't. "Not surprisingly the most common policy-making pattern that results is one of stable negotiation between bureaucracy and financial institutions" (Rosenbluth, 1989, p.8). This method of saving banks was hindered as worsening economic conditions and declining bank profits put banks in a situation to take larger risks which in turn limited their ability to take over other banks.

The relationship between MOF monitors and banks contributed to nonproductive loan crisis. "The viability of the comprehensive safety net is crucially dependent on the effectiveness of prudential regulation implemented by regulatory authorities. The effectiveness of prudential regulation, in turn, depends on how motivated those authorities are to monitor bank management rigorously" (Horiuchi & Shimizu, 2001, p.31). MOF bureaucrats would stay with the agency for their entire government career with the hope of advancing to better positions. Better positions within MOF increased the possibilities of employment after retirement outside of the agency. Bureaucrats in MOF were assigned to monitor banks, but these same bureaucrats would look to these banks for future employment. The amakudari system would limit the effectiveness of MOF monitoring of banks and allow those banks to take risks which they might otherwise have not been able to do. "Two groups of banks accepting amakudari officials from MOF as of 1985 had a bad loan ratio almost double that of the banks accepting no amakudari officials" (Horiuchi & Shimizu, 2001, p.34). While some may argue that the amakudari system could provide a better regulation of banks due to the close relationship between MOF and bank officials or the expectation that MOF officials need to do their job well in order to later be offered an amakudari position this was not the case. "The relationship between monetary authorities and private banks through the so-called amakudari system was not an effective substitute for effective prudential regulations in disciplining banks. Rather, the amakudari system induced banks to lower equity capital ratios, and to engage in aggressive risk-taking during the so-called "bubble period" of the late 1980s" (Horiuchi & Shimizu, 2001, p.34).

Response

"In 1991, a massive speculative bubble burst in Japan, leaving the nation's banks with an enormous burden of nonperforming loans" (Amyx, 2010, p.1). The methods of giving guidance and monitoring failed to prevent and actually contributed to the nonproductive loan crisis. What was the government's response to this crisis? "To help large struggling banks a strategy of public capital injections comes into the picture" (Hamada, 2002, p.12). Providing public money would have reduced some of the effects of the crisis but the Japanese government's response was delayed. The reactions of several groups contributed to this delay. MOF used valuable assets to defend itself from losing power to interference from politicians instead of tackling the problem. The ruling coalition government placed blame publicly on the shoulders of MOF instead of working together for a solution. Information did not flow fleeing as avoidance of blame was a concern. "Ministry officials thus drew on their network ties not only with financial institutions but also with other government agencies to influence the nature of publicly available information and the interpretation of this information" (Amyx, 2004, p.31). Instead of working together on the problem the various groups involved 'circled the wagons' to protect themselves.

Conclusion

While the motivations of banks to provide corporate loans and the system of regulation of banks contributed to the nonproductive loan crisis, the slow response of the government proved to be the most damaging. The motivation of banks and the system of regulation were flawed but these factors can be seen in, at least a semi-positive light. Banks were not motivated to cause a crisis. They had an incentive to keep business going and correct problems. The system of regulation can also be seen in a semi-positive light. Why would a MOF official allow a bank to slip into a situation where it could be forced to close if he or she was looking to get a job with that bank in the future? The reaction of the government, in contrast to the other two factors, does not have a positive side. Attempts to assess blame, cover or distort information, and self-protection delayed the government's response and continues to be a factor in the Japanese fiscal crisis.

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