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Neo-liberalism vs. Communitarian Capitalism: Japan's Dilemma

By Chan Chee Khoon

Sakakibara Eisuke, a former Vice Minister of Finance for International Affairs and currently Professor of Economics at Keio University (Tokyo), has described the Japanese economy as 10% capitalist and 90% "socialist". He was of course contrasting the internationally competitive sectors of Japanese manufacturing industry (automobiles, computers and consumer electronics, integrated circuits, industrial robots (mechatronics) and other industrial machinery, steel, chemicals) with the protected domestic sectors (agriculture, banks and financial services, transportation, retailing, healthcare, etc) which have frequently been portrayed as overly-regulated, protected, and inefficient.

Not surprisingly, these laments about low productivity and inefficiency in the protected sectors became more insistent as the Japanese economy stagnated and endured a prolonged period of deflation after the property and asset bubbles burst in the early 1990s, effectively ending the years of robust if at times unsteady growth.

Framing it as an efficiency issue [1] however may miss the point that Japanese economy and society has redistributive aspects which accommodate diverse interest groups and in some instances moderate the social stresses of Japan's rapid industrial growth and accompanying social dislocations in the decades since World War II.

A more accurate description of Japanese political economy perhaps is communitarian capitalism, in which an interventionist state engages in a degree of economic (and social) management and articulates, through moderately redistributive social policies [2], the communitarian norms and expectations of Japanese society in areas such as health, welfare, and social security. While not always equitable, the social transfers and cross subsidies are sufficient that Japan remains among the more egalitarian OECD countries.

This contemporary social formation emerged out of a constellation of factors following World War II in Japan [3], which included:

• the strategic need of the US (occupation) authorities to secure the domestic stability of Japan as an important East Asian bulwark and ally during the Cold War, the Korean and Vietnam wars with its unresolved tensions in Northeast Asia, and during the various phases of the "containment" of China.
• a technocracy which emerged (or re-formed?) [4] under the aegis of the occupation, endowed with a degree of autonomy vis a vis the war-weakened business and political establishments, which allowed it some leeway to implement policies in pursuit of system-wide interests and some degree of "social rationality".
• Japanese norms and traditions which translate into expectations and aspirations of communitarianism in the governance of key aspects of livelihood and welfare.

Functionally, Japanese communitarian capitalism may be thought of as an East Asian (paternalistic) counterpart of Western European social democracy. In both cases, the state plays an integrative role in moderating the excesses of unrestrained capitalism and is furthermore engaged in the management of uncertainty (risk management) [5] faced by its citizens (health insecurity, unemployment insecurity, old age insecurity, threats from natural or man-made catastrophes) [6]. In both cases, this social accommodation has been increasingly challenged by a neo-liberal ascendance tied to an over-accumulation of capital desperately seeking out new arenas for circulation and accumulation. Evidently, the hitherto non-commercial public sector in countries both rich and poor is now considered legitimate, new terrain for a retrenchment of the welfarist-cum-developmentalist states.

In 2001, the administration of newly elected Prime Minister Koizumi Junichiro moved quickly to strengthen the Economic and Fiscal Council as a top policy-making body chaired by the Prime Minister and consisting of key cabinet members, central bankers, and economists. Together with the Regulation Reform Council which included private sector representatives (chaired by Miyauchi Yoshihiko, the CEO of an aggressively expanding insurance, financial services, and leasing company Orix), these were complementary initiatives to a concerted effort to transform the Japanese cabinet, traditionally more of a coordinating mechanism among independent-minded ministries, into an executive body more at the direction of the chief executive, the Prime Minister, as he proceeded with his agenda for restructuring the economy.. The Regulation Reform Council in particular was given a broad mandate to put forward proposals for deregulation in all sectors of the economy, including transport, agriculture, financial services, education, health [7] etc., where market distortions and inefficiencies were deemed to be pervasive and contributing towards economic stagnation.

Among the urgent priorities identified was the privatization of the publicly-operated Japan Post (JP), a goal which Prime Minister Koizumi had consistently championed since 1992 (as Minister of Posts and Telecommunications in the Miyazawa Kiichi administration) and on which he evidently was prepared to stake his political future.[8]

Japan Post is much more than just a service that delivers letters and parcels. It is the world's largest financial institution with assets of about ¥386 trillion ($3.6 trillion). With its 25,000 post offices nationwide, it accounts for ¥265 trillion in individual savings deposits, about 30% of the national total, and about three times the size of those held by Mitsubishi Tokyo Financial Group, Japan's largest private holder of savings deposits. Kampo, Japan Post's life-insurance scheme, has assets of ¥121 trillion, some 40% of the national total.

The controversial postal bills that Koizumi presented to the Diet in July 2005, overriding some internal opposition within his own Liberal Democratic Party (LDP), proposed to break up Japan Post into four subsidiaries by April 2007, one each for the delivery of mail, management of the network of branches, and for the banking and insurance operations. From 2007 to 2017 the government's holding company would gradually divest itself of all stakes in the banking and insurance companies, and retain control over only the delivery and branch operations of the privatized entities. The government's control of the holding company would furthermore have been diluted as it sold off two-thirds of its equity.

Just as the World Bank has been under pressure in recent decades to divest more of its development financing activities to private

capital markets (is the WB being privatized?) [9], private financial interests are similarly keen on securing control over the lending opportunities available in the public sector in Japan. The Economist for instance emphatically notes that the privatization of Japan Post

"is only one step towards unwinding Japan's pervasive system of financial socialism. There are nine other government financial institutions (GFIs), which lend to a wide range of special interests. These GFIs are sitting on ¥144 trillion of outstanding loans… [these include] the Government Housing Loan Corporation (GHLC), which once provided Japanese homeowners with cheap mortgages. In 2001 the government ordered it to stop making new home loans… Over the past four years, the GHLC's loans have fallen from ¥77 trillion to ¥52 trillion. Private banks have increased their mortgage lending by roughly the same amount, so it seems clear that the state-backed lender had been crowding them out before…Three of them compete to give cheap financing to millions of small companies. Another, the Development Bank of Japan, finances projects from urban railways to high-tech… One GFI lends to municipal governments, utilities and other local projects; yet another to farmer-friendly causes; and the island prefecture of Okinawa has a special GFI of its own…With Japan's private banks struggling to boost profitability, the last thing they need is a collection of big government lenders - backed by explicit and implicit subsidies - depressing lending rates and competing with them for business, although, unlike the GHLC, Japan's other eight GFIs are also serving some borrowers which no private bank would touch… [Japan's private] banks are [now] better capitalised and keen to lend. There are too many banking assets chasing too few borrowers, so corporate lending remains woefully unprofitable. Some of the GFIs' functions are worth keeping. The Japan Bank for International Co-operation (JBIC), for example, helps the government to administer its overseas aid, which most reckon is a useful role. But some of even JBIC's functions, such as export financing, might be usefully spun off". "The State as Sugar Daddy" (Economist, 30 July 2005.)

Private financial institutions have been complaining endlessly that Japan Post is exempt from paying most taxes and contributing to state-backed deposit-insurance schemes as is required of private deposit-taking companies. JP instead benefits from direct government guarantees which are extended to its savings and insurance operations. With this implicit subsidy and competitive advantage, rival financial institutions are apprehensive that JP's privatized banking division might go beyond its previous lending activities (largely confined to government bond purchases) to broader-based lending activities. Likewise, Japanese private insurers complain that Kampo, JP's life-insurance scheme, benefiting from similar government guarantees and exemptions from taxes and mandatory contributions to an industry-wide contingency fund, has built up a 40% market share in direct competition with them. Foreign firms, which have carved out businesses in other areas of insurance that are unaffected by the subsidies available to Kampo, are also wary that a privatised entity could use its substantial revenues from existing policies to compete aggressively within their respective domains and niche markets.

Japan Post's significance however goes beyond the competition (and opportunities) it offers to the financial services industry. The government's statutory control of JP's banking and insurance assets in effect provides it with a discretionary second national budget which it has deployed in the past in targeted industrial development in sectors such as steel, petrochemicals, automobiles, shipbuilding, industrial machinery, and electronic and electrical goods.

More disturbingly, it has also provided the funds that fuel pork barrel politics on a scale which has sustained the LDP's political factions organized around iron triangles of politicians, business interests, and technocrats in the various economic sectors and interest clusters (zoku) [10].
In seeking an electoral mandate for the neo-liberal agenda, Koizumi's strategists have cleverly and subtly capitalized on the recent scandals and seedy history of reciprocal favors, nepotism and corruption of LDP factions and their business and bureaucrat associates which the party rebels allegedly typify and wish to perpetuate.

In presenting the neo-liberal alternative as a solution to this entrenched problem (let the free market sort out crony capitalism, familiar mantra), he is clearly intent on dismantling the iron triangles, portrayed as the root of Japan's political malaise and economic stagnation, and as an obstacle to the revival and dynamism of Japan's economy and society. Indeed, Koizumi seems prepared to destroy not just the iron triangles but the LDP itself in its present incarnation in his pursuit of a neo-Liberal Democratic Party and its economic credo of market fundamentalism.

In the 1980s and 1990s, critics and skeptics concerning the socialist project spoke patronizingly if not dismissively of actually existing socialism, warts and all. By the same token, one should also speak of actually existing neo-liberalism (market fundamentalism), in light of contemporary and cumulative evidence from the past two decades (silence from the neo-liberals in the wake of the scandals and debacles engulfing WorldCom, Enron, Long-Term Capital Management, and Halliburton, for example, or the dismantling of public services as witnessed in the American response to Hurricane Katrina in New Orleans and the delta) rather than dissemble about some hypothetical, idealized construct emanating from Chicago and Vienna.

Koizumi's neo-liberal remedy could very well prove to be worse than the disease that it seeks to cure. Quite apart from equity and solidarity as casualties along the accelerated march of Homo japonicus towards Homo economicus, I sometimes wonder which is being more guilty of wishful thinking - a private sector purged of information asymmetry, insider advantages, power imbalances, and market distortions, or a competent, motivated and efficiently-managed public sector.

Rather than dwell unduly on this dilemma, one might perhaps more profitably explore alternative perspectives from political economy which can throw light on the roots of stagnation (and dynamism) in the evolution of capitalist world systems, beyond the "end of history".

NOTES

1. Raising efficiency in these inefficient sectors presumably would entail shedding "excess" labor – it is an article of faith among supply side economists that the excess labor would be absorbed by other economic sectors as part of expansive, market-driven growth (or serve as an unemployed reserve to depress wages?). This assumes, furthermore, continuing investment expenditures (and export markets?) to compensate for a possible shrinkage of domestic demand if the aggregate wage bill falls. Just as likely, insecure consumers (and employees) could very well opt to save more as employment security and social safety nets are shredded by neo-liberal policies, as happened in Japan in the 1990s.
2. See for example, J.C. Campbell & N. Ikegami. 1998. The Art of Balance in Health Policy: Maintaining Japan's Low-Cost, Egalitarian System. Cambridge: Cambridge University Press
3. J.W. Dower. 1999. Embracing Defeat: Japan in the Wake of World War II. New York: WW Norton
4. Chalmers Johnson argues that the pre-eminent role of technocrats pre-dated the US post-WWII occupation, going back at least to the powerful bureaucracies that were mandated during WWII with responsibilities in war mobilization and war production, as integral key components of the Japanese corporatist state. MITI's wartime origins as the all-powerful Ministry of Munitions. C. Johnson. 1982. MITI and the Japanese Miracle. Stanford: Stanford University Press.
5. Nicholas Barr. 2001. The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State. New York: Oxford University Press.
6. The modern welfare state acts also as a pooler of risks to cope with the catastrophic and burdensome events which occasionally befall its less fortunate citizens. Socialised resources (taxes and other public revenues) have traditionally financed safety nets in

healthcare, in unemployment and social security, and provided relief in instances where neither the individual nor her/his family and social support network could cope with the consequences of catastrophe. The modern state, in short plays a crucial role as an insurer and risk manager in dealing with uncertainty. The privatisation of healthcare provision in principle is still compatible with public financing of healthcare (via a tax-supported national health trust fund, national health insurance, or some such arrangement). The privatisation of risk management however is the lifeblood of the insurance (and financial services) industry, and this industry would look favorably upon the market opportunities emerging from a reduced role for government in social insurance and social protection, i.e. in the management of uncertainty. (C.K. Chan. The Privatisation of Social Insurance. Malaysiakini.com, 28 August 2000).

7. Ongoing efforts to expand commercialized health care in Japan are discussed by Ikegami Naoki. 2005. Should providers be allowed to extra-bill for uncovered services? Debate, resolution and the future in Japan, paper presented at the International Seminar on Reforming Health Social Security, Keio University, Tokyo, June 27 – 29, 2005.

8. When the proposals for privatizing Japan Post were narrowly defeated on 8 August 2005, owing to rebellious LDP Diet members, 37 of whom voted with the opposition, Koizumi dissolved the lower house and called for snap elections for 11 September, 2005 in a high stakes bid to purge the crisis-ridden party of influential opponents.

9. As an agent of global social reproduction, the World Bank itself may be subject to forces pushing for privatization (in this case, divestment of its development financing role to private capital markets), much in the way that welfarist states are being urged to selectively offload their more profitable social services to the private sector. Not surprisingly (as an institutional compromise and accommodation), the WB, without requiring much of a push, seems to have re-positioned itself to be an even more influential agent which can promote the privatization and retrenchment of the welfarist state, including the welfarist state in its developmentalist incarnation. We see, for instance, an expanded role of IFC/MIGA to promote private sector involvement in "development"; World Bank bonds to raise funds in private capital markets to make up for funding shortfalls from donor countries; World Bank Institute, recently established ideological hub to propagate more vigorously the neo-liberal agenda through a global network of affiliated and influential think-tanks, in the process, disingenuously exaggerating the role of the "free" market in fostering "development", and denigrating the state-led experiences of much of East & Southeast Asia. Since the time of AW Clausen (World Bank President, 1981-1986, former president Bank of America, not coincidentally a time when metropolitan banks were flush with liquidity from Eurodollars and petrodollars), there have been persistent calls from certain US quarters for IFIs (esp. the World Bank) to divest more of its development financing activities to private capital markets. The same interests presumably are among the perennial chorus clamoring to reduce US contributions to multilateral lending agencies. The Meltzer Commission, in its report to the US Congress in 2000, recommended in effect a triage of borrower countries: debt cancellation, outright grants and performance-based concessional loans for the most destitute of highly-indebted countries, as opposed to the more "credit-worthy" borrowers with access to capital markets, who should be weaned from multilateral lending agencies and henceforth be serviced by private lending institutions (i.e. the financial analogue of "targeted" programs in health services). Indeed, this is the persuasive face and generic template for the privatization of social services

10. see "Koizumi: Crazy like a Fox" for a description of these zoku ("policy groups" or factions). Darrel Whitten www.atimes.com (12 August 2005).

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