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## Banking Crisis in Japan

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Japan is facing a banking crisis that surpasses the one the U.S. faced in the 1980s. Her estimated $600 billion in problem loans is three times the amount of bad loans involved in the U.S. S&L crisis (Burton and Lombra, p. 352). This banking crisis is partially a result of an institutional arrangement between the two major banking regulatory agencies (Ministry of Finance and Bank of Japan), which has rendered one subordinate to the other. The institutional practice, resulting in the Ministry of Finance acquiring major control over financial issues and policies, has operated to curb the authority and independence of the Bank of Japan. Therefore, these two financial regulatory agencies, especially the Bank of Japan (the nation's central bank), have been slow to react and at times overreacted to crises impacting the financial sector and the economy.

The basic fundamental relationship between these two financial institutions goes as far back as the 1942 "wartime" Bank of Japan Law which stressed dependence of the Bank of Japan on the Ministry of Finance. The following quotes from the 1942 Law emphasize the point: Article 25 states "the Bank of Japan may, with the permission of the competent Minister, undertake such businesses as are necessary for the maintenance and fostering of the credit system." Article 43 says, "the Bank of Japan shall be under the supervision of the competent Minister." Even with the gradual, administratively directed process of financial liberalization beginning in the late 1940s that sought to give more independence to the Bank of Japan, the resulting mixed signals left the ongoing supremacy of the Ministry of Finance unchallenged. In 1949, a Monetary Policy Board was established, ostensibly to give the Bank of Japan some discretion to operate outside the constraints of the 1942 Law. However, the creation of this board merely served to widen the influence of the Ministry of Finance over the Bank of Japan. The Monetary Policy Board in essence operated to curb the Bank of Japan's potential for using monetary policy to finance government deficits (Cargill, p. 149). Thus, the addition of the Monetary Policy Board did not significantly change the legal relationship between the Bank of Japan and the Ministry of Finance.

Another financial liberalization occurred between 1976-89, which resulted in a change in the structure of Japan's financial sector to parallel that of the United States and gave more autonomy to the Bank of Japan. During this time period in the United States and Japan, regulatory institutions in the respective countries gradually phased out interest rate ceilings on deposits; allowed financial institutions to diversify their portfolios; and permitted greater competition between banks and investment companies. Also, during this period, Japan's central bank was able to combat inflation to a greater degree than the U.S. Federal Reserve Bank with more formal independence (Cargill, pp. 150-51). At the same time, however, Japan continued to rely on the older, institutional "bank-finance model" which gave a large role to the government via influence of administrative guidance by the Ministry of Finance on the Bank of Japan policies. This hierarchical relationship between the Bank of Japan and the Ministry of Finance served to weaken the overall effectiveness of the Bank of Japan's monetary and economic policies in dealing with the banking crisis faced by the country after the buoyant economy of the 1980's. The bubble economy during the 1980s saw asset prices and monetary growth increase. The Bank of Japan implemented an expansionary monetary policy that saw interest rates fall to historic lows, and land and stock prices increase sharply; between 1987-89, the Nikkei Index of Japanese stocks rose some 300 percent. Banks began concentration on real estate loans, which can serve to put financial institutions at risk in the event of an economic downturn. Also during this period, the country engaged in a domestic and international spending spree, purchasing an array of assets in other countries. Thus, the country was operating in a bubble economy which burst at the beginning of the 1990s when the Bank of Japan adopted a tight monetary policy (Blomstron, *et al*., p.5; Burton and Lombra, p. 352). The Bank of Japan increased interest rates from 2.5 percent to 6.2 percent, and real estate, and stock prices in Japan fell more than fifty percent as the economy began to move into a recession. By 1998 the economy was entering an unprecedented eight consecutive years of recession, and the downturn in the economy is still persisting. This prolonged stagnation in the Japanese economy has negatively affected the banking system. In March 1997, almost half of the estimated $600 billion in problem loans held by Japanese banks were labeled worthless. A majority of the bad loans stemmed from loans on stocks and real estate. The loans went sour when stock and real estate prices fell below the value of the loans. Problem loans gave rise to a credit crunch as bank lending declined, deepening the impact of the recession.The banking crisis in Japan is hurting her economy more than a comparable situation in America would impair the U.S. economy. This is because the stock and corporate bond markets in Japan are not as well developed as in the United States (Burton and Lombra, p. 353). Thus as banks, saddled with bad loans, decreased lending, Japanese business firms, especially small to midsize firms, found themselves with fewer alternatives to bank loans as sources of funds needed to remain viable entities. This situation only served to heighten the severity of the recession.

The Ministry of Finance response was to institute stronger, more specific measures to bail out the ailing banking system. Japan has a history of resiliency and adaptation with a habit of melding and reshaping foreign institutional models to match her own, while, at the same time, maintaining the uniqueness of the Japanese culture. Thus, the Ministry of Finance created a "bridge bank" that functioned like the Resolution Trust Corporation (RTC) in the United States to deal with disposing the assets of failed institutions. Other regulatory agencies were established for allocating funds to prop up weak financial institutions and deposits were insured up to 100 percent per depositor. However, the banking crisis continued, reflecting a problem of insufficient aid coming at an inappropriate time (Burton and Lombra, p. 353; Cargill, p. 152).

Though the regulatory authorities had begun to respond, they initially appeared hesitant to commit the appropriate funding needed to resolve the banking crisis as was done by the United States in the S&L debacle. The Japanese banking regulators strongly opposed committing $4.5 billion in public funds to bail out her banking system as contrasted to the United States taxpayers paying $145 billion to bail out the failed FTFTS in the late 1980s (Burton and Lombra, p. 353). Thus, the piecemeal, regulatory, "old-regime" approach in dealing with this crisis did not address the underlying problems for a sustained cure. By late 1996, further revision of the 1942 Bank of Japan Law gave the central bank more independence from the Ministry of Finance. The revision enabled the Monetary Policy Board to move from its former passive state and become the primary decision-making body of the Bank of Japan. This atmosphere gave the economy a slight bump; there was a slight decline in nonperforming loans and the country appeared to be in a recovery stage. However, in 1997, external factors, such as the financial weakness of Asian economies, generated more problems for the sagging Japanese economy and financial institutions. Especially adverse for the Japanese economy, in this year, were the failures of her nineteenth largest city bank (Hokkaido Takushoku) and her fourth largest security company (Yamaichi Securities Company). In addition, a year later, nonperforming loans at the top nineteen banks were estimated at 57.3 trillion yen which represented sixteen percent of outstanding loans or eighteen percent of real GDP. Two of these big banks, the Long Term Credit Bank and Nippon Credit Bank, were eventually nationalized (Cargill, pp. 155-56). Seeking further solutions to the ongoing banking crisis, regulatory agencies increased funding (from thirty trillion to sixty trillion yen) to cover depositors of failed banks and to provide capital to banks that showed signs of survival, either on their own or via merger (Cargill, p. 157). And, in addition to adopting practices of foreign financial institutions, Japan became more open to foreign capital investment.

A particular problem confronting the banking system in Japan is the fact that the country does not have an adequate number of healthy banks with funds to acquire the assets of the failing financial institutions. This is further complicated by the fact that there is an institutional practice in Japan of interlocking shareholdings between banks and nonbank firms restricted to citizens of the country that is, Japanese banks owning portions of the country's nonbank firms that borrow from them and said firms owning shares of their nation's banks. This system of interlocking shareholdings works fine in good times as a safeguard for firms against hostile takeovers. However, such practice during periods of recession places both the bank and firm in jeopardy. Hence, the door has opened for large foreign, institutional investors in countries like the United States to purchase assets of Japan's weak nonbank firms and failed financial institutions. In fact**,** Japanese banks and nonbank firms are both selling shares they own in one another. Banks are especially likely to sell their shares in corporations and nonbank firms are shopping for the best financial arrangements, domestic or foreign. By the end of 1999, "foreign investors held nineteen percent of Japanese shares by value, up from four percent" ten years ago *(Wall Street Journal*, p. 1). In addition, Merrill Lynch has been allowed to purchase the Yamaichi Securities Company.

In conclusion, the banking crisis in Japan continues and is not helped by the sagging economies in the United States and Asia. Japan is attempting to address the crisis by instituting independence in implementing monetary policy, creating regulatory agencies to dispose of pervasive economic reforms involving giving its central bank, the Bank of Japan, more nonperforming loans, insuring deposits up to 100 percent per depositor, allocating funds to prop up weak institutions, and becoming more open to foreign capital investment in the country. However, the success of Japan in solving her banking crisis depends on the degree of autonomy of the Bank of Japan and the adequacy and future timing of monetary policy and regulations that keep pace with structural changes occurring in the financial sector. There is the possibility that the Bank of Japan's new independence will be weakened as it comes under the influence of political pressures. Politicians, responding to their constituents' concerns over the sagging economy, may feel the need to intervene in monetary policy as a quick fix which may prove harmful to the economy in the long run. Thus, having loosened the shackles of the Ministry of Finance, the Bank of Japan may find itself fettered to another polity, elected officials.

Finally, the financial regulatory agencies in Japan are patterned after a finance model centered on bank loans to large businesses. However, regulators should take into consideration and begin to focus on the changing structure of the industry which is causing banks to lose their market share as new financial options emerge for corporations. As has happened in the United States, bank loan demand in Japan is expected to decline in the next decade as businesses seek alternative sources of funding such as floating more of their own debt instruments in the money market. Also, as has occurred in the United States, banks in Japan will need to become more innovative in order to enhance their profit margins, such as engaging in securitization which can increase their income from fees.


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***Hiring Asianists for Liberal Arts Colleges.***
James Leavell, Chair, Furman University; Brian Dott, Whitman College; Joan O'Mara, Washington & Lee University;

## Hiring Asianists for Liberal Arts Colleges

## Brian R. Dott, Whitman College


### THE CANDIDATE'S PERSPECTIVE

I begin with a listing of my experiences as a job candidate. I received my Ph.D. in Chinese History from the University of Pittsburgh in 1998. Since 1997, I have had a total of thirty preliminary interviews (this includes both phone interviews and disciplinary conference interviews), eleven on-campus interviews, two one-year sabbatical replacement jobs, and two tenure-track jobs. While several of the preliminary interviews were with research institutions, most of my on-campus interviews and all of my jobs have been at liberal arts institutions (three private, and one public). My perspective as a candidate will naturally differ from others' ideas. After my first one-year job, I decided that I wanted to teach at a liberal arts college. I was therefore selective in choosing to which jobs I applied.

The suggestions I give below come from both positive and negative interviewing experiences. While much of what I have to say is common sense, these details can be easily overlooked amidst teaching duties and other aspects of the search process. Much of what I suggest is relevant to any search, but I also include information specifically pertinent to hiring in Asian Studies. I divide this article into four sections, one for each of the major steps of the job search process from the candidate's perspective (excluding dossiers, which are covered by the other members of the panel). Many of the suggestions I give help candidates feel that the institution is making an effort to recruit them. In organizing this panel, Jim Leavell emphasized the importance of making candidates feel comfortable, wanted, and a potential part of the college community.

### ADVERTISEMENT

Most tenure lines are still assigned to a discipline, and not to interdisciplinary programs. For myself, I am very interested in interdisciplinary teaching and research, and looked to see if the position was integrated into an Asian Studies program. It is therefore important to coordinate between Asian Studies and the members of the particular department where the position will be officially housed. Try to reach a consensus of what everyone is looking for in a candidate before the ad is placed. It is important for members of the Asian Studies program to be involved directly in the search process at all stages. Although I have not yet served