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**The Political Economy of
the Japanese Credit Market:
Social Norms versus Financial Globalisation**

by

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the degree of

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Declaration

This work is entirely conducted by the candidate. None of the work has been submitted for a degree at another university.

Abstract

Since the 1970s, Anglo-Saxon financial hegemony has enhanced international capital mobility, promoting financial disintermediation in many countries. This thesis explores why disintermediation in Japan has stalled since the mid-2000s despite its financial deregulation during the 1980s and 1990s by examining an ideational conflict within Japanese elites between the market liberalisation and anti-free market camps, particularly between the American and Japanese credit rating agencies and between the two industrial associations. I adopt a neo-Gramscian approach in tandem with sociological, psychological and philosophical concepts and emphasise the concept of ‘systemic support’ as a solution to the research puzzle. Although the original, narrow definition of systemic support is government and bank support for financially strained financial institutions and companies, its broadened definition incorporates dominant elites’ support and protection of subordinates in exchange for obedience.

Since the late-1990s, many scholars have focused on the possible convergence of Japanese capitalism to Anglo-Saxon capitalism and paid insufficient attention to the persistence of social norms. In contrast, I argue that Japanese society’s anti-liberal, anti-free market norms centred on systemic support are a form of counter-hegemony, and this has resisted Anglo-Saxon financial hegemony and disintermediation and prevented capitalist dominance from severing social ties (e.g., management-labour cooperation). Japanese style stakeholder capitalism is based on a management-labour alliance against capitalists and interlocking business relationships, supported by the confederation of anti-free market elites including bureaucrats, corporate executives (who share similar characteristics to bureaucrats), and conservative politicians. Under the Hashimoto (1996-8) and Koizumi (2001-6) administrations, market liberals advocating shareholder capitalism gained influence, and systemic support weakened temporarily. However, since 2006, both anti-free market elites and subordinates (regular workers and small business owners) conflicting with the market-friendly, short-term profit seeking mental framework of Anglo-Saxon capitalism, have driven an anti-neoliberal backlash. Consequently, systemic support has resurged, but this has generated growing contradictions in Japan.

List of Abbreviations

ANA	All Nippon Airways
BIS	Bank for International Settlements
BTMU	Bank of Tokyo-Mitsubishi UFJ
BOJ	Bank of Japan
CGC	Credit Guarantee Corporation
CME	Coordinated Market Economy
CRA	Credit Rating Agency
CSL	Capital Subscription Law
DBJ	Development Bank of Japan
DKB	Dai-ichi Kangyo Bank
DPJ	Democratic Party of Japan
DRAM	Dynamic Random Access Memory
ETIC	Enterprise Turnaround Initiative Corporation of Japan
FSA	Financial Supervisory Agency, Financial Services Agency
GFC	Global Financial Crisis
IBJ	Industrial Bank of Japan
ICM	International Capital Mobility
INCJ	Innovation Network Corporation of Japan
IPE	International Political Economy
IRCJ	Industrial Revitalization Corporation of Japan
IRRL	International Rate Restriction Law
JAL	Japan Airlines
JAS	Japan Air System
JBRI	Japan Bond Research Institute
JCR	Japan Credit Rating Agency

JGB	Japan Government Bond
JR	Japan National Railway
LDP	Liberal Democratic Party
LME	Liberal Market Economy
LTCB	Long Term Credit Bank of Japan
METI	Ministry of Economy, Trade and Industry
MHLW	Ministry of Health, Labour and Welfare
MITI	Ministry of International Trade and Industry
MLCL	Money Lending Control Law
MLIT	Ministry of Land, Infrastructure, Transport and Tourism
MOF	Ministry of Finance
NDF	Nuclear Damage Liability Facilitation Fund
NIS	Nippon Investors Services
NTT	Nippon Telegraph and Telephone Public Corporation
R&I	Rating and Investment Information
REVIC	Regional Economy Vitalisation Corporation of Japan
RIETI	Research Institute of Economy, Trade and Industry
S&P	Standard and Poor's
SARS	Severe Acute Respiratory Syndrome
SEC	Securities and Exchange Commissions
SMBC	Sumitomo Mitsui Banking Corporation
SMD	Single-Member District
SME	Small and Medium-Sized Enterprise
SNTV	Single Non-Transferable Vote
TEPCO	Tokyo Electric Power Company
TSE	Tokyo Stock Exchange

Introduction

Research Puzzle

Credit markets dealing with government, corporate and household debts, whose social foundations vary by region and country, are double-edged swords for capitalist states. Whereas periodic credit crises create destructive impacts on these states, credit is a driving force for the economic development of capitalist states. Credit markets are politically important as they are heavily involved in the distribution of wealth within states, and all of the people and institutions under the sun are either directly or indirectly influenced by credit markets. Nevertheless, managing credit markets has proved to be extremely difficult for states. If a state provides excessive autonomy for a credit market, it can make the latter overly volatile and potentially lead to the formation and subsequent bursting of a credit bubble, as the recent global financial crisis (hereafter GFC) indicated. In contrast, if a state heavily regulates a credit market, it hampers market efficiency, resulting in economic stagnation, as the collapse of the Soviet Union showed.

A credit market's levels of autonomy change over time and are strongly affected by influential economic ideologies and international capital mobility (hereafter ICM). The growing influence of higher ICM has driven the 'financialisation' of industrialised countries' political economies. Clift (2014: 241) argues that the financial sector's enhanced profitability and enlarged role within the economy and society are included in common themes of financialisation, which can change not only the features of firms and financial markets but also the society encompassing them. Higher ICM is likely to promote a government's regulatory adjustments to attract mobile capital to its financial market, retain capital within its jurisdiction and achieve its policy objectives in competition with other governments seeking similar goals (Holt-Dwyer 2001: 28-

35). Furthermore, enhanced capital mobility is also expected to diminish the role of banks as intermediators of debt capital to corporate borrowers because of the increased access of companies to ‘more efficient and lower cost capital markets’, namely ‘financial disintermediation’ (Rethel and Sinclair 2012: 3).

The research puzzle of this thesis is why Japan’s financial disintermediation (i.e., shift from a bank-centred to market-based financial system) has stalled since the mid-2000s despite its financial deregulation during the 1980s and 1990s. In the 1980s, Japanese blue-chip firms increasingly tapped the Eurobond market due to its very low-cost funding and the foreign exchange deregulation by the government. The growing Eurobond issuance, the requests from Japanese large firms and securities companies to relax the domestic bond regulation, and the US government pressure to pry open Japanese financial markets encouraged the Japanese government to deregulate its domestic corporate bond market in the 1980s, but the Japanese government itself also needed to deregulate the bond market in order to deal with the expansion of Japanese government bonds (hereafter JGBs). The Japanese government incrementally liberalised the heavily regulated bank-centred financial system during the 1980s and the first half of the 1990s. Furthermore, the enormous bad debt problem, which reflected the malfunctioning of the system, prompted the announcement of Japan’s Big Bang financial deregulation in November 1996. The US and local credit rating agencies (hereafter CRAs) have assigned Japanese borrowers credit ratings since the mid-1980s, and the volume of corporate bond issuance in Japan rapidly increased during the mid to late 1990s. However, the growth of the corporate bond market has become stagnant since the mid-2000s, and the market mechanism of Japan’s financial system is still underdeveloped.

Japan’s annual domestic corporate bond issuance amount increased from 5.8 trillion yen in 1994 to 11.4 trillion yen in 1998, but it has been range-bound between 8.6 and 12.5 trillion yen, merely 2% of its GDP, since then. Consequently, the outstanding amount of domestic corporate bonds moderately increased from

52 trillion yen in 2004 to 60 trillion yen (12% of GDP) - still dwarfed by that of bank loans for companies (roughly 400 trillion yen) - in 2014. Jackson and Miyajima's (2008: 10-31) comment that bank loans for large firms have been displaced by corporate bonds and other capital market financing, while the main bank system¹ has been diminished by the greater influence of the US CRAs does not reflect the reality accurately. The recent trend of the Japanese credit market is different from some European countries. Both France and Germany, the financial systems of which are categorised in the 'bank-centred camp' along with that of Japan (Zysman 1983; Allen and Gale 2000),² have substantially developed their capital markets (Clift 2014: 244-55). The outstanding amount of German corporate bonds dramatically expanded from 710 billion euro in 1988 to 2,055 billion euro in 2008. Although the outstanding amount of its bank debt securities plunged from 1,876 billion euro in 2008 to 1,231 billion euro (42% of GDP) in 2014 due to the GFC, that issued by non-financial corporates soared from 2 billion euro in 1988 to 232 billion euro (8% of GDP) in 2014.

Types of financial systems are closely related to those of corporate governance, which relate to the structure of power and responsibility within firms. Generally, a bank-centred financial system favours long-termist, relationship-oriented 'stakeholder capitalism', whereas a market-centred financial system prioritises short-termist, profit-prioritising 'shareholder capitalism' (Clift 2014: 230-40).³ Clift (ibid.: 231-55) maintains that along with their capital market

¹ Aoki, Patrick and Sheard (1994: 3) comment that the main bank, which has the largest credit exposure to and tight relationship with the corporate borrower, 'not only provides loans, it holds equity and, in the eyes of capital market participants and regulators, is expected to monitor the firm and intervene when things go wrong'.

² Zysman (1983: 17) classified the financial systems of developed countries into three types: 1) the Anglo-Saxon system, mainly based on capital markets, 2) a bank loan-based system with heavy state intervention represented by countries such as Japan and France, and 3) a bank loan-based system dominated by financial institutions, typically represented by Germany.

³ In addition to shareholders, debt investors and CRAs affect corporate governance, albeit to a lesser extent, under a market-oriented financial system.

development, both France and Germany have recently witnessed the ‘hybridisation’ of corporate governance (i.e., combining elements from both stakeholder and shareholder capitalism). However, such hybridisation could be less applicable to the case of Japan. Although Matsuura *et al.* (2003: 1003-13) claim that the two roles of the main bank system – providing both corporate finance and corporate governance for companies – have been eroded since the 1980s, this exaggerates the extent of the changes in the Japanese financial system and corporate governance. Although some scholars believe that the main banks contributed to corporate governance through monitoring corporate borrowers in the rapid economic growth period (Hoshi, Kashyap and Scharfstein 1990; Aoki, Patrick and Sheard 1994), the effectiveness of the monitoring by the main banks even during that period was questionable - these scholars have failed to provide empirical evidence to support their claims (Scher 1997; Okumura 2005).

There are three hypotheses in this thesis that may also have implications for other countries. Firstly, the characteristics of the Japanese credit market are co-constituted by the Japanese government and market participants, with the influence of exogenous factors. Secondly, the exogenous factors that potentially affect features of the credit market as well as domestic social relations and norms include internationally influential ideas, regulatory trends of key global financial centres and levels of ICM. Lastly, endogenous factors such as domestic social relations and norms also significantly affect the characteristics of both the credit market and corporate governance, which are closely correlated.

The research puzzle – why disintermediation has lost steam despite the Japanese government’s deregulation during the 1980s and 1990s – is related to the varieties of capitalism debate, comparing liberal market economies (LMEs) including Anglo-Saxon countries, which rely on the market mechanism, with coordinated market economies (CMEs) such as Germany, France and Japan, which rely on mutual cooperation among economic actors connected by a dense network of institutions (Hall and Soskice 2001). The growing convergence of

CMEs' financial practices towards those of LMEs is often called financial globalisation. Moreover, the puzzle is also linked to the convergence-diversity debate regarding whether CMEs would converge with LMEs (Yamamura 1997; Yamamura and Streeck 2003; Clift 2014). According to Yamamura (1997), proponents of the convergence view (mainly neoclassical economists) focus on market forces enhancing economic efficiency and believe market forces promote convergence, whilst those of the diversity (non-convergence) view are concerned with both 'formal institutions' (e.g., the state, ministries and firms) and 'informal institutions' (e.g., norms and ideologies) and think that such institutions shape differences in national preferences, for instance, the trade-off between efficiency and equality. Calder (1988: 465-6) and Okimoto (1989: 31-2) have slightly different perspectives from Yamamura and focus on the trade-off between efficiency and stability / security.

The effectiveness of bank monitoring in Japanese corporate governance deteriorated due to excessive liquidity and a decreased corporate demand for funds in the Japanese economy from the latter half of the 1990s onwards. Batten and Szilagyi (2003: 83-4) point out that the Japanese corporate sector's significant excess capacity and excessively high leverage built up during the high economic growth period led to its balance sheet restructuring, and warn of 'the adverse selection and moral hazard problems' that could stem from the Japanese financial system being overly dependent on intermediated financing when it faces excessive liquidity and a lack of investment choice. They maintain that the banking sector's bad debt problem and the corporate sector's excess capacity questioned the effectiveness of the banks' monitoring of the corporate sector, and emphasise the necessity to promote 'parallel credit channels' through developing the corporate bond market (*ibid.*: 96). Market-based financial systems prioritise 'exit' over 'voice' in order to influence corporate governance, whilst bank-centred ones prefer 'voice' (Hirschman 1970; Zysman 1983: 57). Ikee (2003: 92-5) claims that voice (or a bank-centred financial system) may be more effective than exit (or a market-based financial system) when the economy is at the

relatively predictable stage of catching up with more advanced economies, whereas exit may be more efficient when the economy requires a drastic shift from low growth industries to high growth ones.

Despite the above-mentioned rationales for shifting from a bank-centred to a market-based financial system, why has Japan's disintermediation stalled? Did the Japanese government merely demonstrate mock obedience to the United States (US) since it could not openly resist the US' liberalisation pressure? This explanation might hold some truth, yet it neglects the fact that domestic securities firms and big businesses also urged the government to deregulate, whilst the government recognised the necessity of it. Then, was the government's deregulation initiative owing to external and internal pressures constrained by its close ties with banks? This account might be more persuasive but it cannot explain why households and companies, the expected beneficiaries of liberalisation, have supported the *status quo* – the aggregate outstanding amount of bank loans for the corporate sector remains over six times as large as that of corporate bonds, while households keep immense bank deposits despite extremely low interest rates. Despite the inefficiency of the financial system, Japan has not encountered serious capital flight unlike some European countries. Has Japanese society behaved irrationally? Seemingly, the society has long been accustomed to the 'socialisation of risk' (Woo-Cummings 1999: 13) through the banking sector, strongly supported by the state, and cannot escape it easily.

Three Major Factors Affecting Features of Financial Systems

There are three major factors that significantly affect the features of financial systems including the relative autonomy of markets vis-à-vis states and interest groups. The first factor is domestic social relations in which both state and non-state actors interact with each other and form or undermine a dominant coalition over the financial system. The second one is a level of ICM, which can constrain a state's autonomy. The third factor is ideas and norms, which greatly influence

national political economic systems and world orders (Gill and Law 1988; Sinclair 2001). These three aspects are often closely interrelated.

With regard to the first factor, in the case of early post-war Japan, most of the major capitalists were eliminated by the dissolution of the Zaibatsu groups (industrial and financial business conglomerates), the agricultural land reform (which virtually deprived landowners of their property rights) and the heavy wealth tax under the US occupation (1945-52),⁴ as well as the wartime economic damage and the post-war hyperinflation. Unlike the US and Britain, where the powerful capitalist class has been influential in economic policymaking, the absence of a major capitalist class in the early post-war period was one key reason for the delayed capital market recovery and it cemented the dominant position of the banks in the Japanese financial system. During the early post-war period, the major banks held relatively strong bargaining power over borrowers due to a scarcity of capital, yet the export expansion and capital accumulation during the rapid economic growth period empowered export-oriented businesses and securities firms, which demanded financial deregulation from the mid-1970s onwards.

Regarding the second factor, Thomas (2001: 115-8) views mobility as a power resource for owners of capital and a potential threat to the state and the working class, arguing that ‘since states and labour are both relatively immobile, this implies that the power of capital has risen relative to both the state and labour’ (ibid.: 123). Although this argument generally holds true in regard to Anglo-Saxon countries from the 1980s onwards, ‘ICM is not a law of nature or a machine’ (Sinclair 2001: 109), and its power and impact on capital’s bargaining position vis-à-vis a state and labour are contingent on a state’s history and domestic social norms as well as internationally influential ideologies. The relative strength of capital over labour in a certain country may significantly alter depending on the

⁴ The US occupation forces adopted a pro-labour policy in the early stage of occupation, influenced by the New Deal policy (Gao 1997: 127).

financial market conditions. In a credit boom, when labour enjoys conducive employment conditions and good access to credit, capital has a relatively strong voice and state financial deregulation, which accelerates ICM, is likely to be legitimised. By contrast, in a credit crisis, when labour's employment conditions and credit access deteriorate, financial deregulation loses its legitimacy, and labour tends to demand stricter regulation, which can constrain ICM.

A typical example of the third factor occurred when a liberal economic ideology was permeated globally under British leadership in the 19th and early 20th centuries, while the market failures in the Great Depression beginning in 1929, the wartime experience and Keynesian ideas made state intervention in the economy more acceptable among business leaders (Gill and Law 1988: 96). It was not a mere coincidence that Japan adopted a fairly liberal economic policy from the Meiji restoration until the 1920s, when liberalism was internationally dominant under British leadership. Subsequently, Japan's post-war *dirigiste* policy was internationally tolerated because of the prevalence of Keynesianism and the Cold War.⁵ Due to the decline of major capitalists, many Japanese big businesses were run by internally promoted managers, relatively freed from shareholder pressure, with government intervention as well as support from banks, in the early post-war period. As this example demonstrates, an internationally widespread ideology is often intimately related to specific domestic social groups. Nevertheless, the dissolution of the Bretton Wood system centred on 'embedded liberalism' in 1971 and the stagflation during the 1970s discredited Keynesianism, and the 1980s saw the rise of neoliberalism, which promotes a free market and criticises excessive state intervention. Afterwards, the US became less tolerant of Japan's interventionism and pressured Japan to deregulate its financial market. In addition to influential economic ideologies, norms deeply ingrained in society play a key role in shaping the features of its financial system. Social norms vary across states and change over time. Although the number of proponents of

⁵ During the Cold War, the US considered Japan a bulwark against communism.

neoliberalism increased in the Japanese dominant groups after the bursting of the bubble economy in the early 1990s, anti-liberal, anti-free market social norms have been persistent and prevented the transformation of the financial market from bank-centred to market-based. This will be discussed later in detail.

The credit market, including bank loans, bonds and various credit derivative instruments, is a key component of the financial system in Japan. Interestingly, while equity markets tend to attract a larger proportion of international investors than credit markets and are fairly standardised globally, credit markets are inclined to retain more local elements such as regulations, practices and high proportions of local participants. One possible reason for this difference is that state regulations and home bias⁶ are much stronger in credit markets than in equity markets because of the former's much greater market size, larger market participants (including savers, investors and borrowers) and lower risks and returns (albeit some exceptions). The state is likely to have stronger incentives to regulate the credit market because of its larger potential impact on the national economy. In addition, most states are the largest borrowers in their credit markets. In these respects, the credit market is a politically sensitive arena. Generally speaking, investors are less likely to be attracted to overseas credit markets unless these markets offer compellingly higher potential returns to overcome home bias.

As Strange (1988: 89-90) argued, 'credit is literally the lifeblood of a developed economy' and 'the power to create credit is politically important.' The major roles of credit markets are not only providing credit for growing and competent borrowers but also forcing less competent borrowers to improve their performance or weeding them out. In capitalist states, who decides on the allocation of capital and who has good access to credit are critically important

⁶ Home bias still remains in investment as financial markets are 'dependent on information about the intentions of other parties, trust and the power to secure fulfilment of contractual commitments' (Epstein 1996, quoted by Sinclair 2001: 96). The home bias of capital varies across countries, and is strongly affected by domestic social norms. Japan seems to have particularly high home bias of capital.

and reflect the characteristics of the credit market. If a state allows substantial autonomy to its credit market, the market mechanism rather than specific financial institutions will decide on the allocation of credit, which tends to cover a very broad-range of borrowers including subordinate groups⁷ though the borrowing conditions of these groups are much stricter than those of privileged groups. This archetype can be seen in the context of the US. The market system excels in terms of efficiency, flexibility, inclusiveness and adaptability to change and innovation; but it is more aggressive in its risk-taking and unstable (ibid.: 90).

Periodic credit crises have destructive impacts on capitalist states. Strange (1986 and 1998) repeatedly warned of the danger of the unstable global financial markets centred on the US, in particular of a credit crisis, and her concern was realised in the 1997 Asian financial crisis and the GFC, which started in 2007. She ascribed such danger to states' weakened control over financial markets (Strange 1998: 179-90).

In contrast, countries with less liberal credit markets, such as Japan, have different financial problems. In these countries, specific financial institutions rather than the market mechanism tend to decide on the allocation of credit, often based on their long-term relationships with borrowers; credit covers a relatively narrow range of borrowers, while the state directly or indirectly intervenes in their decision-making. In Japan, big businesses and their employees generally enjoy better access to credit than subordinate groups despite the latter's significant collective contribution to bank deposits.⁸ Big banks are often regarded

⁷ Subordinate groups include small and medium-sized enterprises and their employees, subprime consumers, and firms under bankruptcy proceedings.

⁸ Although subordinate groups' credit access temporarily improved through non-bank financial institutions (including financiers for small and medium-sized enterprises and subprime consumers during the 1980s and 1990s), many of the non-banks failed or were acquired by banks and their subsidiaries with a stricter credit policy. Chapters 3 and 5 will discuss this point in greater detail.

as *de facto* semi-public entities rather than purely private entities. CMEs are inclined to be more stable but less efficient, inflexible and less inclusive than LMEs, whilst the former provide larger social security, corporate bailouts and other support (e.g., long-term employment and business relations) to sustain their system, potentially leading to excessive public / bank debt burdens and deteriorating economic vigour.

Characteristics of Japan's Financial System and Capitalism

The focus of this thesis is the resistance towards the transformation of Japan's financial system from bank-centred to capital market-based. However, the features of its wartime and post-war financial system and capitalism, as well as the financial deregulation in the 1980s and 1990s need to be scrutinised in order to tackle this main point.

From the Meiji restoration in 1868 until the early 1930s, although the Japanese government adopted a policy of increasing wealth and military power, its economic policy was fairly liberal, and there was little government regulation in its banking sector (Allen and Gale 2000: 39). The capital market was quite active until the early 1930s,⁹ and for instance, 87% of the industrial funds on a flow basis in 1931 came from the capital markets including both equities and bonds (Noguchi 2010: 34). However, the series of financial crises, including the *Showa* financial crisis in 1927 and the Great Depression beginning in 1929, and the rise of the military after the Manchurian incident in 1931 dramatically transformed the characteristics of the Japanese financial system. After the *Showa* financial crisis broke out, the Ministry of Finance (MOF) enacted the Banking

⁹ While Japan could finance the Sino-Japanese War (in 1894-5) mainly through domestic public bond issuance which proved the development of the financial system in the 1880s, the financing of the Russo-Japanese War (in 1904-5) had to rely on overseas bond issuance in both London and New York.

Law, which significantly strengthened the state's regulation and supervision over the banking industry. Due to the state-led consolidation, the number of banks drastically decreased from 1,402 in 1926, to 61 in 1945 and the corporate bond market was placed under the control of the Japanese government and major banks. Moreover, the Temporary Fund Adjustment Act in 1937 placed the allocation of industrial funds under state control and the National Mobilisation Law in 1938 enabled the finance minister to determine which military-related industries and firms the banks should provide with loans.

In Japanese politics and economics, there has been the so-called 'continuity-discontinuity debate over pre-war/wartime and post-war Japan' (Muramatsu 1981: 7-11, Noguchi 2010: 13-9). The discontinuity camp, mainly neoclassical economists, claims that Japan transformed from controlled economy during the wartime period (1936-45) to liberal economy in the post-war period (Eki 2012, Okita 2010). In contrast, the continuity camp, including Noguchi (2010) and Okazaki (1993), emphasises the continuity of anti-free market characteristics of the Japanese economic and corporate systems between the wartime and post-war periods. I share the same perspective with the continuity camp. Japan's liberal economic system led by major capitalists from 1868 until the early 1930s was heavily influenced by the liberal world order of *Pax Britannica*. However, anti-liberal norms (exemplified by Confucianism) had long been used by ruling elites (e.g., high-ranking samurai warriors) to dominate subordinates in Japanese society since the feudal period. Dramatically increased class conflicts (e.g., labour and agrarian disputes) in Japan from WWI (1914-8) until the mid-1930s reflected the tension between liberal global norms and anti-liberal Japanese social norms, promoting government intervention into the economy and ultimately leading to controlled economy (Teranishi 2003: 143-7).

Japan's post-war financial system originated from its control economy during WWII. Noguchi (2010) argues that anti-liberal, anti-free market norms and institutions of the '1940 system' developed for total war have remained in

Japanese society to date, and they can be witnessed in the bureaucratic intervention, the bank-centred financial system, the Japanese style corporate system, and the prioritisation of producer over consumer interests. The bank-centred financial system enabled the government to control the corporate sector through its tight grip on the banks, while the rigid credit control greatly contributed to the formation of keiretsu (interlocking business networks often with cross shareholdings and human relationships)¹⁰ under the wartime economy. Only dominant groups such as big businesses were allowed to obtain good access to credit during wartime and the early post-war period. In fact, there was a nexus of big businesses, finance (MOF and state banks) and the military during wartime.

After WWII, the US occupation forces eliminated not only militarists but also major capitalists, such as landlords and executives of Zaibatsu conglomerates and large firms, accidentally reinforcing the power of ‘administrators’ (anti-free market elites), including bureaucrats, corporate executives, bankers and Liberal Democratic Party (LDP) politicians (van Wolferen 1989:109-11). The US government accepted Japan’s state interventionism in order to promote its economic recovery during the Cold War. Furthermore, the US accommodative trade policy and dollar-yen exchange rate (1 US dollar = 360 yen), which were favourable for Japanese exporters, as well as the US military protection of Japan contributed to Japan’s rapid economic growth during the early post-war period, when Japanese companies faced less competition with their rivals in other Asian countries. In this respect, the US support indirectly facilitated the development of the Japanese corporate and financial systems.

The Japanese credit market in the early post-war period had the following three features. Firstly, the credit allocation was decided quite subjectively by banks with heavy state intervention, in contrast to objective credit ratings by the

¹⁰ There are three types of keiretsu in Japan: horizontally diversified business groups (such as Mitsubishi and Sumitomo), vertical manufacturing networks and vertical distribution networks. Unlike Zaibatsu conglomerates, keiretsu networks do not have their headquarters (holding companies).

US CRAs. Secondly, large firms had good access to credit, while SMEs and households had limited credit access. Lastly, most financially troubled large firms were bailed out by banks and the state. The empirical part of this thesis examines the extent to which these features have been changed or retained while exploring the reasons for this.

The restricted international capital mobility under the Bretton Woods System fitted well with Japanese society's anti-liberal, anti-free market norms. The restrictive world financial order (i.e., the constraint of capitalist power) contributed to the continuity of the 1940 system and the dominance of anti-free market elites in Japan. However, since Anglo-Saxon financial hegemony enhanced international capital mobility after the collapse of the Bretton Woods System and the end of the Cold War, the tension between liberal global norms and anti-liberal Japanese social norms has been re-intensified. Although the power of anti-free market elites was challenged by market liberals from the mid-1990s to the mid-2000s, an anti-neoliberal backlash started in 2006, which demonstrated the persistence of anti-liberal, anti-free market Japanese social norms. There are similarities in the tension between liberal global norms and anti-liberal Japanese social norms between the pre-war period (from the mid-1910s to the mid-1930s) and now.

I argue that anti-liberal, anti-free market social norms were created and promoted by the administrators of the 1940 system, and consented to by subordinates such as labour, and small and medium-sized enterprise (SME) owners, contributing to a management-labour alliance against capitalists as well as the formation of keiretsu. The economic bureaucracy formed an alliance with the LDP and big businesses during the early post-war period. Unlike their Anglo-Saxon peers, most Japanese corporate executives and bankers share similar traits with bureaucrats rather than entrepreneurs. Japanese large firms perform public functions such as contributing to stable employment, and banks behave in accordance with political directives rather than as profit-seeking organisations.

Historically, transformations in state-finance relations appear to have been caused by external and/or internal factors. Cox (1987: 4) defines historical structures as ‘persistent social practices, made by collective human activity and transformed through collective human activity,’ and maintains that the three levels of historical structure – social relations of production (where dominant elites control production and subordinate groups work under the former’s control), forms of state and world orders – are interrelated (Cox 1981: 138). In this respect, if contradictions and conflicts in social relations of production (i.e., power relations between social groups within society) and/or world orders exceed coherence and stability (Cox 1987: 269), which has a major impact on forms of state, this will lead to changes in state-finance relationships. Then, how are these contradictions and conflicts intensified? Cox (1981: 136) claims that three categories of social forces, namely material capabilities (power), ideas (including norms and ideologies) and institutions, interact within historical structures. For instance, technological development may strengthen the material capabilities of certain social groups, while the major political and/or economic failure of some dominant groups will lead to decreases in their material capabilities. A new powerful ideology or the rise or decline of a hegemon can transform world orders.

Since the 1980s, Japan has encountered a number of profound domestic and international changes. Firstly, towards the end of and after the Cold War,¹¹ the US economic policy towards Japan became harsh, and the US government tried to curb its trade deficit vis-à-vis Japan and pry open the Japanese financial market through political pressure. After the US-Japan Dollar-Yen Committee in 1983, MOF introduced market-based interest rate products, liberalised Euro-yen bonds issuance, and allowed the establishment of CRAs in Japan. Secondly, the Japanese economy slowed down, while Japanese companies faced fierce international competition in the midst of the yen’s appreciation against the US dollar and other major currencies. Thirdly, higher ICM, which was initiated by

¹¹ The end of the Cold War lowered the strategic importance of Japan for the US.

the US and the UK, made it difficult for Japanese financial authorities to maintain autonomous financial and macroeconomic policy making. An increasing number of Japanese blue chip companies were attracted to the Eurobond market during the 1980s. Fourthly, the influential economic ideology shifted from Keynesianism to neoclassical economics (neoliberalism), which was critical of government interventionism and promoted capitalist power. Fifth, Japan's public debt ballooned as its government tried to boost economic growth through fiscal expansion. Lastly, the bad debt problem, political and financial scandals and the prolonged economic slump weakened the power of the economic bureaucracy, the banking sector and the LDP.

In the 1990s, a series of political scandals¹² weakened the power of the LDP, while a wave of scandals¹³ also hit MOF. According to Toya (2006), Prime Minister Hashimoto, the LDP's Administrative Reform Promotion Headquarters and MOF took initiatives in carrying out the Japanese Financial Big Bang in 1996 – the LDP sought to regain public support in the face of fierce electoral competition, and MOF also chose to win back public support to ensure its survival. However, although the Big Bang itself was an appropriate policy, both MOF and the LDP underestimated the actual size of the bad debts in the banking sector. Japan faced an array of banking crises from 1995 to 1998,¹⁴ which dramatically increased the annual corporate bond issuance in 1998.

During the banking crises and their aftermath from 1995 through to 2003, the Japanese economy suffered from a serious bad debt problem, and the banking sector witnessed major corporate bankruptcies, most of which involved real

¹² These political scandals included the Recruit Scandal in 1988 and the Sagawa Express scandal in 1992.

¹³ These include the Daiwa Bank New York Branch scandal in 1995, the Housing Loan Affair in 1995-6 and MOF officers' wining and dining scandals in 1994-6.

¹⁴ The banking crises during this period entail the failures of Hyogo Bank, Kizu Credit Cooperative, Hokkaido Takushoku Bank and Yamaichi Securities and the nationalisation of the Long Term Credit Bank of Japan and the Nippon Credit Bank.

estate companies, construction firms and non-banks. These sectors were not as politically powerful as manufacturing establishments.¹⁵ In 2001, the yen-denominated bonds issued by Mycal (a major Japanese retailer) and Enron (a US energy trader), with respective amounts of approximately \$30bn and \$12bn, went into default, and the Japanese corporate bond market experienced major credit events for the first time. However, from 2002 to 2004, the government and major banks provided all-out support to stabilise the financial system due to the public call for stability. Such support entailed: 1) the enforcement of enormous public capital injections into banks and bad debt disposals, 2) banks' support for financially troubled major companies,¹⁶ 3) the establishment of the Industrial Revitalization Corporation of Japan (IRCJ), a governmental institution to support the restructuring of companies through management consulting and provision of public funds, and 4) quantitative monetary easing. These measures made it difficult for credit market participants to perceive credit risk, causing the marketisation of the financial system to stall.

Prime Ministers Hashimoto (1996-8) and Koizumi (2001-6) adopted neoliberal policies, including the abolition of the Large-scale Retail Store Law, which had protected small shops, the reduction in public works, the Japanese Financial Big Bang and the privatisation of public-sector entities. In addition to the deregulation of industries such as finance, retail, transportation and telecommunications, Anglo-Saxon style business and financial practices including corporate restructuring, active use of M&A, structured finance (which creates saleable financial instruments based on cash flows from financial assets), mark-to-market accounting, and pay-for-performance, executive officer and

¹⁵ In real estate, construction and non-bank sectors, there are some notable exceptions such as Mitsubishi Estate and Mitsui Fudosan, which are regarded as establishments.

¹⁶ Banks' support measures for financially troubled companies include interest rate deductions, 'forbearance lending', debt forgiveness and debt-for-equity swaps.

outside director systems were introduced into Japan during the 1990s and the first half of the 2000s.

However, the prolonged economic slump, neoliberal policies and protection of existing regular workers under lifetime employment generated a large number of low income non-regular workers – according to the 2009 OECD statistics, Japan's relative poverty rate (16.0%) was substantially higher than those of Western European countries (the majority of which was less than 10%). Watanabe (2007) claims that neoliberal policies have had a more detrimental impact on Japan than Western Europe because the former has neither experience as a social welfare state nor a strong political party that promotes welfare policies. An anti-neoliberal backlash took place in 2006 when the Koizumi administration ended. The GFC intensified the backlash, resulting in strong distrust of Anglo-Saxon style financial capitalism.

Argument in Brief

Why has Japan resisted financial disintermediation despite the deregulation during the 1980s and 1990s as well as the financial crisis associated with the enormous bad debts of the banking sector? I emphasise the concept of 'systemic support' as a solution to this puzzle. The original, narrow definition of systemic support, which is a term used in the credit markets, is government and bank support for financially strained financial institutions and companies. However, I contend that its broadened definition is dominant elites' support and protection of subordinates in exchange for loyalty and obedience, which is exemplified by broad-ranging domestic social relations in Japan such as the main bank system, lifetime employment, and long-term subcontracting between large firms and SMEs.

The conflict between anti-liberal, anti-free market Japanese social norms (exemplified by systemic support) and Anglo-Saxon style norms promoting

market liberalisation including financial disintermediation and neoliberal restructuring has been witnessed in Japan since the early 1990s. I argue that such Japanese social norms are a form of counter-hegemony that constrain capitalist domination in Japan, under Anglo-Saxon financial hegemony, which promotes transnational capitalist power. Systemic support has not only persisted but also generated contradictions and conflicts within Japanese society.

Even if contradictions and conflicts in social relations of production and/or world orders are intensified, the state-finance relationship will not change over a short period of time. Cox (1987: 269) maintains that ‘elements of coherence and stability are matched against contradictions and conflicts,’ and that coherence and stability here can be viewed as the staying power of the historical structure and attempts by dominant groups to preserve their vested interests. If an old historical structure is losing its hegemonic status, it will take a new historical structure a long period of time to obtain legitimacy in society. Under such circumstances, the new structure will have to compete against the old one until it acquires a hegemonic position.

Despite the financial deregulation during the 1980s and 1990s, the transition from a bank-centred to capital market-based financial system has struggled. The old financial system worked effectively for a long time, and has been firmly embedded in Japan’s political economy. Therefore, the question arises, who opposed the shift to a market-based financial system? Many commentators have stated that Japanese bureaucrats were the culprits in the delay. In this vein, government and bank support (the narrowly defined systemic support) can be viewed as a major obstacle to the transition. Such support will not fade out easily in Japan, partly because the economic bureaucracy and major banks are unlikely to give up their desire to regulate the market, and partly because both creditors and debtors get accustomed to systemic support and are still reluctant to take

large risks without external support.¹⁷ Interestingly, MOF took initiatives in the financial deregulation, and the Bank of Japan (BOJ, Japan's central bank) promoted the introduction of new financial products such as syndicated loans and credit default swaps. However, MOF's initiatives were constrained by its close ties with the banking sector. Such constraints were evident when MOF allowed the banks to establish securities brokerage subsidiaries in 1993-4 and tacitly assisted the establishment of local CRAs in 1985. It is possible to claim that banks and other interest groups may be more strongly opposed to the transition than bureaucrats.

Why have the Japanese government and society endeavoured to preserve the old regime despite the increasing malfunctioning of the 1940 system and the relatively weakened power of dominant elites such as the economic bureaucracy, the banking sector and the LDP? While this could be explained partly by the vested interests of some social groups, the more persuasive account stems from deeply ingrained social norms. Clift (2014: 219) maintains that 'the ideational element – social norms and how market relations are understood in different contexts – has its part to play in explaining ongoing diversity as capitalisms transform'.

Typical Japanese social norms can be observed in the government's paternalistic stance towards its people and people's submissive attitude towards dominant elites. In Japan, subordinates receive protection (i.e., systemic support) from dominant elites in exchange for loyalty and submission to the latter. Furthermore, Japanese people are inclined to cooperate closely with other members of social groups, such as local communities, and (subdivisions of) companies and bureaucracies, and exclude outsiders from such social groups in order to pursue stability and minimise uncertainty (Yamagishi 1999:56-88), while their mutual surveillance and regulation make them prioritise the collective

¹⁷ In other words, the risk averse nature has been deeply embedded in the behaviour of Japanese creditors and debtors.

benefit of their social groups over their own individual benefit (ibid.: 45-9). Subordinates' loyalty and submission to dominant elites have developed not only through the latter's coercion but also through the former's consent to the social norms created by the latter.

Why is the rescue of financially troubled companies justified in Japan? A management-labour alliance against capitalists, which is bolstered by both systemic support and in-group favouritism, has dominated most large Japanese companies. Frequent corporate bankruptcies would ruin this management-labour alliance, strengthening capitalist power through enhanced capital mobility such as restructuring, overseas investment and M&A. If capitalists were to dominate Japanese corporate society, management (administrators) would no longer be able to maintain their power within their firms, whilst regular workers would lose their employment stability. In this respect, I contend that the broadly defined systemic support, together with in-group favouritism, rather than the narrowly defined systemic support, has stalled financial disintermediation, which could sever the long-term social relations sustained by systemic support – for instance, keiretsu, the main bank system, lifetime employment and long-term subcontracting.

I argue that the Japanese credit market is a battlefield between the market liberalisation and anti-free market camps within the Japanese elite, and that an ideational conflict between the two camps was observed from the early 1990s until the mid-2000s. The former camp included reformist bureaucrats and politicians, Keizai Doyukai (hereafter Doyukai, a neoliberal-oriented industrial association)¹⁸, neoclassical economists, non-Japanese firms and the US CRAs, whereas the latter one consisted of interventionist bureaucrats, anti-free market politicians, Keidanren (the largest, conservative business lobby)¹⁹, banks, legal elites and the local Japanese CRAs. Although the market liberalisation camp was influential under the Hashimoto and Koizumi administrations, an anti-neoliberal

¹⁸ Keizai Doyukai's English name is the Japan Association of Corporate Executives.

¹⁹ Keidanren's English name is the Japan Business Federation.

backlash has been driven not only by anti-free market elites but also by subordinates such as regular workers and SME owners.

Excessive systemic support from the government and banks together with the underdevelopment of the corporate bond market has lowered the efficiency of the Japanese economy and hampered risk-taking by both creditors and debtors. However, the eradication of systemic support is likely to be extremely painful for a vast number of people due to low mobility in the labour market and weak actual risk-taking in the credit market. Many big businesses and their employees still have incentives to preserve the 1940 system and its bank-centred financial system. In addition, most subordinate groups (including employees of SMEs, farmers and retired people) are heavily dependent on long-term subcontracting, subsidies, public investment and social welfare benefits, which are other forms of systemic support. In these respects, a large proportion of Japanese people are motivated to maintain a high level of systemic support. Having said that, the costs of sustaining the old system are becoming increasingly heavy. The preservation of the old system has aggravated the following contradictions within it: 1) the corporate and household sectors' excessively weakened risk taking, 2) the skyrocketing public debt, and 3) the sharply rising number of working poor.

My normative position is in between the anti-free market and market liberalisation camps and is critical of both camps. After obtaining my undergraduate degree in economics, I worked for the Industrial Bank of Japan (IBJ, presently Mizuho Bank), which was the main bank for numerous big businesses (mainly manufacturers) and belonged to the anti-free market camp. Subsequently, I conducted credit research at non-Japanese investment banks in Tokyo, first Merrill Lynch and then UBS, which belong to the market liberalisation camp, as I thought that building a fair, open and transparent credit market was indispensable for the revitalisation of the Japanese economy. However, I have become disillusioned with both camps. The anti-free market camp has made every effort to preserve their vested interests and opposed to

capitalist dominance, resulting in the prolonged economic stagnation. In contrast, the market liberalisation camp has aimed for capitalist dominance and short-term profit making in financial markets, which sever long-term social ties and promote inequality in society. I contend that market liberalisation without sufficient social protection would make lives of many people precarious, while systemic support should be provided for individuals (particularly among young generation) rather than established organisations.

In summary, there are three key arguments in this thesis. Firstly, Japanese society's anti-liberal, anti-free market social norms (epitomised by systemic support) have been at odds with financial disintermediation and globalisation aligned with Anglo-Saxon style capitalism. Secondly, there was an ideational conflict between the market liberalisation and anti-free market camps within the Japanese elite from the early 1990s until the mid-2000. Lastly, the strong ties binding social groups and society tend to limit the leadership of dominant elites pursuing change and the mobility of capital, and systemic support has long hampered the transition of the Japanese financial system from bank-centred to market-based.

Analytical Method

The analytical method of the thesis is qualitative and empirical – the extensive study of secondary sources and over 50 interviews with current and former bureaucrats (including those at MOF and the Bank of Japan), politicians, academics in economics, sociology, social psychology and business studies, and various professionals (including senior bankers, banking sector analysts, corporate executives, an SME professional and management of both the US and local CRAs) have been conducted. This is because the thesis does not seek a general theory of the state-finance relationship, but rather specifically analyses the resistance to the transformation of the Japanese financial system since the

1980s. Contradictory causal factors will not be filtered out but instead examined closely within the historicised framework.

The empirical study focuses on three aspects of the Japanese credit market: 1) major corporate bailouts and bankruptcies, which reflect the strengths and weaknesses of systemic support and their influence in Japan, 2) differences between the American and local Japanese CRAs, and 3) change and resistance to change in corporate governance.

Major corporate failures have strengthened the market mechanism of the credit market, which differentiates the risk premiums of debts according to their creditworthiness (i.e., probability of timely debt repayment), whereas corporate bailouts have constrained the mechanism. Three examples of major corporate bailouts selected in this thesis illustrate the continuous strength of systemic support. Four examples of major corporate failures were different from ordinary bankruptcies and did not necessarily indicate weakened systemic support.

There are substantial differentials between the US and local CRAs in regard to credit ratings for the same Japanese companies, and the gaps stem mainly from differences in the extent to which CRAs take systemic support into account when assessing creditworthiness (Morita 2010: 122-33). The US CRAs were influential in Japan from the mid-1990s until the early 2000s when MOF and the banking industry lost power and thereby systemic support weakened, but their influence waned when the banking industry recovered and systemic support resurged.

Analysing change and resistance to change in Japanese corporate governance during the 1990s and 2000s will shed light on: 1) who promoted market liberalisation for what reasons, and who was opposed to it and why? 2) To what extent has Japanese style corporate governance actually changed? And 3) why has financial disintermediation in Japan lost momentum? Both credit ratings and corporate governance can be viewed as battlegrounds between the market liberalisation and anti-free market camps within the elites. An ideational conflict

between Doyukai and Keidanren over corporate governance and employment is worth paying particular attention to.

Structure of the Thesis

Chapter 1 will review literature on both change and resistance to change in the Japanese financial system or more generally Japanese political economy from the 1980s onwards. The review will focus on the ‘network state’ view of Japan, neoliberalism and financial globalisation, Japanese corporate governance and the convergence-diversity debate, and subsequently points of departure from the previous literature will be discussed.

Chapter 2 will discuss the analytical framework and methodologies. The main analytical framework is Neo-Gramscian, which fits the thesis theme well. Analytic eclecticism, which is adopted in this thesis in the sense of Sil and Katzenstein (2010), is indispensable to operationalise Neo-Gramscian approaches, which are macroscopic and require a supplementary toolkit for meso and micro level analyses. Specifically, the three pairs of contrasting conceptions – ‘weak and strong ties’ (sociology), ‘promotion and prevention orientations’ (psychology) and ‘guardian and commercial moral syndromes’ (moral philosophy) – are effective to elucidate Japanese social norms. This chapter highlights that systemic support, which is closely linked with the notions of strong ties, a prevention orientation and guardian morals, is at the centre of anti-liberal, anti-free market Japanese social norms. Later in the chapter, major actors’ interests, ideas and alliances in Japanese political economy will be examined in order to clarify how the 1940 system developed and why some of its elements have survived.

Chapter 3 will deliberate over Japan’s post-war bank-centred financial system, the financial deregulation during the 1980s and 1990s, and the persistent systemic support. After examining the features of the early post-war financial system and

the financial deregulation, the determinants of the major corporate bailouts and failures after 2000, and the political background of the government's establishment of corporate restructuring funds and the SME Financing Facilitation Act will be investigated. Furthermore, this chapter will discuss why systemic support has been justified in Japan, despite its market distortion leading to economic inefficiencies.

Chapter 4 will investigate how the Japanese local CRAs have developed since the mid-1980s and how they are different from the US CRAs, after examining the growth, power and transformation of the US CRAs under financial globalisation. Focusing on the two contrasting forms of finance – the synchronic form, which focuses on short-term profit making in financial markets, and the diachronic form, which links finance with investment in productive assets for the growth of social wealth (Sinclair 2005: 58-9) – and systemic support, the rise and fall of the US CRAs' influence in Japan in tandem with the persistence of the local CRAs will be analysed.

Chapter 5 will examine the ideational conflict within the Japanese elite between the market liberalisation and anti-free market camps from the early 1990s until the mid-2000s, which coincided with the rise and fall of the US CRAs. The two major industrial associations, i.e., Keidanren and Doyukai, played a role as ideational platforms for Japanese corporate society. The contrast between Keidanren and Doyukai can be described as: 1) administrators vs. capitalists / entrepreneurs, 2) stakeholder capitalism vs. shareholder capitalism, and 3) proponents vs. opponents of systemic support. Later in the chapter, whilst the Livedoor and Murakami Fund incidents of 2006 will be highlighted as blatant examples of anti-neoliberal backlash, persistent systemic support and in-group favouritism in Japanese corporate governance will be the main focus.

Chapter 6 will explore why and how the weakened dominance of administrators has changed the nature of systemic support in Japan from quasi-public goods to virtual subsidies to specific interest groups. The US economic

support to and military protection of Japan during the early post-war period can be viewed as systemic support, and the fading out of such support indirectly contributed to the relative power decline of administrators. Furthermore, growing contradictions within the 1940 system generated by systemic support – weakened risk taking of the corporate and household sectors, the rapid expansion of public debt and sharp increases in the number of poor non-regular workers – will be examined.

The concluding chapter will summarise the main arguments of the thesis, probe potentially fruitful areas of further study stemming from the concepts and findings, and explore the future prospects of systemic support in Japan.

Chapter 1: Literature Review

This chapter will review literature on both changes and resistance towards change in the Japanese financial system or its political economy in general from the 1980s onwards. The purpose of the literature review is to identify research gaps related to the research puzzle and establish an analytical framework to solve the puzzle, which is, in a broad sense, associated with whether, or to what extent, Japanese style capitalism has converged and would converge with LMEs. The literature review will start with the ‘network state’ view of Japan, then discuss financial globalisation and Japanese corporate governance, and finally the convergence-diversity debate. The review will lead to three main points of departure from the previous literature. Firstly, the research puzzle of this thesis cannot be solved by single-mindedly focusing on a single one out of the actors involved: banks, big businesses, major political parties and financial authorities. Attention should be also paid to subordinate groups and both internal and external factors. Secondly, a key to solving the research puzzle lies in the anti-liberal, anti-free market social norms in Japan. Lastly, further eclectic approaches which combine a supplementary toolkit of sociological, psychological and philosophical concepts with an analytical framework of political science are needed to analyse the social norms.

1.1 The Network State View of Japan

According to Eki (2012: 212), there are three major perspectives that account for the rapid growth of the early post-war Japanese economy, namely ‘market-led growth’, ‘state-led growth’ and ‘network state’ views. The market-led growth view is synonymous with neoclassical economics, and its advocates believe that state intervention had a limited impact on economic growth. However, this view

did not reflect the reality of the Japanese economy. In contrast, the state-led growth view argues that the state dominated business through regulatory and resource control, while state intervention, particularly by economic bureaucracy, significantly contributed to the rapid growth. This view is often categorised as the ‘developmental state’ view by non-Japanese scholars (Johnson 1982; Woo-Cumings 1999). Proponents of the network state view, such as Okimoto (1989)²⁰ and Samuels (1987), claim that the state-led growth view exaggerates the power of the Japanese state bureaucracy, as it had relatively small manpower, a small budget and weak legal regulatory capacity, and a network state can exert power only through its networks with the private sector.

The network state view maintains that the networks and collaboration between the state and business entailed a key to Japan’s rapid economic growth - the state bureaucracy ‘gently shepherded its myopic business sheep’ (Broadbent 2000: 8). Such policy networks can be observed not only between the Ministry of Economy, Trade and Industry (METI, previously the Ministry of International Trade and Industry) and private sector companies but also between financial authorities and financial institutions. Okimoto (1989: 29-30) rightly argues that it is fundamentally important to understand that Japanese society (both the government and the private sector) has had a deep-rooted preoccupation with its economic security stemming from its lack of raw materials, geographical isolation and traumatic pre-war experiences (e.g., threat of Western colonisation and the economic blockade). My perspective is close to the network state view although I agree with Johnson’s (1999: 59-60) claim that Japanese ‘private-sector’ managers of big businesses and banks are different from their American counterparts, who are short-term profit maximisers, and have public-oriented and bureaucratic characteristics.

²⁰ The following comments from Okimoto (1989: 226-7) are relevant to the theme of this thesis: ‘the Japanese state derives its legitimacy from its capacity to coordinate industry-specific efforts and national goals’ and ‘in Japan, the state symbolizes and functionally affirms the solidarity of the national collectivity’.

Amyx can be categorised into the network state view camp, and her book (Amyx: 2004) is very relevant to this thesis. She tackles the two research puzzles associated with the Japanese financial crisis from 1992 to 2003. The first is why the Japanese government's intervention to address the bad debt problem in the banking sector was significantly delayed. The other is why the government's financial reform and efforts to recover from the bad debt problem were ineffective. Her book highlights the function of 'networks' – a sociological term defined as 'the collection of people, organisations, or objects connected to each other in some way' (ibid.: 11) – in Japanese financial policymaking and regulation.

Amyx addresses the question of why Japanese financial policy networks between MOF and the banking industry have failed to work properly since the 1980s, despite their success in the early post-war period (ibid.: 8). The metaphor of networks and ties, for instance, applicable to the 'iron triangle' of the LDP, bureaucrats and big business, keiretsu, the main banking system, subcontracting between large companies and SMEs and lifetime employment, has frequently been used to describe Japanese society and political economy by political scientists and sociologists (Lockwood 1965; Okimoto 1989; Calder 1993; Gao 2001; Lincoln & Gerlach 2004). However, the policy networks between the state bureaucracy and business in Japan seem to be more informal and opaque than keiretsu, while such policy networks can be seen in all countries.

The crucial point is to identify the characteristics of specific policy networks. Buchanan (2002, quoted by Amyx 2004: 21) divides networks into two categories: 'aristocratic' and 'egalitarian'. The former's connections are concentrated in a small number of hubs (such as MOF, the LDP and major banks) and form a 'hierarchical, command-and-control political system' in the most extreme case, while those of the latter are more diversified and constitute a 'market-like pluralistic system' at the opposite end of the spectrum (Amyx 2004: 21). Other major characteristics of the former include high pervasiveness,

informality, low accessibility, a low capacity for external monitoring, limitations on individual interests by organisational interests and high durability beyond the immediate context, whereas the latter has features contrasting to the former. Amyx argues that ‘Japanese financial policy networks over the post-war period appear to be “aristocratic” or “elite” networks’ (ibid.: 22), and that ‘disruption in any hub of an “aristocratic” network can be catastrophic’ (ibid.: 33). However, she does not explain why such networks developed in Japan.

Prior to Amyx publishing her book (2004), Gao (2001) tried to solve his research puzzle: How can Japan’s seemingly abrupt reversal from the rapid economic growth in the early post-war period to the subsequent dismal stagnation be explained? He argues that ‘the dilemma in Japanese corporate governance between, on the one hand, “strong coordination” and, on the other, “weak control and monitoring”²¹ provided the causal mechanism that led to excessive competition, a phenomenon that was critical both to Japan’s high growth and the bubble’ – ‘coordination’ in this context means the establishment and maintenance of a long-term relationship between companies, while ‘control’ and ‘monitoring’ are defined as shareholders’ control over corporate management by separating ownership from management and the mechanisms established by banks to evaluate the creditworthiness of proposed projects, respectively (Gao 2001: 15).

Gao claims that excessive competition among Japanese companies and banks did not result in a major economic crisis in the 1950s and 1960s due to three contingent conditions (ibid.: 37).²² Firstly, fixed exchange rates and tight control

²¹ Traditional Japanese corporate governance is based on internal surveillance and audit as well as the segregation of duties, unlike Anglo-Saxon style monitoring by investors and outside board members.

²² Quoting Yamamura (1982: 77-112), Drucker (1975: 228-44), and Murakami and Yamamura (1982: 113-21), Okimoto (1989: 39-47) maintains that the cause of excessive corporate competition can be the combination of industrial policy, market share maximisation strategy based on two features of Japanese firms (i.e., lifetime employment and high debt-to-equity financing), and falling average costs of production. Moreover, Japan’s overcapacity of its production facilities was mainly attributed to the excessive

over ICM under the Bretton Woods system enabled the BOJ's monetary policy to simultaneously balance payments and promote economic growth. Secondly, the Japanese financial authorities supported the banks in aggressively expanding loans for corporate borrowers. Lastly, the US tolerated Japan's export expansion and absorbed the latter's overbuilt production capacity. However, after the end of the Bretton Woods system in 1971, these conditions began to disappear (ibid.: 36-39). Although Amyx (2004) focuses on the Japanese financial crisis, her theme and approach share some similarities with Gao (2001) – the latter highlights the distinctive characteristics of Japanese networks (i.e., strong coordination and weak control and monitoring).

Amyx (2004: 209) contends that 'the character of the former network institutions – and the ways in which they served to diffuse risks, rewards, and responsibilities, in particular – would severely hamper the capacity of officials to successfully couple financial and corporate sector reforms' after the spin-off of the financial supervisory function from MOF (MOF breakup). The Financial Supervisory Agency (old FSA) was established in 1998 and reorganised as the Financial Services Agency (new FSA) in 2000. She also maintains that the 'high embeddedness' of Japanese policy networks (i.e., the close linkages or interdependence between network institutions) in numerous domains of the political economy makes system transformation extremely difficult and costly and requires higher levels of political coordination and strong political leadership (ibid.: 229-37). The diffusion of risks, rewards, and responsibilities can be regarded as one of the major features of the post-war Japanese political economy, and bears some resemblance to Lockwood's (1965: 503) metaphor - 'a web with no spider' who dominates and controls the networks.²³

systemic support provided by the government and the banking sector as well as the herd mentality of corporate managers.

²³ Alternatively, Lincoln and Gerlach (2003: 14) describe the Japanese state as 'a web with many spiders, none of them dominant'. This means that each actor does not have strong leadership but veto power to protect vested interests of itself or its allies.

Amyx concludes that while system-wide change was needed for the Japanese political economy to contain the financial crisis, the state lacked strong political leadership²⁴ to encourage the relevant parties to trade long-term gain for short-term pain, and the MOF-centred financial policy networks became dysfunctional by the 1990s owing to two factors. Firstly, the enhanced information requirements due to more complex financial business made MOF's traditional approach, which was dependent on informal relations-based regulation, less effective. Secondly, the disrupted relationship with the LDP and financial scandals forced the ministry to expend more energy on defending itself from political attack than on managing the financial crisis.

One weakness of Amyx's arguments is that key factors such as heightened ICM, macroeconomic policy failures, the influence of neoliberal thoughts and the deteriorated legitimacy of the economic bureaucracy, which magnified the Japanese financial crisis and delayed its management, are not highlighted sufficiently. Higher ICM together with floating exchange rates made both Japanese financial and macroeconomic policy making less autonomous. When the BOJ's monetary tightening to reduce the US trade deficit vis-à-vis Japan caused the Japanese economic slowdown in late 1986, the bank reversed its monetary policy to boost domestic demand, resulting in an oversupply of money. Furthermore, from the bursting of the bubble economy in the early 1990s until the late 1990s financial crisis, the increased influence of neoliberalism in Japan made public opinion towards state intervention in the private sector, including public capital injections into banks, less favourable – though the backlash against neoliberalism was witnessed after Japan's financial crisis and the GFC. More importantly, as MOF officials were not chosen through elections, the legitimacy of MOF's leadership in the financial system hinged on the societal perception of

²⁴ Power in Japan tends to be divided by peers and/or allies and delegated to lower ranks so that Japanese leaders such as Prime Minister, administrative vice ministers (heads of ministerial bureaucracies) and CEOs do not have as much power as their US and European counterparts.

their strong dedication to economic success, but the bursting of the bubble economy and the subsequent corruption scandals tarnished this legitimacy.

Another weakness is that Amyx often views MOF as a unitary actor, but each bureau within the ministry has its own interests and they do not necessarily share key information between them. For instance, according to Kazuhito Ikee, MOF mainstream divisions (the Budget and Tax Administration Bureaus) drove forward the Japanese Financial Big Bang, as they were dissatisfied with the damaged reputation of the entire MOF due to the bad debt problem, which was handled by MOF's minor branch (the Banking Bureau), although the mainstream divisions were less market-oriented and had limited information on the size of the bad debts.²⁵ Although Amyx assumes that key information is widely shared by dominant Japanese groups (particularly their leaders), this assumption is incorrect. In particular in an adverse situation such as a financial crisis, Japanese leaders often struggle to gather negative information from their subordinates and to take initiatives.

1.2 Neoliberalism and Financial Globalisation

The growing influence of neoliberalism and financial globalisation had a significant impact on the Japanese financial system from the mid-1990s to the early 2000s. In Japan, scholars, journalists and politicians often loosely or ambiguously define neoliberalism, resulting in confused discussion. Any policy or movement promoting trade liberalisation, deregulation, privatisation, government support reduction, competition or corporate restructuring tends to be labelled neoliberal. Harvey (2005: 2) defines neoliberalism as 'a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an

²⁵ Interview with Kazuhito Ikee, Professor of Economics at Keio University and a former member of the government's Financial Council and Financial System Council, in October 2014

institutional framework characterised by strong private property rights, free markets, and free trade'. He contends that neoliberalism advocates free capital mobility between sectors, regions and countries (ibid.: 66), which suggests the restoration of power to a narrowly defined capitalist class (ibid.: 38). According to Chwieroth (2010: 17), the neoliberal continuum of thought, including neoclassical orthodoxy, neoliberalism, monetarism and neoclassical synthesis, views capital freedom as a desirable long-term goal. Furthermore, Kotz (2008) maintains that financialisation, which is a long-term inclination towards capitalism and involves the growing separation of finance from non-financial activity enabling capital to pursue short-term financial profits, was curbed by the embedded liberalism during the early post-war period, and subsequently released due to the neoliberal restructuring that started in the late 1970s.

In this respect, capital freedom is an indispensable element of neoliberalism or Anglo-Saxon style market liberalism. Although the ownership of capitalists is not confined to shareholding, shareholder capitalism or financial capitalism, which prioritises the interests of capitalists over those of the rest of society, is intertwined with neoliberalism. The current financial globalisation aligned with American credit rating orthodoxy reflects the hegemony of Anglo-Saxon style market liberalism. Neoliberal restructuring, which loosens the ties of capital with the rest of society and the real economy, enhances the power of capital and promotes shareholder capitalism. However, capital mobility is restricted not only by government regulation but also by social norms, which are closely related with the interests of both dominant elites and subordinate groups, and social relations, so deregulation alone may not achieve capital freedom in the short term. How finance works in different countries is likely to vary even under financial globalisation.

Malcolm (2001: 18-29) argues that three factors have promoted economic globalisation since the 1970s. The first is the unprecedented level of ICM and transnational businesses facilitated by the accelerated pace of innovation and

technological development. Secondly, the power of internationally mobile capital relative to labour, nationally constrained capital and states has been boosted by the financial and knowledge structures as well as the political economic structures through which credit and knowledge are created primarily for the benefit of transnational elites (Strange 1988: 26-32). Lastly, the relations between states and markets have been reconfigured due to a replacement of Keynesian welfare states with 'Competition States' (Cerny and Evans 2000). The first and second factors reflect the transformation from Fordism to post-Fordism and financialisation of the economy, respectively. Cox (1996b: 300) describes financialisation as a social phenomenon in which 'finance has become decoupled from production to become an independent power, an autocrat over the real economy'. In terms of the last point, Cerny and Evans (2000: 1-5) claim that state actors in Competition States seek more prosperous and internationally competitive domestic economies through economic policies of liberalisation and marketisation, whilst they accept the loss of major traditional social and economic roles to insulate key elements of economic life such as full employment and public and social services from market forces.

Hardie *et al.* (2013: 1) put forward a provocative argument regarding financial globalisation and the convergence of national financial systems that the dichotomy that divides financial systems into two major components – bank credit and capital markets – has led to 'the widespread intellectual incapacity to grasp the nature of changes to national financial systems and to explain, much less predict, the different impact of the recent financial crisis on advanced industrialised economies'. They propound 'market-based banking' as an analytical tool to shed light on the decade-long development of national financial systems until the outbreak of the GFC in 2007 (*ibid.*: 1-17). Although market-based banking is often applied narrowly to the 'shadow banking system' where non-commercial banks such as investment banks, money market funds and some off-balance-sheet vehicles provide credit, Hardie and Howarth (2013b: 25) broaden its definition to encompass all market-based commercial banking in

which ‘loans are made with the intention of selling them into the market, directly or via securitisation, and determined by the market price’.²⁶ This ‘originate and distribute’ model of banking developed in tandem with new financial innovations such as securitisation and various derivatives in the US and to a lesser extent Europe from the early 1990s to the early 2000s. In contrast, ‘traditional’ banking can be described as banks providing customers with loans that are financed by customer deposits and kept on their balance sheet without any hedging (for instance, through credit default swaps) apart from collateral.

Zysman (1983) categorised the financial systems of advanced industrialised economies into three types: government-led credit based (typically France and Japan), bank credit based (Germany), and capital market based (Anglo-Saxon countries). Banks’ ‘financial power’ stems from the fact that ‘a limited number of financial institutions dominate the system’ (ibid.: 72, originally quoted by Hardie *et al.* 2013: 4). In relation to this categorisation, Germany, France and Japan are often labelled as CMEs that rely on various ‘non-market-based coordinating mechanisms and networks’ (for instance, between the state, the corporate sector and the banking sector) and ‘are characterised by long-term trust-based relationships within firms and between economic actors’,²⁷ in contrast to LMEs such as the US and the UK, which principally depend on ‘markets and market mechanisms for coordination’ with an emphasis on ‘short-term contractual relations’ (Clift 2014: 107-8).

²⁶ Securitisation (i.e., the process of taking relatively illiquid assets and transforming them into securities through financial engineering) is different from disintermediation (i.e., the process of bypassing the intermediary to reduce funding costs) as the former does not eliminate the need for the intermediary. However, given that the purpose of securitisation is to provide marketability for financial claims such as bank loans, it achieves a similar effect to disintermediation. Both securitisation and disintermediation promote a shift from a bank-centred to a market-oriented financial system.

²⁷ Yamagishi (1999: 34-53), a social psychologist, contends that the long-term relationships within Japanese communities and organisations are based on mutual surveillance and regulation by their members rather than inherent trust among them.

Hardie and Howarth (2013b: 23-8) claim that Zysman's typology has become outdated and rather misleading, as financial institutions have lost their dominance within national financial systems with higher ICM and financial deregulations. The US CRAs started opening their overseas offices in Japan and Europe in the mid-1980s with the expectation of disintermediation of the banks (i.e., a shift from bank-based to capital market-based financial systems) in Continental Europe and Japan, but bank assets in advanced countries have not necessarily decreased. In fact, bank assets in the most advanced industrialised economies, including the Anglo-Saxon countries, increased their presence in national financial systems through the expansion of market-based banking with the sacrifice of equity from 2000 until 2007;²⁸ one notable exception to this was Japan. Among countries that had previously indicated disintermediation, France and the Netherlands conspicuously changed their direction. Meanwhile, the UK demonstrated the highest rise in bank assets to GDP ratio during this period.

Hardie *et al.* (2013: 4) contend that the distinction between bank-centred and capital market-based financial systems is less meaningful when price movements in both bank lending and other financial assets (such as bonds and derivatives) are determined by market mechanisms in a similar manner. More importantly, they emphasise that market-based assets are financed by market-based liabilities, which include wholesale funding such as short-term money market funds, and that during a financial crisis, wholesale lenders tend to run away far more quickly than depositors. This caused a liquidity crunch of many American and European financial institutions during the GFC. Of the financial systems worst damaged by the financial crisis, two (the US and the UK) were defined as 'capital-market-based' by the traditional typology, while the other two (the Netherlands and Belgium) were bank-centred. Hardie and Howarth (2013b: 50) conclude that 'the most important source of change in most national financial systems studied in

²⁸ In a sense, higher financial leverage (including bank loans) was utilised with the aim of enhancing shareholder value in the corporate and financial sectors and household wealth in North America and Europe.

this volume has not been in the use of bond and equity financing by non-financial companies, but rather in changes in the nature of banks and banking’.

Although market-based lending is a useful concept to demonstrate significant changes in CMEs’ financial systems, Hardie and Howarth’s argument has two weaknesses. Firstly, its focus is confined mainly to financial institutions, capital markets and governments, and it does not pay sufficient attention to these actors’ relationship with debtors, such as companies and households and broad society. Finance is politically important because the structure of financial markets shapes the boundaries of state-business (or society) relations (Zysman 1983: 7-8). Zysman’s categorisation of financial systems is slightly old-fashioned, but his perspective on finance is still valid. Secondly, they overstate the diminished financial power of banks in CMEs (particularly in France and Germany) to resist market pressure (Hardie and Howarth 2013b: 24). It is true that French and German banks have significantly increased their dependence on market-based liabilities such as financing from interbank, commercial paper and bond markets. Their market-based assets are expanded chiefly by interbank deposits and government bonds. More importantly, the corporate sector in both Germany and France is still primarily dependent on bank borrowing despite increased issuance of debt securities by non-financial corporates. In this respect, Zysman’s financial system categorisation is still valid.

The enhanced market-based banking in France and Germany can best be described as ‘hybridisation’, which combines elements of both the long-term and relationship-oriented stakeholder capitalism in CMEs and the short-term and rate-of-return-oriented shareholder capitalism in LMEs, rather than a convergence towards Anglo-Saxon financial capitalism (Clift 2013: 230-1). Clift maintains that the distinctively French idea of the ‘social interest’ of a company regarding the purpose of its existence (i.e., a social entity with social obligations to its employees and others) is a major obstacle to the convergence (ibid.: 248). Japanese society also has a similar idea in regard to the social obligations of

companies, but Japan falls short of the hybridisation of CME and LME in France and Germany.

Kamikawa (2013) seeks reasons for the limited development of market-based banking in Japan. Kamikawa points out that despite the regulatory and institutional restraints, Japanese banks became more market-based in the late 1980s due to two factors. Firstly, the banking sector's loans to deposits ratio at the end of 1990 was 112.3%, indicating the necessity for market-based financing owing partly to speculative financial and property-related investments. Secondly, major Japanese banks rapidly increased their funding in overseas inter-bank and bond markets in order to expand their international banking transactions. A speculative bubble in the domestic stock market attracted numerous household investors from 1986 to 1991. Furthermore, during the bubble economy years, Japanese big businesses made active use of overseas capital markets, while major Japanese securities firms also enlarged their international footprint. However, the bursting of the bubble economy from 1991 to 1993 and the financial crisis in the late 1990s made the domestic stock market crash and sharply contracted the international banking operations of Japanese financial institutions. Japanese banks had to prioritise the disposal of bad loans and the recovery of their financial health over the enhancement of their earnings through market-based banking, including securitisation, when the US and Europe witnessed rapid financial innovations from the early 1990s until the early 2000s. However, I emphasise that the domestic transactions of Japanese banks in the late 1980s were not market-based, while these banks' overseas market-based transactions merely reflected the trends and norms of these overseas (mainly Anglo-Saxon) markets.

Kamikawa maintains that five factors contributed to the underdevelopment of Japan's market-based banking. Firstly, the preference of most Japanese households for low-risk, low-return bank deposits over high-risk, high-return financial assets was strengthened by the Japanese financial crisis and scandals. Secondly, the decrease in bank loans after the late 1990s financial crisis led to a

very low loans to deposits ratio (80.6% in 2007). Thirdly, Japanese bank employees under the seniority-based wage system were not motivated to pursue short-term profits through high-risk, high-return investments - banks with abundant deposits in excess of their loans purchased JGBs. Fourthly, the financial crisis also made the Japanese financial authorities provide much more rigorous supervision and auditing for financial institutions – financial institutions became cautious about originating and investing in securitised products whose risks were not sufficiently clear. Lastly, securities firms did not have sufficient financial strength to develop investment banking operations due to the stagnant Japanese stock market. Kamikawa concludes that Japan's CME model remained intact primarily because of its own financial crisis after the collapse of the bubble economy rather than its financial regulation. However, he does not explain the reasons for the low-risk, low-return preference of Japanese households, the less meritocratic corporate culture and the underdevelopment of Japanese securities firms vis-à-vis commercial banks – even when the Japanese stock market was buoyant, these securities firms could not expand their investment banking operations.

Moreover, Kamikawa's explanation does not fully elucidate why loan trading and securitisation are underdeveloped in Japan. There are at least three other possible factors that have contributed to the underdevelopment of Japan's market-based banking. Firstly, the homogeneity of Japanese banks and other financial institutions may hinder loan trading and securitisation (Omura and Mizukami 2007). If all players have a similar risk appetite and preference, they have little incentive to buy or sell financial assets actively in a secondary market and tend to move in the same direction, potentially increasing the systemic risk. This homogeneity was likely to be nurtured by the MOF-led convoy banking system.²⁹

²⁹ Under the convoy banking system, MOF tightly controlled entry into the financial markets, protected the convoy of banks from financial instability and kept the banking industry evolved with all banks more or less in step (Gao 2001: 31; Malcom 2001: 68; Schoppa 2006: 10-1).

Even since the collapse of the convoy system owing to the financial deregulation and crisis in the late 1990s, Japanese financial institutions have still not shifted sufficiently to more autonomous and diverse management.

Secondly, another obstacle to market-based banking may be banks' close relational ties with corporate borrowers. The outstanding amount of a bank's loan to a borrower is a very important token of their relationship in Japan so in most cases both parties are reluctant to reduce the amount through loan trading or securitisation. In addition, many Japanese corporate borrowers, who are asked for loan transfer by their current creditors, are concerned about the risk of new creditors not rolling over loans when they come due. Likewise, many Japanese corporate borrowers prefer loans from banks in long-term relationship to bonds held by 'faceless' investors.

Lastly, the Japanese government failed to implement drastic financial deregulation in order to mitigate the systemic credit risk concentrated in the banking sector in the 1980s (i.e., before the bursting of the bubble economy) and failed to propose any drastic policy to promote the international competitiveness and attraction of the Japanese credit market. Nishimura (1999: 170), the former head of MOF's banking bureau, comments that drastic financial deregulation was difficult to implement before the financial crisis because of the convoy banking system, which was not supposed to allow the failure of any banks, and Japanese style administration, which emphasises harmony among members, and that the deregulation could not proceed without a crisis. The Japanese financial authorities understood the necessity of drastic financial deregulation, but could not implement such deregulation because they were constrained by a tacit obligation to protect weak institutions within the financial sector – the exchange of MOF's protection of their subordinates (financial institutions) for loyalty and obedience was observed in their relationship. As many political scientists point out, financial systems are co-constituted by both states and market participants. The US and British financial authorities assisted the financial deregulation in

these countries, as they believed that New York's and London's status as leading financial centres was in the interest of their states (Helleiner 1994). This kind of pro-deregulation nexus was not formed in Japan.

Given the fact that both Japanese companies' investments and banks' credit provision expanded during the early post-war period and the bubble economy, does Kamikawa believe that the preference of Japanese society shifted dramatically from risk loving to risk averse? His argument regarding the impact of the late 1990s financial crisis on the risk preference of Japanese financial institutions, companies and households is insufficient and potentially misleading. Have Anglo-Saxon societies become significantly risk averse since the GFC and are they likely to remain so in the future? The answer is probably no, although financial risk taking in these societies has been moderated by tighter regulations. The Japanese have been traditionally risk averse and have endeavoured to socialise risk, while they have a strong herd mentality with regard to risk taking – when most actors take a similar risk, individual actors are less concerned about this risk. Put differently, although the inherent risk tolerance of individual Japanese companies and households is low, when there is a consensus regarding risk taking within society, they tend to take an enormous risk collectively.

The MOF-led convoy banking system significantly contributed to risk socialisation and consensus making in regard to risk taking among individual actors through multi-layered systemic support from banks and the government. Under the convoy system, if large companies experienced financial difficulties, creditor banks were expected to rescue these corporate borrowers, whereas if these banks faced financial troubles, the government was supposed to bail them out. However, the bursting of the bubble economy and the financial crisis enfeebled Japanese society's confidence in systemic support. The magnitude of the systemic risk far exceeded the level that MOF and the banks had anticipated (Nishimura 1999: 205-9). Although the government and banks have continuously provided systemic support, since the major corporate bankruptcies and banking

crisis occurred, the confidence in this systemic support has not recovered sufficiently.

1.3 Japanese Corporate Governance

Corporate governance is a major determinant of how finance works in a certain country. Much of the previous literature focus on the main bank system (e.g., Hoshi, Kashyap and Scharfstein 1990; Aoki, Patrick and Sheard 1994) and the relationship between shareholders, management and labour (e.g., Okumura 1991; Nishiyama 1992). Jackson and Miyajima (2008)³⁰ tackle the evolving patterns of corporate governance among Japanese companies during the 1990s and the early 2000s and is directly relevant to this thesis. They broadly define corporate governance as ‘involving relations among multiple stakeholders, such as individual shareholders, institutional investors, banks, employees, unions and various groups of managers’. The characteristics of corporate governance in a country significantly affect those of its financial system (ibid.: 1). Jackson and Miyajima intend to address four inter-related questions (ibid.: 2). Firstly, what changes in Japanese corporate governance can be empirically identified? Secondly, do the above changes indicate a fundamental transformation in Japan’s post-war corporate governance institutions or a modification of the past system to new circumstances? Thirdly, how are the respective corporate governance changes related to each other? Lastly, what are the correlations between corporate governance schemes and performance?

Japanese style corporate governance is often described as stakeholder, network, relationship-oriented or bank-based, in contrast to Anglo-Saxon

³⁰ Their research project was supported by the Research Institute of Economy, Trade and Industry (RIETI), a governmental policy think tank founded by METI. RIETI’s mission is to conduct theoretical and empirical research in order to support economic and political reforms. Both RIETI and METI might have had an incentive to make changes in Japanese corporate governance widely known through the project.

corporate governance, which typically focuses on companies' outside investors, mainly shareholders. Key stakeholders of typical Japanese companies include not only shareholders but also employees, banks, suppliers and customers, whose interests are reflected in the corporate governance arrangements (such as long-term relationships and employment). Japanese CEOs can best be described as 'top employees' rather than 'representative of shareholders' (ibid.: 5), whilst most directors of the board at large companies are internally promoted and merely subordinate to CEOs. In addition, the main banks are not just the largest providers of debt capital for companies but also major shareholders, and they often rescue large corporate borrowers in financial distress. Jackson and Miyajima argue that 'the competitive strength of post-war Japan seemed not to rest on the allocative efficiency of the market, but the organisational efficiency of firms generated by the investment of stakeholders in developing and maintaining firm-specific capabilities' (ibid.: 3).

However, Japanese style corporate governance has been forced to change by both domestic and international factors, including the growing influence of heightened ICM and neoliberalism, the underperformance of Japanese companies facing fierce international competition, the banking crisis and the MOF's weakened grip of the banking industry. Cross-shareholdings between large Japanese firms and banks were substantially unwound due to the serious bad debt problem of the banking sector and large companies' better access to capital markets owing to the financial market deregulation. Major changes in Japanese corporate governance, Jackson and Miyajima point out, include 1) the weakened power of banks vis-à-vis large companies and the greater influence of non-Japanese shareholders and international (American) CRAs, 2) the introduction of international accounting rules and Anglo-American style corporate governance (i.e., the emphasis on shareholder value, outsider board, thorough disclosure, market-oriented employment, etc.), and 3) the shift from informal, opaque, and relationship-oriented to more transparent and rule-based financial regulation and the creation of the FSA, independent from MOF.

The key message from Jackson and Miyajima is that although some major characteristics of Japanese corporate governance have witnessed substantial changes, the extent of change varies according to aspects of corporate governance, and these changes have failed to reach ‘convergence on Anglo-American corporate governance’ (ibid.: 18). Furthermore, they argue that changes in corporate governance have been uneven across different types of firms, resulting in less homogeneity among Japanese firms, and that there is some degree of correlation between financial and ownership characteristics (market-oriented or relational), board and management features (outsider-oriented or insider-oriented) and employment and incentive patterns (market-based or relational). For example, ‘patient capital’ from banks and cross-shareholdings may be preconditions for lifetime employment and ‘insider boards’ consisting mainly of insiders promoted internally from the ranks of employees.

Although the arguments above are generally appropriate, they exaggerate the changes in Japanese corporate finance, management and employment characteristics. For instance, they emphasise the shift from bank-centred to capital market-based corporate finance, and maintain that ‘while the main bank system has not disappeared, it has been institutionally displaced and its scope limited to a more specific niche segment of firms than in the past’ (ibid.: 19). Nevertheless, the reality is different from this - the great majority of Japanese firms still rely on the main bank system, while the growth of the corporate bond market has lost its momentum since the mid-2000s. I contend that there have been uneven changes across the Japanese financial market – the equity market has changed substantially due to the increased influence of non-Japanese investors, whereas the credit market, which is still dominated by local players, has witnessed moderate change. The pressure in regard to changes in board and management characteristics has primarily stemmed from non-Japanese equity investors in tandem with neoliberal thoughts.

Jackson and Miyajima observed that the financial crisis dramatically increased major bankruptcies, and intensified corporate restructuring and the introduction of Anglo-Saxon style business and financial practices during the late 1990s and early 2000s, and probably expected Japanese style corporate management to change gradually. However, Japanese corporate governance is much more persistent than they expected. The period of Japan's financial instability from 1997 until 2003 witnessed enormous amounts of aggregated liabilities held by bankrupt firms, but those amounts sharply decreased after the establishment of a government-backed corporate restructuring fund in April 2003 and the government rescue of Resona Bank, a major commercial bank, in May 2003.

Furthermore, some Japanese companies might indicate 'mock convergence' towards Anglo-American corporate governance by inviting less influential outsiders on to their boards and nominally introducing an executive officer system in order to attract non-Japanese investors rather than genuinely improving their corporate governance.³¹ In addition, there is a possibility that numerous Japanese firms have shifted from seniority-based to (pseudo) merit-based wage systems in order to reduce their over-all personnel costs rather than to promote meritocracy. Jackson (2008: 282-92) emphasises the drastic increase in non-regular workers, but he fails to point out that this is mainly because many companies have tried to protect the vested interests (e.g., lifetime employment and relatively generous salaries) of existing regular employees by hiring cheap, easily dischargeable non-regular workers instead of young regular ones. An increasing number of non-regular workers have fallen into a state of poverty.³²

³¹ Wakasugi (2015), emeritus economics professor at the University of Tokyo and head of the Japanese Corporate Governance Research Institute, claims that corporate governance reforms in Japan have been perfunctory and lacked substance, pointing out that few outside board members contribute to corporate governance, while the introduction of independent audit committee has been blocked by Keidanren, the largest business lobbying group.

³² Ito (2007: 241-3) maintains that Japan has three social classes – namely capitalists, regular workers at large firms and their equivalents in other sectors and people outside the

Jackson and Miyajima (2008: 33) develop the following typology of Japanese firms: 1) 'traditional Japanese firms (J-firms) with strong relational elements on all dimensions', 2) 'hybrid' firms with market-oriented financial and ownership characteristics together with relational employment and partially insider board features, and 3) 'inverse hybrid' firms, which are in an intermediate position between J-firms and hybrid firms. One major problem with this typology is that the hybrid firm cluster includes two very different sub-groups of companies. The first sub-group, which mainly consists of prominent blue-chips (such as Toyota Motor, Canon and Kao), shares such features as relatively high levels of foreign shareholdings and merit-based pay systems, while the other (such as Tokyo Electric Power, Mitsubishi Chemicals and Mitsubishi Heavy Industries) is characterised by a heavier issuance of corporate bonds as well as moderate reforms in regard to board structures and disclosure. As overseas equity investors are much more vocal about corporate governance reforms than domestic bond investors, the pressure towards the former should be stronger than that towards the latter so that the corporate governance of the two sub-groups is different. Monopolistic utilities protected by the state regulations and most members of major corporate groups have maintained a degree of relational corporate governance. CRAs assess the creditworthiness (i.e., their ability and willingness to repay debts in a timely manner) of borrowers but their credit ratings do not necessarily reflect whether the corporate governance of borrowers is market-oriented or relational.

Another weakness of Jackson and Miyajima (*ibid.*) is that they fail to describe the disagreement between major industrial associations (i.e., business lobbying groups) over corporate governance. They argue that major industrial associations, such as Keidanren (the Japan Business Federation) and Doyukai (the Japan Association of Corporate Executives), 'largely opposed reforms that would

'regular employment' – whilst the top and middle classes are unsympathetic with lower classes, and that the existence of an increasing number of people living in inhumane conditions is unjust.

represent major inroads against managerial autonomy' (ibid.: 16), which is a misconception. Although many members of the two associations overlap, Doyukai, which includes top managers of entrepreneurial firms and foreign-owned or internationally-oriented companies (including Ushio Electric, Orix, IBM Japan and Fuji-Xerox), has a tendency to be more market-oriented and reform-minded than Keidanren, whose core members are from those of leading manufacturing establishments (such as Nippon Steel, Toshiba, Toyota and Canon). Doyukai's core members have leant towards neoliberalism, emphasising the importance of shareholder value and labour market flexibility since the mid-1990s, and it was politically close to the LDP-led Koizumi cabinet and the Democratic Party of Japan (DPJ)-led Noda cabinet. Key members of Keidanren have been opposed to neoliberalism and have tried to defend their traditional corporate governance. Ideational conflict between Doyukai and Keidanren from the early 1990s until the mid-2000s will be discussed in detail in Chapter 5.

However, ironically, a large number of manufacturing establishments have had to streamline their workforce and cut wages due to the prolonged economic stagnation and decreased international competitiveness. They have also been forced to change their board and management characteristics owing to the pressure from non-Japanese equity investors. Nevertheless, as mentioned above, these are merely cosmetic changes in many cases and do not reflect convergence towards Anglo-Saxon corporate governance. More importantly, the influence of neoliberal thought, led by Doyukai, within the business community was weakened by the 'Murakami Fund incident' in 2006³³ and the GFC from 2007 to 2010.

³³ The so-called Murakami Fund, an activist investment fund established by Yoshiaki Murakami, a former METI official, was involved in insider trading. Murakami had close ties with bureaucrats and entrepreneurs, while Orix and Ushio Electric, Doyukai's core member companies, and the BOJ governor, invested in the fund. The Japanese media heavily criticised not only Murakami but also Miyauchi (the chairman of Orix) and Fukui (the BOJ governor at that time).

1.4 The Convergence-Diversity Debate

The convergence-diversity debate regarding whether Japan would converge with LMEs attracted much attention from the mid-1990s to the mid-2000s (Vogel 1996; Yamamura 1997; Laurence 2001; Malcom 2001; Streeck and Yamamura 2001; Yamamura and Streeck 2003; Schoppa 2006). Exemplifying the comparative analysis of the British and Japanese financial reforms, Vogel (1996: 261) argues that the governments ‘have converged to the extent that they have been compelled in a specific direction by common market forces, and they have varied to the extent that different ideas and institutions have pushed in different ways’. He continues by stating that, whilst ‘market outcomes’, which refer to changes in the nature of competition, are converging internationally, ‘regulatory outcomes’, which indicate changes in the form of regulation, still vary by country. He emphasises that the national variation is substantial as ‘regulatory outcomes ultimately structure market outcomes’ (ibid.). Laurence (2001: 48) disagrees with this view and maintains that the significance of financial globalisation, particularly in the form of Euromarkets, is manifested in its influence on transforming financial institutions’ preferences. He also challenges Vogel’s (1996: 4) claim that MOF, even more than private interest groups, drove the financial reform following their own priorities; he quotes Rosenbluth’s comment that, ‘deregulation has been propelled by financial institutions, acting in cooperation with the Ministry of Finance and sometimes politicians, to construct a new set of rules they need[ed] to compete in a changing economic environment’ (Laurence 2001: 46, citing Rosenbluth 1989: 5).

The disagreement between Vogel and Laurence seems to stem partly from which parts of the elephant they are touching: both national preferences (based on social norms) and financial globalisation are key determinants of any recent

financial reforms. However, Vogel's perspective better fits the case of the Japanese financial reform before the late-1990s, while both Laurence and Rosenbluth underestimate MOF's dominance in the Japanese financial system as well as the characteristic of banks as political extensions of the dominant elites. If regulatory outcomes virtually remain unchanged, market outcomes might be merely mock or cosmetic. Nevertheless, Vogel's argument that regulatory outcomes ultimately structure market outcomes sounds excessively path dependent, and both regulatory and market outcomes are mutually interactive in the long term. Moreover, the late-1990s, after 1996, when Vogel published his book, witnessed the transformation of the Japanese financial regulation from discretionary interventionist to relatively arm's length principle-based due to the enormous bad debt problem, the MOF wining and dining scandals in 1998 and the US pressure.

Vogel (1996: 3) rightly points out that 'deregulation' by the governments of advanced industrialised countries is actually 're-regulation' with which the governments 'have reorganised the control of private sector behaviour, but not substantially reduced the level of regulation', though he tends to overly downplay the political power of non-state actors such as major financial institutions and companies. Furthermore, he also maintains that the major purposes of MOF's slow financial liberalisation were 1) to make complaining interest groups understand that they had to accept their fate with compensation packages and prepare for new competition, and 2) to preserve or even enhance their power over financial institutions through re-regulation by transforming themselves from 'a conservative and stingy regulator to a more multifaceted supervisor, monitor and advisor' (ibid.: 192-3). The first purpose might reflect the ministry's intention to provide a weak version of systemic support to the financial institutions, as MOF could not have maintained the latter's loyalty (i.e., the ministry's authority) without providing support, although financial globalisation no longer allowed the ministry to keep the financial convoy intact.

Despite the second purpose, Vogel virtually admits that the substance of MOF's regulation to pursue stability and control of the financial system did not change (*ibid.*: 263). Moreover, I contend that Vogel's terms, market and regulatory outcomes, reflect economic / business rationalities and political / social norms, respectively, and that changes in social norms take much longer than changes in economic rationalities. Toshio Yamagishi, a social psychologist, claims that changes in people's behaviour lag behind those in economic and social environments because a transformation in norms, which are based on expectations in regard to other people's responses to their behaviour, take a long while.³⁴ This is why scholars who focus on economic rationalities (such as Rosenbluth and Laurence) are inclined to highlight the convergence of financial systems in advanced industrialised countries, whereas those who concentrate on national preferences or social norms (including Vogel and to a lesser extent Yamamura) tend to emphasise non-convergence (Malcolm 2001: 271-2 citing Yamamura 1997). However, the two camps seem to both be at the extremes, and the reality may exist in between. In addition, social norms sometimes counteract economic rationalities and this was particularly true of the Japanese financial reforms.

Rosenbluth and Thies (2010), who belong to the convergence camp, describe how globalisation and Japan's urbanisation undermined Japan's early post-war political coalition between the ruling LDP, big businesses (mainly heavy industrialists), farmers and SMEs, forcing the LDP to change its electoral system from a single non-transferable vote (SNTV) in multi-member districts, which tended to promote intense competition between factions within the LDP and pork-barrel politics, to single-member districts (SMD) in 1994. They maintain that Japan's peculiar electoral system since 1925, which caused economic inefficiency, 'became a serious problem only after Japan came under irresistible pressure to open its markets to foreign trade and finance' (*ibid.*: 174).

³⁴ Interview with Professor Toshio Yamagishi in October 2014

Rosenbluth and Thies delineate the establishment of a political coalition between the dominant elites (bureaucrats, LDP politicians and corporate executives), a portion of labour (mainly employees of big businesses) and the traditional middle class (independent farmers and SME owners) and its unravelling. During the 1950s, top management of big businesses cunningly formed an ‘alliance’ with their regular employees by offering lifetime employment, seniority-based wage systems and in-house unions, which undercut the power of labour unions and the socialist party in Japan. Furthermore, big businesses and their largest industrial association (Keidanren) provided the LDP with enormous political donations and tax revenues, which enabled factions of the party to win votes from various interest groups, such as farmers and construction companies, in return for subsidies and import protection. In exchange, the LDP provided big businesses with a favourable business climate such as regulatory protection and low interest rates. Thanks to this grand coalition, the LDP stayed at the political helm for a long period of time, while the existence of social classes and class conflicts was less perceivable in Japan. However, as Rosenbluth and Thies rightly point out, consumers were left out of the coalition and faced high prices and a limited choice of goods and services (ibid.: 54).

They argue that ‘a large political party supported by a coalition of big firms and small farmers underwrote a system of “convoy capitalism”³⁵ characterised by closed and cartelised markets, heavy subsidies, and expensive personalistic elections’ (ibid.: 51-2) – the term ‘convoy’ stems from the ‘convoy banking system’ and reflects a key element of CME. However, Japan’s convoy capitalism and the grand political coalition were under strong pressure from the 1980s onwards. Farmers had accounted for the majority of the labour population during the early post-war period, but Japan’s demographic transformation towards a nation of urban workers together with global economic integration made the

³⁵ Schoppa (2006) also uses the term ‘convoy capitalism’, which shares some similar elements with the broadly defined ‘systemic support’ from dominant elites for subordinate groups.

above-mentioned political coalition costly and less effective for the LDP in the early 1980s.

It was increasingly difficult for the LDP to satisfy both big businesses, whose interests lay in cheap raw materials and finance and unrestricted access to overseas markets, and farmers and SME owners, who sought import protection and subsidies. The LDP also had to attract whimsical urban voters, whose policy demands such as better environment and social welfare were not necessarily compatible with those of the traditional LDP supporters, while the LDP needed to shake off its 'corrupt image' associated with serial political scandals. Furthermore, the US and other trading partners of Japan tried to pry open the Japanese market and threatened to retaliate against Japanese exporters. After the bursting of the bubble economy, corporate earnings slumped due to the higher yen, intensified international competition and stagnant domestic demand, making big businesses reluctant to keep supporting farmers and SME owners. In 1994, these domestic and international factors forced the LDP to decide to transform the electoral system to SMD, resulting in diminished intra-party competition and more centralised authority within parties and in the prime minister's office. Under the new electoral rules, political parties have strong incentives to seek a legislative majority.

Rosenbluth and Thies' key message is that the shift to majoritarian politics has re-established politicians' incentives in Japan, and that 'majoritarian politics, more than many other forms of electoral competition, tend to generate relatively free markets because productive economic sectors find natural allies in the average consumers and taxpayers who are politically privileged under majoritarian rules' (ibid.: 174). They believe that Japan is moving towards an LME due to the electoral system change, although its capital and labour markets lack a sufficiently developed market mechanism, as the manufacturing exporters are reluctant to give up their vested interests. They think that the fully-fledged transition to an LME will require Japan to move aggressively into the services

industries such as finance, IT and leisure, which lead productivity growth in Anglo-Saxon countries. However, Japan has been less innovative in the services industries, partly because its society has seemingly agreed that manufacturing is Japan's key strategic industry.³⁶

In Japan, many people still regard the services industries as 'fake businesses (kyogyo)'. Furthermore, the main characteristics of typical Japanese firms, such as 1) homogeneous employees with long-term employment and their strong loyalty to employers, 2) most board members appointed through internal promotion, 3) the emphasis on company-specific skills, and 4) long-term corporate relationships with suppliers and clients would be less suitable for the services industries, particularly finance. Japan's transition to a services-led economy may require the transformation of Japanese corporate characteristics. In this sense, Japan's transition to an LME would be more difficult than Rosenbluth and Thies argue. They concede that the negative aspect of Japan's transformation to neoliberalism is growing income inequality, but this argument is not necessarily correct. The much lower wages of non-regular workers are not based on a comparison of their work performance with that of regular workers but, rather, are decided by the hierarchical status of non-regular workers, who are subordinate to regular ones. Consequently, the significantly increased proportion of non-regular employees has not been due mainly to the transition to an LME.

Rosenbluth and Thies (2010: 80-2) claim that under convoy capitalism, Japanese banks did not necessarily monitor corporate borrowers prudently. Teranishi (2003: 60) shares the same view, and argues that banks provided excessive lending for the heavy and chemical industries under Japan's full-set industrial structure, which neglected the comparison of production cost structures with other countries. Rosenbluth and Thies (2010: 74-6) point out that both

³⁶ Noguchi (2010: 253-7) contends that a major reason for Japan's prolonged economic stagnation is the preservation of its old economic model centred on the manufacturing sector, which has lower growth potential than the services sector.

heavy industry, which shouldered enormous 'sunk costs' stemming from the excessive capital investments during the pre-war and war times, and the banking sector received significant political favours (i.e., 'policy rents') from the government. Although many economists, such as Aoki, Patrick, and Sheard (1994), argue that main banks' monitoring contributes to the corporate governance of their major corporate borrowers, these banks could be regarded as 'quasi-insiders' given their long-term relationships with them, the large amounts of their loans to them and their leading shareholder positions. Accordingly, it would be difficult for the banks to monitor the borrowers in an arm's length manner.

Rosenbluth and Thies (2010) do not mention the future of the Japanese financial system, but they are likely to believe that the system will move towards market-based along with the transition to an LME. However, many Japanese firms, particularly weak ones, faced difficulties in tapping the domestic corporate bond market in 2002 after the bankruptcies of Mycal (a major Japanese retailer) and Enron (a major American energy trader that issued a large amount of yen-denominated bonds), and in 2008-9, after the failure of Lehman Brothers, and strengthened their ties with banks in order to secure lower cost financing as well as emergency borrowing. In some areas such as securities, investment trusts and derivatives, 'the Japanese government has moved ahead of the private sector by making many of the reforms that could push Japan toward a liberal market model, yet corporations and consumers have not changed their practices accordingly' (Vogel 2006: 216).

Another reason for Rosenbluth and Thies' exaggeration of Japan's transformation to neoliberalism may derive from their underestimation of the deeply rooted anti-liberal, anti-free market social norms in Japan. Such norms are reflected in the peculiar company-centric system within Japanese society. Hiroshi Okumura, a former journalist and currently economics professor, views Japan as a 'company state' or a 'company-centric society' where the company-

centric system rules – the social status and credibility of Japanese people - are decided mainly by the prestige of their employers and their corporate titles rather than their individual abilities (Okumura 1991: 18-20; Matsumoto 2011: 241; van Wolferen 1989: 172). While shareholders' voice in Japanese companies is weaker (although it is becoming stronger) than that in Anglo-Saxon ones, Japanese regular workers under lifetime employment who collectively shoulder a large corporate risk have a strong voice within their companies (Matsumoto 2011). In addition, Koji Matsumoto, a former official of the Ministry of International Trade and Industry (MITI, which was reorganised as METI in 2001), argues that 'the essence of Kigyoism (company-centric system) as an economic system lies in the management autonomy attained in corporations through integration with labour' and that 'companies became the objects of a commitment by corporate employees internally, thus becoming strongly integrated, and they became highly self-sufficient social groups externally' (ibid.: 218).

Japanese companies provide not only salaries but also a large portion of social welfare for their current and retired employees. For Japanese employees, companies are more than workplaces where people earn income. In Japan, strong safety nets are extended for large companies by the government and banks, while the social security per capita provided by the government is relatively low. Matsumoto argues that 'most Japanese who are members of corporate society, are more effectively governed by the company than the State' (ibid.: 231). In this respect, it should not be a big surprise that employees of Japanese companies, particularly those of less competitive ones, are reluctant to accept the transformation to an LME. During the 1980s and early 1990s, when the white-collars of big businesses were not concerned about their job security, many of them supported neoliberal thoughts and financial deregulation (Teranishi 2003: 334-7). However, the prolonged economic stagnation has forced Japanese companies to re-evaluate their long-term relationships with employees, banks, suppliers and clients, and companies have become more selective in these relationships and severed some of them (Vogel 2006: 220). Fears regarding job

security among Japanese white-collars and the GFC have decreased support for neoliberalism in Japan.

1.5 Points of Departure from Previous Literature

This thesis has three major points of departure from the previous literature on the Japanese political economy. Firstly, well-balanced attention should be paid to both dominant elites and subordinate groups (including labour and SME owners) as well as both internal and external factors. Secondly, deeply ingrained domestic social norms and ideologies that guide and constrain the Japanese people and organisations need to be focused on in more depth. Lastly, although some of the previous literature has utilised sociological concepts, more effective use of sociological, psychological and philosophical toolkits that complement the analytical framework of political science is needed to analyse the social norms that have maintained the old regime in Japan.

Regarding the first point, it is important to pay well-balanced attention to 1) the ‘iron triangle’ of the ruling LDP, bureaucracy and big businesses, 2) the closely correlated long-term relationships between financial institutions and companies, between companies and between employers and employees, 3) external pressure (e.g., higher ICM, US political pressure and neoliberalism) to change the Japanese political economy, and 4) Japanese domestic social norms to resist external pressure. Although most scholars of the Japanese political economy have focused on specific institutions such as MOF, MITI, major financial institutions, big businesses and the LDP, these actors are closely linked with each other. If an analysis highlights only one or two actors in the entire system, this is likely to lead to an inaccurate or distorted account.

Furthermore, the preferences and behaviour of the Japanese public, which consists mainly of corporate employees, also need to be examined. In particular, since the collapse of the early post-war political coalition and the financial crisis,

the LDP has needed to win the favour of urban workers, whereas the economic bureaucracy has had to re-establish their tarnished legitimacy by regaining the public's trust. Another important point is that apart from Marxists oppressed by dominant groups, Japanese social scientists tend not to admit the existence of class conflicts, but Japanese society is far from monolithic (Watanabe 2009: 6-8).³⁷ One major difficulty in grasping the social classes in Japan can be attributed to the nature of its dominant elites (the majority of whom are not capitalists but anti-free market administrators) and their relationship with labour (i.e., management-labour alliance against capitalists), which are very different from those in Anglo-Saxon countries where capitalists dominate labour.

Concerning the second point, most of the existing literature does not pay sufficient attention to the anti-liberal, anti-free market social norms in Japan, which contrast with the norms in Anglo-Saxon societies. What is right or rational in the latter does not necessarily fit the former's social norms. A key to solving the research puzzle of this thesis lies in the norms of the peculiar corporate-centric society, which were created by anti-free market elites, as well as the interests and preferences of the LDP, economic bureaucracy, big businesses and major banks. Japanese banks and large companies are more politicised than their peers in Anglo-Saxon countries. Furthermore, the guiding principles for Japanese society (such as the socialisation of risk, strong exclusiveness and severe penalties for defectors or opportunists) are relevant to the research puzzle.

The characteristics of the Japanese financial system and the banking sector reflect those of the company-centric society and its norms. Anti-liberal, anti-free

³⁷ Watanabe (2009) is a Marxist sociologist. Dominant elites tend to describe post-war Japan as an egalitarian classless society. According to Matsumoto (2011: 213), 'Hiroshi Arabori (a member of the Japanese Communist Party) claims that the ideology of kigyoism (corporate-centric system) conceals the Marxist situation in Japanese society in which companies are controlled by capitalists and an intrinsic conflict of interests exists between the workers and the capitalists ... in fact, however, the reality is exactly the opposite of that viewpoint. Marxist thinking prevents one from directly realizing the true nature of Japanese companies.'

market social norms are at odds with neoliberalism and the US credit rating orthodoxy. In addition, as discussed in the previous section, the reasons why Japanese society, from time to time in the past, has taken enormous risks collectively, whereas Japanese individuals are rather risk averse, lies in the socialisation of risk and the strong herd mentality. To what extent is such a society resilient? Japanese companies have become more selective in their recruitment by streamlining their privileged regular workforce and increasing non-regular workers so the company-centric society has become increasingly selective and exclusive. This means that the number of working poor, i.e., people who receive limited systemic support within the company-centric society, has been rising sharply. Japanese society's resistance towards the transformation to an LME is stronger than the above literature claim, whilst the economic and political stability has been narrowly maintained at the expense of these people.

Regarding the third point, in conjunction with the second one, although some of the existing literature utilises sociological concepts such as cultural norms and networks (for instance, Katzenstein 1996; Lincoln and Gerlach 2004), further eclectic approaches in which a supplementary toolkit of sociological, psychological and philosophical concepts is used together with an analytical framework in political science are required to analyse the social norms in Japan. According to Cohen (2008: 120-1), the cognitive analysis in IPE highlights 'the base of ideas and consensual knowledge that legitimate governmental policymaking' in contrast with the rationalist features of 'the systemic and domestic levels of analysis', while the cognitive analysis has two, namely, sociological and psychological, tracks.³⁸

Without the above toolkit, it is difficult to answer the following questions: 1) what are the Japanese social norms and how they are different from Anglo-Saxon

³⁸ Cohen (2008: 121) maintains that constructivism is sociological in nature and deals with relations between individuals and inter-subjectivity, whereas the psychological track focuses on individual beliefs.

ones? 2) Why is systemic support for financially troubled companies justified in Japan? 3) Why are subordinate groups (such as labour and SME owners) in Japan obedient to dominant groups? And, 4) why have the US credit rating orthodoxy and neoliberalism not been fully accepted in Japan? We need to grasp the guiding principles of Japan's corporate-centric society in order to answer the above questions and solve the research puzzle. In Chapter 2, the contrasting sociological concepts of 'strong ties and weak ties', the conflicting psychological conceptions of 'prevention and promotion orientation (or focus)' and the completely divergent ethical precepts of 'Guardian and Commercial morals' will be discussed.

Chapter 2: Analytical Framework and Methodologies

Chapter 1 claims that much of the previous literature on the Japanese political economy has tended to focus on specific institutions such as MOF, the BOJ, METI (previously MITI), the LDP, big banks and large companies, but does not pay sufficient attention to Japanese social norms. This chapter will start by reviewing the limitations of rationalism and the significance of social norms, and discuss why neo-Gramscian approaches are suitable as the main analytical framework of this thesis. The neo-Gramscian framework is effective in unveiling the links between Japanese social norms and major actors' interests, the formula of global hegemony (Anglo-Saxon financial hegemony) versus counter-hegemony (anti-liberal, anti-free market Japanese social norms) and latent social class conflicts. Subsequently, analytical eclecticism, and the three pairs of contrasting concepts in sociology, psychology and moral philosophy, which are supplementary to macroscopic neo-Gramscian approaches, will be examined. In conjunction with these concepts, the concept of systemic support, which is centred on the anti-liberal, anti-free market norms of Japanese society, as a solution to the research puzzle of this thesis, will be highlighted. Finally, major Japanese political actors' ideas and interests and US-Japan relations will be analysed because neo-Gramscian approaches link together ideas, interests and material capabilities among dominant elites and subordinates as well as both internal and external factors (i.e., forms of state and world orders).

2.1 Limitations of Rationalism and Significance of Social Norms

Among the political scientists of older generations who specialise in the Japanese political economy, Johnson (1982) focused on the influence of unique institutions, such as MITI, in terms of his analysis of Japan's rapid economic

development, and had a negative view of socio-cultural approaches. Although I understand his view, that these approaches are ‘overgeneralised and tend to cut off rather than advance serious research’ (ibid.: 8) to some extent, I contend that removing socio-cultural factors entirely from political economic analysis makes the analysis remote from the reality.

Okimoto’s (1989: 237-8) argument regarding an analytical approach contrasts with Johnson’s.

The position taken in this book is that all three elements – rational choice, culture and institutional structure – coexist in an interwoven relationship of complexity. Culture conditions rational choice and permeates institutional structures; rationality and institutional structures, in turn, give contextual shape to the ways in which individuals and groups draw upon and enact cultural values.

My perspective is close to that of Okimoto, but he does not clarify sufficiently the nature of Japanese social norms and culture. Importantly, this issue is related to the debate on the convergence or non-convergence of financial systems in advanced industrialised countries. Scholars who focus on economic rationalities or the significance of financial globalisation (Laurence 2001; Schoppa 2006; Jackson and Miyajima 2008; Rosenbluth and Thies 2010) are inclined to highlight the convergence of financial systems, while those who concentrate on national preferences or social norms (including van Wolferen 1989; Vogel 1996; Dore 2000) tend to emphasise non-convergence. Van Wolferen (1989: 245-9) contends that Japan’s dominant elites (‘administrators’) have taken advantage of ‘Japanese culture’ or the ideology of ‘Japanese-ness’ (such as harmony within the community and obedience to superiors) in order to suppress the individuality of

Japanese people. This is a keen insight into Japanese society. However, he is caught in a trap of culture determinism. Van Wolferen (1989) fails to illustrate sufficiently how administrators created and have promoted Japanese culture and social norms and why subordinate groups have been obedient to such norms, and exaggerates the uniqueness of Japanese social norms, which indicate some similarities to those of other collectivist societies.³⁹

Both neoclassical economics and political realism, which are utilised to analyse Japanese economy and politics, embrace rationalist approaches. Neoclassical economics, which has various branches, rests on three major assumptions (Weintraub 2002). Firstly, all actors have rational preferences and interests. Secondly, they seek to maximise their utility and profit. Lastly, each actor has full and relevant information and makes an independent decision based on it. Moreover, in addition to political realism, liberalism, strongly influenced by neoclassical economics, has appropriated rational choice. Rationalist approaches have been dominant in various areas of the political science discipline, particularly at US universities, since the mid-1990s (Ravenhill 2008: 23; Cohen 2008: 16-43).⁴⁰ One major strength of rationalist approaches is that they simplify complicated real world problems so that they can be analysed and explained based on certain assumptions. However, Sinclair (2005: 11) states that ‘rationalist approaches adopt the assumption that there is a one-to-one match between imputed material interests and social action’. The term ‘rational’ sounds

³⁹ Van Wolferen (1989: 246-8) claims that culture ‘becomes an excuse for systematic exploitation, for legal abuses, for racketeering and for other forms of uncontrolled exercise of power’, and that the ‘culture of submission (to the group) – the essence of what the Japanese generally refer to as “typical Japanese culture” – constitutes a pervasive, powerful creed that feeds communal sentiment and supports and justifies political arrangements’. However, this argument does not adequately explain why the Japanese public are servile to such a culture.

⁴⁰ Cohen (2008: 41) contends that ‘as the epistemology of the American school has become increasingly standardized, it has come to resemble nothing so much as the methodology of neoclassical economics’.

scientific and academic, but how rationality can be measured is not very clear or straightforward.

Rationalism has two major weaknesses. Firstly, its assumptions, particularly those in regard to neoclassical economics, are not necessarily true or realistic in the real world. For example, whilst rationalists assume that agents make decisions independently in terms of the agent-structure issue, some of their decisions are constrained by structures such as ideologies and norms, which can sometimes conflict with the individual preferences of agents. As Walter and Sen (2009: 24) claim, 'we should be open to the possibility that actors' preferences can be manipulated ... by political entrepreneurs who wield ideas as weapons in the battle for influence'. In addition, actors' preferences and interests are not constant, and often change case by case, while not all of them are necessarily utility and profit maximisers. It is also impossible for any agent to obtain full and relevant information for their decision making. Secondly, the criteria for rationality vary by country although rational choice approaches are often effective in analysing cause-effect relations. Although natural science tends to believe that there is only one universal truth (theory), rationality in social science is neither value-free nor completely separable from social norms, which constitute the boundary of rationality.

Secondly, rationalism requires substantial abstraction and simplification so that it may have to turn a blind eye to inconvenient empirical data in order to maintain theoretical parsimony. Constructivism can make up for the above weaknesses of rational choice approaches. Constructivists emphasise the importance of ideologies, norms, social identities and collectively shared ideas in shaping actors' recognition of self-interest, and they view rationality as a relative phenomenon. According to Adler, 'constructivism sees the world as a project under construction, as becoming rather than being' (Adler 2002: 95), while it assumes a holist ontology, unlike rationalism, which assumes an individualist ontology (ibid.: 96). In other words, constructivists believe that

agents and structures are mutually constitutive. In order to explain changes in policy, rationalists are inclined to focus on shifts in the relative power of different actors, assuming that actors' preferences are constant, while constructivists focus on the possibility for transformation in actors' preferences resulting from an alteration in their world views (Walter and Sen 2009: 21-2). However, it is inappropriate to think that constructivism is better than rationalism; rather, they are complementary (Abdelal 2009: 75-6). The following argument from Katzenstein, Keohane and Krasner (1998: 42) is insightful.

The core of the constructivist project is to explicate variations in preferences, available strategies, and the nature of players, across space and time. The core of the rationalist project is to explain strategies, given preferences, information, and common knowledge. Neither project can be complete without the other.

Constructivists highlight a significant impact of economic thoughts, identities, religions and political ideologies on international relations and international political economy (IPE). For instance, the transition from Keynesianism to neoliberalism as a mainstream economic idea from the 1970s through to the 1990s had a significant impact on the political economies of the US, Western Europe and East Asia (Helleiner 1994; McNamara 1999; Walter 2008) and the behaviour of the International Monetary Fund (Chwieroth 2010). Constructivists also deal with social norms, which strongly affect the behaviour of social groups and societies. While a norm is generally described as 'a standard of appropriate behaviour for actors with a given identity' (Finnemore and Sikkink 1998), a social norm can be defined as an unwritten customary rule or expectation that governs how to behave in a certain social group or culture. Furthermore, morals are the core of social norms and are regarded as principles of right and wrong in

a particular culture. However, few scholars have emphasised the significant influence of social norms on the Japanese political economy.⁴¹ The influence of norms on society may be less visible than that of economic thoughts and political ideologies for researchers, but norms can guide the behaviour of actors based on their expectation that if they do not comply with these norms they will be socially penalised (Broome 2014: 25).

2.2 Gramsci's Concept of Hegemony and Neo-Gramscian Approaches

Like contemporary constructivists, Antonio Gramsci, an Italian neo-Marxist theorist and politician, emphasised the power of norms and ideas. Gramsci's most salient ideas concern his concept of hegemony, which is used to indicate how social norms are related to power under capitalism (Jackson Lears 1985: 567). His concept of hegemony can be defined as the supremacy of dominant groups in instilling their view of reality into a wide range of subordinated groups in a society through social norms, values and beliefs in accordance with the former's interests. He pointed out that dominant groups successfully avoid confrontation with subordinate groups using cultural, normative or ideational power (ibid.: 572). Importantly, for Gramsci, hegemony is achieved through a combination of coercion exerted by the state (political society) and consent achieved by civil society. Fontana (2008: 87) emphasises that coercion (force) and consent (persuasion) require each other in order to achieve hegemony, while Engel (2008: 160) claims that 'consent can be obtained by combining the interests of various social forces around particular populist causes such as struggles for democracy; or it can be obtained through compromise and persuasion'. The concept of

⁴¹ With regard to national security of Japan, Katzenstein (1996) and Berger (1998) highlight Japanese social norms.

hegemony enlarged Gramsci's definition of the state, which includes 'the underpinnings of the political society and civil society' (Cox 1993: 51).

Another key concept in neo-Gramscian perspectives is 'historic bloc', which can be described as a dominant 'social structure' (i.e., alignment of social forces) in which ruling groups, through their political party, form alliances with other groups based on economic and cultural ties (Jackson Lears 1985: 580). A historic bloc 'rests on a specific configuration of social groups, economic structures and concomitant ideological superstructures' (Levy and Egan 2003: 806), while a conscious social force initiates a historic bloc in order to establish a new hegemony. However, a historic bloc is not a simple political alliance, nor is it monolithic. Sassoon (1987: 121) argues that 'an historic bloc is not to be reduced to a mere political alliance since it assumes a complex construction within which there can be sub-blocs ... each of these containing different elements and potential contradiction'. Three types of social forces, namely material capabilities, ideas (including norms) and institutions, interact in a historical structure, and Cox applies the method of historical structure to the three levels: social forces generated by changing production processes, forms of state and world orders (Cox 1981: 136-8). Institutions, which are useful to stabilise and perpetuate a particular order, are specific 'amalgams of ideas and material power which in turn influence the development of ideas and material capabilities' (ibid.: 136-7).

A historic bloc can be clearly observed in the domination of Japanese society during the high economic growth period by the ruling elites (including bureaucrats, LDP politicians, corporate managers and bankers), which successfully made extensive alliances with other groups (such as labour, SME owners and farmers). Although the power of these ruling groups has relatively declined since the bursting of the bubble economy in the early 1990s, some elements of the historic bloc – particularly subordinates' expectation that dominant elites will provide support and protection – have remained and become

even stronger today. Lifetime employment in large firms for regular workers, subcontracting between large firms and SMEs and bailouts of large corporate borrowers by the government and banks have two factors in common. Firstly, dominant elites (superiors) provide protection and support for subordinates in exchange for the latter's loyalty and obedience. Secondly, both parties would like to maintain long-term relationships.

Cox applied Gramsci's perspective on domestic politics to international relations in a neo-Gramscian approach (Cox 1981). While realism as conventional IR theory 'reduces hegemony to a single dimension of dominance based on the economic and military capabilities of states, a neo-Gramscian perspective developed by Cox broadens the domain of hegemony' (Bieler and Morton 2006: 10). The strength of neo-Gramscian perspectives relative to constructivism is that the former do not separate ideas from material structure. Furthermore, constructivism cannot fully answer the question of why certain ideas are generally accepted in a society and others are not (Bieler 2001: 94). Cox (1993: 56) stresses that 'ideas and material conditions are always bound together, mutually influencing one another, and not reducible one to the other'. Neo-Gramscian perspectives shed light on which actors utilise which ideas as weapons to achieve their goals – 'theory is always for someone and for some purpose' (Cox 1981: 128). The balance between coercion and consent is vital to Gramsci's concept of hegemony, but neo-Gramscian approaches do not downplay the importance of material capabilities. Neo-Gramscian perspectives can be viewed as a supplementary combination of holistic (constructivist) and individual (rationalist) ontologies.

So, who disseminates ideas, norms and beliefs in line with the dominant group's interests? Quoting Sunstein (1997), Finnemore and Sikkink (1998) claim that 'norm entrepreneurs' are interested in changing social norms, and that if their endeavours are successful they can produce 'norm cascades' (which involve broad norm acceptance) and then 'norm internalisation' (which means that norms

obtain a ‘taken-for-granted’ status, which requires actors’ conformity), causing substantial changes in social norms. One example of norm entrepreneurs in Japan is ‘neo-Confucian’ scholars during the Edo period (1603-1868). They modified the original Chinese Confucianism to the Japanese version, conducive with the dominance of samurai warriors over other social classes and that of the Tokugawa shogunate. Another example is ‘reformist bureaucrats (Kakushin Kanryo)’, who created the 1940 system and some of whom became political leaders in the early post-war period.

In addition, Gramsci explained that ‘organic intellectuals’ play a crucial role in constructing a historic bloc. These intellectuals, who are organically connected with a social class, cultivate and maintain ‘the mental images, technologies and organisations which bind together the members of a class and of an historic bloc into a common identity’ (Cox 1993: 53). Dominant ideas and norms are disseminated via institutions of civil society, such as educational, political and religious institutions, families and the media, while these ideas and norms reproduce the social structure through various social institutions (Levy and Egan 2003: 805-6). Although Sunstein, Finnemore and Sikkink are not neo-Gramscian, their perspectives fit with a neo-Gramscian view of hegemony – new norms created by norm entrepreneurs are gradually supported and distributed by an increasing number of organic intellectuals, and they are subsequently ingrained into broader institutions.

Neo-Gramscian perspectives regard a historic bloc or hegemony as dynamic rather than static. Gill (1993: 41) argues that ‘the achievement of hegemony within a particular social formation is a complex and contradictory process, since counter-hegemonic forces will come to challenge the prevailing institutional and political arrangements’. Any hegemony comprises within it subordinates’ discontent regarding the dominant elites, which potentially leads to conflict between the hegemonic and counter-hegemonic forces. Worth (2002: 301) maintains that the conception of world hegemony is less united and more

disintegrated than neo-Gramscian researchers believe, while various forms of counter-hegemony vis-à-vis neoliberalism and globalisation can take place. He also states that neoliberal hegemony, which produces an increasing number of economic losers, is expected to promote progressive counter-hegemonic forces, which demand that the global economy should be more democratic, as well as nationalist counter-hegemonic forces, which are concerned about the influence of neoliberalism on national identities (ibid.: 314). Such counter-hegemonic forces have been witnessed in Japan as the resistance towards neoliberalism and the US credit rating orthodoxy even since the political power of the dominant groups began to deteriorate in the 1990s.

This thesis adopts an approach based on neo-Gramscian concepts as the main analytical framework for the following three reasons. Firstly, a key to the research puzzle lies in Japanese social norms, while major actors' interests and preferences (including those of subordinate groups) are also critically important. The three types of social forces – ideas (including social norms), material capabilities (such as political and economic power, industrial competitiveness and wealth accumulation) and institutions (including bureaucracies, business lobbies, CRAs, lifetime employment, and the main bank system) – are closely related to one another. Secondly, a formula of global hegemony (such as neoliberalism and the US credit rating orthodoxy) versus counter-hegemony (such as the anti-liberal, anti-free market social norms in Japan) fits very well in this thesis.⁴² Thirdly, neo-Gramscian approaches are useful to shed light on the latent social class conflict (i.e., between administrators, capitalists, regular workers and non-regular workers) in Japan. Although financial globalisation and neoliberalism caused the early post-war political-economic system to gradually

⁴² In this context, the neo-Gramscian concepts of hegemony and counter-hegemony have some similarities with Polanyi's (1944) conceptions of the 'first movement' (first market expansion) and the 'second movement', which is society's attempt to protect itself from the disruptive effects of the first movement (Cohen 2008: 90).

malfunction, the vested interests of both the dominant elites and subordinates have hampered fully-fledged changes in the system.

Neo-Gramscian approaches are often concerned with continuous historical changes – for instance, neoliberal thoughts had a major impact on Western Europe and some Asian countries such as South Korea, Thailand and Indonesia through various channels including American government agencies, international organisations (e.g., the IMF, the World Bank, and the World Trade Organisation) and multinational corporations and banks, including the American CRAs. However, these approaches can also be applied to the case of Japanese society's resistance towards Anglo-Saxon hegemonic ideas (i.e., neoliberalism and the US credit rating orthodoxy). This counter-hegemony stems primarily from Japanese social norms, which are reflected in the society's reluctance to promote the 'marketisation' of the economic and financial systems and the significance of membership for social locations (companies in particular). Partial neoliberalisation of the Japanese economic and financial systems started in the early-1990s.⁴³

Major proponents of neoliberalism from the early 1990s to the mid-2000s include former Prime Ministers Hosokawa, Hashimoto and Koizumi, Doyukai, neoclassical economists and non-Japanese firms (including investment banks, management consultancies and the American CRAs). Among these, economists and core members of Doyukai who were heavily involved in neoliberal policymaking can be viewed as norm entrepreneurs, while the other proponents played a role as organic intellectuals. The institutions that particularly contributed to disseminating neoliberal ideas in Japan comprised American

⁴³ Watanabe (2007), a Japanese political scientist, is opposed to the perspective that former Prime Minister Nakasone's administrative and fiscal reforms, including the privatisation of the state-run companies in 1982, constituted the initiation of neoliberal policy in Japan, and contends that the initial neoliberal reform was conducted by former Prime Minister Hosokawa (1993-4).

management consultancies (such as McKinsey & Company and Boston Consulting Group), American and European investment banks (including Goldman Sachs and Deutsche Bank) and the major American CRAs. However, while neoliberalism and the US credit rating orthodoxy failed to obtain support from the majority of Japanese society, the resistance towards these ideas has aggravated the contradictions (including corporate inefficiencies and the enhanced social welfare burden) within society, leading to ballooning public debts and an increasing number of economic losers.

2.3 Analytic Eclecticism and How to Operationalise Neo-Gramscian Approaches

Despite the analytical usefulness of neo-Gramscian approaches, operationalising them is not an easy task. One difficulty in utilising neo-Gramscian approaches lies in ‘applying the elegant theoretical edifice to concrete conditions’ (Clift 2014: 157). A major problem in operationalising neo-Gramscian approaches is that these approaches are macroscopic – in social science, the level of analysis (or the unit of analysis) points to the size or scale of the entity that is analysed, and three general levels are the micro or microscopic level (such as individuals and families), the meso level (including communities and organisations) and the macro or macroscopic level (such as nation states and world order). This thesis deals not only with the globally hegemonic trend of neoliberalism but also with the behaviour of Japanese individuals and organisations. Accordingly, a supplementary toolkit (e.g., sociology, psychology, cultural anthropology and philosophy) is needed to analyse meso and micro level issues such as bureaucracy and corporate governance. Furthermore, the focus on social norms also requires the use of sociological, psychological, socio-psychological and philosophical

approaches. Accordingly, the thesis will adopt the analytic eclecticism of neo-Gramscian, sociological, psychological and philosophical approaches.⁴⁴

The sense of analytic eclecticism to be adopted in this thesis is that of Sil and Katzenstein (2010). They define analytic eclecticism as the creation of intellectually and practically useful links among collections of analyses, which are divided by different research paradigms although essentially related (ibid.: 2). Katzenstein (1995: 10) argues that ‘scholars do their best research because of the political problems and intellectual puzzles that engage them, not because of the sage advice of prophets of their profession’, suggesting that interesting and crucial questions are more important than theories and methods. According to Sil and Katzenstein (2010: 3), the purpose of analytic eclecticism is not to combine, encompass or take over paradigms, but to indicate the pragmatic relevance of and meaningful connections among theories and explanations within seemingly separate and incompatible perspectives. In other words, analytic eclecticism is a question- or puzzle-driven research - which allows scholars to choose a range of theoretical tools pragmatically. Sil and Katzenstein (ibid.: 16-8) also specify ‘what analytic eclecticism is not’. Firstly, it is not a measure ‘to hedge one’s bets to cope with uncertainty’. Secondly, its value addition does not lie in circumventing ‘paradigm-bound scholarship’. Thirdly, it is not a theoretical amalgamation. Lastly, it is not co-extensive with ‘multi-method research or methodological triangulation’.

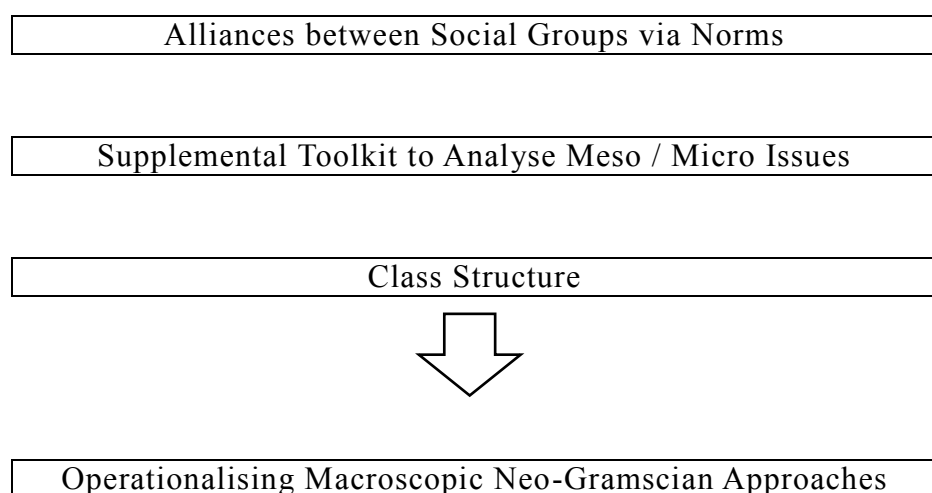
Neo-Gramscian perspectives are analytically eclectic by nature, and one major criticism of analytic eclecticism in IPE is the lack of commitment to a specific ontology based on particular concepts and assumptions to abstract the complexity of real world issues (Bruff 2011: 81). Put differently, opponents of

⁴⁴ Whilst neo-Gramscian approaches offer an analytically flexible framework, each researcher needs to devise how to operationalise them with supplementary toolkits. According to Cohen (2008: 92-3), Cox’s scholarship entails the wide-ranging eclecticism, which draws from such disciplines as religion and anthropology, ethnic studies and feminist theory, philosophy and even ecology.

analytic eclecticism believe that theoretical parsimony, which contributes to the accumulation of knowledge based on a clear ontology, should not be compromised. However, proponents of analytic eclecticism believe that its empirical benefits in terms of analytic flexibility more than offset its weaknesses (Broome 2014: 38). Analytic eclecticism is in tandem with rigorous empirical investigation since, unlike a single paradigm, the former does not allow itself to avoid complex reality and inconvenient facts (Sil and Katzenstein 2010: 9-23). Furthermore, ‘simplifications based on a single theoretical lens involve trade-offs, and can produce enduring blind spots unless accompanied by complementary, countervailing efforts to “recomplexify” problems’ (Scott 1995, quoted by Sil and Katzenstein 2010: 9). Abdelal (2009: 76) maintains that when the analytical eclecticism of rationalism and constructivism are useful, they should be combined, whereas IPE has the DNA of analytic eclecticism or ‘intellectual bridge-building’ by origin – Broome (2014: 39) claims that ‘intellectual bridge-building is at the heart of attempts to operationalize analytic eclecticism in the study of IPE’.

Figure 1: How to Operationalise Neo-Gramscian Approaches

Identifying Three Key Points



There are three key points in terms of operationalising neo-Gramscian approaches to analyse a real world case (Figure 1). Firstly, one key question is, which actors (social groups) make an alliance with other actors and increase their power by using ideas and norms as weapons? Bieler utilizes a neo-Gramscian approach to explain that the intensified neoliberal restructuring of European social relations of production, led by transnational class fractions, has deepened and widened European integration (Bieler *et al.* 2006: 3). He points out that the European Round Table of Industrialists, consisting of industrial captains from European transnational companies as members, has played a key role in the revitalisation of European integration, and that when the ideological conflict occurred between the mercantilists and neoliberals within the round table, the latter ultimately won over the former (Bieler 2006: 82). Ideational confrontation in Japan, similar to the European case, took place, for instance, between the two major industrial associations, namely Keidanren and Doyukai, and between the local and US CRAs after the bursting of the bubble economy. Furthermore, powerful institutions such as MOF, METI and the LDP have been far from monolithic and have experienced internal conflicts over policies and ideologies. The interests and ideas of the major actors are discussed in a later section. Japanese people tend to prioritise the benefit of the small social groups (e.g., bureaus of ministries and divisions of companies) to which they primarily belong over that of entire organisations or communities (Nakane 2009: 23-52).⁴⁵

Secondly, as mentioned above, sociological, psychological and philosophical approaches, which are effective to analyse micro and meso level issues, are needed to supplement macroscopic neo-Gramscian approaches. The three contrasting pairs of concepts in sociology, psychology and philosophy, i.e., ‘strong ties and weak ties’, proposed by Granovetter (1973), ‘prevention and

⁴⁵ Sociologists define a ‘primary group’ as a small social group whose members are bound by intimate, emotionally intensive ties. Its typical examples include family and childhood friends, but in Japan, small units of social locations can be regarded as primary groups.

promotion orientations’ advocated by Higgins (1997), and the ‘Guardian and Commercial syndromes’ advanced by Jacobs (1992) are useful to grasp the differences in social norms between Japan and Anglo-Saxon countries, and elucidate why Japanese society is reluctant to promote the marketisation of its economic and financial systems and justifies support for economic losers. All of these conceptions and their explanations regarding Japanese social norms will be discussed in the following sections.

Thirdly, the characteristics of financial systems in economically advanced countries including Japan are closely associated with those of firm and labour market structures or social relations of production, namely class structures (Okazaki and Okuno-Fujiwara 1993; Aoki and Dore 1994; Hall and Soskice 2001).⁴⁶ In this respect, a drastic change in the social relations of production is likely to transform an entire political economic system comprising a financial system. It is almost impossible to alter the financial system alone, which is a component of the entire political economic system, without transforming the system. One example of previous revolutionary changes in Japanese social relations of production is the Meiji Restoration in 1868, which can be viewed as an implosion of the old regime, partly triggered by growing discontent among the lower-class samurai warriors and the younger sons of farmers – the eldest sons inherited all of the assets of families in principle at that time – who faced an increasingly serious economic plight (Yonaha 2011), in addition to the pressures from European countries and the US to open the country to international trade and diplomatic relations, the prevailing ideology of revering the emperor and the deteriorated authority of the Tokugawa shogunate. These struggling people of 150 years ago might be equivalent to the current working poor.

⁴⁶ This kind of interdependence between institutions in different spheres (such as financial and labour markets) is denominated as ‘institutional complementarity’, which is discussed in a later section.

2.4 Strong and Weak Ties and Prevention and Promotion Orientations

Granovetter (1973: 1361) defines the strength of a tie as ‘a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie’. He argues that some ties can play the role of a ‘bridge’ between different parts of a social network, and concludes that ‘weak ties are more likely to link members of different small groups than are strong ones, which tend to be concentrated in particular groups’ (ibid.: 1376). Most people have both strong and weak ties. Strong ties are close relationships such as family members and good friends, while weak ties are more nebulous relationships.⁴⁷ Although people can obtain less new information from their strong ties as the former often share information flows with the latter, there is a higher probability that people can acquire new information from weak ties who do not share the same interests and information flows with them. In this sense, weak ties are crucial in ‘bridging’ with various strong ties. Both strong and weak ties can be seen in the financial market. I argue that the Japanese main bank system (under which the bank having the closest relationship and usually the largest credit exposure with the corporate borrower is made responsible for monitoring the company as a main bank) and cross shareholdings between companies and financial institutions in the same corporate groups exemplify strong ties, whereas numerous weak ties provide ample liquidity for the Anglo-Saxon financial markets.

⁴⁷ The respective aristocratic and egalitarian networks used by Amyx (2004) have some similarity to strong and weak ties. Furthermore, Nakane (1973: 24), a Japanese sociologist, argues that the essential human relations can be categorised into two types: ‘vertical’ and ‘horizontal’. According to her, ‘theoretically, the horizontal tie between those (individuals) of the same stratum functions in the development of caste and class, while the vertical tie functions in forming the cluster within which the upper-lower hierarchical order becomes more pronounced’ (ibid.: 25). Vertical and horizontal ties also share some elements with strong and weak ties, respectively.

Brinton, an American sociologist, contends that a relationship of trust among people through weak ties is a social foundation in the US (Yamagishi and Brinton 2010: 38). Even if some American workers are laid off, many of them can find new jobs through weak ties, which are indispensable for liquidity in both the financial and labour markets. Markets not only drive some workers out of employment, but also play a role as a safety net for them. In contrast, as Yamagishi, a Japanese social psychologist, points out (*ibid.*: 204-5), Japanese society has a strong preference for strong ties (close long-term relations) over weak ties (arm's length short-term relations). This may partly explain the less liquid financial and labour markets in Japan. Yamagishi also emphasises that Japanese people tend to pursue 'stability' and 'security' in their lives strongly and minimise uncertainty, which results in their low trust in outsiders (Yamagishi 1999: 56-88). Japanese society's preferences are reflected in the main bank system, cross shareholdings, the employment customs of large companies such as lifetime employment, seniority-based wages and in-house unions, and long-term subcontracting between large companies and SMEs.

Does Japanese people's preference to pursue stability and security and exclude outsiders merely reflect their inherent collectivist tendency? How exactly have they removed uncertainties within their communities and organisations? Yamagishi (1999: 34-53) argues that based on his experiments, in which the behaviour of the participants could not be checked and regulated by other participants, Japanese people tend to be more individualistic (*i.e.*, less cooperative and more selfish) than Americans, contrary to the conventional notion, but that the former have been forced to behave collectively and harmoniously within their communities and organisations. Mutual surveillance and regulation have made Japanese people prioritise the collective benefits of communities and organisations over their own personal benefits, and if some members breach the (unwritten) rules and norms, they are penalised severely (*ibid.*: 45-9).

These customs penetrated widely in Japan in the Edo period. For instance, when some members of an agrarian village breached the rules and norms, the rest of the villagers collectively cut their relationship with them – at that time, village members could not survive without mutual support. This is called Mura-Hachibu or social ostracism. Drawing on Foucault's (1977) perspective, Japan can be regarded as a typical 'panopticon society' in which people feel as if they are under surveillance all the time. The submission and loyalty of Japanese people to the dominant elites and their social groups (such as communities and companies)⁴⁸ have been nurtured not only by elites' coercion but also by the mutual surveillance and regulation among subordinate groups, which the dominant elites have instilled into their subordinates as norms.

Triandis (1995: 2) defines collectivism as a social pattern consisting of closely connected individuals who regard themselves primarily as parts of collectives such as family, company and nation and are mainly motivated by the norms and duties imposed by the collectives, in contrast to individualism, which releases individuals motivated by personal goals from collectives. He categorises Japan along with Brazil, India, Russia, China and Korea as collectivist societies (ibid.: 1-7). Japan's collectivism based on mutual surveillance and regulation was temporarily weakened by the importing of the Western ideal of individualism during the Meiji and Taisho period (1868-1926), but it was re-strengthened and the controlled economy was introduced by the military and economic bureaucracy during the wartime period (1936-45). A Tonarigumi (neighbourhood association) formed in the wartime period was the smallest unit of the national mobilisation programme established by the government and these played a role in mutual surveillance and regulation.

⁴⁸ Brinton (2011: 4-5) emphasises the importance of 'ba' (social locations in Japanese, including local communities, schools and companies) 'for individual identity and psychological and economic security' in Japan.

The collectivist trait in Japan was moderated by the post-war urbanisation, but some of its elements still remain rooted in Japanese people's behaviour today. Noguchi (2010: 21-38) calls the controlled economic system, consisting of the economic planning and control by bureaucracy, the strict financial regulation by the government, the main bank system, keiretsu, the restriction of shareholders' rights, the lifetime employment and seniority-based wage system, in-house unions and subcontracting, the 1940 system, and claims that some elements of this system remain in the present Japanese socio-economic system. The 1940s system is based on extensive networks of long-term, restrictive and exclusive strong ties.

Then, why do the Japanese generally prefer strong ties, while Americans make better use of weak ties? In psychology, there is a way of categorising people into two types based on their personality attributes to predict performance: 'prevention orientation or focus' and 'promotion orientation or focus' (Higgins 1997). These concepts are useful to explain the behaviour of Japanese individuals, communities and organisations. A prevention-oriented person or society emphasises 'responsibility and safety', regards goals as 'oughts' and is concerned with 'non-losses (security) and losses (threat)', whilst a promotion-oriented one focuses on 'aspirations and accomplishments', views goals as 'ideals' and is concerned with 'gains (advancement) and non-gains (non-fulfilment)' (ibid.: 1282-3). Put simply, promotion-focused people care primarily about 'the presence versus the absence of a positive outcome', whereas prevention-focused people are chiefly concerned about 'the absence versus the presence of a negative outcome' (Kurman and Hui 2011: 3). Prevention orientation may have something to do with the above-mentioned customs in Japanese society, including social ostracism.

Individualism and collectivism, a contrasting pair of moral and social orientations, contribute substantially to shaping society's prevention or promotion orientation although their relationship has not been fully analysed

(Lee, Aaker and Gardner 2000). Importantly, the distinction between individualist and collectivist societies is not dichotomous but relative. Triandis (1995: 89) emphasises that all societies have both individualistic and collectivist characteristics, and that some societies are regarded as collectivist, as their collectivist attributes are stronger than their individualistic traits. Moreover, both individualism and collectivism can be divided by the vertical-horizontal dimension, which is also relative. Whilst the verticals are orientated to hierarchy and willing to accept differences in wealth and social status within society, the horizontals stress equality (ibid.: 44-5). Combining the collectivism-individualism dimension with the vertical-horizontal dimension creates four types of social and individual orientations: horizontal individualism, vertical individualism, horizontal collectivism, and vertical collectivism, whose key traits can be described as unique, achievement-oriented, cooperative, and dutiful (ibid.: 44-7).

Japan, along with other Asian countries such as China, South Korea and India, falls into the category of vertical collectivism. Vertical collectivism shows a strong identification with the in-group (a group united by common identities and norms).⁴⁹ People need to comply with the group requirements and rules as well as social roles and obligations, ‘even at the expense of self-desires and self-needs’ (Triandis 1995, quoted by Kurman and Hui 2011: 5). According to Triandis (1995: 47), the respective hypothetical proportions of horizontal individualism, vertical individualism, horizontal collectivism, and vertical collectivism within Japanese society, based on sampled individuals’ profiles of behaviour, are 20%, 5%, 25% and 50%, in stark contrast to those of individualist societies such as the US (40%, 30%, 20% and 10%) and the UK (20%, 50%, 10% and 20%). Importantly, the

⁴⁹ The distinctive and persistent ‘internalism’ (i.e., in-group favouritism) of Japanese style corporate governance, Buchanan (2007) claims, seems to derive from this strong identification with the in-group.

hierarchy of vertical collectivism is highly correlated with age and seniority in an organisation (ibid.: 45).

The prevention and promotion orientations tend to be closely related to strong-ties-centred and weak-ties-centred societies, respectively. The prevention orientation of vertical collectivism, in particular, forces people to prioritise their relationships with in-groups significantly over those with outsiders and makes the effective use of weak ties difficult. On the one hand, the prevention orientation tends to generate harmonious and cooperative relationships within communities and organisations. Such cooperative relationships are likely to have contributed to Japan's economic growth in the early post-war period. On the other hand, however, they also cause people to hinder other members of communities and organisations from obtaining personal financial gain and prevent them from taking risks independently. It is said that Japanese people tend to stand in each other's ways – the Japanese proverb that 'the stake that sticks out gets hammered in' clearly reflects the strong prevention orientation of Japanese society. This may stem from Japanese style egalitarianism, which assumes the equality of people's capabilities (Nakane 1973: 38).

Many people in vertically collectivist societies feel that they could not survive outside their social groups (such as communities and companies). Vertical collectivism in Japan is not necessarily based on the inherent traits of Japanese people but on the mutual surveillance and regulation system that intends to create and maintain safety and security within communities and organisations. Yamagishi (1999: 248-51) claims that people need to make good use of laws as a (minimum) safety net in order to escape the yoke of vertical collectivism and survive outside their original communities and organisations. However, the Japanese still regard law as 'an instrument of constraint used by the government to impose its will' (van Wolferen 1989: 210).

The great majority of Japanese people relied on the communities of their birthplaces before WWII, and despite the urbanisation, a large proportion of the

people have remained dependent on their social groups, such as companies, since the end of WWII. In addition to the good use of laws, the English language, which is widely used across the world, may encourage the promotion orientation of Anglo-Saxons.

2.5 Guardian and Commercial Morals, and the Concept of Systemic Support

The two sets of contrasting conceptions discussed in the previous section – strong and weak ties and the prevention and promotion orientations – are useful to explain the characteristics of Japanese society (e.g., anti-free market orientation and risk aversion). However, these concepts alone cannot fully explain why these characteristics have been developed. Why is Japanese society prevention focused while Anglo-Saxon societies are promotion oriented? I argue that the above characteristics and preferences of Japanese society stem from the ‘Guardian moral syndrome’ proposed by Jane Jacobs, an influential author and self-taught philosopher. Jacobs claims that human beings have only two basic strategies for survival – taking and trading – which have produced two basic ‘systems of survival’ or ‘moral syndromes’: the ‘Guardian and Commercial moral syndromes’ (Jacobs 1992).

Commercial morals should be complied with by the great majority of the private sector – occupations concerned with commerce, the production of goods and services and most scientific work (ibid.: 28). In contrast, guardian morals should be precepts of the public sector or more precisely ‘guardians’, who protect, exploit, administer or controls territories – the armed forces, the police, aristocracies, landlords, bureaucracies, law courts, legislatures, religions and exceptionally commercial monopolies. Guardians can also be described as administrators. Some occupations such as medicine, agriculture and law are influenced by both guardian and commercial morals (ibid.: 28-9). However, although guardian morals are excessively influential in the Japanese corporate

sector, this can be partially explained by the fact that commercial monopolies (including monopolistic utilities, and major companies and financial institutions in keiretsu), which are highly politicised and have close relationships with the government, account for a large proportion of big businesses in Japan.

Whilst guardian morals value long-term loyal relationships among people, commercial morals promote opportunistic short-term relationships. Guardian morals value loyalty, honour, obedience, hierarchy, tradition (*status quo*), largesse (including support for subordinates) and exclusiveness, and restrict trading with external groups to seek individual financial gain. Commercial morals appraise fairness, honesty, efficiency, competition, respect for contracts, initiative and openness (collaboration with strangers and aliens), and shun force (ibid.: 23-4). Guardian morals believe that all evil stems from the love of money, while commercial ones regard the love of power as the origin of all evil (ibid.: 128). The preferences of Japanese society have gradually changed since WWII, but the society as a whole still tends to value guardian morals more highly than commercial morals. This may be partly due to the deeply ingrained influence of the wartime control. Right and wrong are dependent on which of the two divergent sets of moral precepts a person takes sides with. What is recognised as morally right (or rational) under one set of moral precepts is not necessarily acceptable (or rational) under the other. For example, although pursuing personal short-term profit and initiative is appropriate under commercial moral precepts, it is inappropriate under the guardian ones.

Subordinates demonstrate their loyalty to social groups such as communities and organisations in order to gain protection by the latter under guardian moral precepts. Loyalty in this context has some similarity to the neo-Gramscian concept of consent. Consequently, subordinates do not appreciate profit and initiative, which do not assure their safety and security under these precepts. The ancient or medieval guardian morals restricted trading, as it was considered to potentially lead to betrayal or corruption (ibid.: 59-61). Contrastingly,

commercial morals promote trading with outsiders through the precept: 'collaborate easily with strangers and aliens' (ibid.: 34-5). Furthermore, most commercial moral precepts have been built up by youngsters, whilst elderly people are venerated for no particular reason in many societies (ibid.: 110). Japan's political economic system, which is advantageous for elderly people at the expense of youngsters, may reflect its orientation towards anti-commercial morals.⁵⁰

The respective potential weak points of guardian and commercial morals are loyalty and honesty, both of which are vulnerable to temptation and require constant indoctrination and vigilance (ibid.: 68-9). Largesse (or protection) for subordinates can be regarded as 'the guardian form of investment: specifically, an investment in power, influence and control', ultimately creating the dependency of subordinates through manipulation (ibid.: 84-6). However, the opposite side of the coin is that the stable leadership of dominant elites requires the loyalty of subordinates in a guardian moral-orientated society, whose members are bound through emotionally intensive strong ties. The foundation of cosmopolitanism is the premise of the commercial moral that defrauding strangers and aliens is as disgraceful and intolerable as cheating friends, while in an insular society orientated towards guardian morals, people behave very cautiously in front of other members as they inexorably depend on one another throughout their lifetime (ibid.: 35-6). However, Jacobs describes cosmopolitanism and insularity as two poles 'with shadings and degrees and mixtures all the way from one pole to the other' rather than 'a tidy, discrete pair' (ibid.: 36). Japanese society has moved along the spectrum slightly from extreme insularity towards cosmopolitanism, but their insularity still remains strong.

⁵⁰ The respect for the elderly promoted by Confucianism may be favourable for older people in Japan. However, more importantly, Nakane (1973: 26-42) argues that the length of service in a vertical organisation provides a significant advantage for senior people on the assumption that the basic capabilities of people should be equal.

All societies need both guardian and commercial morals as they require both the public and private sectors. However, Jacobs warns that when the two contrasting moral precepts are mixed, this can produce serious problems (ibid.: 93-111). For instance, if commercial morals are applied to the government, corruption or civil war (through divided loyalty) will take place. If guardian morals are used for the private sector, its efficiency and wealth creation will deteriorate. Jacobs indicates the two solutions to avoid mixing the two conflicting sets of moral precepts: 1) the occupational caste system, which distinguishes guardians from the people involved in commerce, and 2) 'knowledgeable flexibility' – the ability of people to move between the two sets of moral precepts to avoid the problematic mixture of the conflicting morals in a harmful manner (ibid.: 180-211). While under democracy, the latter is the only plausible solution, knowledgeable flexibility has to rely on individuals' morality and is likely to result in systemic corruption in the long run. Jacobs does not clearly mention that markets require both of the two sets of moral precepts, as they are fundamentally constituted by both the government and private actors. However, she seems to be aware of this issue, judging from her comment: 'this is good symbiosis: guardians taking political responsibility for enacting policies into law, and enforcing them; commerce taking responsibility for innovative ways and means of complying' (ibid.: 178). More importantly, her insight sheds light on how social norms based on these two sets of moral precepts affect the behaviour of communities and organisations.

Table 1: Three Pairs of Contrasting Concepts

	Collectivism	Individualism
Strength of Ties	<i>Strong</i>	<i>Weak</i>
Self-regulatory Orientations	<i>Prevention</i>	<i>Promotion</i>
Moral Precepts	<i>Guardian</i>	<i>Commercial</i>

The three concepts – strong ties, prevention orientation and guardian morals – are generally consistent with each other, as are weak ties, the promotion orientation and commercial morals. Both the prevention orientation and guardian morals emphasise responsibility (loyalty) and safety (stability or the *status quo*) and might have developed through the lives of people bound by strong ties preserving their territories (social groups) from threats posed by outsiders. In contrast, people with a promotion orientation and commercial morals tend to seek opportunities and be more mobile by using weak ties. Commerce is governed by laws and contracts, and laws make people less dependent on their existing social groups. However, in Japan, ordinary people do not make good use of the laws, so they have to rely on other members of their communities and organisations.

According to Yamagishi, Japanese society's collectivist, parochial and risk-averse features were presumably shared by most societies during the pre-modern period. But some societies, especially Anglo-Saxon ones, nurtured a liberal, individualist, and more risk-taking culture through the expansion of commerce.⁵¹ In collectivist societies dependent on networks of strong ties, within which in-

⁵¹ Interview with Professor Toshio Yamagishi in November 2015

group members are assured by mutual surveillance that others will comply with the social norms (i.e., guardian morals), strong in-group favouritism produces security within the group boundaries, but destroys the general trust of people outside them (Yamagishi 2011: 1-6). Importantly, ‘risk taking is a critical element of trust building’ between different social groups (ibid.: 165). There is a bilateral correlation between risk taking and trust – general trust in society (i.e., social openness) facilitates risk taking. General trust is a prerequisite for market liberalisation, but has been very weak in Japan. The weakness of general trust in Japanese society relative to America, is demonstrated by Yamagishi’s (1994) survey (1,136 Japanese and 501 American respondents)-based research and subsequent empirical research (Cook *et al.* 2005; Gheorghiu *et al.* 2009).

Weak general trust in collectivist societies, including Japan, needs to be offset by systemic support, which is a term used in the credit markets. The original, narrow definition of systemic support is support for financially troubled financial institutions and companies extended by the government, banks and other members of corporate groups to which distressed corporate borrowers belong, but its broadened definition is dominant elites’ support and protection of subordinates in exchange for their loyalty and obedience. This is exemplified by wide-ranging Japanese social relations such as the main bank system, lifetime employment offered by large firms, and long-term subcontracting between large firms and SMEs.⁵² Such a mutual commitment, instilled deeply as a social norm through coercion and consent, does not reflect general trust but security of assurance by both dominant elites (superiors) and subordinates, who mutually abandon their alternative options. Although systemic support can be observed in any country, in Japan it is much stronger and broader than in Anglo-Saxon countries. Dominant and subordinate groups in Japan, sharing a consensus on the pursuit of stability, have formed a historic bloc that dominates society, through the

⁵² As discussed in Chapter 1, systemic support has some elements that are similar to ‘convoy capitalism’, described by Schoppa (2006) and Rosenbluth and Thies (2010).

exchange of systemic support for obedience, which is required for the elites' exercise of power.

Collectivist societies with an orientation towards strong ties, prevention and guardian morals tend to have the following characteristics: 1) risk sharing (socialisation of risk), 2) power and responsibility sharing through the division of power among peers and allies as well as delegation to lower ranks,⁵³ 3) a strong attachment to social groups and in-group favouritism, 4) close cooperation and harmony based on mutual surveillance and regulation within social groups, 5) paternalism and respect for hierarchy, 6) a herd mentality and 7) exclusion of uncertainty deriving from outside (risk aversion) and social exclusiveness.⁵⁴ All of these traits can be seen in traditional Japanese society. Furthermore, another important implication is that emotionally intensive strong ties tend to constrain the leadership of dominant groups pursuing change and the mobility of capital in this type of society.

Japan's CME has been strongly influenced by guardian morals. Social groups are expected to provide protection (or systemic support) for their members in exchange for their loyalty to the group. However, the 1940 system has increasingly malfunctioned over the last two decades. Yamagishi claims that since the old system orientated towards guardian morals started to deteriorate in the 1990s, ironically, a large proportion of Japanese people have turned to and tried to preserve this system in order to regain stability and security, which has

⁵³ Nakane (1973: 51) contends that a vertical relationship in Japan functions effectively when the subordinates satisfy the paternalistic support and protection provided by the leader and repay their debt with loyalty. As the Japanese leader is bound to their subordinates with emotional ties, the power of leadership is constrained by the human relations within a group. Furthermore, as she points out, the leader also tends to form a leadership team (Nakane 2009: 86-9).

⁵⁴ Matsuo (2009: 35-9) claims that a society orientated towards commercial morals tries to manage risk, while one centred on guardian morals endeavours to avoid risk or exclude it.

led Japanese society to excessive risk aversion and further difficulty in promoting commercial morals (Yamagishi and Brinton 2010: 33-48).

I argue that the seriousness of the problems stemming from the application of guardian morals to the private sector was mitigated during the early post-war period due to knowledgeable flexibility. The Japanese government narrowed the scope of systemic support for the private sector, partly following US proposals such as the Dodge Line, which will be discussed in Section 2.7. For example, although large companies (some of which can be categorised as ‘commercial monopolies’) were bailed out by the government and the banks, a number of SMEs went bankrupt until the 1980s. However, since the 1990s, when the power of the dominant elites was relatively weakened, the realm of systemic support has expanded, as can be seen in the SME Financing Facilitation Act, which followed the bankruptcy of Lehman Brothers, and the rising social security costs. Since the 1990s, guardian morals have been increasingly applied to the private sector in an excessive manner, resulting in a decrease in private debts and a sharp increase in public debts, which reflects the deteriorated knowledgeable flexibility of Japanese society.

2.6 Institutional Complementarity and Systemic Change

The previous section poses the question, what makes the financial and labour markets closely related to each other? It is often claimed that there is ‘institutional complementarity’ between the two markets (Jackson 2003: 261; Gospel and Pendleton 2005: 4). Hall and Soskice (2001: 17) define institutional complementarity as follows: ‘two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other’. The conception of institutional complementarity is often discussed in tandem with ‘path dependency’ arguments. However, there are different forms of

path dependency. A moderate form of path dependency means that ‘what happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time’ (Swell 1996: 262-3). Pierson’s notion of path dependency is a stronger form. He thinks that path dependency consists of three phases: 1) the critical juncture, at which a move towards a particular path out of multiple possibilities is decided by certain events, 2) the reproduction period, during which a sequence of events reinforces the chosen path, and 3) the next critical juncture, at which new events terminate the long-lasting path (Pierson 2000: 74-7). Proponents of institutional complementarity and path dependency often take on rational choice approaches.

A strong form of path dependency may be useful to explain the stability of a certain political economic system, while it faces a difficulty in explaining a systemic change. Based on the strong version of path dependency, a systemic change can stem only from exogenous shocks (such as strong foreign pressure, wars and natural disasters) which drastically change the preferences and interests of the major actors. However, this argument is empirically flawed because systemic changes such as the neoliberalisation of Western Europe and the Meiji Restoration were not solely caused by exogenous factors. Exogenous and endogenous factors often interact with each other, resulting in systemic changes. Political economic systems are not as stable as the strong form of path dependency indicates, and these systems contain contradictions within them. As neo-Gramscian perspectives indicate, political economic systems or historic blocs are based on both consent and coercion at the expense of subordinate groups. Growing discontent among subordinate groups can destabilise an existing historic bloc and contribute to the possible formation of a new historic bloc.

There are close correlations between the characteristics of financial and labour markets; the two markets entail ‘two key elements of the production regime (capital and labour) in any capitalist society’ (Kang 2006: 12). Kang claims that financial markets are relatively vulnerable to external pressure for

change given the mobility of capital, whereas labour markets are resilient to such pressure as it is deeply rooted in ‘national socio-political arrangements’ (ibid.: 12). On the other hand, labour markets are more directly susceptible to domestic social relations (particularly the management-labour relation) than financial markets. Financial markets are dominated by ruling groups (either capitalists or administrators), and in CMEs orientated towards guardian morals, subordinate groups are inclined to regard the financial market as a highly specialised area for dominant elites (such as financial authorities and bankers).⁵⁵ Moreover, Kang argues that in LMEs, the mobility of large firms’ capital promotes flexibility in the labour market, which enables these firms to be well adapted to changing labour demands and drastic technological innovation, whereas in CMEs, highly skilled long-term employees who have the right to be involved in corporate decisions are fostered by stable shareholders’ and banks’ commitment to long-term capital investments in large firms (ibid.: 14).⁵⁶

However, the institutional complementarity argument has encountered various criticisms. For instance, institutional complementarity is difficult to quantify, while the introduction of a new institution cannot be explained only by complementarity without taking into account historical accidents (Kwon 2004: 88). The institutional complementarity argument makes it more difficult to explain changes in political economic systems. The most acute criticism is that institutional complementarity might hinge on ‘post hoc rationalisation’ (Clift 2014: 112). Blyth argues that ‘the concepts of institutional complementarity, feedback, increasing returns and the like all suggest a rather static and indeed functionalist picture’ (Blyth 2003: 219, quoted by Clift 2014: 114) –

⁵⁵ However, the bursting of the bubble economy and the financial crisis changed subordinates’ view of the financial market as specialised areas for administrators to some extent.

⁵⁶ Whilst corporate managers are agents of investors and have a relatively arm’s length relationship with employees in LMEs, internally promoted corporate managers, who could be described as ‘top employees’, have strong ties with employees in the Japanese style CME.

functionalism believes that each part of society is functional for the stability of the whole society. Like path dependency, there are both moderate and strong forms of institutional complementarity, and the former, which takes into account the influence of historical accidents, is more realistic than the latter. The strong form of institutional complementarity may be misleading, while the moderate form contributes to explaining why a certain type of financial market fits well with a particular kind of labour market. Social norms and morals shared by financial and labour markets as common factors may partly elucidate the correlation between the two markets. Furthermore, I contend that the linchpin of Japan's CME is not the financial market but the firm and labour market structure, which has affected the characteristics of the financial market. If the firm and labour market structures change, the financial market is likely to follow suit, not vice versa.

2.7 Major Japanese Political Actors' Ideas and Interests and the US-Japan Relations

Who exactly are the ruling groups that dominate the post-war Japanese political economic system, and how have they retained their dominance? The military and the 'reformist bureaucrats' (who created the controlled economy) dominated Japan during the Asia-Pacific War, including the Sino-Japanese War (1937-45). These bureaucrats came from various ministries, mainly the powerful Ministry of Interior (Naimusho), which covered the local administration, the police, the Gestapo-like secret service police, construction, healthcare and Shinto (Japan's indigenous religion), MOF, which tightly regulated the financial system, the Ministry of Commerce and Industry (the predecessor of the post-war MITI), and the Ministry of Foreign Affairs. The reformist bureaucrats were strongly influenced by the ideas of Nazi Germany and Mussolini's corporatism although some of them had been Marxists. The freedom of businesses, even the activities of major Zaibatsu, was restricted by laws such as the Temporary Fund Adjustment

Act of 1937, which stipulated government financial control and the National Mobilisation Law of 1938, which provided for government control over private-sector organisations, the nationalisation of strategic industries and the news media, price controls and rationing.

Immediately after the war, while the Japanese military, the Naimusho and the conglomerates were dissolved by the occupation forces, the economic bureaucracy, such as MOF and MITI, survived despite the purge (which was cancelled by the occupation forces in 1951 and 1952) of some bureaucrats, mainly those of the Naimusho. The secret service police cracked down on people with ideologies that were considered dangerous to the totalitarian government, such as communism, liberalism and anarchism, during war time. The temporarily purged secret police officers subsequently became members of the Parliament, prefectural governors and high-ranking officers of local public safety committees, among others. Consequently, some elements of the wartime regime – for example, bureaucratic intervention, the bank-centred financial system, the Japanese-style corporate system and the prioritisation of producers over consumer interests – remain even today (Noguchi 2010).

The economic bureaucracy was in a commanding position and formed alliances with the LDP and big businesses (mainly large manufacturers) during the early post-war period. The LDP was established through the merger of the two conservative parties, the Liberal Party of Japan and the Democratic Party of Japan (which has nothing to do with the current DPJ), in 1955. The LDP and its predecessors had a large number of ex-bureaucrats⁵⁷ so there was a close tie between the bureaucracy and the LDP. The characteristics of Japanese corporate management changed dramatically from the pre-war period to the post-war one. In the pre-war period, corporate management was inclined to be entrepreneurial,

⁵⁷ Out of the twelve Prime Ministers from 1946 to 1980, seven were former bureaucrats (including 3 former MOF officials). However, after 1980, only Nakasone (1982-7) and Miyazawa (1991-3) were ex-bureaucrat Prime Ministers.

whereas in the post-war era management tended to behave more like bureaucrats. Van Wolferen (1989: 109) maintains that the members of post-war Japan's distinctively dominant groups consist mainly of bureaucrats, corporate executives and some factions of the LDP, all of which can be described as administrators rather than rulers. However, he does not clearly demonstrate the anti-capitalist trait of most of the administrators although he points out their anti-leftist attributes (*ibid.*: 196-8). These administrators, with some exceptions, share an anti-liberal, anti-free market ideology, which is largely identical to guardian morals, and they are closely related to each other through informal networks (including old school ties). By the mid-1950s, they had founded the post-war political economic system.

Why did anti-liberal administrators (guardians) become dominant in the early post-war Japanese political economy? The US occupation forces' reforms eliminated not only militarists but also major capitalists in Japan, inadvertently strengthening the power of administrators. The US occupation forces had two conflicting factions: the Government Section (consisting mainly of New Dealers), which was pro-communist and anti-capitalist and the Intelligence Section, which was anti-communist (Magosaki 2012: 78-80). At first, the Government Section was more influential within the forces, and the New Dealers supported Japanese labour unions while removing major capitalists such as top landlords and the management of Zaibatsu conglomerates and large firms because they believed that it was not only Japanese militarists who were responsible for the war, but also capitalists (Kikuchi 2005: 40-3). The US occupation forces destroyed the shareholder capitalism of the pre-WWII period (Okazaki *et al.* 1996: 23). However, with the beginning of the Cold War, the Intelligence Section became dominant, and the US policy towards Japan changed from pro-labour to pro-management and supported corporate management in starting to enfeeble the labour unions in 1948 (Crump 2003: 34-5). The administrators created and promoted anti-liberal, anti-free market social norms under the 1940 system, which contributed to the formation of both a management-labour alliance against

capitalists and keiretsu. Subordinates, such as labour and SME owners, in Japan obtained systemic support from the dominant elites in exchange for their obedience and loyalty. Even today, unlike their Anglo-Saxon peers, most Japanese corporate executives and bankers share similar traits with bureaucrats rather than entrepreneurs and capitalists.

Teranishi (2003: 202-14) points out that the wartime economic control and the reforms by the US occupation forces had three major influences on the post-war economic system. Firstly, the wartime economic control metamorphosed the industrial structure from light industry-centred in the pre-war period to heavy and chemical industry-led at the end of WWII. Secondly, many reformist bureaucrats with know-how to control the economy survived in the post-war bureaucracy. Lastly, the power of the private sector was deteriorated by 1) the significant restriction of shareholders' rights in wartime, 2) the enormous losses of private-sector companies and banks stemming from the government's termination of war compensation, and 3) the Zaibatsu dissolution, the land reform and the wealth tax conducted by the US occupation forces, which resulted in the extinction of large capitalists. Relatively young top managers were at the helm of big businesses (which resulted from the splitting of conglomerates) due to the purge of their predecessors (Ito 2007: 60). Whilst these top managers were freed from the constraints of the military and their major shareholders, they had to depend financially and politically on the economic bureaucracy and the banking sector. The origin of the main bank system can be traced back to wartime.

Japanese big businesses have been much more politicised than their US and European counterparts due to their close ties with the economic bureaucracy and the LDP. One reason for the successful partnership between the economic bureaucracy and big businesses is that the bureaucrats responsible for the wartime economic mobilisation and the bureaucratised leaders of the wartime cartels became leaders of industrial associations, which were at the top of the industrial sector in the early post-war period, and these people provided a major impulse

for the merger of the rivalling conservative parties to form the LDP in 1955. In this respect, Japanese companies at that time were more like political organisations that mobilised the national economy and maintained social order than profit seeking organisations.

One element of the 1940 system, which still remains today, is the Japanese-style corporate model, and this model has two major characteristics: 1) its closed nature – for instance, most of the top managers are internally promoted, and 2) the negative view on a market-based economic system (Noguchi 2010: 220-3). Although it is natural for private-sector companies to make decisions based mainly on commercial morals, typical Japanese companies tend to be strongly affected by guardian morals, as they are highly politicised. Generally speaking, Japanese-style companies value loyalty, tradition, obedience / discipline and exclusiveness, avoid short-term opportunistic trading as well as the single-minded pursuit of profit and expect the government and banks to provide support for them when they face financial difficulty. It may be puzzling when Keidanren insists that Japanese companies should not merely follow the logic of capitalism, but this is no surprise given the fact that the umbrella organisation of the ‘control associations’ (which were established for the state control of industries during wartime) renamed itself Keidanren in 1945 (ibid.: 223).

Who were the adversaries of the above-mentioned dominant groups in the early post-war period? Following the wartime crackdown on communists, anarchists and liberals by the secret service police, corporate management and the Japan Federation of Employers’ Associations (Nikkeiren), a major industrial association, together with a number of former reformist bureaucrats and secret service police officers, fiercely oppressed the radical activities of labour unions, which were influenced by Marxism.⁵⁸ Japan’s management-labour confrontation

⁵⁸ Crump (2003), a British political scientist, conducted extensive empirical research on Nikkeiren, and argues against its ideology that Japan is a classless society. He reveals a darker side of Japanese capitalism: ‘Nikkeiren could exemplify the organized power of capital and its techniques of coercion, manipulation and mystification’ (ibid.: 157).

resulted in the defeat of the labour unions when the major industrial action at the Mitsui Miike Coal Mine yielded to the violent pressure from the police and gangsters hired by the management in 1960. However, corporate management also started to provide rewards for employees who were loyal to them. Management-labour cooperation, based on the Japanese-style employment model, which includes lifetime employment, seniority-based wages and in-house unions, has become the norm at most Japanese companies. Japanese employees (particularly at large companies) provide loyalty and obedience to their employers in exchange for stability and security – this is a typical relationship between superiors and subordinates under the guardian moral precept.

It is often claimed that post-war Japan has a classless society, but this description is inappropriate. Labour in Japan has long taken management-labour cooperation for granted through both coercion and compromise by management and their allies. Japanese corporate employees have come to believe that something good for their employers is also favourable for them. The LDP gradually attracted an increasing number of votes from urban corporate employees in addition to its traditional supporters, namely farmers and SME owners. In contrast, the diminished influence of labour unions significantly weakened the Japan Socialist Party from the 1950s onwards. The relatively small income differentials in Japanese society during the high growth period were not necessarily proof of ‘classlessness’. The incomes of the dominant elites in Japan are inevitably not much larger than those of their subordinates. This can be regarded as a variant of ‘status inconsistency’. Bureaucrats, corporate executives and LDP politicians have strong political power, which their earnings do not necessarily match. This kind of inconsistency has been adopted probably in order to alleviate subordinates’ discontent, while it is associated with guardian morals (which regard the love of money as the origin of all evil).

The LDP kept itself in power from 1955 until 1995 by gerrymandering and pork-barrel politics – for example, electoral promises to provide infrastructure

improvements for rural districts and protect the agricultural sector (van Wolferen 1989: 29). The latter strategy required both close ties with bureaucrats and strong financial backing from big businesses. Keidanren made the largest contribution to the LDP until 2009, while large companies wanted the LDP to sustain the post-war political economic system, which was propitious for them. Under the guardian moral precept, subordinate groups such as labour, SMEs and the agricultural sector became accustomed to providing loyalty and obedience to dominant groups in pursuance of support and protection, instead of establishing counter-hegemony.

The Japanese bureaucracy is far from monolithic, and power is hardly shared by different ministries – MOF, METI, the Ministry of Internal Affairs and Communications, the Ministry of Health, Labour and Welfare (MHLW), etc. It is well known that these ministries pursue their own interests and are often engaged in conflict with each other. Their major interests include the expansion / maintenance of their sphere of influence (such as formal and informal power of supervision over and connections with certain industries) and their organisation's survival. Furthermore, each ministry is not necessarily cohesive inside, and bureaus (for instance, MOF had the Budget, Tax, Banking, Securities, Customs and Tariff and International Bureaus prior to the spin-off of the FSA and the Securities and Exchange Surveillance Commission in 1998) tend to prioritise their bureau-level interests over ministry-wide interests. Within MOF, the Budget and Tax Bureaus are regarded as mainstream and less market-oriented. There has been a long-term conflict between the 'interventionist faction' and the 'framework-oriented faction', which believes that the ministry should focus on the establishment of a framework for competition within METI. Although the latter was in a stronger position than the former from the 1980s until the mid-1990s, the former has become dominant since the late-1990s financial crisis. Furthermore, the ideological conflict between the two major business lobbies, the conservative Keidanren and the neoliberalism-oriented Doyukai, drew much

attention from the mid-1990s to the mid-2000s.⁵⁹ In general, Keidanren has a guardian moral orientation, whilst Doyukai has a commercial moral orientation.

The banks played a key role in the bank-centred financial system during the early post-war period because large capitalists (such as the founding families of Zaibatsu, other major pre-war shareholders and landlords) were significantly weakened and the capital market was underdeveloped. Japanese banks, which are highly politicised compared with their US counterparts, can be regarded as *de facto* a half-public and half-private extension of the economic bureaucracy – Japanese bankers are administrators rather than capitalists. Bankers' power stemmed from their discretion to allocate credit to borrowers and the scarcity of capital during the high growth period, but their power should not be exaggerated, as the government frequently intervened in their credit allocations and their risk taking needed backing from the government. Japanese banks often bail out troubled large corporate borrowers in order to avoid being criticised for abandoning corporate borrowers with whom they are in a long-term relationship, rather than based on the calculation of loss and gain. In this respect, the banks make decisions based primarily on guardian morals rather than commercial morals.

Japanese bankers have to take into consideration the social norm that for employees, companies are more than just workplaces where they earn incomes. Okumura (1991), Matsumoto (2011) and Ito (2007) describe Japan as a corporate-centric society. Japan's wealth is concentrated in private-sector companies (not individual capitalists), while the rankings of Japanese companies dictate the social status of their employees (Okumura 1991: 20-43). Japanese companies, rather than the state, provide a large proportion of social welfare for their employees. Furthermore, due to the illiquid labour market, it is quite difficult for

⁵⁹ Keidanren supported stakeholder capitalism and traditional Japanese style corporate governance (such as in-group favouritism and lifetime employment), whereas the core members of Doyukai advocated shareholder capitalism and the necessity of a flexible labour market.

regular employees (especially at large companies) to find new good jobs outside their current employers. Lifetime employment may also mean employees selling off their future options to change jobs. The major determinant of social status and credibility in Japan is not income level but the ranking of companies for which people work and their corporate titles, and Japanese corporate employees are more loyal to their employers than to the state (Matsumoto 2011: 230-42). Administrators endeavour to prevent the bankruptcy of large companies, which could potentially lead unemployed people to social unrest.

In contrast to banks, the political power of securities firms is limited in Japan, as they have failed to win the trust of society and the financial authorities. Their short-term trading-centred business may not fit the guardian moral orientation of Japanese society. Apart from the largest Nomura Securities, all of the major domestic securities firms are under the umbrellas of major banks, whilst the financial authorities are satisfied with the bank-led financial conglomerates. At first glance, the CRAs seem to be politically much weaker than the economic bureaucracy and the banks, but the entry of the US CRAs, Moody's Investor Services (Moody's) and Standard and Poor's (S&P), into the Japanese market in the mid-1980s was regarded as a potential threat to the Japanese financial system by MOF and the banks. MOF encouraged the establishment of local CRAs, while Japanese financial institutions provided equity and human capital for these local raters. The US CRAs' influence in Japan weakened after the Japanese financial crisis and has waned further since the GFC. This is mainly because the US credit rating orthodoxy, which is closely linked with neoliberal thought, is conflicting with the anti-liberal, anti-free market social norms in Japan.

Why could Japan achieve high economic growth during the early post-war period although its system leant towards guardian morals? Japan's social cohesiveness, business efforts and industrial policy alone cannot fully explain this growth. External factors, particularly US hegemonic support for Japan, which could be regarded as systemic support, should be taken into account.

Firstly, the global economic stability bolstered by the Bretton Woods-GATT system provided a favourable economic environment for Japan, while other Asian countries were still underdeveloped at that time. Secondly, the Cold War enhanced Japan's strategic importance for the US, while the prevalence of Keynesianism made the US tolerate the Japanese government's interventionist economic policies. The US accommodative trade policy and dollar-yen exchange rate, which was favourable for Japanese exporters, as well as the US military protection of Japan significantly contributed to the rapid growth. Lastly, the market-oriented economic policy, which was promoted by the General Staff Section of the occupation forces (including Douglas Dodge), enhanced the knowledgeable flexibility and mitigated the private sector's excessive dependence on the government, which might have hindered economic growth. The US occupation forces' market-oriented policy prescription and the Japanese government's aim of rapid economic growth narrowed the scope of systemic support within the Japanese political economy.

Okita (2010: 57) points out that there were two contrasting economic ideas within the US occupation forces: the Government Section, which emphasised market failure (Keynesian economics or government interventionism) and the Intelligence Section, which stressed the importance of market competition (similar to neoclassical economics).⁶⁰ Dodge, the financial advisor to the Supreme Commander of the Allied Powers, submitted the economic reform recommendations (the so-called 'Dodge Line') to the Japanese government in 1949. His proposals included 1) balancing the national consolidated budget, 2) shifting to more efficient tax collection, 3) decreasing the scope of government

⁶⁰ Just after WWII, the interventionist New Dealers (Democrats), who were sympathetic to Japanese labour and tenant farmers, were more influential within the occupation forces, and implemented the Zaibatsu dissolution, the land reform and the wealth tax. Subsequently, however, the anti-communist, economically liberal sect (Republicans) gained power within the forces. In 1950, with the rising anti-communist sentiment, a large number of communists (including New Dealers) were purged in both the US and Japan. The influence of the labour unions was substantially enfeebled by the Red Purge.

economic intervention (particularly through subsidies and price controls), and 4) fixing the exchange rate to 360 yen to the US dollar in order to keep Japanese export prices low. The early post-war economic system was not as controlled as the wartime one – there was sufficient room for start-up companies such as Sony, Honda and Canon to achieve great success. Furthermore, under the chaotic economic situation, the competitive landscape and hierarchy of companies were not yet fixated so start-up companies with new ideas and technologies could manoeuvre and flourish. The economic growth during the early post-war period was dualistic – the ‘top-down’ (government-intervened) growth driven corporate establishments, mainly under the guardian moral precept, and the ‘bottom-up’ growth by SMEs, primarily under the commercial moral precept.

To what extent has the 1940 system been eroded? The domestic and international political and economic environments conducive to Japan’s rapid economic growth changed dramatically in the 1980s and 1990s. Japan was exposed to enhanced ICM and intensified economic competition with other Asian countries, and the shift of the main economic idea from Keynesianism to neoliberalism, and the end of the Cold War made the US less tolerant of Japan’s economic interventionism. Japanese bureaucrats’ grip of its political economic system was enfeebled, while the power of the banking sector waned due to the glut of capital stemming from the enhanced ICM and the financial deregulation, which made it possible for large companies to access both domestic and overseas capital markets. The glut of capital resulted in the creation and subsequent bursting of the bubble economy. The corruption scandals in the 1990s and the prolonged economic slump tarnished the legitimacy of the economic bureaucracy and eroded the foundation of the LDP. The economic deregulation and the progress of the market economy from the 1980s onwards weakened the power of MOF and METI, while one element of the 1940s system that still survives today is the Japanese-style corporate model (Noguchi 2010: 215-25). Japanese society as a whole has emphasised safety and security since the bursting of the bubble economy. Accordingly, guardian morals have permeated the society widely, and

knowledgeable flexibility has deteriorated. Japanese companies have continuously cut wages and hired an increasing number of cheap non-regular workers in order to protect the lifetime employment of their existing regular employees, which has resulted in a sharp rise in the number of people in poverty. SMEs have become risk averse and increasingly dependent on subcontracting from large companies and financial support from the government and banks. Although the power of administrators has weakened, the guardian morals of society (calling for systemic support) have strengthened.

2.8 Sources and Corroboration

The empirical research of this thesis is based both on existing literature and news articles and on over fifty interviews with current and former bureaucrats and politicians, executives of big businesses, financial institutions and CRAs, and academics specialised in the disciplines relevant to the thesis (e.g., economics, economic history, sociology, social psychology and management studies). The thesis utilises wide ranging published materials in both English and Japanese. In addition to academic literature, some books in Japanese written by former practitioners and journalists (e.g., Nishimura 1999, Shima 2006, Asahi Shimbun 2009, Morita 2010, Kawakita 2011) are very informative and useful. However, when I created main narratives of the thesis, I avoided relying on a single source and triangulated multiple published materials and interviews.

The extensive interviews made me realise that the American CRAs, Doyukai, neoclassical economists, and reformist bureaucrats and politicians share the common ideas and norms consistent with the orientation for weak ties, promotion and commercial morals and the negative view of systemic support, whereas the local Japanese CRAs, Keidanren, legal professionals and interventionist bureaucrats and conservative politicians share those congruous with the orientation for strong ties, prevention and guardian morals and the positive view

of systemic support. Another fruit of my interviews is that they assist my use of analytical eclecticism. Particularly, the interviews with Toshio Yamagishi, a distinguished social psychologist, contributed to the operationalisation of Neo-Gramscian approaches.

In terms of Chapter 3 of this thesis, my interviews with many academics and financial professionals such as Taggart Murphy (Professor of International Political Economy at the University of Tsukuba), Yoshitake Masuhara (Professor of Economics at Hiroshima University of Economics, previously a member of the House of the Representatives, a high ranked MOF official), Yoshio Shima (Professor of Management at Tamagawa University, formerly a senior credit analyst at S&P and Deutsche Bank), Hajime Takata (Chief Economist at the Mizuho Research Institute), Nana Otsuki (banking sector analyst at Bank of America Merrill Lynch), Tsutomu Okubo (member of the House of Councillors, previously managing director at Morgan Stanley) provided me with a better understanding of both the Japanese credit market and systemic support for financially strained companies and financial institutions. Also, the interviews with CRA officials and financial professionals gave me a clearer picture of the major corporate bailout and bankruptcy examples.

With regard to Chapter 4, I interviewed current and former executives of all the major five CRAs in Japan (Moody's, S&P, Fitch, R&I and JCR), which clarified differences between the American and local Japanese CRAs. Particularly, I recognised that the respective American and Japanese CRAs are closely linked to synchronic financing and diachronic one, which, in turn, are based on Anglo-Saxon and Japanese social norms. What I obtained from the interviews are consistent with Kurosawa (2001), Shima (2006) and Morita (2010). Furthermore, the interviews with business executives and former CRA analysts made me understand why many Japanese companies and financial institutions became antagonistic towards the American CRAs from the mid-2000s.

In terms of Chapter 5, I triangulated my interviews with corporate executives and academics on the two major industrial associations and relevant books and news articles to corroborate my argument on an ideational conflict between neoliberal-oriented Doyukai and conservative Keidanren from the early 1990s to the mid-2000s. The interviews confirmed the ideational conflict between the industrial associations as well as the rise and fall of Doyukai's influence on economic policy making. The interview with Tetsuji Okazaki (Professor of economic history at the University of Tokyo) helped me understand the historical development of the associations and the background for their ideational differences.

Chapter 3: Japan's Financial System and Persistence of Systemic Support

It is not well known that Japan's financial system used to be capital market-based during the pre-WWII period. Then, what was the origin of its post-war bank-centred financial system, and which political actors created it? Why has the bank-centred financial system been so durable? This chapter will start by reviewing the development and characteristics of Japan's bank-centred financial system and the financial deregulation during the 1980s and 1990s. Subsequently, it will examine the persistence of the systemic support from the government and banks to financially distressed companies with reference to several major examples of corporate rescues and failures after the financial deregulation and crisis in the late 1990s as well as other forms of systemic support in the financial system. Finally, the question of why systemic support has been persistent in Japan will be explored.

3.1 Japan's Bank-Centred Financial System and Financial Deregulation

As discussed in Introduction, Japan transformed its financial system from capital market-based to bank-centred during the 1930s and 1940s. The origin of Japan's post-war financial system dates back to the periods of the pre-WWII financial crises and wartime. As Rosenbluth (1989: 138) describes, 'the 1920s were the "golden age" of Japan's bond market'. However, due to the economic slump after WWI, the Great Kanto Earthquake in 1923, the fragile financial system (mainly the risk concentration of banks on specific firms) and the impact of the Great Depression, Japan suffered from the Showa Financial Crisis (in 1927) and the Showa Depression (during 1929-31). The governmental banks, i.e., the Industrial

Bank of Japan (IBJ) and the Nippon Kangyo Bank, provided rescue loans for companies unaffiliated with Zaibatsu groups, whereas the government promoted industry cartelisation by Zaibatsu in order to remove both the overlap and instability that stemmed from competition at that time (Teranishi 2003: 142-3).⁶¹ Moreover, the Showa Depression caused numerous corporate bond defaults in Japan, and banks, as the largest underwriters, promoted the ‘purification movement of corporate bonds’ to exclude financially weak companies from the bond market.

Subsequently, the state’s control over the financial system was further reinforced, for instance, through 1) the state-led consolidation of the banking sector, 2) the Temporary Fund Adjustment Act in 1937, which stipulated state control of the industrial funds allocation, 3) the National Mobilisation Law in 1938, which enabled the finance minister to decide which military-related industries and firms should be recipients of bank loans, 4) the Financial Institutions Control Ordinance in 1942, which placed all financial institutions under state control by segment (e.g., city banks, regional banks and trust companies), and 5) the revision of the BOJ Law in 1942, which denied the independence of the central bank and stipulated its mission as the pursuit of state goals. The government also restricted the capital markets significantly, promoting the transformation of the financial system to bank-centred. Immediately after WWII, the occupation forces conducted financial reforms, which consisted of i) dissolving the Zaibatsu system, ii) separating the securities sector from the banking sector by replicating the US Glass-Steagall Act of the 1930s, and iii) reorganising Japan’s financial regulatory framework along the US lines, restoring the independence of the BOJ and setting up a distinct Securities and Exchange Commission (SEC) in order to democratise the country’s financial system. In addition to these reforms, the agricultural land reform, the heavy wealth tax, the wartime economic damage and the post-war hyperinflation eliminated most of

⁶¹ Both the IBJ and the Nippon Kangyo Bank were privatised in 1950.

the major capitalists, who had been involved in the pre-war capital markets. In contrast, MOF emerged from the defeat virtually unscathed, absorbed the newly established SEC at the end of the US occupation in 1952 and maintained its dominant position over the BOJ.

As Malcolm (2001: 64) claims, the five distinguishing characteristics of the Japanese financial regulatory regime that re-emerged in the 1950s and 1960s entailed 1) a strong bias towards bank-centred financing (i.e., the restriction of capital markets), 2) rigid segmentation of financial institutions by functional type, 3) administrative guidance (*gyosei shido*), 4) the ‘escorted convoy method’ (*gososendan hoshiki*) of regulation, and 5) international isolation. The escorted convoy method, convoy system or financial convoy can be defined as a regulatory method in which the financial authorities make sure that all of the financial institutions keep in step without any dropouts (e.g., bank failures) by utilising their administrative power. The corporate bond market was virtually under the control of the banking sector, while corporate bond market access was heavily restricted, leading corporate finance to rely heavily on bank loans. The bank-centred financial system reflected the government’s intention to seize discretionary control over credit allocation as well as its distrust of market mechanisms. In this sense, Japanese banks were not purely profit-making organisations but often behaved in accord with political directives. Furthermore, Malcolm maintains that the efficacy of the structural and administrative characteristics fundamentally required international isolation of the financial system through capital control (*ibid.*: 70). The convoy system nurtured the following norms: the government should supervise and protect banks in order not to allow any loss on bank deposits; main banks should prevent their corporate borrowers from bankruptcy; and companies should maintain employment.

Although the distinctive bank-centred financial system had contributed greatly to Japan’s rapid economic growth in the early post-war period, its effectiveness was called into question due to the slower economic growth and

higher ICM in the 1970s. Teranishi (2003: 310) argues that the banking sector faced a difficulty because of its excessive risk concentration on the heavy and chemical industries and the numerous corporate bailouts when the end of Japan's catch-up growth and intensified competition with other Asian countries stalled these industries, who were their major borrowers. Banks tend to cope with a rapidly changing world less efficiently than capital markets (Ikeo 2003: 92-94; Allen & Gale 2001: 19-22).⁶²

The Japanese corporate bond market in the early post-war period was under the control of the Bond Issue Arrangement Committee (Kisaikai), which was virtually dominated by the major banks. These banks were more influential than securities firms because of the former's status as the largest investors in the corporate bond market and strong state backing for the banking industry. The post-war Kisaikai inherited the stance of the pre-war purification movement of corporate bonds, and created its own ratings for companies. The Kisaikai ratings determined access to the bond market, allowing only a limited number of corporate borrowers to issue bonds, while trustee banks (mostly main banks) had to purchase all bonds in default at par if bond issuers had fallen into financial difficulty. Accordingly, corporate bond issuers had to provide collateral for trustee banks, and this was called the collateral principle. The main bank system, under which main banks often take initiatives to rescue financially distressed firms, was also applied to the bond market. The Kisaikai's rating data – the most important of which was the size of a company's equity capital – favoured big businesses, particularly those in the heavy and chemical industries, which were key clients of the major banks as well as strategically important sectors for the

⁶² Ikeo (2003: 92-4) argues that the existing ties between banks and corporate borrowers would hamper a dynamic shift of funds from one industry to another. Allen and Gale (2001: 19-22) maintain that there are trade-offs between the bank-centred and market-based financial systems: for example, the latter's superior efficiency through wide dissemination of diverse information is offset by its inferior stability due to fluctuations in asset values driven by modifications in market information and investors' views, as well as weak risk sharing by investors.

government. However, they were not necessarily appropriate for analysing the financial health of companies.

However, the major banks' influence started to diminish when an increasing number of large, highly creditworthy Japanese firms issued bonds in the Euromarkets in the late 1970s and the 1980s. According to Vogel (1996: 173-4), MOF wanted to establish a fully-fledged short-term money market in order to facilitate the refinancing of enormous government bonds that were due from 1985 onwards, while the ministry's Financial System Research Council recommended the gradual liberalisation of interest rates and de-segmentation of the financial system in 1983. During the 1980s, the US government tried to pressure Japan into deregulating its markets including the financial ones – the establishment of the 'Joint Japan-US Ad Hoc Group on Yen-Dollar Exchange Rate and Capital Market Issues' (the so-called Yen-Dollar Committee) was also announced in 1983. From 1984 to 1987, MOF liberalised Euro-yen bond issuance and domestic corporate issue terms, authorised the entry of non-Japanese banks into the trust business and allowed the establishment of CRAs in Japan. Most commentators believe that MOF exploited the foreign pressure to facilitate the progress of their own agenda for the reform (Malcolm 2001: 81). Japanese local CRAs were established with the support from MOF and major banks, and the Tokyo offices of both Moody's and S&P were opened in the mid-1980s.⁶³ Nevertheless, as was the case for the interest rates liberalisation, the deregulation of the corporate bond market was only incremental.

Although the CRAs' ratings were allowed along with the Kisaikai ratings to decide whether borrowers could issue unsecured corporate bonds in 1987, it took the CRAs' ratings quite a long time to become the primary measurements of corporate bonds' creditworthiness in Japan. The collateral requirement for corporate bonds was terminated in 1988. Subsequently, MOF authorised six

⁶³ The establishment of the local CRAs and the opening of the US CRAs' Tokyo offices will be discussed in greater detail in Chapter 4.

CRA, including Moody's and S&P, as designated CRA in 1992, and the Kisaikai ratings were finally abolished in January 1996, just before the announcement of the Japanese Financial Big Bang. One major reason for the slow liberalisation was the fierce battle between the banking and securities industries over entry into each other's turf. The Big Bang eventually de-segmented the financial system, enabling mutual entry by banking, securities and insurance businesses through financial holding companies, which shifted responsibility for financial supervision from MOF to the newly established FSA and liberalised the capital and foreign exchange markets in Japan. Unlike the Banking Bureau of MOF, which had a discretionary interventionist regulatory style, the FSA has created a relatively arm's length rule-based supervisory relationship with the banking sector. A series of deregulations substantially expanded corporate bond issuance in the late 1980s and 1990s, but the disintermediation ran out of steam during the mid-2000s.

3.2 Systemic Support in the Corporate Sector

National preferences and social norms are more difficult to grasp than economic rationalities. Even Vogel (1996) and Yamamura (1997) do not fully elucidate Japanese social norms and their influence on the financial reforms. Vogel tends to focus on the structures and norms of the dominant elites, but social norms are also shared by subordinates such as workers and SMEs. However, Vogel's (1996: 263) arguments that 'reinforcement' favoured by French, German and Japanese bureaucrats and 'disengagement' chosen by US and British counterparts are two major patterns of regulatory reforms, and that the choice of these patterns is affected by which of them bureaucrats (or societies) prioritise among values such as 'efficiency, stability, fairness and flexibility' give us important clues. The disengagement pattern is expected to generate greater efficiency and fairness (transparency) and lead to fast liberalisation, whilst societies that prefer stability

and flexibility tend to choose the reinforcement pattern, which should grant governments more control and result in slow liberalisation (ibid.: 263-4).

As discussed in the previous chapters, Japanese social relations centre on in-group favouritism and the exchange of dominant elites' (or superiors') support and protection of subordinates for loyalty and obedience. Japanese financial authorities and financial institutions tend to behave according to these guiding principles. Nishimura (1999: 234), former head of the banking bureau, MOF, admits that the Japanese financial administration prioritised stability and public interests over efficiency until the early 1990s. In terms of systemic support, he maintains that Japanese society created a 'Japanese mutual insurance', a mechanism through which actors share risks in order to moderate the competition for survival, whilst the idea that exiting losers out of markets enhances economic efficiency and results in social progress is unpopular in Japan (ibid.: 207-8). The financial convoy matched the social norms of early post-war Japan.

Schoppa (2006: xi) points out that one major uniqueness of Japanese society is its tightly woven 'social safety net' or 'system of social protection', which is reflected in the lifetime employment and corporate bailouts. He describes Japanese style capitalism as 'convoy capitalism' (ibid.: 10-3). Systemic support is central to the convoy system of social protection. Schoppa describes the Japanese system of convoy capitalism as follows.

(The system of convoy capitalism) was able to provide most citizens with unprecedented economic security: care for those who needed it, job security for workers, and a safety net that bought time for firms to restructure their operations ... The government continued to back up the banks that continued to back up firms who continued to back up their core male workforce, and women continued to back up the whole system by going along with policies that encouraged them to be full-time housewives (ibid.: 65-6).

Schoppa claims that Japan's convoy system is 'unravelling' due to socioeconomic changes such as globalisation and changing female aspirations (ibid.: xi-xii). According to him, many Japanese firms have exited the system by shifting production overseas rather than lobbying for change in the system, and a larger proportion of women are not marrying and / or not having children (ibid.: 4-13). However, this view may be misleading because the great majority of Japanese companies shifting production overseas have kept their corporate headquarters in Japan and do not intend to exit Japanese society. Similarly, numerous Japanese women who are frustrated with the old system have married and had children, and only a small proportion of them have decided not to do so. Since the late 1990s, Japanese banks have no longer been able to bail out all of the large financially distressed companies and large firms do not fully honour lifetime employment, but systemic support as a social norm has persistently survived, and many Japanese firms and women still seem to consider that the positives (such as economic stability) of the convoy system outweigh the negatives (including restrictions of individuals' freedom).

The main bank system, which was created under the wartime state-led financial system, is a linchpin of Japan's convoy system. One distinct characteristic of main banks is that they have a much stronger commitment to their corporate borrowers than other creditor banks, whilst they enjoy a significantly large proportion of lucrative ancillary businesses with the borrowers, such as deposits, bond issuance, foreign exchange and derivatives. When a company faces financial difficulty, its main bank often takes an initiative in rescuing and/or restructuring it, and occasionally has to shoulder disproportionately a heavy financial burden, for instance, by refinancing other banks' loans and bonds, providing emergency loans to prevent the borrower from going bankrupt and forgiving some portion of their claims. Takata and Shibasaki (2004) contend that main banks' senior loans, until the early 1990s, could be

regarded as *de facto* ‘quasi-equities’ or ‘subordinate loans’ whose recovery was subordinate to that of other banks’ loans, bonds and other claims at the time of bankruptcy, and that such practices dramatically enlarged main banks’ financial damage, although they could not rescue many distressed firms due to the limits of their own financial durability in the 1990s and early 2000s.

A main bank relationship with borrowers is not a written contract, but is widely recognised as a norm by main banks, borrowers, other creditors and financial authorities. It is difficult for economic rationality alone to explain why the main bank relationship has been created, although main banks enjoyed both financial and reputational benefits until the 1980s. Hajime Takata maintains that Japan’s early post-war financial system can be viewed as a gigantic sovereign wealth fund pumping risk money into the corporate sector and that the close companies-banks-government nexus enabled main banks to provide quasi-equities for large companies.⁶⁴ His view is verified by Nishimura’s (1999: 205) comment that the banks supported the corporate sector, whereas the government backed up the banking sector. Main banks supporting their distressed borrowers was based on political and social norms. If a main bank had eschewed its commitment to a corporate borrower before the late 1990s, it might have been ostracised from the banking community and politically penalised.

Some scholars (including Hoshi and Kashyap 2001; Jackson and Miyajima 2007) and media argue that the importance of main banks is diminishing or is likely to wane for four reasons. Firstly, financial deregulation has facilitated Japanese firms’ access to both domestic and overseas capital markets. Secondly, the financial convoy collapsed in the late 1990s financial crisis, and main banks could not prevent numerous firms from going bankrupt. Thirdly, both main banks and companies had to reduce their cross shareholdings due to the serious bad debt problem of the banking sector and the introduction of both the Basel capital rules

⁶⁴ Interview with Hajime Takata, chief economist at the Mizuho Research Institute, in October 2014

and mark-to-market accounting. Lastly, committed credit facilities, which reflect an explicit written lending commitment to borrowers, have started to be utilised in Japan since the late 1990s. However, according to Hirota's (2009: 1-4) study on 500 major Japanese companies from 1973 to 2008, most of the companies still maintain a strong relationship with their main banks despite the above issues. Their main incentive to maintain this relationship is to hedge funding and bankruptcy risks: corporate borrowers want main banks to provide stable financing for them and rescue them if they face financial difficulty (Hirota 2012: 843).

Four points demonstrate the robust main bank relationship (Hirota 2009: 5-16). Firstly, given the risks associated with the possible downgrading of credit ratings and capital market paralysis, many companies believe that main banks are more reliable funding sources than bond markets. Secondly, the reduction in cross shareholdings did not affect the main bank relationship significantly. Thirdly, the lead arrangers of committed credit facilities are usually main banks. Lastly, many companies show their loyalty to their main banks by choosing security brokerage subsidiaries of the banks as underwriters when they issue bonds. Nevertheless, main banks are no longer willing or able to rescue all large firms in distress because of their traumatic experience during the previous financial crisis, the tighter bank supervision and the risk of being sued by their own shareholders. Furthermore, the financial authorities have shifted their supervisory relationship with the banking sector from informal, discretionary administrative guidance-based to relatively remote rule-based, which, in tandem with the Basel capital rules, has weakened the characteristic of main banks' senior loans as quasi-equities.⁶⁵ Having said that, main banks still have to meet borrowers' needs in

⁶⁵ It is said that the Banking Bureau of MOF played the role of both referee (financial supervision) and coach (administrative guidance) for the banking sector (Nishimura 1999: 209-10), but the FSA, to which responsibility for financial supervision was transferred in 1998, has adopted a relatively remote and rule-based regulatory stance. However, some elements of discretion have remained in the FSA's administration, as witnessed in the public capital injection into Resona Bank in 2003 and the relaxed classification of restructured

regard to hedging their funding and bankruptcy risks to some extent. Even Hoshi, who emphasises the necessity of Japan's financial system shifting from bank-centred to capital market-based, concedes that the social norm that companies should maintain employment, while protecting corporate borrowers from bankruptcy is main banks' responsibility, still survives in Japan (Hoshi 2009).

3.3 Recent Examples of Major Corporate Failures and Bailouts

Since the disposal of massive bad loans assisted by additional public capital injections into the banking sector in the early 2000s, the number of corporate bankruptcies in Japan has decreased sharply. However, over the last fifteen years, both many major corporate failures and bailouts have been witnessed. In Japan, a bankruptcy is still regarded as a social stigma – a corporate bankruptcy not only causes large unemployment but also tarnishes the corporate brand, so financial institutions, suppliers and consumers are reluctant to deal with a bankrupt company. There is a great difference between legal (bankruptcy) proceedings, in which all creditors suffer, and out-of-court restructurings, which usually require debt waiver by only core creditors (such as main banks) – put differently, non-core creditors are protected under out-of-court restructuring. In Japan, whilst only bankruptcies are usually categorised as corporate failures, out-of-court restructurings are viewed as corporate bailouts. Furthermore, it should be noted that systemic support has not been provided evenly: companies with large employment, manufacturers and publicly important sectors (such as banking, utilities and transportation) tend to be prioritised.

Although some people may insist that the recent major bankruptcies of Mycal, Japan Airlines, Takefuji (consumer finance) and Elpida Memory (semiconductor manufacturing) illustrate the waning trend of systemic support from the

loans (which are part of broadly defined bad debts) for SMEs into the 'normal' category to support the SME sector in 2008.

government and banks, a close examination of these cases will prove that there were peculiar reasons for these bankruptcies that were exceptional for major Japanese firms. The Japan Airlines case can be regarded as both a corporate failure and rescue. Furthermore, the Takefuji case also demonstrates Japan's restrictive policy stance regarding consumer credit, contrary to those of other advanced industrialised countries. On the other hand, the examples of Tokyo Electric Power Company (TEPCO) and Olympus, which have been selected from numerous recent corporate bailouts, manifest the persistence of systemic support from the government and banks despite the collapse of the financial convoy and the transformation of the financial regulation.⁶⁶ However, the transformation of the financial authorities' supervisory relationship to relatively arm's length rule-based has made systemic support from the government and banks less certain for the corporate sector and thereby has discouraged corporate risk taking.

i) Mycal

Mycal, one of Japan's largest general merchandise store chains, faced excessive debts owing to enormous investment projects in the 1990s, many of which turned out to be disastrous. The retailer's reckless investments were financed through the issuance of corporate bonds and asset-backed securities in addition to bank borrowing.⁶⁷ Although Mycal sold off its financial and fitness club subsidiaries and reduced its total debt by around 20%, it could not meet the debt reduction target and encountered a liquidity crisis. In addition, Mycal suffered a loss of over 100 billion yen from the revaluation of securities holdings associated with

⁶⁶ Other examples of major corporate bailouts from 2000 onwards include Daiei (a retail chain), Sojitz (a general trading house), Mitsubishi Motors, Isuzu Motors, Orient Corporation (a non-bank), Sanyo Electric (an electronics manufacturer) and Sharp (an electronics manufacturer).

⁶⁷ Asset-backed securities can be defined as financial securities backed by loan, lease and other financial receivables; they are also called securitisation or structured finance.

its speculative financial investment. But the company's financial report did not fully reflect this revaluation loss, which, together with its reckless investments and internal strife, resulted in a loss of trust in Mycal by its main bank, Dai-ichi Kangyo Bank (DKB). To make matters worse, DKB was scheduled to merge with the IBJ and Fuji Bank into Mizuho Financial Group in April 2002.

In August 2001, out of Mycal's total debt, which amounted to approximately 1 trillion yen, DKB had loans outstanding of over 160 billion yen, whilst the aggregate exposure of the three banks reached over 310 billion yen. It was reported that DKB had to give up rescuing the borrower because the two banks had criticised the rescue.⁶⁸ However, DKB and Mycal's president agreed to provide a new loan for Mycal of 60 billion yen on the condition that the retailer filed for the application of the Corporate Rehabilitation Law (one of Japanese bankruptcy laws) to pursue rigorous restructuring, while a group of anti-DKB executives at the retailer sought its reconstruction based on an alliance with US-based Wal-Mart, without relying on the main bank. When the president held a meeting of the board on 14 September 2001 to decide on the restructuring, two thirds of the directors decided to remove both the president and the director dispatched from DKB and file for the application of the Civil Rehabilitation Law (another bankruptcy law), under which the incumbent directors could take a restructuring initiative. Nevertheless, the Tokyo District Court was not content with the coercive procedure and counselled the new president to resign. Subsequently, in November 2001, whilst DKB announced support for Mycal, the company filed for the application of the Corporate Rehabilitation Law to pursue the reorganisation under sponsorship from Aeon, a larger general merchandise store chain.

⁶⁸ The *Asahi Shimbun* newspaper dated 15 September 2001

ii) Japan Airlines

Japan Airlines (JAL), which used to be Japan's national flag carrier and was partially owned by the government, was privatised in 1987. Prior to the privatisation, in 1985, the Ministry of Transport (the current Ministry of Land, Infrastructure, Transport and Tourism, or MLIT) relaxed its policy of protecting the domestic airline industry due to the deregulation policy of the Nakasone administration, influenced by Reaganomics and Thatcherism. Afterwards, JAL faced a series of problems – the plane crash in 1985, the failure of its domestic and overseas hotel and resort business, the loss-making long-term forward foreign exchange and fuel purchasing contracts, the aggressive activities of its multiple trade unions (which resulted in higher personnel costs) and the antagonism between its factions. Furthermore, the airline's creditworthiness suffered from more serious downward pressure, which arose from the September 11 terrorist attacks in 2001 and the merger with Japan Air System (JAS), the third largest airline in Japan, in 2002. The demand for international flights plummeted due to the terrorist attacks and the subsequent wars, whilst the heavy debt burden of JAS and its unprofitable domestic routes further weakened JAL financially. The resistance by the eight trade unions and the delayed disposal of its fuel inefficient Boeing 747 fleet made it difficult for the airline to streamline its operational costs.

In contrast, All Nippon Airways (ANA), the second largest airline, shifted its fleet from large aircraft to fuel efficient mid- to small-sized aircraft, disposed of its unprofitable routes and reduced its costs through code-sharing with members of Star Alliance, a global airline alliance, which improved its financial performance. JAL dealt with the problems it faced less proactively – the fuel hikes after the Iraqi War and the outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003, the frequent occurrence of operational incidents, which shifted business passengers to ANA in 2005, and the GFC, and the outbreak of swine flu. Although JAL avoided a liquidity crunch thanks to the Development

Bank of Japan (DBJ, a governmental bank) providing emergency loans to airlines that had suffered due to the Iraqi War and SARS, as well as the equity issuance in 2006 and 2008, in June 2009 the airline fell into a liquidity crisis despite its additional borrowing.

The DPJ defeating the LDP in the September 2009 election significantly affected JAL's fate. At first, the DPJ considered an out-of-court restructuring of JAL, which included an enormous amount of debt waiver by its core creditor banks, public capital injection through the DBJ, a 50% reduction in the corporate pension benefits and personnel cuts of 9,000 people. Nevertheless, both the private-sector banks and the DBJ were opposed to the plan. Subsequently, the Enterprise Turnaround Initiative Corporation of Japan (ETIC), the public-private fund established for the purpose of supporting the turnaround of mainly financially distressed SMEs with useful business resources, stepped into JAL's restructuring and proposed a 'pre-packaged' bankruptcy, which consisted of drastic restructuring under the Corporate Rehabilitation Law, a public capital injection into JAL through the ETIC, the waiver of a large proportion of the creditor banks' exposure, and the protection of commercial transaction claims, mileage claims and leasing receivables. The private sector banks were against this plan, but the DPJ, MOF and DBJ supported it.

JAL filed for the application of the Corporate Rehabilitation Law on 19 January 2010. JAL's pre-packaged bankruptcy was similar to that of General Motors in the US, and pre-packaged bankruptcy has some similarities to out-of-court restructuring. The investigation committee on JAL's compliance issues claims in its report that JAL's inclination to be dependent on the bureaucracies (the MLIT and MOF) and escape management responsibility was nurtured under strongly protective regulation by the Ministry of Transport and that its previous national flag carrier status made the airline's management and employees complacent enough to believe that their company was exempt from bankruptcy despite privatisation. Despite some similarities between pre-packaged

bankruptcy and out-of-court restructuring, why did the DPJ choose bankruptcy? The DPJ thought that the bankruptcy of JAL, which had been spoiled under the LDP administration, would give a good impression to voters in the forthcoming election.⁶⁹ JAL was unpopular with the public due to its frequent operational incidents and its employees' high salaries despite its poor financial performance. The results of a survey conducted by *the Nikkei*, dated 25 January 2010, on how people assessed the bankruptcy of the airline revealed that 57% of the respondents either positively evaluated it or favoured it, if anything. Although JAL was socially penalised mainly by countless negative media reports, it completed its corporate rehabilitation in March 2011 and was successfully relisted in September 2012.

iii) Takefuji

Under Japan's early post-war financial system, the banking sector focused on corporate finance, whilst non-mortgage consumer finance was primarily covered by non-banks such as consumer finance companies, which offered loans at extremely high interest rates. Despite the fact that the household sector was the largest source of banks' fundraising, the government prioritised finance for large companies over that for consumers and SMEs. In contrast to the highly regulated banking sector, consumer lenders were less regulated non-establishments that existed outside typical Japanese social relations, exchanging dominant elites' support and protection of subordinates for the latter's loyalty and obedience. Borrowers from consumer lenders are mainly low income workers, housewives and less creditworthy SMEs. In Japanese society, traditionally, personal borrowing tends to be regarded as shameful, while lending money and exploiting borrowers' weakness is viewed as despicable conduct. Although consumer

⁶⁹ The *Mainichi Shimbun* newspaper dated 23 February 2010

finance businesses grew steadily in the early post-war period, they remained social outcasts.

From the bursting of the bubble economy until the early 2000s, the consumer credit market dramatically expanded owing to the following factors: 1) the economic slowdown and increases in low income workers, 2) technological development enabling consumers' easy access to credit such as unstaffed automatic loan dispenser booths, 3) significant expansion of TV advertising campaigns on consumer finance, 4) the financial deregulation, which made it possible for non-banks to tap the capital markets, and excessive cash in banks, which increased lending to consumer finance companies, and 5) the 'sweat box' business model of consumer lending (Kozuka and Nottage 2007: 12-3). With regard to the fifth point, Kozuka and Nottage point out that large lenders were generally willing to provide additional loans for borrowers up to their credit ceilings, whereas they introduced distressed borrowers to smaller lenders who would impose higher interest rates in order to enable them to repay the original debts (*ibid.*: 13). This model worked in Japan chiefly because bankruptcy is viewed as a serious social stigma. The expansion of the consumer credit market meant that the founders of the big four consumer lenders - Takefuji, Acom, Promise and Aiful – were ranked among the wealthiest Japanese business people in the early 2000s. Takefuji became the first consumer lender to be listed in 1998, and both Moody's and S&P assigned single A ratings to the lender. In addition, the lucrative consumer credit market in Japan attracted not only the two Japanese mega banks, which acquired stakes in Acom and Promise, but also foreign capital, including General Electric Capital and Citigroup, which acquired second-tier Japanese consumer lenders. However, public concern over millions of struggling borrowers, the severe debt collecting measures utilised by consumer lenders, and the associated suicides of borrowers and their families rose sharply.

Japan implemented two different interest rate laws to control its money lending market in 1954. The Capital Subscription Law (CSL) stipulated that any

bank or non-bank lending with interest rates above 109.5% constituted a criminal act, whilst in terms of non-bank money lenders, the Interest Rate Restriction Law (IRRL) placed interest rate caps of 20% on loans of less than 100,000 yen, 18% for those exceeding 100,000 yen but less than 1 million yen and 15% for those above 1 million yen. This resulted in the creation of ‘grey zone interest rates’ between the limits established by the two laws. The Money Lending Control Law (MLCL) of 1983, which gradually lowered the cap imposed by the CSL, to 29.2% by 2000, stipulated that the grey zone interest rates could be received by money lenders given two conditions: appropriate contract documentation and immediate receipts for payments were provided by lenders; and such interest rates were paid ‘voluntarily’.

A sudden death knell for the booming consumer finance industry was struck by the Supreme Court in early 2006. A series of court rulings in January and March 2006 effectively repudiated the validity of grey zone interest rates by denying the voluntary nature of borrowers’ payments due to the existence of acceleration clauses in money lenders’ loan documents. The court rulings made money lenders liable for reimbursing excess interest charges from the past, as unjust enrichment specified in Article 703 of the Civil Code. Following the rulings, despite the opposition from consumer lenders and the internal conflict within the LDP, the amendments to the MLCL, which was renamed the Money Lenders Law, and related laws passed the Diet in December 2006. The major points of the reform included: 1) lowering the interest rate cap imposed by the CSL to that under the IRRL (i.e. abolishing the grey zone interest rates); 2) imposing an ‘Aggregate Debt Control’ that limited the aggregate amount of loans from money lenders to one third of the borrower’s gross annual income, and 3) requiring minimum assets of 50 million yen for a money lender to be licensed.

This reform had a destructive impact on the overall money lending industry. According to FSA statistics, the number of ‘legal money lenders’ plummeted from 18,000 in 2005 to 2,000 in 2015, and the respective outstanding balances of

aggregate money lender loans for consumers and businesses (mostly SMEs) also declined sharply, from 19.9 trillion yen and 23.5 trillion yen, to 6.2 trillion yen and 16.7 trillion yen, respectively, during the same period. Although the two major consumer lenders, Acom and Promise⁷⁰, under the respective umbrellas of the Bank of Tokyo-Mitsubishi UFJ (BTMU) and Sumitomo Mitsui Banking Corporation (SMBC), could survive, Takefuji, which did not have a strong relationship with banks, filed for bankruptcy in September 2010 due to the enormous excess interest reimbursement burden. On 21 February 2011, Bloomberg reported that the aggregate amount of excess interest reimbursement liabilities as of the end of October 2010 had reached 2.4 trillion yen, while the net outstanding balance of aggregate loans subtracting these liabilities was only 75 billion yen.⁷¹ Some scholars and commentators have positively evaluated the court rulings and the reform, specifically in regard to the decline in both the number of borrowers with five or more consumer lenders and personal bankruptcies (Suda 2010; Gibbons 2012). Others have criticised it, arguing that the excessive government restriction of money lenders' credit extension to consumers and SMEs does not actually rescue economic losers, but rather, lowers market efficiencies and stifles the economy (Masuhara 2012; Kobayashi 2009).

Japan's reform in the consumer finance industry was exceptionally radical, and from the viewpoint of neoliberalism it was irrational and wrong. Why did Japan radically re-regulate consumer credit? It is said that morality and reputation are sometimes more powerful determinants of people's behaviour than laws and contracts due to the strong group consciousness in Japan (Habuka 2014). One of the Supreme Court judges, who denied the validity of the grey zone interest rates, commented that it was unjust that a number of people had committed suicide due to extremely high interest rates, while consumer lenders

⁷⁰ Promise is SMBC Consumer Finance at present.

⁷¹ This report was in line with Kobayashi's (2009: 54) estimate that the amount of excess interest reimbursement liabilities was likely to be 2.5 to 3 times the outstanding balance of aggregate consumer lender loans.

earned unprecedented profits.⁷² Kaoru Yosano, Minister of State for Economic and Fiscal Policy and Financial Services, and Masuzumi Gotoda, Parliamentary Secretary of the Cabinet Office, took an initiative in the re-regulation of the consumer finance industry within the LDP. Yosano stated that whether the government should let distressed debtors borrow further or prevent them from borrowing was a matter of philosophy, and he clearly preferred the latter (Ide 2007: 105-6). He also revealed his belief that the government should prioritise the restriction of excessive lending over the negative effect of a restricted credit supply on the economy (ibid.).

In contrast, Masuhara (2012: 79), a former MOF official and LDP politician, criticised this view as paternalistic or contemptuous of the public. He stated that Japanese politics is excessively skewed towards protecting socially vulnerable people, which results in market inefficiencies and vested interests, while vulnerable people lose self-help measures and efforts (ibid.: 27-44). However, Gotoda's statements, that the consumer credit industry reform was associated with the question of what kind of country Japan should be and that the safety of households should be a foundation of economic growth, were well-received by the media (Ide 2007: 135). The stance of the FSA towards the reform was more cautious than that of Yosano and Gotoda, but the agency supported the drastic reform partly because of its belief that consumer lending should be covered mainly by banks (ibid.: 77-8). Yasuhito Omori, head of the Credit System Office, who was in charge of the reform in the FSA, had a similar view on the consumer credit industry to that of Yosano (Suda 2010: 98-121). This case epitomises the Japanese dominant elites' tendency to prioritise social stability and protection over market efficiencies and self-help. I argue that systemic support for financially distressed consumers forced Takefuji and many other money lenders to go bankrupt. Furthermore, the most effective way to rescue distressed debtors is to relieve them of the fear of bankruptcy as a social stigma, along with

⁷² The *Mainichi Shimbun* newspaper dated 5 November 2006

providing financial education. However, this is probably the last thing that most Japanese dominant elites want, as they apprehend that frequent bankruptcies indicate the deterioration of social morality.

iv) Elpida Memory

Although Japan had been the world's largest producer of dynamic random-access memory (DRAM), a semiconductor mainly used for computers and mobile handsets, from 1986 until 1992, subsequently, its share in the global DRAM market plummeted, due to the strong yen and the rise of Korean and Taiwanese rivals. Most Japanese electronics manufacturers withdrew from the DRAM business during the late 1990s, while Hitachi and NEC, Japanese electronics establishments, spun off their DRAM businesses into their joint subsidiary, which was renamed Elpida Memory in 2000 and acquired the DRAM business from Mitsubishi Electric in 2003. Both Hitachi and NEC appointed Yukio Sakamoto, who had been Executive Vice President of Texas Instruments Japan, as the CEO of Elpida and delegated its reconstruction to him, but they were reluctant to provide sufficient business resources including capital expenditure funds for the subsidiary. As a result of Elpida's new share sales and the parent companies' partial sales of Elpida shares, by 2007 their relationship had become remote.

Elpida, as the last remaining Japanese DRAM maker, had increased its global market share from 4% in 2002 to 10% in 2006, but it encountered financial difficulty in early 2009 due to the extraordinary decline in DRAM prices caused by the GFC. However, the government bailed Elpida out under the Industrial Revitalisation Law, which was established in order to facilitate corporate restructuring in consideration of employment stability. The rescue package for Elpida consisted of 1) the DBJ's purchase of 30 billion yen of preferred shares issued by the company, 2) the borrowing of 20 billion yen from the DBJ, 3) loans amounting to 100 billion yen from 14 private sector banks, and 4) the purchase of 20 billion yen of new shares by the Taiwan Memory Company, to be

established by the Taiwanese government.⁷³ This bailout may be justified by three factors. Firstly, other governments also financially supported industries, such as the automobile and semiconductor industries, in order to mitigate the economic disruption caused by the GFC. Secondly, METI was deeply involved in the reorganisation of the semiconductor industry after the US-Japan semiconductor agreement (1985-95), which stabilised semiconductor prices and eventually delayed Japanese manufacturers' efforts to enhance cost competitiveness (Sato 2006). Lastly, MOF, which had supervised the DBJ, seemed to have an incentive to demonstrate the necessity of governmental banks, by providing emergency loans for JAL from the DBJ, and involving the revival of Elpida in order to shelve the complete privatisation of the DBJ, which had been decided by the Koizumi administration.

Elpida earned unprecedented profits between October 2009 and September 2010, but it recorded large operating losses afterwards and fell into a liquidity crisis in late 2011. Although the company sought financial support from the government, banks and clients and an alliance with its competitors, such as the US-based Micron Technology, *Nikkei Business Daily* reported on 3 February 2012 that private sector banks had demanded continuous support from the DBJ for Elpida and METI's re-authorisation to apply the Industrial Revitalisation Law to the company as conditions for the renewal of their loans, but the DBJ was reluctant to continue to support Elpida and had commented that it was inappropriate to rescue the company, which had failed to reconstruct itself over the last two and half years, once again. Furthermore, according to the report, METI officials had stated that the ministry was not a stakeholder of Elpida, and that the responsibility lay with its creditor banks. On 27 February 2012, Elpida filed for bankruptcy; it was the largest bankruptcy in the manufacturing industry.

⁷³ Eventually, Taiwan Memory Company's equity investment in Elpida was not realised due to the internal conflict within both the Taiwanese government and semiconductor industry.

Why did the government not rescue it from the second crisis? There are four major differences between Elpida's first and second crises. Firstly, at the time of the first crisis, the government had widely extended a safety net for corporate borrowers because of the GFC, while the second crisis might be regarded as an individual corporate issue. Elpida did not have a main bank, partly as both Hitachi and NEC kept themselves remote from it, and the non-existence of a main bank might have made the negotiations with the DBJ and METI difficult. Secondly, it was extremely difficult for METI to build a consensus towards the second bailout within the ministry given the failed first rescue, as there was internal conflict between METI's interventionist and liberal factions. Furthermore, the deputy director-general who had spearheaded the rescue of Elpida was arrested for alleged insider trading of Elpida shares, though he was not prosecuted in the end. This made it more difficult for METI to support the company publicly. Thirdly, MOF did not have any incentive to have the DBJ rescue Elpida from the second crisis. The ministry was concerned about the ballooning costs associated with the recovery from the Great East Japan Earthquake in 2011 and the compensation for the nuclear plant disaster, so they might have been reluctant to bail out distressed firms with public funds. Lastly, while Elpida was rescued under the LDP-led administration, the DPJ-led administration, under which the second crisis occurred, was generally less sympathetic to the business community than the LDP, as was the case of JAL.

v) Olympus

Olympus Corporation is a major multinational optical equipment manufacturer headquartered in Tokyo. Its world leading gastrointestinal endoscope business has earned a lucrative and stable profit, whilst other businesses such as digital cameras have been unprofitable recently. In October 2011, the CEO of Olympus, Michael Woodford, originally from the UK, was dismissed by the Chairman, Tsuyoshi Kikukawa. However, Woodford revealed that he had persistently asked

Kikukawa to explain the dubious extraordinary advisory fee associated with the acquisition of a British medical equipment manufacturer, which had resulted in his dismissal.⁷⁴ After the resignation of Kikukawa, Olympus announced in November 2011 that it had concealed its latent losses of 130 billion yen, which stemmed from failed speculative securities investments in the 1990s, with various cover-up gimmicks including fictitious M&A advisory fees and the false repurchase of preferred shares of an acquired firm. Meanwhile the Tokyo Stock Exchange (TSE) designated Olympus shares as Securities under Supervision for possible delisting, as its annual securities reports contained false statements.⁷⁵

If Olympus had been delisted, the firm might have had to pay an enormous amount of compensation, potentially leading it to insolvency. SMBC (the main bank for Olympus) and the BTMU (the ‘sub-main’ bank) had the respective aggregate exposures of 228 billion yen and 143 billion yen to the firm.⁷⁶ The President of the BTMU commented that the two banks would fully support the corporate borrower which faced a financial difficulty, while they would be vigilant in the forthcoming report to be published by the independent investigation committee, as the banks would not be able to continue to support the firm if Olympus had connections with anti-social groups. However, the committee concluded that only a limited number of top management and executives had been clandestinely involved in the accounting fraud, and no proof of financial outflow from Olympus to anti-social groups could be identified. In January 2012, the TSE announced the continued listing of Olympus on the ground

⁷⁴ Olympus’ financial fraud was originally scooped by a maverick monthly magazine, FACTA, and Woodford took its reports seriously.

⁷⁵ Major companies that were delisted and / or went bankrupt due to false statements in their annual securities reports include Yamaichi Securities, Seibu Railway, Kanebo and Livedoor. When Nippon Life Insurance and five trust banks filed lawsuits against Livedoor, seeking compensation for the damage caused by its share price decline, the Tokyo District Court ordered the defendant to pay 9.5 billion yen.

⁷⁶ *The Nikkei* dated 17 November 2011

that the revisions to the securities statements would have a limited impact on the turnover and operating profit despite the significantly decreased equity capital, whilst there had been no company-wide involvement in fraud. However, one of the reasons for the continued listing - no company-wide involvement in fraud - was questionable. This type of long-term and complicated accounting fraud could not have been conducted without a large number of people, and the top management's involvement alone is an extremely serious corporate governance problem.

If the government had really wanted to improve weak corporate governance, it should have delisted Olympus, which could potentially have resulted in the revamping of Japanese corporate culture. Then, how could Olympus have avoided its delisting? According to media reports, the consensus that the continued listing of Olympus was in Japan's national interest, otherwise it would be acquired by foreign capital, was formed within the government in late November 2011.⁷⁷ A likely scenario is that the main and sub-main banks and Keidanren strongly urged the DPJ, the LDP and the bureaucracy for the continued listing, emphasising the risk of foreign capital acquiring Olympus. These banks had enormous exposure to the company, whilst Keidanren was concerned that the potential revision to the Company Law would impose more rigorous corporate governance on Japanese companies – the industrial association did not want the delisting of Olympus to attract attention to the necessity of stricter corporate governance.⁷⁸ The DPJ, the

⁷⁷ The *Nikkei VERITAS* dated 27 November 2011 reported that the main and sub-main banks requested 'relevant parties' for the continued listing of Olympus. According to the *Nikkei VERITAS* dated 11 December 2011, some DPJ politicians were opposed to the delisting and concerned about possible acquisition of Olympus by foreign capital. Furthermore, the *Weekly Toyo Keizai* dated 17 December 2011 revealed that both METI and the MHLW intended not to allow the delisting and the acquisition by foreign capital, while the FSA wanted to put an end to the incident with a small amount of administrative financial penalty.

⁷⁸ The *Asahi Shimbun* newspaper dated 25 January 2012 reported that Keidanren was opposed to the compulsory introduction of an outside director system, while it pressured journalists not to write articles linking the Olympus incident with how to improve Japanese

LDP and the bureaucracy are inclined to have a strong allergy to foreign capital's acquisition of Japanese firms. In addition, non-Japanese shareholders with a significant investment in Olympus shares also solicited the TSE for the continued listing, as delisting could have been detrimental to their investment. Although these actors agreed on the continued listing, Japan missed a great opportunity to change its corporate culture. Woodford desired reinstatement as the CEO, but the main and sub-main banks and domestic shareholders refused this. This may reflect the Japanese business community's guardian morals (which emphasise loyalty, obedience, hierarchy and exclusiveness). From a western perspective (commercial morals), Woodford's whistleblowing was truly praiseworthy, but according to guardian morals it could be viewed as betrayal or disloyalty to the company.

vi) TEPCO

Prior to the Great East Japan Earthquake in March 2011, Tokyo Electric Power Company (TEPCO), the largest of the ten Japanese general electric utilities, enjoyed very high creditworthiness due primarily to its monopoly status in the Tokyo Metropolitan area and its strong government backing under the Electric Utility Industry Law. TEPCO has played a critical role in the Japanese economy and energy policy. The stable profitability of the general electric utilities is guaranteed by the 'cost-plus pricing method' and the 'fuel cost adjustment system'. Electrical tariffs are decided by adding certain profits to aggregate costs, where tariffs are adjusted monthly according to changes in fuel costs. The stability of the power supply is prioritised over market efficiency and consumer benefits through open competition among the power companies in Japan. Despite the increasing number of independent power producers since 1995, when the power generation business was deregulated, the market shares of these producers

corporate governance. In contrast, Doyukai commented that Japanese corporate governance needed an outside director system and other monitoring measures from outside.

have been stagnant due to the general electric utilities' regional monopoly in the power transmission and distribution segment.

Furthermore, the general electric utilities, including TEPCO, constructed nuclear power plants under the LDP-led government's initiative from 1966 onwards. However, the risk of a nuclear plant accident was considered to be too enormous for a power company so the Act on Compensation for Nuclear Damage was enacted in order to support victims and promote the healthy development of the nuclear power business in 1961. However, MOF, which intended to restrict the government's financial burden, made this law complicated and ambiguous (Takemori 2011). Its Section 3 stipulates that the nuclear plant operator shoulders the liability without fault for any nuclear accident, whereas according to Section 7, the government bears the burden up to a maximum of 120 billion yen per plant. It is unclear which party should bear compensation exceeding 120 billion yen. In addition, the exemption clause of Section 3 states that the operator is exonerated from liability if the damage is caused by 'a grave natural disaster of an exceptional character or an insurrection', but the law does not define these terms.

The Great East Japan Earthquake caused the meltdown of TEPCO's Fukushima Daiichi nuclear power plant, and the release of an enormous amount of radioactivity. The total number of evacuees from the accident exceeded 150,000, while the agricultural, fishing, tourist and other industries of the Fukushima prefecture suffered extraordinary economic damage (including that caused by harmful rumours). After the meltdown, there were disputes between several ministers of the DPJ-led government and the business community, including the major banks and TEPCO, over the exemption clause. The ministers insisted that the exemption clause should not be applied to the meltdown, given the anti-TEPCO public sentiment, while the business community claimed otherwise. As was the case with JAL, the DPJ probably intended to win the favour of voters by bashing the TEPCO management as corporate elites who had been overindulged by the LDP. The disputes made the CRAs concerned about whether

the government would financially support TEPCO, engendering the plummeted credit ratings for TEPCO.

However, in May 2011, TEPCO changed its stance and requested the government to support its compensation payments on the condition that it would pursue drastic restructuring. There were three reasons for the sudden change in TEPCO's stance.⁷⁹ Firstly, a high-ranked government official threatened TEPCO, stating that it should accept the state control and restructuring or otherwise go bankrupt without any government support. Secondly, the CRAs also told TEPCO that they would further downgrade its ratings if government support was not decided by the end of the first half of May 2011. Lastly, TEPCO's cash in hand was likely to decrease from 2.1 trillion yen to 90 billion yen by the end of March 2012. Although the turbulent political climate surrounding the ailing power company further downgraded its credit rating, the bill for the Nuclear Damage Liability Facilitation Fund (NDF) that would provide both public funds and supervision for TEPCO passed the Diet in August 2011. At first, the NDF injected public capital of 1 trillion yen into TEPCO. However, the accumulated public money provided for the company exceeded 5 trillion yen as of March 2015. However, the aggregate expenses for damage compensation, decontamination and plant decommissioning are expected to reach 21.5 trillion yen, according to the government estimate as of December 2016, almost double its estimate of March 2015 (11.2 trillion yen). However, the Japan Atomic Energy Commission's Technical Subcommittee on Nuclear Power, Nuclear Fuel Cycle, etc. under the Cabinet Office revealed in November 2011 that the maximum amount of total damages would be 48 trillion yen.

A number of scholars and commentators have criticised the government's rescue of TEPCO. Hideo Fukui, a professor at the Graduate Research Institute for Policy Studies, proposed TEPCO's bankruptcy and argued that the establishment of the NDF derived from the tacit agreement between the three

⁷⁹ The *Yomiuri Shimbun* newspaper dated 12 May 2011

parties, the creditor banks, which wanted TEPCO not to go bankrupt, MOF, which was eager to circumvent state compensation, and TEPCO, which desired its own survival.⁸⁰ He insisted that TEPCO and its shareholders and creditors should bear the burden before requesting assistance from the public. Takeo Hoshi, Anil K. Kashyap and Ulrike Schaefer maintained in the *Wall Street Journal* dated 19 April 2011 that the Japanese government should let TEPCO go bankrupt, and emphasised three points. Firstly, its stable earnings would facilitate debt restructuring. Secondly, its bankruptcy would not jeopardise other utilities. Lastly, the government bailout would create a moral hazard.

Why did the government rescue TEPCO despite these views? Sumiko Takeuchi (2014) of the International Environment and Economy Institute claims that TEPCO's bankruptcy would not contribute to the protection of nuclear accident victims for three reasons. Firstly, the application of the Act on Compensation for Nuclear Damage requires the existence of the nuclear plant operator liable for the damage (TEPCO). Secondly, difficulty in determining the aggregate amount of compensation liabilities would disable the application of the Corporate Rehabilitation Law or seriously delay compensation payments. Lastly, the compensation liabilities are subordinate to a large amount of secured bonds and DBJ loans. The International Environment and Economy Institute is a non-profit organisation that has close ties with METI and TEPCO, so Takeuchi's claim may support their benefits. Contrary to her argument, both TEPCO's bankruptcy and timely compensation payments for the victims could have been compatible through the pre-packaged bankruptcy with the support from the NDF. Why did METI and TEPCO endeavour to avoid the bankruptcy?

A key point is that both TEPCO and the government are responsible for the nuclear damage regardless of how we interpret the exemption clause. The government took a strong initiative in introducing nuclear power plants into Japan and has supervised the nuclear power business. However, TEPCO has

⁸⁰ The 9 August 2011 issue of *Weekly Mainichi Economist*

accepted unlimited sole responsibility for the nuclear damage in exchange for systemic support from the government, whereas the government, particularly both METI and MOF, has avoided taking responsibility and dealing with the nuclear damage and compensation directly. If TEPCO had gone bankrupt, its management responsibility for the accident would have been investigated even more harshly, and perhaps more importantly, the government's responsibility for the nuclear power policy and administration would have been pursued more severely. Furthermore, TEPCO shares are possessed widely by domestic individual investors, whilst a large proportion of TEPCO bonds are held by domestic financial institutions and pension investors. If creditor banks had been required for the write-down of loans for TEPCO, the banking sector would have become further risk averse. Eventually, the government prioritised stability over fairness and chose the scheme that would force no dominant elites into a corner. The government making TEPCO a scapegoat seems to reflect a 'system of irresponsibility', which Masao Maruyama (1961) called Japan's pre-war imperial system. He claims that the ethics of unlimited responsibility without any specified scope is imposed on Japanese society and that excessively heavy responsibility has created a system of irresponsibility (ibid.: 31-8).

However, I emphasise that advocates of TEPCO's bankruptcy fail to understand that the bankruptcy would endanger other utilities and the financial system. Despite high financial leverage, other utilities enjoy very high creditworthiness owing to strong systemic support from the government. Should TEPCO go bankrupt without government rescue, the CRAs and financial institutions would call government support for other utilities into question, potentially causing financial difficulties for them. The electric power business requires a constantly high level of maintenance investment in addition to enormous initial investment. The entire utilities industry has an aggregate debt amount of 25 trillion yen, approximately 50% of which is raised from the bond market and accounts for around 20% of the total amount of outstanding straight corporate bonds in Japan. Industries such as utilities, transportation,

telecommunications, steel, electronics, energies and general trading, which have close ties with the government through business licences and industrial and energy policies, account for nearly a half of the total debts held by all of the non-financial companies listed in the TSE. Both Japanese financial institutions and the society tend to believe that companies' close ties with the government and major banks, which receive strong government backing, enhance their corporate creditworthiness, whilst start-up companies, even with excellent technologies and ideas, often struggle with fundraising. One major problem of the Japanese financial system, or the entire society, is the household and corporate sectors' excessive reliance on systemic support along with their reluctance to take their own risks, which accelerates the debt concentration in the public sector as well as the financial asset concentration in bank deposits, and ironically enhances systemic risks, which were revealed in the nuclear accident.⁸¹

3.4 Corporate Restructuring Funds and Support Measures for SMEs

Following the examination of the recent major examples of Japanese corporate failures and bailouts, several institutions that have provided systemic support for financially distressed companies, i.e., government-backed corporate restructuring funds and public credit support measures for SMEs, will be spotlighted in this section. Why do government-backed funds have to be involved in corporate restructuring although there are quite a few domestic and overseas

⁸¹ According to national statistics on the flow of funds, the following equation can be witnessed: government net debt + corporate net debt + household net debt = overseas net asset. In this equation, a decrease in corporate net debt indicates weaker corporate risk taking. Takuji Aida, Chief Japan Economist at Societe Generale, argues that a significant increase in Japan's government net debt has stemmed primarily from a sharp decrease in its corporate net debt over the last fifteen years, while stronger corporate risk taking would decrease government net debt. Moreover, Omura and Mizukami (2007: 400-2) claim that in the Japanese financial system and society, most actors of which are homogeneous, given both low idiosyncratic (or non-systemic) risk tolerance and weak systemic risk consciousness, idiosyncratic risk tends to be low, whilst systemic risk is inclined to be high.

private equity funds? Bankruptcy is regarded as a social stigma in Japan, and often unduly impairs corporate value, so out-of-court restructuring is generally preferred over bankruptcy by both debtors and creditors. Although main banks usually took initiatives in corporate restructuring prior to the late-1990s financial crisis, the serious bad debt problem, the Basel capital rules and the shift of financial authorities' supervisory relationship with the banking sector to relatively arm's length principle-based (i.e., less explicit government support for banks) deprived them of the capacity to take such initiatives.

Fukasawa (2004: 60-1) points out two advantages of public institutions supporting corporate restructuring: the pump priming effect and the risk burden on tax payers. Firstly, as Japanese corporate restructuring businesses are lagging behind those in the US, public institutions' involvement in corporate restructuring as pump priming is expected to bolster private sector corporate restructuring. There were insufficient precedents and resources for private sector institutions to tackle corporate restructuring businesses in Japan during the early 2000s. However, once sufficient precedents and resources are accumulated, public institutions' involvement will squeeze private sector institutions. Secondly, private sector financial institutions may not bear risks up to the socially desirable level, which is called 'market failure', whilst public institutions can take larger risks than private ones. Japanese society, in which both companies and households are generally risk averse, seems to have a strong preference for government involvement in risk taking. Nevertheless, public institutions' involvement in corporate restructuring to overcome market failure can result in a 'government failure' or moral hazard, as these institutions have weaker incentives to monitor risks and they can disperse risks thinly throughout society (ibid.: 61). Okina (2006: 5) contends that the 'public sector neutrality' facilitates the adjustment of rights and interests among company stakeholders, which is particularly difficult in Japan. But given the vested interests of various bureaucracies, the public sector is far from neutral.

Why do Japanese people prefer government involvement in corporate restructuring? Yamagishi (2011: 1-6) argues that although in collectivist societies, including Japan, where people are connected through networks of strong ties, their behaviour is mutually monitored and controlled in order to seek security, such security is not based on 'trust' (a belief in the integrity of others) but on 'assurance', which can be defined as a system of mutual control within the network, and that collectivist societies, which have particularly strong 'in-group favouritism' vis-à-vis out-group members, produce security but destroy trust.⁸² He also maintains that 'risk taking is a critical element of trust building' between people in different social groups (ibid.: 165). Furthermore, there is a bilateral correlation between risk taking and trust. In Japanese society, which emphasises security and stability, both risk taking and general trust are weak – the above-mentioned difficult adjustments of rights and interests among company stakeholders may stem mainly from weak trust. It is likely that weak trust and risk taking have made individual actors' reliance on systemic support from the government strong.⁸³ In this respect, the heavy government involvement in Japanese corporate restructuring is based on social relations and norms rather than economic rationalities.

After the collapse of the financial convoy in the late 1990s, the capacity of main banks to promote the corporate restructuring of borrowers was significantly deteriorated, and the banking sector itself could not exit the mire of bad debts. In

⁸² Yamagishi (2011: 3-4) agrees with Francis Fukuyama's (1995) view that strong familism tends to hamper the development of general trust beyond the family, but disagrees with his argument that Japan is a high trust society along with the US and Germany. In addition, he concurs with Putnam's (1993) perspective that 'general trust beyond the family or the group is central to the civic society' and that 'the decline in trust could result in not only weaker economic performance but also a crisis of democracy' (Yamagishi 2011: 4).

⁸³ Despite the generally high dependence of Japanese people on their government, according to the Asian Barometer survey in 2003, Japanese people's trust in their own government was much lower than those in other Asian countries such as China, India, Malaysia and Thailand (Koike 2010). However, Oyama (2009) maintains that this was mainly because of Japanese people's extremely high expectations of the government.

2002, the Koizumi administration announced the ‘Financial Revitalisation Programme’, which required major banks to reduce their non-performing loan ratio (8.4% as of March 2002) by half within a three-year period. As part of this programme, the Industrial Revitalisation Corporation of Japan (IRCJ), a government-backed, limited-period corporate restructuring fund, was established under the Cabinet Office. It is said that MOF proposed the setup of this government-backed emergency rescue fund. The IRCJ’s functions included purchasing bank loans for distressed companies at fair market values, providing loans, equity capital and management consulting for these companies and adjusting rights and interests among company stakeholders, for instance, by negotiating debt waivers with creditor banks.

The purposes of the IRCJ’s establishment entailed: 1) to contribute to the enhancement of the competitiveness of the whole spectrum of industries to carry out the prompt business revitalisation of faltering companies; 2) to work for the smooth recovery of financial intermediary functions to rapidly dispose of bad debts; and 3) to boldly advance corporate and industrial revitalisation as a joint effort of the industrial and financial sectors (Okina 2006: 8). Despite its government-sponsored company status, most of its executives and staff members were specialists who had worked in the private sector, including management consultancies, law firms and accounting firms. Its corporate valuation was based on cash flows, whilst its expected investment returns were set according to calculated risk levels. Furthermore, the IRCJ rejected Keidanren’s attempt to dispatch a senior executive to the fund and sent back bank officers seconded for the establishment of the fund to the banks in order to avoid conflicts of interests. The fund did not accept many seconded bureaucrats.

The number of cases in which the IRCJ assisted was 41, and the amount of aggregate debts borrowed by all of the assisted companies just before assistance approvals was approximately 4 trillion yen, out of which Daiei (a large retail chain) and Kanebo (textiles and cosmetics) accounted for the majority.

Furthermore, the IRCJ earned profits of around 40 billion yen through turnaround transactions when the fund was dis-incorporated in 2007. However, the IRCJ used only 1.2 trillion yen out of the 10 trillion yen government budget allocated for the fund, while the number of assistance cases fell short of the target of 100 cases. It is fair to say that the IRCJ cautiously selected feasible turnaround projects although two companies assisted by the fund subsequently went bankrupt. However, banks were reluctant to consult with the IRCJ owing to their fear that the fund would demand that the banks forgive debt and borrowers' management take harsh responsibility (Kamesawa 2009: 21). Indeed, the fund sometimes dismissed top management and requested that banks forgive debt drastically. What alerted banks and borrowers was the IRCJ's strong faith in market discipline – for example, purchasing and selling bank loans at fair market values.

The IRCJ's Chief Operating Officer, Kazuhiko Toyama, commented that the fund was successful as it did not succumb to political pressure to distort market principles from traditional elite groups such as interventionist bureaucrats, conservative politicians and bankers (Toyama 2007: 92-7).⁸⁴ Many banks have established corporate restructuring funds, which usually deal with their parent banks' distressed corporate borrowers. Nevertheless, when the government mobilised various forms of systemic support, including quantitative monetary easing, the Financial Revitalisation Programme and the bailout of Resona Bank in order to prevent another banking crisis in the early 2000s, the IRCJ, albeit market-orientated, was a main provider of systemic support.

The non-performing loan ratio of the major banks precipitately dropped from 8.4% in 2002 to 1.4% in 2008, but that of regional banks decreased only from 8.0% to 3.7% during the same period. Consequently, the focus of corporate restructuring has been shifted from large companies to SMEs. In 2009, the ETIC, a public-private corporate restructuring fund, was established in order to assist

⁸⁴ Kazuhiko Toyama, who used to work for the Boston Consulting Group, has been a deputy chairman of Doyukai since April 2013.

with the restructuring of excessively indebted SMEs and large companies with useful business resources, although the fund's original assistance targets were SMEs and entities sponsored jointly by municipalities and private companies in rural areas. Another purpose of its establishment was to mitigate the negative impact of the GFC on the regional economy. METI took the lead in setting up the ETIC, while the fund had the budget for the government guarantee up to 1.6 trillion yen and functions similar to the IRCJ.

The ETIC injected 350 billion yen of capital into JAL and supported its restructuring under the pre-packaged bankruptcy proceedings from 2010 to 2012. This invited strong criticism, that the fund should allocate resources primarily to SMEs, as the ETIC was sponsored widely by regional banks. However, the number of ETIC assistance cases and the amount of its aggregate capital injections were merely 28 (out of which 11 were SMEs) and 370 billion yen, respectively. Despite the heavy personnel and financial involvement of banks in the ETIC, contrary to the IRCJ, banks and SMEs feared that the ETIC's stance towards them would be as harsh as that of the IRCJ. Another reason for the SMEs' reluctance to consult with the ETIC was their concern that the compulsory disclosure of names of assisted companies would damage their reputation, while the maximum assistance period of three years was quite short. Many SMEs seemed to regard receiving support from the government as a disgrace. In 2013, the ETIC was reorganised into the Regional Economy Vitalisation Corporation of Japan (REVIC). Simultaneously, the disclosure of the names of assisted companies became no longer compulsory, while the maximum assistance period was extended to five years. The ETIC was initially scheduled to be discontinued in 2014, but the expiry of the REVIC is 2022. Its discipline has become lax in comparison to that of the IRCJ.

In 2009, the Innovation Network Corporation of Japan (INCJ), another public-private fund, was founded on METI's initiative. The INCJ's objectives are 1) promoting 'open innovation' – the networking of technologies and expertise

across industries and firms, 2) networking technological and industrial prowess to create new industries for next generations, 3) providing ‘patient risk money’ to support the commercialisation of technologies and innovation, and 4) enhancing the value of investment portfolio companies. The government has made 286 billion yen of equity investment in the INCJ, while 26 corporations, including the DBJ, the three mega banks, Panasonic, Toshiba and Toyota have collectively invested merely 14 billion yen in the fund. The INCJ’s CEO, Kimikazu Noumi, insisted that the fund focused on companies with growth potential unlike the IRCJ and the ETIC, which assisted in corporate restructuring.⁸⁵

However, the INCJ has provided financial support for Japan Display (which combined the display-panel operations of Sony, Toshiba and Hitachi) and Renesas Electronics (a manufacturer of micro-controllers and systems-on-chips), in which the fund made respective equity investments of 200 billion yen and 140 billion yen. Individually, none of the display-panel operations of the three electronics majors could compete against Samsung Electronics and Sharp, but they could not decide to withdraw from their display businesses. Financial support from the INCJ is *de facto* subsidies to the recipient companies. In this respect, its large investment in Japan Display was unfair for its rival, Sharp, which faced financial difficulty from 2012 to 2016.⁸⁶ Against such criticisms, METI insists that the conservative and risk averse nature of Japanese top management is a major obstacle to creating new businesses and that the government highlighting potential growth areas gives corporate managers justification for changes in their stance and provides a sense of security for companies considering investment in these areas.⁸⁷

⁸⁵ The *Wall Street Journal* dated 5 December 2011

⁸⁶ Sharp, a major Japanese manufacturer of liquid crystal display panels and consumer electronic appliances, was acquired by Taiwan-based Hon Hai Precision Industry in 2016.

⁸⁷ WorldCareer 2009

The INCJ's support for Renesas Electronics, which was formed from the merger of the application-specific semiconductors operations of Hitachi, Mitsubishi Electric and NEC, was also controversial. Although Renesas boasted a 40% global market share of micro-controllers for automobiles and the largest domestic share of systems-on-chips (mainly for mobile phones, personal computers and game consoles), its profitability was very low and it occasionally incurred losses. The major reasons for its low profitability included 1) the excessive production capacity and high fixed costs, 2) the stagnation of key clients' mobile phone and computer businesses, 3) weak price bargaining power vis-à-vis its key clients (automakers and electronic appliance manufacturers), and 4) the excessive product quality and warranty requirements of automakers. Key clients' involvement in Renesas' production processes has made it difficult for the chip maker to improve its productivity based on its own decisions. One anecdote is that automakers often refuse Renesas' request for changes in the production facilities and processes on the ground that the changes would potentially lead to car accidents (Yunogami 2011: 38). Such conservative thoughts widely dominate the relationship between large establishment companies and subcontractors in Japan.

In March 2011, the Great East Japan Earthquake crippled one of Renesas' major factories. Its client automakers, including Toyota and Nissan, dispatched a large number of workers to the factory in order to assist Renesas in resuming the operation as microcontrollers are indispensable to automobiles. However, none of Renesas' key clients were willing to provide financial support to it, and in August 2012, Kohlberg Kravis Roberts, a New York-based private equity fund, proposed to invest 100 billion yen in the chip maker. This proposal made key clients concerned that Kohlberg Kravis Roberts would raise chip prices or divide Renesas up and sell them off, while these clients consulted with METI, which urged the INCJ to consider a possible consortium to invest in the distressed chip

maker.⁸⁸ In December 2012, a consortium of 9 companies, such as the INCJ, Toyota and Nissan, announced 150 billion yen of capital investment in Renesas, but the IRCJ's portion accounted for the great majority of this. The fund's capital injection was tantamount to subsidies to Renesas' key clients. In this respect, the INCJ has been much more constrained by the interests of traditional elite groups than the IRCJ. Furthermore, apart from the INCJ and REVIC, there are numerous government-backed and public-private funds, including regional funds co-sponsored by municipalities and regional financial institutions and the Organisation for Small and Medium Enterprises and Regional Innovation, many of which target SMEs.

Although the SME sector accounted for 62.0% of Japan's total employment in 2012, down from 68.6% in 1987 due to the decrease in the number of SMEs, the sector has been regarded as politically important since the early post-war period. There are three governmental financial institutions for SME financing, namely the Japan Finance Corporation for Small and Medium Enterprises, the Japan Finance Corporation and the Shoko Chukin Bank. In addition, 51 Credit Guarantee Corporations (CGCs) under the Japan Federation of Credit Guarantee Corporations, a public institution, provide government credit guarantees for financial institutions' SME financing. In addition to the standard government credit guarantees for SME loans, a special guarantee programme with full coverage of the loan value up to 30 trillion yen, was provided temporarily from October 1998 until March 2001 to ease the SME credit crunch, but this programme cost the government approximately 2 trillion yen, which is large relative to the aggregate credit guarantees, which amount to 40 trillion yen (Lam and Shin 2012: 15, quoted from Koo and Sasaki 2010). Subsequently, an emergency guarantee programme with full coverage of the loan value up to 36 trillion yen was arranged specifically from November 2008 until March 2016 to

⁸⁸ *The Wall Street Journal* dated 30 November 2012

mitigate the negative impact of the GFC and the Great East Japan Earthquake on the SME sector.

Following the bankruptcy of Lehman Brothers in September 2008, which had an extensively negative impact on the Japanese economy, in November 2008 the FSA relaxed the classification of restructured loans (which are part of broadly defined bad debts) for SMEs into the ‘normal’ category in order to support the SME sector. Then, upon the establishment of the DPJ-led administration in September 2011, despite the strong opposition from the banking sector, the government enacted the SME Financing Facilitation Act, proposed by Shizuka Kamei, the Minister of State for Financial Services and Postal Reform, to protect SMEs from the negative impact of the GFC. This act, with an initially specified expiry of the end of March 2011, required financial institutions to endeavour to provide generous treatment (e.g., debt rescheduling) for SMEs in distress. Its expiry was later extended to the end of March 2013. According to the FSA’s statistics, SMEs with an amount of aggregate loans totalling 120 trillion yen applied for changes in loan terms (e.g., rescheduling and lower interest rates), and 93% were accepted by banks. Despite the expiry of the SME Financing Facilitation Act, the number of SME bankruptcies has not increased sharply due to the FSA’s relaxed inspection criteria for SME loans and wide-ranging safety net measures, such as the safety-net financing for distressed small businesses by governmental financial institutions, government credit guarantees and public-private funds.

Lam and Shin (2012) of the International Monetary Fund point out six problems regarding the Japanese SME sector. Firstly, many SMEs have high financial leverage and low profitability, and the GFC aggravated their financial performance, particularly that of less creditworthy SMEs. Secondly, public credit support measures have made non-viable SMEs less motivated to exit or be restructured. Thirdly, government credit guarantees with full coverage of the loan value may cause a moral hazard. Fourthly, banks, in particular smaller regional

ones, have been reluctant to recognise losses associated with bankruptcies and the restructuring of non-viable SMEs as these losses would cause damage to their profit and capital. Fifth, the borrowing costs for less creditworthy SMEs have dropped below banks' breakeven rate due partly to government credit guarantees and safety-net lending. Lastly, the survival of non-viable SMEs could cause the deterioration of banks' credit assessment capabilities and decrease credit availability for viable SMEs and start-up firms.

Excessive systemic support has distorted the financial system and hampered the vigour and productivity of the SME sector. Nobuo Tomoda, Board Director of the Tokyo Shoko Research (a major SME credit information provider), maintains that many SMEs tend to rely heavily on their relationships with large client companies and public support measures, they have made little effort to improve value additions and banks have become reluctant to provide loans for less creditworthy SMEs without government credit guarantees, as bank officers who cause credit losses are severely penalised within their organisations.⁸⁹ It is clear that both banks and the government have enormous latent bad debts in regard to SMEs.

3.5 Persistent Systemic Support

Examining the recent examples of corporate bailouts, the government-backed restructuring funds and the public credit support measures for SMEs lead us to the question of why systemic support has been so persistent in Japan even since the collapse of the financial convoy. This question is related to another one: what kinds of political and social norms have promoted systemic support, which is often at odds with economic rationalities? Takeuchi (2000: 189-90) claims that the purpose of bureaucratic regulations is to protect 'socially vulnerable' groups from free competition, while the burden stemming from the protection is borne

⁸⁹ Interview with Nobuo Tomoda in October 2014

by the general public. Bureaucracies provide protection and occasionally penalties for the industries and institutions they supervise, and the industries and institutions indicate loyalty and obedience to the bureaucracies, which are sources of bureaucratic power, in exchange for that protection. Strong systemic support is needed in Japanese society in order to compensate for the weak general trust and risk taking of individual actors, while the exchange of dominant elites' systemic support and subordinates' loyalty has been instilled into society as a norm. If bureaucracies do not sufficiently protect the industries under their jurisdiction, they will not be able to maintain their power. The agricultural and SME sectors and the elderly are often viewed as socially vulnerable groups, but they enjoy strong protection and are actually vested interest groups.

Masuhara (2012: 27-44) maintains that although a number of regulations to protect 'socially vulnerable' groups, including the revision to the Money Lending Law, the SME Financing Facilitation Act and the Revised Worker Dispatch Law,⁹⁰ have been introduced over the last decade, these regulations have rarely assisted truly vulnerable groups in the long term. He also contends that regulations to protect socially vulnerable groups tend to be praised by the media and the public, which in turn provides more votes for the politicians proposing such regulations, whereas in fact these regulations are usually accompanied by the negative side-effect of gradually eroding the foundations of both the state and the economy, and that when the side-effect is realised, the politicians' responsibility is unlikely to be pursued (*ibid.*: 38-39). Once such regulations are ushered in, they are likely to become vested interests and bureaucrats and politicians are likely to be asked for further support measures, whilst removing vested interests is so painful that deregulations encounter fierce resistance. Masuhara's perspective represents

⁹⁰ The Revised Worker Dispatch Law was enacted in 2006 and intended to protect dispatched (non-regular) workers, for instance, by requiring client companies to provide employment contracts for dispatched workers who worked for them for longer than 3 years. However, this resulted in most client companies limiting dispatched work duration to 3 years or less, which made dispatched workers worse off.

those of the market liberalisation camp within the dominant elites. Furthermore, Japanese social norms that emphasise stability and dominant elites' protection of subordinates have also contributed to the proliferation of systemic support for socially vulnerable groups.

The remaining question is, why have large companies in distress, rather than people in unemployment or poverty, been rescued in Japan? Many of these companies are not purely profit-making organisations but have aspects of political institutions through which the government rules people indirectly. As long as corporate earnings are unstable, some political actors have to bear employment risk. Who, out of the government, companies and individual people, bear what proportions of this risk varies by country. In Japan, companies shoulder a substantial portion of employment risk through lifetime or long-term employment and large contributions to social security. Moreover, the social credibility of Japanese persons derives primarily from the social status of the companies they work for and their positions in these companies, whilst unemployment is a social stigma in Japan. In addition, the solidarity within social classes, for instance, through trade unions and industrial associations, is weak; most managers and workers have to rely on their current employers. Given these characteristics, most large Japanese companies, except for those led by capitalists (including founding families), are inclined to prioritise business continuity and stability over profit maximisation and do not encourage their employees to take large risks.

To put it differently, most large Japanese companies are dominated by a management-labour alliance against capitalists, which is hostile to short-term profit making. Both systemic support and in-group favouritism are cornerstones of this alliance and deeply embedded in the corporate system at the centre of Japanese society. Frequent corporate bankruptcies would destroy a management-labour alliance, strengthening capitalist power through enhanced capital mobility such as corporate restructuring, overseas investment and M&As. If capitalists

were to become dominant in the Japanese corporate society, they would sever the ties binding anti-free market administrators and subordinates together, and consequently, management would be deprived of autonomous power within their companies, while regular workers would lose stable employment.

The convoy system before the bursting of the bubble economy boosted risk taking by Japanese companies through risk socialisation. The corporate sector's strong risk aversion since the 1990s has been attributed not only to the diminished growth prospect of the Japanese economy but also the collapse of the financial convoy (or explicit government support). In the meantime, the attempt to shift the financial system from bank-centred to capital market-based has not been very successful, as the capital market-based financial system, hinged on weak ties, a promotion orientation and commercial morals, has been incompatible with Japanese social norms, which are based on strong ties, a prevention orientation and guardian morals. Furthermore, the endeavour to shift Japanese corporate governance could not change its essence, in-group favouritism, which has kept weak general trust and risk aversion unchanged. The successive establishment of government-sponsored funds (including public-private funds) and public credit support measures for SMEs can be regarded as attempts to create new risk socialisation schemes.

3.6 Conclusion

The first section of this chapter has discussed the continuity of Japan's bank-centred financial system between the wartime and post-war periods. The bank dominance of the financial system reflects Japanese society's anti-liberal, anti-free market norms centred on systemic support, which are consistent with its orientation for strong ties, prevention and guardian morals. Japanese social norms characterised its financial system and formed counter-hegemony vis-à-vis Anglo-Saxon financial hegemony. However, after the burst of the bubble economy in the early 1990s, Japan imported Anglo-Saxon style financial and corporate practices,

promoting capital mobility, weakening systemic support temporarily, and increasing major corporate bankruptcies from the mid-1990s until the early 2000s. These practices are linked to Anglo-Saxon societies' orientation for effective use of weak ties, promotion and commercial morals.

The tension between global norms and Japanese social norms was re-intensified from the mid-1990s to the early 2000s, when the former gained influence in Japan, whereas the latter was on the defensive. The collapse of the financial convoy made many people to expect the future convergence of Japanese capitalism to Anglo-Saxon one. Nevertheless, systemic support in Japanese society has been more persistent than originally expected. The major corporate bailout examples of Elpida Memory (in its first crisis), Olympus and TEPCO as well as the establishment of public-private corporate restructuring funds and support measures for SMEs have showcased the persistence of systemic support. The anti-free market camp has prevented the market liberalisation camp from taking over the former's hegemonic position within Japanese society.

The less business friendly DPJ aimed for obtaining favour from voters by rejecting the corporate bailout of Elpida (in its second crisis) and JAL and being reluctant to provide systemic support for TEPCO at first. There was disagreement between the DPJ and Keidanren over economic policy. On the other hand, the party set up the SME Financing Facilitation Act and increased social security benefits for low-income people and child-rearing households. However, the DPJ failed to maintain support from the public, and the DPJ-led government was short-lived from September 2009 until January 2012. Many Japanese people still appear to believe that what is good for big businesses is good for the country.

Moreover, the virtual reversal of the financial liberalisation, including the Japanese financial Big Bang, was exemplified by the revised Money Lending Law, which caused numerous bankruptcies of consumer credit companies including Takefuji. The drastic restriction of consumer finance reflected the prioritisation of social stability and protection of the socially vulnerable people, which are

associated with Japanese social norms (exemplified by strong ties, prevention orientation and guardian morals), over market efficiencies, that are linked to Anglo-Saxon global norms (epitomised by weak ties, promotion orientation and commercial morals).

Chapter 4: The Politics of the Japanese Credit Rating Industry

The research puzzle of this thesis is intertwined with another conundrum, which is why the major American CRAs, Moody's, S&P and Fitch Ratings (Fitch), have failed to dominate the Japanese credit market despite their growing global influence. Sinclair, who carried out extensive interviews on the Japanese credit rating industry in the late 1990s, claims that even Japanese market actors and officials were sceptical about the ability and neutrality of local Japanese CRAs, which lacked their own credit rating methodologies, mimicking those of the American CRAs, and were assisted by Japanese financial authorities and financial institutions (Sinclair 2005; Shima 2006: 26-37). In contrast to over 70 years of experience in the US, Japan had little expertise in American style credit rating when rating agencies were established in Tokyo in 1985. The number of Japanese borrowers rated by Moody's skyrocketed from 108 in 1991 to 420 in 1999 compared to that of Japan Credit Rating Agency (JCR), a local rating agency, which grew from 227 to 514. The American CRAs, with global brand power and superior resources, seemed likely to overwhelm the Japanese CRAs at that time. However, contrary to this prospect, the American CRAs' influence in Japan has diminished, whilst the Japanese CRAs have persisted and their legitimacy and utilisation within the Japanese credit market have increased. Moody's coverage number in Japan plummeted to 122 in 2014 in comparison to those of S&P, JCR and Rating and Investment Information (R&I, another local CRA) which were 140, 640 and 603, respectively. Fitch virtually withdrew from Japanese non-financial corporate ratings in 2009. This is a very puzzling outcome. Before tackling this conundrum, the growth, power and transformation of the American CRAs will first be discussed.

4.1 The US Rating Agencies and Financial Globalisation

The assessment of creditworthiness developed long before the birth of the two major CRAs, Moody's and S&P, in the US between 1909 and the 1910s. Banks, as financial intermediaries, virtually monopolised credit evaluation expertise in the pre-CRA period, although there were independent credit information providers. In 1909, John Moody, the founder of Moody's, started ranking the creditworthiness of borrowers by using letter rating symbols that measured expected losses of investors in the event of default. During the Great Depression, which began in 1929, approximately one third of the total outstanding amount of bonds went into default, and credit ratings obtained significant attention and trust from a large number of investors as a low proportion of bonds with high credit ratings fell into default (Morita 2010:60-1). According to Sinclair (2005: 26), American blue chip corporates and municipalities dominated the bond business centred on the US market from the 1930s to the 1980s, due to successive defaults and debt restructuring by major sovereign borrowers such as Russia (in 1918), Germany (in 1932 and 1939) and Japan (in 1942).

CRAs decide credit ratings for borrowers by assessing their ability and willingness to repay debts on schedule based on both quantitative (mainly financial) data and qualitative data such as macroeconomic, industry-wide and company-specific prospects, international competitiveness and management quality. Credit ratings are inevitably based not only on quantitative data but also on qualitative data, which significantly affect future financial conditions, and the creditworthiness of borrowers depends on their future financial conditions rather than their current ones. Furthermore, creditor-debtor relationships significantly influence the latter's willingness to repay debt, and such relationships vary greatly by society. In collectivist and anti-liberal societies, default and bankruptcy are often regarded as a social stigma so willingness to repay is generally stronger than in individualist and liberal societies. Collectivist societies, in which financially troubled banks and companies are often rescued, tend to be concerned about instability potentially caused by a major bankruptcy. These

qualitative factors are likely to contribute to differences in credit ratings for the same borrowers by different CRAs.

Despite their growing influence within the US capital market, neither Moody's nor S&P was financially prosperous until the 1960s. In the mid-1960s, S&P's corporate rating division had merely three full-time analysts, one part-time analyst, one assistant and one secretary (Wilson 1987 cited by Morita 2010: 65). Their prosperity derived from a drastic change in the business model in the early 1970s and financial disintermediation and globalisation from the 1970s onwards. Although the CRAs depended on fees from investors until the 1960s because they were concerned about potential conflicts of interest with bond issuers, the agencies started charging issuers rating fees. Moreover, it was disintermediation and higher ICM that significantly enhanced the business and political importance of CRAs. Disintermediation means that depositors seek more attractive returns from investments, including those in mutual funds, rather than interest from deposits, whereas borrowers look for better funding sources such as bonds and commercial paper than bank loans (Sinclair 2005: 54-5). This phenomenon started in the US and sharply expanded domestic rating businesses for the US CRAs. In addition, the breakdown of the financially restrictive Bretton Woods system in 1971 marked the initiation of higher ICM, and an increased number of industrially advanced countries centred on LMEs supported an open liberal financial order. Higher ICM promoted competitive financial deregulation and accompanying disintermediation in other countries, which provided overseas business for both Moody's and S&P.

Helleiner (1994: 4-6) maintains that the widespread use of capital controls in the early post-war period can be attributed to four factors. Firstly, 'embedded liberals' contended that the policy autonomy of the interventionist welfare state needed to be protected from speculative international capital flows. Secondly, there was a prevalent belief that a liberal international financial order would conflict with a stable exchange rate system and a liberal international trade order.

Thirdly, the Cold War engendered the US accommodative stance towards capital controls in Western Europe and Japan. Lastly, New York bankers' uncooperative attitude towards Western European governments in curbing enormous capital flight from Europe to the US due to the 1947 European economic crisis exacerbated the economic difficulty in Europe. However, the globalisation of finance started to re-emerge in the late 1950s and was further accelerated by the abolition of capital controls after the mid-1970s, which were due to the US and the UK pursuing their economic interests and the ensuing competitive financial deregulation (ibid.: 8-17).

Even before the breakdown of the Bretton Woods system, both the British and US governments supported the growth of the Euromarket in London, a regulation-free offshore market trading financial assets denominated in foreign currencies, mostly US dollars, during the 1960s. The British government's support was motivated by its aim to regain London's international position, whereas the US government wanted to enhance the dollar's appeal to foreigners as its external deficit expanded (Helleiner 1994: 83-91). Subsequently, with an increasing number of industrially advanced countries shifting from welfare states to Competition States, competitive financial deregulation occurred during the 1980s and 1990s, led mainly by the US. There are four explanations for why states increasingly supported financial globalisation (ibid.: 12-7). Firstly, restrictive financial centres witnessed outflows of their business and capital to more liberal ones after the emergence of the Euromarket. Secondly, the US abandoned the restrictive Bretton Woods system owing to its growing current account and budget deficits, whilst the 'Bank of England-Treasury-City nexus' in British politics kept the government commitment that London should be an international financial centre. Thirdly, the mainstream economic ideology shifted from Keynesianism, based on which the Bretton Woods system was established, to neoliberalism, which favours a liberal international financial order. Lastly, central bank officials from G-10 countries, 'the most cautious of the neoliberal

advocates', cooperated in supporting a regime based around the Bank for International Settlements (BIS) in Basel.

Moody's (1991: 4-5) illustrates that disintermediation, securitisation and globalisation promoted the explosive growth of the global credit market during the 1970s and 1980s. The ordinary definition of securitisation is the creation and issuance of tradable debt securities that are backed by cash flow from an asset or a group of assets such as residential mortgages, commercial mortgages, or credit card loan receivables. Securitisation, asset-backed securities and structured finance are often used interchangeably. Moody's (*ibid.*: 9) claims that, in a sense, disintermediation is interchangeable with securitisation: the money debtors used to borrow from banks is increasingly borrowed in the form of securities (including bonds, commercial paper and structured finance), i.e., it is securitised. In addition, structured finance (narrowly defined securitisation) started growing rapidly in the latter half of the 1980s – banks and non-banks began to repackage their financial assets into pools and sell them off to investors as tradable securities. Furthermore, both disintermediation and securitisation started with the US and expanded into other advanced industrialised countries including Britain, Germany, France, Australia and Japan, which contributed to the globalisation of the credit markets. The most remarkable example of this globalisation is the Euromarket (*ibid.*: 11).

The internationalisation of the US CRAs started in the mid-1980s – S&P opened its first overseas office in London in 1984 and the second in Tokyo in 1985, whilst Moody's established its first overseas office in Tokyo in 1985. Expanding their footprints into Japan was a natural step given the increasing number of Japanese companies' access to the Euromarket as well as Japan's financial deregulation, for which the US applied pressure through the Japan-US Yen-Dollar Committee. Financial globalisation made investors outside the US ask bond issuers for credit ratings during the 1990s, enormously magnifying the influence of the American CRAs in the global bond markets (Morita 2010: 78-9).

In addition to the internationalisation of credit ratings, the expansion of sovereign, municipal and high yield corporate bonds and the emergence of securitisation and credit derivatives further enlarged the US CRAs' sphere of influence. Thomas L. Friedman, a columnist of the New York Times, commented in 1995 that 'we live in a two-superpower world. There is the US and there is Moody's. The US can destroy a country by levelling it with bombs: Moody's can destroy a country by downgrading its bonds' (cited by Sinclair 2005: 1, Morita 2010: 79). This comment epitomises the extraordinary 'unconscious' power of the US CRAs in the global political economy. However, fierce overseas criticism of the US CRAs and substantial friction accompanied their internationalisation: for instance, in Europe and Japan, the agencies were criticised on the basis that their US style credit rating methodology and management policy did not fit the reality of overseas markets (Morita 2010: 78).

Sinclair (2005: 59-60) contends that CRAs engender knowledge, which is 'a product of conflicts between social interests' and hence entails social and political partiality initially – credit assessment covers not only quantitative factors including the recent profitability and financial leverage but also a qualitative judgement regarding factors such as management quality and business strategy – and subsequently objectifying this knowledge makes it authoritative. In addition, credit ratings do not reflect the current or previous creditworthiness of borrowers but the forecast of their future creditworthiness, and forecasting always requires a subjective interpretation and judgement. Sinclair (*ibid.*: 60-63) also argues that the US CRAs' knowledge is powerful for two reasons. Firstly, it has an influence on a specific stage of capitalist development (i.e., the decoupling of finance from the real economy) through 'embedded knowledge networks'. Secondly, the US CRAs as epistemic authorities are influential on the global distribution of capital, jobs and economic opportunity. The US CRAs' fundamental principles are the 'mental framework of rating orthodoxy', which regards ratings as rational, cross-cultural, instrumental and apolitical (*ibid.*: 69-70). However, ratings made by both US and non-US CRAs are based on specific

sets of norms, practices and knowledge structures and institutionalised into financial markets. The US CRAs have modified the norms and practices of the global political economy into American ways (ibid.: 174).

The nature of finance is not universally equal. Cox utilises the two contrasting concepts, the ‘synchronic’ and the ‘diachronic’, which originally derived from the study of language, in order to explain different mental frameworks of finance and production: the synchronic approach to thought fits with the profit-maximisation of financial markets, whereas the diachronic (or the time of duration) corresponds to more complex social processes such as production (Cox 1996a: 179-83). Sinclair divides investment into the following two forms: the synchronic investment form aims for short-term profit-maximisation and accumulation in financial markets, whilst the diachronic one connects finance with productive assets that enhance the social stock of material capabilities (Sinclair 2005: 58-9). Furthermore, Rethel and Sinclair (2012: 23 citing Searle 1969), following John Searle, maintain that ‘constitutive’ rules, which create purposes and new forms of behaviour, can be separated from ‘regulative’ rules, which limit existing forms of behaviour by regulation and penalty, and the former matter much more than the latter. The constitutive rules of financial markets are epitomised by the self-identification of CRAs and banks, investors’ confidence in CRAs as epistemic authorities and the subjectivity of credit ratings, whilst the regulative ones are exemplified by the BIS capital rules and the Dot-Frank act. The characteristics of both banks and the US CRAs have shifted from diachronic and constitutive to synchronic and regulative (Marandola and Sinclair 2014: 10). Relationship-oriented commercial banking and investment banking (together with the ‘originate-to-distribute model’ of lending) fit with the respective, diachronic-constitutive and synchronic-regulative categories. Both global and domestic changes in governments and financial markets have nurtured an increasingly synchronic logic of financial practice and regulation over the last 30 years, and the US CRAs have contributed to this transformation (Rethel and Sinclair 2012: 25).

The dramatic expansion of securitisation ratings and short-term profit maximisation have changed the nature of the US CRAs since 2000, when Moody's was listed on the New York Stock Exchange. At a US congressional hearing in 2008, Jerome Fons, chairman of the Credit Policy Committee at Moody's, testified that the agency's management had cooperatively endeavoured to make it more friendly to debt issuers, whereas Frank Raiter, former head of residential mortgaged-backed securities at S&P, testified that the profit contribution to its parent company, McGraw-Hill, had become S&P's focus by 2001 (Morita 2010: 89). Moody's securitisation ratings revenue skyrocketed from 143 million dollars in 1998 to 873 million dollars in 2007. There are four differences between corporate and securitisation credit ratings by CRAs (Matsuda 2012: 3). Firstly, unlike ordinary bonds, securitised products cannot be distributed without ratings, which promotes investors' heavy dependence on ratings. Secondly, corporate analysts assess the creditworthiness of companies and assign appropriate ratings for them, while securitisation analysts cooperate with investment bankers to design securitised products with 'target' ratings. Thirdly, corporate ratings are highly dependent on qualitative judgements of the future expectation of companies, whereas securitisation ratings tend to rely heavily on quantitative models. Lastly, securitisation ratings are more lucrative than corporate ratings. These points may illustrate why the US CRAs increasingly shifted to the synchronic-regulative category before the GFC. Although Moody's had assigned only 6 companies Aaa ratings globally as of 2010, it provided this highest rating, which could attract conservative investors, for over 40,000 securitised products between 2000 and 2007 (ibid.: 2).

Another reason for both Moody's and S&P's enhanced synchronic orientation was the revival of Fitch in the 1990s and the early 2000s (Sinclair 2005: 179). Despite its establishment in 1914, New York-based Fitch was no match for Moody's and S&P at the end of the 1980s. However, its presence in the global credit rating industry increased dramatically through its merger with IBCA Limited (a London-based CRA) in 1997 and the acquisitions of Chicago-based

Duff & Phelps Credit Rating and the rating business of Thomson Financial BankWatch, specialised in the financial services, in 2000.⁹¹ These takeovers significantly expanded Fitch's geographical coverage and boosted financial institution ratings worldwide.⁹² Furthermore, even before the takeovers, Fitch was competitive in structured finance and took advantage of the sharp growth in this field. Consequently, it became one of the 'Big Three' CRAs, albeit the smallest, in the early 2000s. Moody's and S&P's combined market share of global credit ratings was 80%, and Fitch accounted for 15%.⁹³ The threat of Fitch forced Moody's and S&P to compete to be one of the two CRAs chosen by debt issuers, which promoted the American CRAs' synchronic mind-set to maximise short-term profit.

As Yamauchi and Morita (2010: 2)⁹⁴ emphasise, credit analysis, including that of structured finance, is more of an 'art' (a subjective judgement based on both quantitative and qualitative factors) than a 'science' (an objective outcome deriving from qualitative ones). The blind faith in advanced financial engineering, closely associated with both the origination and analysis of a soaring amount of structured finance, erroneously promoted the smooth-running machine-like image of the financial markets, prior to the GFC. However, even numerical analytical models based on sophisticated financial engineering need to set up certain assumptions and interpret quantitative factors in order to be

⁹¹ IBCA focused on rating financial institutions, government agencies and British and European corporates, and Duff & Phelps Credit Rating, spun off from Duff & Phelps Corporation in 1994, specialised in rating companies in the US and over 50 overseas countries. Duff & Phelps Corporation is a global valuation and corporate finance advisor.

⁹² Fitch has been dually headquartered in New York and London since the merger with IBCA.

⁹³ *The Economist* dated 31 May 2007

⁹⁴ Naoki Yamauchi used to be former representative director of Moody's Japan office and securitisation rating expert, whilst Takahiro Morita was former managing director in charge of corporate credit ratings for Japan and Korea, Moody's.

operationalised, and there are no absolutely correct analytical models and ratings (ibid.: 1-3).

Although the subprime mortgage problem damaged the US CRAs' most important asset, their global reputation, unlike Arthur Andersen after the Enron failure, the agencies have survived and are still very influential globally. This demonstrates how the US CRAs have been deeply entrenched as indispensable and hardly replaceable epistemic authorities in the global debt market. However, the GFC triggered the backlash to Anglo-Saxon style financial capitalism and contributed to the diminished reputation of the US CRAs in Japan. Moreover, the primary cause of the US CRAs' fiasco was the shift in their mental framework and rules from diachronic-constitutive as disciplinary agents curbing the short-term motivations of finance to synchronic-regulative as short-term profit maximisers, and the recent efforts by various governments to improve the CRAs' governance – for instance, promoting competition among the CRAs, establishing their accountability and calling for more transparency of their rating process – have been ineffective in preventing these agencies from becoming a catalyst for another financial crisis (Marandola and Sinclair 2014). A key to improving CRAs' governance is the acknowledgement of rating subjectivity among the relevant parties, such as the CRAs themselves, financial authorities, investors and debt issuers (ibid.: 10, Yamauchi and Morita 2010: 1-3).

4.2 The Kisaikai Regime and the Development of Local Agencies

Three Japanese local CRAs – Japan Bond Research Institute (JBRI), JCR and Nippon Investors Services (NIS) – were incorporated in 1985 when Moody's and S&P opened their Japan offices. However, even prior to their incorporations, numerical ratings by the Bond Issue Arrangement Committee (Kisaikai⁹⁵), within which major banks had a strong voice, began to be assigned in 1959. The major

⁹⁵ The Kisaikai was originally named Kisai Uchiawasekai from 1949 until 1966, and was subsequently renamed as such.

banks were more influential in the Kisaikai than large securities firms in the early post-war period due to the strong state backing and their status as the largest investors in the corporate bond market. The Kisaikai regime originated from the controlled economy during WWII. In the 1920s and early 1930s, countless corporate bond defaults occurred in Japan due to a series of depressions after WWI, and corporate bondholders claimed that the bond underwriters were morally responsible for these defaults. In 1933, the banking industry, as the largest bond underwriters, took an initiative in regard to the ‘purification movement of corporate bonds’ to exclude financially weak companies from the market by enforcing the collateral principle, which required corporate bond issuers to provide collateral for trustee banks. This movement was supported by the financial authorities (MOF and the BOJ), while the collateral principle enhanced (trustee) banks’ influence in the corporate bond market at the expense of securities firms (Matsuo 1999: 36-40).

The depression in the late 1920s and early 1930s was a watershed in the history of the US and Japanese corporate bond markets – the depression increased the need for CRAs’ information to manage the credit risk in the US market, whilst it made the Japanese government and banks exclude credit risk from the market (ibid.: 14-5). The Temporary Fund Adjustment Act (Rinji Shikin Chosei Ho) of 1937, which intended to appropriate domestic funds for the Second Sino-Japanese War, diminished ordinary companies’ access to capital markets, and most of them had to rely on bank borrowing. MOF, the BOJ and the IBJ decided that the state would control corporate bond issuance in 1938, and this control was further intensified by the Bond Issue Planning Council (Kisai Keikaku Kyogikai), consisting of MOF, the Cabinet Planning Board (Kikakuin), the BOJ and the IBJ, from December 1940 until the end of WWII. Furthermore, the revision of the commercial law in 1938, which also reflected the wartime state control economy, stipulated that if corporate bond issuers could not redeem their bonds, their trustee banks would have to replace the redemption responsibilities endorsed by pledged collaterals.

This restrictive wartime corporate bond market remained in the early post-war period, although the US occupation forces intended to reconstruct the Japanese financial system to make it similar to the US one – commercial banks extend short-term financing, whereas capital markets provide long-term financing. However, the US occupation forces' elimination of major capitalists (mainly landlords and top management of Zaibatsu conglomerates and large firms), through the dissolution of Zaibatsu, the purge of top management, the agricultural land reform and the wealth tax, made it difficult for the household sector to take investment risk. Furthermore, the financial stability of the banking sector was relatively maintained due to its exemption from the Zaibatsu dissolution and the alleviation of the burden associated with the termination of indemnity to munition war industries. These developments and the government policy of prioritised credit allocation for key industries preserved bank dominance of the post-war financial system. The role of the Bond Issue Planning Council under the wartime controlled economy was inherited first by the Bond Raising Adjustment Council (Kisai Chosei Kyogikai) founded in 1947 and then by the Kisaikai. After WWII, bond issue control was led by the BOJ at first, but it was delegated to trustee banks including the IBJ from 1957.

The Kisaikai regime provided major banks not only with lucrative trustee fees as an economic benefit but also with their dominance of the credit market as political power. Domestic corporate bonds, which accounted for a marginal proportion of the entire credit extension to the corporate sector and supplemented mainstream bank loans, were virtually variants of syndicated loans under this regime (Matsuo 1999: 55). In 1959, the Kisaikai created its numerical ratings for bond issuers as criteria for MOF's 'corporate bond issue standards' (Tekisai Kijun), which were tools to control the corporate bond market – these ratings were not investment information like US credit ratings but indicated which firms could launch bonds. The ratings were based merely on quantitative factors, while its rating measurements (e.g., equity ratio and interest coverage ratio), among which the most important was the size of equity capital, favoured big businesses,

particularly those in the heavy, chemical and trading industries, which were the major banks' key customers as well as strategically important sectors for the government. The collateral principle was also favourable for big businesses in these industries that could afford to pledge large assets as collateral. Accordingly, both the Kisaikai and the collateral principle can be regarded as tools for prioritised capital allocation to strategic industries. The major banks tried to preserve their vested interest even after their dominance was undermined by higher ICM and financial globalisation.

Investor protection in Japan traditionally meant that ordinary investors should not incur any default risk, which is different from its definition in the US - where it means thorough disclosure of investment risk - and that main banks as trustees had to purchase all of the corporate bonds issued by their clients at par if they had fallen into default (Yamazawa 2003: 18).⁹⁶ It is likely that this custom nurtured Japanese debt investors' indifference to credit risk and risk aversion. In addition, Shima (2006: 26-9) contends that the Kisaikai ratings were mechanically upon decided by a handful of arbitrarily selected financial data and ratios and with a particular emphasis on corporate size, and that the role of these ratings was not as substance to evaluate default risks but a formality or barrier to control corporate bond issuance. Although the Kisaikai's numerical ratings gradually lost influence in the late 1970s due to financial globalisation and were abolished in 1990, its mental framework centred on systemic support and an emphasis on corporate size was partially inherited by the local CRAs. Furthermore, given the pre-determined decision of the government and banks to make a preferred credit allocation to specific industries and companies, the Kisaikai's numerical ratings could not reveal their thought process in a detailed analysis.

⁹⁶ Yamazawa is Executive Vice President of the Japan Exchange Group and a former high-ranked BOJ official.

Despite the abolition of the Kisaikai in 1996 and the corporate bond market deregulation, the Japanese market has not escaped aspects of the Kisaikai, such as the emphasis on formality – for example, investors are still constrained by norms developed under the Kisaikai regime, that they should not invest in non-investment grade bonds, which reflect a simplistic binominal risk assessment⁹⁷ – and risk aversion. This may be because the deregulation was driven primarily by MOF, highly creditworthy companies, securities firms and the pressure from the US government, whereas bond investors did not strongly request the deregulation. By contrast, the development of the US credit rating industry was promoted by growing investor needs. During the Kisaikai period, Japanese bond investors did not have to examine credit risk seriously since corporate bond default was inconceivable. Risk indifference and aversion have remained in the Japanese corporate bond market to some extent even since the deregulation. Furthermore, as Morita (2010: 117) claims, the primary purpose of most Japanese bond investors' use of credit ratings is not to examine credit risks (i.e., substantive conditions) but to meet their investment guidelines (formal requisites).

Even prior to the Yen-Dollar Committee in 1984, the Koshasai Kenkyukai (Bond Rating Study Group) was inaugurated as an in-house research institute within the Nikkei, a Japanese media company, in 1975, and subsequently, in 1979, it was reorganised into a non-statutory body named JBRI, which was later incorporated as a CRA.⁹⁸ The Koshasai Kenkyukai's inauguration was triggered by a joint venture between the Nikkei and McGraw-Hill, a parent company of S&P. The Nikkei, which was interested in credit ratings, researched American-style rating methodologies, both quantitative and qualitative, with the aim of

⁹⁷ In the interview with Takamasa Yamaoka, a criteria officer at S&P, in October 2014, he claimed that risk assessment by Japanese financial institutions and investors tends to be binominal (viable or not), whereas that by their Anglo-Saxon counterparts is inclined to be gradational just like multi-tier credit ratings.

⁹⁸ JBRI started distributing its credit ratings and bond yield data in the secondary market to bond investors through its magazine, the 'Nikkei Bonds and Financial Weekly', in 1979.

creating a Japanese version of S&P.⁹⁹ After a bilateral agreement made with the US government at the Yen-Dollar Committee, MOF was committed to the establishment and growth of two local CRAs, although the official story indicates that the ministry had an arm's-length relationship with local CRAs – NIS was 'guided' by the Securities Bureau, whilst JCR was a 'brainchild' of MOF's International Bureau (Sinclair 2005: 129-30; Egawa 2007: 91-2). Furthermore, NIS and JCR were also backed by core members of the Kisaikai led by the IBJ, and another group of financial institutions led by the Long Term Credit Bank of Japan (LTCB) and the DBJ, respectively. JBRI, independent from the government and banks, was spun off from the Nikkei as a CRA in 1985. In 1987, MOF made a revision to the corporate bond issue standards, and required bond issuers to meet specific levels of either the Kisaikai's or the CRAs' ratings. It nominated the three local CRAs and six non-Japanese CRAs, including Moody's and S&P, as Designated CRAs in 1992.

The movement for the corporate bond market deregulation started even before the Yen-Dollar Committee. The inauguration of the Koshasai Kenkyukai in 1975 is evidence of this, and the Nikkei is likely to have sensed the rising demand for the deregulation from the securities and corporate sectors. The 'Report on How the Japanese Bond Market Should Be', published in 1977 by the Securities and Exchange Council, MOF's advisory committee consisting of seven scholars, is further evidence. The council proposed the termination of the Kisaikai's ratings, the deregulation of corporate bond issues, the establishment of investors' self-responsibility principle and the introduction of an American-style credit rating system, among other things, in order to develop the Japanese bond market (Matsuo 1999: 73). One cause of financial deregulation in Japan was the government's massive deficit spending in the post-oil shock, the low-growth period after 1975 (Toya 2006: 108). Due to the large-scale issuance of JGBs to

⁹⁹ The joint venture, Nikkei-McGraw Hill, was established in 1969. When McGraw Hill sold off their stake in the joint venture to the Nikkei in 1988, the venture was renamed into Nikkei BP.

finance the deficit spending, it was increasingly difficult for MOF to have banks purchase JGBs with artificially low coupon rates, which were sold to the BOJ afterwards, and the ministry created a secondary market for JGBs in 1977.

Another cause of Japan's financial deregulation was the rapid expansion of highly creditworthy Japanese firms' bond issuance in the Euromarket. The restrictive domestic bond market was not attractive for these firms as interest rates on corporate bonds were similar regardless of their creditworthiness, and in the 1970s, many of them started to issue bonds in the Euromarket, which made MOF and the BOJ concerned over the hollowing-out of the domestic market (Yamori, Nishigaki and Asai 2006: 3-4; Laurence 2001: 121-2). From 1984 until 1993, except for 1987, the total amount of overseas corporate bonds issued by Japanese companies successively exceeded that of domestic corporate bonds issued. However, oddly, most Eurobonds issued by Japanese companies were purchased by Japanese investors, which indicates that the cause of the hollowing-out was the domestic corporate bond regulation (Matsuo 1999: 79-80). Although MOF's corporate bond issue standards required issuers to obtain specific levels of credit ratings from CRAs after the abolition of the Kisaikai's numerical ratings in 1990, the lifting of the issue standards in 1996¹⁰⁰ intensified competition among the CRAs in Japan, as bond issuance no longer compulsorily required credit ratings by CRAs (Yamori, Nishigaki and Asai 2006: 5).

4.3 Differences in Rating Agencies between the US and Japan

What are the similarities and differences in the credit rating industry and agencies between the US and Japan? At first glance, many similarities between the two can be observed. Firstly, the local Japanese CRAs use the same rating symbols as S&P and Fitch. Secondly, the local raters' analytical methodologies, which are based on both quantitative and qualitative factors, look similar to those of the US

¹⁰⁰ Before the lifting of the corporate bond issue standards, the respective, straight and convertible bond issues needed a credit rating from one CRA and ratings from at least two.

CRA. Lastly, credit ratings are major determinants of interest rates on corporate bonds in both countries. However, as of 1985, the US rating industry already had over 70 years' experience, while the US CRAs had built up global brand power. Shima (2006: 28-9) claims that the local CRAs at the initial stage lacked both sufficient accountability for investors and a 'thought process' in their rating procedures. However, former credit analysts at the US CRAs' Japan offices admit that the human resource quality of these offices was poor prior to the late 1990s financial crisis, which shifted high potential young people from Japanese banks to non-Japanese firms.¹⁰¹ Furthermore, at first, the New York headquarters of the US CRAs had a limited understanding of sectors in Japan such as shipping and steel (which are more internationally competitive than their US peers) and general trading companies and commuter railways (which are unique to Japan) as well as local practices including 'latent reserves' of properties and shareholdings and strong systemic support.

Moody's (1991: 63) recognised that the American style credit rating system could not properly function on its own and needed to be introduced as 'a broader programme intended to open the public debt market and to raise the general level of understanding on credit' after it started its overseas operations in the mid-1980s. The agency pointed out the following five prerequisites for the effective functioning of this rating system, which are entailed by the above programme: 1) removing barriers to an active and diverse debt market, 2) introducing open-market mechanisms, 3) establishing a credible rating agency structure and procedures, 4) financial regulators requiring the use of a credit rating for debt issuance and credit monitoring, and 5) promoting corporate disclosure and credit education (ibid.: 63-7).

Regarding the first point above, the Japanese government incrementally deregulated its credit market during the 1980s and 1990s but its market liquidity

¹⁰¹ Interviews with Professor Chieko Matsuda and Professor Yoshio Shima in November 2015

remained relatively low because of the homogeneity of the market participants. Concerning the third point, the American CRAs are independent of government and financial institutions, whilst the Japanese agencies have capital and human ties with local financial institutions. However, the Japanese agencies' compromised relationship has not been seriously questioned partly because most of the major investors in the Japanese credit market are these financial institutions and their affiliates (Shima 2006: 29-31). Regarding the fourth point, the Japanese financial authorities' tacit support for the local CRAs was problematic. Furthermore, unlike in the US, a debt issuer obtaining credit ratings from at least two CRAs is not a norm in Japan. Neither Japanese financial authorities nor investors have made it mandatory for debt issuers to obtain multiple credit ratings since the abolition of the Kisaikai in 1996.

Among the above prerequisites, the second point – debt investors need to be responsible for default risk – is the most critical. Moody's (*ibid.*: 64-5) clearly stated the following:

Perhaps the most crucial precondition is that investors who use ratings must be subject to default ... Investors may be willing to accept that (default) risk because they know in an efficient market they will be rewarded for the risks they are taking. However, if there is no default perceived risk of default, then investors will not find real value in paying attention to ratings, credit will not be a factor in investment decisions, and the rating agency will not be able to earn enough to maintain its professional independent status.

Although Moody's (*ibid.*) was well aware that systemic support was the largest obstacle to its success in Japan, it believed that the Japanese government's decision to introduce open-market mechanisms would help to enhance the

perception of default risk among Japanese investors and stimulate their demand for credit ratings. In the meantime, the agency thought that the adoption of a number of measures, including corporate disclosure and credit education (the above-mentioned fifth point), would pave the way for appropriate changes in market practices associated with credit (ibid.: 64-7). Since the 1990s, Japanese corporate disclosure has gradually improved due to pressure from equity investors (mainly overseas) rather than debt investors. The American CRAs have also made efforts to educate Japanese credit investors, but they have not successfully removed the norms developed under the Kisaikai regime from these investors. Although Moody's recognised that the norms and practices in the Japanese credit market were quite different from those in the US, it apparently expected the former to converge with the latter in the long term. Nevertheless, the agency did not understand that fully functioning open-market mechanisms would ultimately require the transformation of Japanese anti-free market norms.

In the US credit market, systemic support is extended mainly for major banks and public or quasi-public institutions, and few private sector firms can receive such support.¹⁰² Nevertheless, until the early 1990s, the American CRAs substantially accommodated systemic support for Japanese private-sector borrowers, many of which enjoyed high credit ratings with the American agencies despite their low profitability and/or high financial leverage. Nishimura (1999, 215-6), former chief of MOF's banking bureau, claims that the very high credit ratings of the major Japanese banks ultimately relied on strong government backing, and that such backing was eroded by the financial liberalisation, MOF scandals and breakup of the ministry during the mid to late-1990s. He also admits that the failure of MOF to accurately grasp the amount of the bad debts caused a systemic concern.

¹⁰² General Motors, which received public money under the government backed bankruptcy proceedings in 2009, arguably had similar systemic qualities to major banks and was an exception to this norm.

One reason why the American CRAs could accommodate substantial systemic support in Japan until the mid-1990s but have not done so since the late-1990s was that the agencies expected systemic support to decline, which is reflected in Moody's above statement. The other reason is that, observing the Japanese Financial Big Bang deregulation and temporarily weakened systemic support during the financial crisis in the late-1990s, the American CRAs probably considered the Japanese market was converging with the US market, and applied 'American standards' to credit ratings for Japanese borrowers (Kurosawa 2001: 101-2).

According to Yoshio Shima, the American CRAs at first considered that the strong social cohesion in Japan would make the government rescue banks in trouble and have banks support financially strained large companies, but MOF's weakened grip on the banking industry and the failure of major financial institutions such as Hokkaido Takushoku Bank and the LTCB shocked these agencies, resulting in the drastic downgrading of Japanese borrowers heavily dependent on systemic support.¹⁰³ However, due to the persistent systemic support, fewer Japanese large borrowers went bankrupt during the early 2000s than these downgradings suggested, resulting in the American CRAs' credibility being damaged in Japan. Just four Japanese firms caused defaults of publicly placed bonds larger than 10 billion yen from 1997 until 2004. Among them, only Mycal was rated by American CRAs. Moody's assigned Ba and B ratings to 66 and 24 Japanese firms respectively, as of 2000. Given its global default rates of 8% for Ba and 25% for B in five years, 11 Japanese firms were expected to fall into default.

The American agencies' modified view on Japan resembled that of many scholars during the 2000s, focusing on changes in the Japanese political economy and its possible convergence towards Anglo-Saxon style capitalism (Laurence 2001; Schoppa 2006; Jackson and Miyajima 2008; Rosenbluth and Thies 2010).

¹⁰³ Interview with Professor Yoshio Shima in November 2015

However, the systemic support in Japan is much more resilient and persistent than both the American CRAs and these scholars expected.

The Japanese credit rating industry and agencies are actually more different from the American ones than they may seem at first glance. Morita (2010: 114-42), former head of Japanese and Korean corporate credit ratings at Moody's, points out the following four peculiar features of the Japanese credit rating industry. Firstly, there are significant rating splits among the CRAs. Secondly, there is virtually no high-yield bond (with credit ratings lower than BBB) market. Thirdly, bond investors do not require bond issuers to obtain multiple credit ratings. Lastly, its profitability is much lower than that of the US and European markets, owing to the low demand for credit ratings and fierce competition among the five CRAs (i.e., R&I, JCR, Moody's, S&P and Fitch).

Regarding the first point, as of 2009, credit ratings by the local CRAs were on average two notches higher than those for the same borrowers by the US raters. Morita (*ibid.*: 128) claims that such rating splits are due mainly to differences in the extent to which CRAs take systemic support into consideration when assessing creditworthiness. Hiroaki Hayashi has criticised the US CRAs for failing to sufficiently take into account the strong systemic support in credit ratings because of their American centric perspective,¹⁰⁴ but this criticism cannot be applied to the 1980s and early 1990s when the American CRAs accommodated substantial systemic support in their credit assessment of Japanese borrowers. However, from the mid-1990s onwards, systemic support became diluted and less predictable because of the relative power decline of administrators such as MOF, banks and the LDP, which will be discussed in detail later.

The second, third and fourth points are related to Japanese society's inclination towards a prevention orientation and guardian morals, particularly its risk aversion and status quo orientation – bond investors repeatedly purchased

¹⁰⁴ Interview with Hiroaki Hayashi, a member of the board at Fokokushinrai Life Insurance, in November 2015

bonds issued by well-known companies without seriously examining their credit risk under the Kisaikai regime. An underdeveloped risk taking culture has hampered the creation of a high-yield bond market in Japan, apart from ‘fallen angels’ downgraded from high-grade to high-yield, which rarely go bankrupt. Kurosawa (2001: 105-8) claims that Japan has aimed to form a ‘riskless society’ for corporate bond issuers and investors where all of the credit risk is transferred to the government and corporate groups to which issuers belong. Shima (2006: 283-4) states that Japanese investors tend to invest in bonds blindly depending on their credit ratings rather than their own credit judgements, which means that borrowers with non-investment grade ratings can find few local purchasers. Supposing Companies A and B are assigned an investment grade and non-investment grade, respectively, despite the fact that their actual creditworthiness is equal, Japanese investors are likely to invest in bonds issued by Company A but not in those issued by Company B.

Credit ratings for US high-yield bonds are regarded as one of the US CRAs’ core skills and sources of earning. Nevertheless, without substantial risk perception, Japanese bond investors have limited incentives to require bond issuers to acquire multiple ratings from different CRAs and ask CRAs for rigorous credit assessment, which have been disadvantageous for the US CRAs. Many of them use ratings merely to meet their investment guidelines rather than to analyse investment risks. Without bond investors’ preference for US CRAs, Japanese companies often solicit local CRAs to obtain credit ratings, which accommodate systemic support and local practices to a greater degree than US ones. The corporate bond market’s risk aversion and status quo orientation discourage new potential issuers, to which banks indicate a generous lending stance. Less creditworthy Japanese companies prefer borrowing from banks, which are visible and negotiable creditors, rather than bonds held by faceless investors.

The weaker-than-expected demand for credit ratings and the fierce competition have caused significant discounts in rating fees, making corporate ratings in Japan less profitable. Earnings from profitable securitisation ratings compensated the US CRAs' Japan operations for losses associated with corporate ratings, but the GFC tarnished the credibility of both securitisation ratings and the judgement of the US CRAs. The Japanese credit rating industry was excessively competitive given that the number of corporate bond issuers in Japan (roughly 1,000) as of 2007 was only one sixth of that in the US, whose credit rating industry has been dominated by Moody's, S&P and Fitch (Kurosawa 2007: 10-1). This excessive competition led to fierce competition for ratings fees from bond issuers, and rating fees in Japan were much lower than those in other industrially advanced countries (Morita 2010: 119). Although JBRI made a profit during the mid-1990s thanks to its investment evaluation services, which analyse pension fund performances and assess the abilities of asset managers, both JCR and NIS were in the red. In 1998, JBRI and NIS merged, forming R&I due to the diminished growth prospect and low profitability of the rating industry and the threat from the globally reputed US CRAs.

Other differences between the US and local CRAs lie in their relationship with government and financial institutions and their management style. The US CRAs do not have any ties with the US government and financial institutions. In contrast, both R&I and JCR have accepted retired officials from MOF / the FSA, the BOJ and the DBJ although the latter agency has a much closer relationship with the government – since 1985, retired MOF / FSA officials have always been appointed to the CEO position of JCR. Although R&I, which is a subsidiary of the Nikkei, has maintained a relatively arm's length relationship with officialdom, the agency has ties with major banks owing to JBRI's merger with NIS, which was supported by MOF and a group of major banks led by the IBJ (presently Mizuho Bank). R&I's major shareholders include the Nikkei (shareholding ratio of 42.8%), Nikkei BP (13.4%), QUICK (8.2%), Mizuho Bank (5.9%), the BTMU (4.9 %) and SMBC (4.6%), while those of JCR comprise Jiji Press (19.7%), the

employee stock ownership plan (9.5%), Kyodo News (5.9%), Sumitomo Life Insurance (2.7%), Meiji Yasuda Life Insurance (2.7%) and Sumitomo Mitsui Trust Bank (2.7%).¹⁰⁵ The local CRAs have been criticised for their lack of independence due to their capital ties with major financial institutions (Shima 2006: 29-31, Sinclair 2005: 131). However, the transformation of the Japanese financial authorities' relationship with financial institutions from controlling to relatively arm's length and the weakened power of its banking industry in the late 1990s hindered their involvement in local CRAs' decision-making.

Although the ultimate goal of Moody's, S&P and Fitch is profit making, just like other private sector firms, the critical importance of their credibility and the labour-intensive nature of their corporate credit ratings prevented them from achieving high profitability until the mid-1990s. However, the explosive expansion of securitisation and Moody's listing on the New York Stock Exchange in 2000 significantly enhanced their profit-seeking inclination from the late 1990s until the outburst of the GFC. The demand for corporate credit ratings from new prospective bond issuers has been stagnant in Japan since the mid-1990s, whilst that for securitisation ratings surged sharply from 1997 until 2006. Securitisation ratings mass-produced by financial engineering models were very profitable for CRAs. Moody's, S&P and Fitch took advantage of their experience in the more advanced US securitisation market, and securitisation ratings became a major source of their profits in their Japan operations despite the gradual catch-up by the local CRAs. Both Naoki Yamauchi and Kei Kitayama, the heads of Moody's Japan office from 2002 until 2005 and from 2005 onwards, respectively, and Yu-Tsung Chang, head of S&P's Tokyo office from 2001 until 2013, were all securitisation rating professionals.¹⁰⁶ However, the total origination value of securitised products in Japan plummeted from 9.8 trillion yen in 2006 to 2.6

¹⁰⁵ Both Nikkei BP and the QUICK are members of the Nikkei group.

¹⁰⁶ Morita (2010: 102) reveals that both regional heads and key senior positions of the US CRAs were dominated by securitisation rating professionals during the 2000s.

trillion yen in 2010 due to the influence of the GFC as well as both the weak demand for and the distrust in securitised products.¹⁰⁷

All of the US CRAs have substantially scaled back their operations in Japan since 2009 because of their previous heavy dependence on earnings from securitisation ratings, which compensated for losses from corporate credit ratings before the GFC, and the diminished prospect of corporate credit ratings in Japan. Both R&I and JCR covered approximately 60% of all of the Japanese corporate borrowers (1,081) with credit ratings as of July 2007, while each of the three American CRAs (Moody's, S&P and Fitch) covered merely 15% to 25% (Kurosawa 2007: 7). The coverage of both Moody's and S&P has contracted substantially since the GFC.

I argue the local Japanese CRAs have more 'public-oriented' characteristics than the American CRAs. For instance, they make more effort to expand and maintain their domestic market share than the American agencies, which emphasise their own profitability and responsibility to investors. Nobuyuki Ito, CEO of R&I, which has a leading domestic market share along with JCR, boasted of its 'national flag' CRA status and its position as the most trusted and most frequently used CRA in Japan, in his remarks at the ceremony held in 2015 to mark 40 years since the foundation of JBRI (Rating and Investment Information 2015: 5). JCR has aggressively expanded its ratings coverage by providing generous credit ratings relative to R&I. JCR is also known for its close ties with the government.

The following arguments made by Makoto Utsumi, CEO of JCR and former Vice Minister of Finance for International Affairs, at the European Parliament Committee on Economic and Monetary Affairs in January 2012 highlight the contrasting perspectives of the American and Japanese CRAs (Utsumi 2012: 21-2). Firstly, while the US CRAs seem not to be concerned with the survival of the

¹⁰⁷ Statistics from the Japan Securities Dealers Association and the Japanese Bankers Association.

companies and countries they rate, JCR remains very cautious about downgrading issuers whose survival might be jeopardised and carefully avoids simply following or accelerating the market trend. Secondly, CRAs should fully understand the political and social structure as well as the corporate culture of the country where they are engaged in rating business. Lastly, although CRAs are privately owned, they should be endowed with an aspect of public goods, and consequently public responsibility, because their ratings exert a significant influence on the market, the fate of a nation and the fate of so many people. Utsumi has criticised US CRAs for neglecting the policy initiative, its underlying determination of the policymakers and the endurance of the people when assessing Euro-zone countries' sovereign debts.

Utsumi's first argument conflicts with the CRAs' fiduciary responsibility to investors – if a CRA's downgrading of a certain bond is delayed, this will increase the damage to its bondholders – although his perspective might be partially justified only if strong systemic support is extended for wide-ranging debt issuers. Japanese corporate management and related parties' (including accounting offices and CRAs) underdeveloped sense of fiduciary responsibility to investors, in favour of systemic support and in-group favouritism, has impeded the development of general trust in the financial market and consequently financial disintermediation. However, Utsumi's second and third arguments should be heeded by the US CRAs, whose behaviour and judgement tend to be affected by US centric norms and synchronic mentality. Such US centric norms and synchronic mentality (i.e., shareholder and financial capitalism) have clashed with Japanese social norms, which are centred on systemic support and in-group favouritism. Nevertheless, Utsumi failed to point out the possibility that systemic risk associated with excessive systemic support can cause enormous damage to the political economic system, as witnessed in the catastrophic downgrading of some European countries' sovereign and bank debts.

4.4 The Rise and Fall of the US Agencies' Power in Japan

Why have the Japanese local CRAs managed to survive and enhance their legitimacy despite their challenging situation in the mid to late-1990s? Why have their US rivals failed to be dominant and been recently marginalised in the Japanese market regardless of their global brand power? Two of the three local CRAs, NIS and JCR, received significant support from MOF and local financial institutions at the time of their establishment. However, this is not a major reason for the US raters' diminished influence in Japan given the following three points. Firstly, during the 1980s, these raters were welcomed by many Japanese banks and companies who enjoyed very high credit ratings. Secondly, their drastic downgradings of Japanese borrowers enhanced the influence of Moody's and S&P in the 1990s. Lastly, heavy criticism of MOF, the shift in the financial authorities' relationship with financial institutions to rule-based arm's-length and the banking industry's diminished power in the mid- to late 1990s made it difficult for them to control the local CRAs. Japanese media and commentators asserted in 1997 that Moody's downgrading struck a death knell for Yamaichi Securities, one of Japan's four largest securities firms, whose failure marked the beginning of the late 1990s financial crisis (Yamazawa 2003: 23; Shima 2006: 128-9; Motoyama 2008: 66). As the merger of JBRI and NIS to form R&I in 1998 indicated, local CRAs were threatened by the US CRAs' global brand power and growing influence in Japan during the mid- to late 1990s. However, the massive downgradings have made Japanese banks and companies increasingly disgusted with the American agencies, while due to systemic support, fewer Japanese companies have gone bankrupt than the downgradings suggested.

Following the bursting of the bubble economy in the early 1990s, a bad debt problem of an unprecedented size and a series of scandals surrounding MOF, both of which were by-products of excessive systemic support, caused the post-war financial system to malfunction and the financial convoy to ultimately collapse in 1997. In the mid-1990s, MOF, with its wide jurisdiction comprising public budgeting and finance, taxation, tariffs and customs, national property,

supervision of the banking and securities industries and international finance, faced both increasing criticism regarding its excessive power concentration and relentless pressure to break up the mighty ministry, which were intensified by successive financial issues including the failure of both Hyogo Bank and Kizu Credit Union, the Daiwa Bank scandal, the resultant emergence of the ‘Japan premium’¹⁰⁸ in overseas financial markets, the ‘wining and dining scandals’ and the Jusen (housing loan company) problem, in which both banks and MOF were involved (Nishimura 1999: 183-5; Toya 2006: 126).

When Prime Minister Hashimoto announced the Japanese Financial Big Bang deregulation in November 1996, most commentators and even MOF expected the banking industry to be bi-polarised into strong and weak banks and consolidated (Shima 2006: 93-7). Both Hyogo Bank and Kizu Credit Union were relatively small financial institutions, but their failure in 1995 signalled the beginning of the financial convoy’s collapse. More importantly, the Daiwa Bank scandal made overseas investors and the American CRAs call both Japanese banks’ risk management capability and MOF’s supervisory power over the banking industry into question. In November 1995, the US financial authorities ordered Daiwa Bank, a major Japanese bank, to close its US operations within three months, owing to the bank illegally covering up US\$ 1.1 billion of trading losses in its New York branch. However, the size of the Japanese banks’ bad debts was far larger than that of this trading loss. The Japan premium from late 1995 until 1998 reflected overseas financial institutions’ concerns not only over the creditworthiness of Japanese banks but also over both the ability and willingness of Japanese financial authorities to cope with the bad debt problems.

Domestically, the public questioned the integrity and ethics of MOF officials due to the wining and dining scandals involving unscrupulous financiers and the Jusen dispute at the Diet in 1995 (Toya 2006: 118). Whilst many retired MOF

¹⁰⁸ The Japan premium was the difference in funding costs between Japanese banks and other international banks.

officials were involved in the seven insolvent Jusens, which were under the ministry's supervision, the banks were the leading shareholders (founding institutions) of, and main lenders to, the majority of these Jusens which had huge exposure to distressed property developers. The liquidation of the Jusens required approximately 700 billion yen of public money to be injected in order to alleviate the losses of agricultural cooperatives, which had also had substantial exposure to the Jusens because MOF and Ministry of Agricultural, Fisheries and Forestry officials had secretly exchanged an ambiguous memorandum that could be interpreted as the founding institutions (mostly banks), backed by MOF, guaranteeing that the agricultural cooperatives would be provided with special treatment. Naturally, this invited severe criticism of both MOF and banks from the public and the media.

The Japanese Financial Big Bang planned to make Japan's financial markets 'free, fair and global' in line with global (i.e., American) standards. Following the announcement by Hashimoto, MOF rolled out the Big Bang plan in June 1997. The ministry stated that better use of the household sector's 1,200 trillion yen of financial assets and preventing the Tokyo financial market from 'hollowing out' were the main reasons for the deregulation (Hoshi and Kashyap 2001: 289). Modelled on the UK's 1986 initiative, the deregulation plan had five core themes: i) the liberalisation of transaction fees, ii) the lifting of the ban on financial holding companies to pave the way for 'financial conglomerates', iii) the termination of the convoy regulation to let less competitive firms to go out of business, iv) a reduction in administrative guidance by enhancing regulative transparency, and v) yen internationalisation (Malcolm 2001: 109-10). These themes clearly conflicted with systemic support and in-group favouritism. The key measures of the deregulation plan included: 1) the liberalisation of international capital transactions, 2) the liberalisation of financial products such as securities, investment trusts, derivatives and asset-backed securities (securitisation), 3) the deregulation of cross-entry into banking, trust banking, securities and insurance businesses, 4) the liberalisation of bond issuance for

commercial banks and non-banks, 5) the liberalisation of foreign exchange business, 6) the harmonisation of accounting standards with international practices, 7) stricter disclosure rules for banks and securities firms, and 8) the establishment of the FSA (Toya 2006: 120-8).

Prime Minister Hashimoto took a political initiative with the Big Bang in regard to its timing and scope, but most of the deregulation plan was created by MOF. Toya contends that MOF decided to try and regain public trust by supporting the measures, which had a negative impact on its own organisation and constituency (financial institutions) interests but was beneficial to the economy as a whole (*ibid.*: 178). Both MOF's credibility in the supervision of financial institutions and the legitimacy of its concentrated power deteriorated due to the bad debt problem and the successive scandals during the mid-1990s. In 1995, Asahi Shimbun was the first media outlet to call for the 'MOF breakup' in an editorial and others quickly followed suit (Malcolm 2001: 92). All of the political parties, the media and the general public attacked the ministry at that time (Toya 2006: 177). Although the financial convoy was a linchpin of the systemic support within the Japanese political economy, the convoy collapsed immediately after the announcement of Japan's financial Big Bang deregulation. In hindsight, the timing of Japan's financial Big Bang could not have been worse. Both MOF and the LDP underestimated the size of the huge bad debts in the Japanese banking sector at the time of the deregulation announcement, due partly to the unexpectedly long and steep decline in property values. MOF and the banking sector were squeezed by both the financial deregulation and the mounting bad debt problem (Nishimura 1999: 168).

The financial deregulation and the public opposition to public capital injections into distressed financial institutions hindered MOF from providing strong systemic support for them. The Hashimoto administration decided to withdraw the financial inspection and supervisory responsibilities from MOF and shift them to the newly established FSA. However, as of 1997, few people in

Japan recognised that what was happening to the Japanese financial system was not a crisis of weak financial institutions but a systemic crisis (Shima 2006: 122-6). The general public did not clearly understand how the bad debt problem would affect the entire economy and their jobs and livings. Even MOF, which was kept at bay, did not fully grasp the actual size of bad debt of the banking industry and had to prioritise its own organisation survival in the mid-1990s. In November 1997, the serial failures of Sanyo Securities, Hokkaido Takushoku Bank and Yamaichi Securities took place. These failures indicated the collapse of the financial convoy. In addition, numerous construction companies and property developers went bankrupt, and corporate bonds issued by several companies including Yaohan (a supermarket chain) went into default in 1997 and 1998. Japanese people no longer felt certain about systemic support during this period.

However, the collapse of the financial convoy and the numerous major corporate bankruptcies did not necessarily mean the termination of systemic support. Banks often conducted out-of-court debt restructuring as debt forgiveness and debt-for-equity swaps¹⁰⁹ in order to avoid borrowers' bankruptcy. The banks implemented such debt restructuring partly because of pressure from the LDP to keep its key constituencies such as the construction industry. The LDP-led coalition under the Mori administration (2000-1) pressured banks to forgive loans, whilst such direct disposal of bad debts was preferred by LDP politicians, as this prevented companies whose executives and employees represented electoral constituencies from bankruptcy (Amyx 2004: 243). However, banks themselves sometimes chose a relatively small amount of out-of-court debt restructuring in order to curb a larger impairment on their own equity capital associated with bankruptcy proceedings. However, debt restructuring was criticised under the Koizumi administration on the basis that

¹⁰⁹ Whilst debt forgiveness (or waiver) means that creditors voluntarily waive all or part of a debtor's obligations for debt repayment, a debt for equity swap is a transaction in which all or part of a debtor's debt is exchanged for its equity to alleviate the debt repayment burden.

debt relief to a distressed company would provide that company with an undue advantage vis-à-vis its competitors without such bank support (ibid.: 244).

MOF lost its initiative to stabilise the financial system as the ministry was under attack owing to the ‘excessive’ wining and dining of MOF officials provided by financial institutions in exchange for favours and confidential information, which was revealed in early 1998 and resulted in the arrest of five officials and the resignation of the finance minister, the BOJ governor, the administrative vice minister of finance and the director-generals of both the banking and securities bureaus (Nishimura 1999: 183-7). Furthermore, as Hoshi and Kashyap (2001: 275) maintain, ‘the Big Bang blew much of the convoy system out of the water’. Although the government belatedly injected 2 trillion yen of public capital into 21 banks in March 1998, it could not fully stabilise the financial system. Both the LTCB and the Nippon Credit Bank were relentlessly attacked by the financial market, and the respective banks were forced to be temporarily nationalised in October and December 1998. Japanese society finally realised that the financial crisis was not a problem only for the financial sector, and that the entire economy would be dragged into it. At last, in March 1999, 7 trillion yen of public capital injected into the banking industry contained the financial crisis, but even this injection could not fully resolve the bad debt problem.

The diminished power of both MOF and the banking industry weakened the systemic support and enhanced the influence of the US CRAs in the Japanese political economy. Japan’s financial Big Bang triggered the emphasis on ‘self-responsibility’ for risk taking by companies and investors (i.e., the denial of risk socialisation or systemic support) in Japan during the late 1990s and early 2000s. This type of neoliberal perspective was promoted by an increasing number of ‘reformist’ politicians, bureaucrats, economists, corporate executives and journalists, particularly those with study and work experience in the US. They thought that the convergence of Japan’s financial system and corporate

governance to American standards was needed in order to improve its economic conditions. Although there were no frequent major bankruptcies between the 1950s and the 1980s, according to Tokyo Shoko Research, a credit information provider, the aggregate annual amount of liabilities held by bankrupt companies consecutively exceeded 10 trillion yen from 1997 until 2003. Many scholars and credit market professionals consider that the ‘real’ Japanese credit market came into existence in 1997, when credit risk was painfully perceived for the first time and credit risk premiums on Japanese corporate bonds started differentiating each other according to their creditworthiness (Shima 2006: 140-4; Gotoh 2014: 6-8). The largest corporate bond default in Japan, of 350 billion yen, was marked by Mycal in September 2001, and the default hurt countless institutional and individual investors.

The receded systemic support in Japan provided a conducive environment for the US CRAs, and both Moody’s and S&P wielded a significant influence in Japan during the late 1990s. The aggregate amount of domestic corporate bond issuance in 1998 exceeded 12 trillion yen, nearly double that of the previous year, due to the credit crunch caused by the banking crisis. Although the total amount of corporate bonds issued in 1999 plummeted to slightly less than 7 trillion yen because of the stabilised banking industry boosted by the massive public capital injections, corporate bond issuance increased again in 2000 and 2001, thanks to the law enacted in 1999 enabling non-banks to access the bond market. Whilst relatively creditworthy non-banks started issuing straight bonds, less creditworthy ones relied on securitisation. The securitisation rating business in Japan rapidly increased from the late 1990s, which financially contributed to the US CRAs’ Japan operations. Besides, Japanese investors expanded their purchase of structured finance products originated in the US. Both enormous bad debts held by Japanese banks and securitisation were lucrative business opportunities for American and European investment banks’ Japan offices, which expanded their operations swiftly.

The late 1990s financial crisis temporarily created the myth that Moody's and S&P exerted a great deal of influence in Japan. Already, in 1995, Moody's provided the lowest bank financial strength rating (i.e., creditworthiness without taking into account state support) for Hokkaido Takushoku Bank. Some Japanese media reported that the failure of Yamaichi Securities was triggered by Moody's downgrading of its rating (Yamazawa 2003: 23). Such anecdotes built up various myths over the US CRAs – for example, these agencies could acquire secret information that ordinary investors could not, or these agencies were involved in conspiracies with overseas governments, companies and investors against Japan and its companies (Shima 2006: 128-30; Matsuda 2011a). However, such things as critical information only obtained by the US CRAs and their involvement in conspiracies were unlikely, and these myths were generated by uncertainty and anxiety for Japanese society when systemic support was receded. In terms of the deterioration in Yamaichi Securities' financial conditions, Moody's downgrading was nothing but ratification after the fact (Shima 2006: 128-9).

The stagnant growth of the Japanese credit rating business and the strong brand power of the American CRAs forced the three local CRAs to consolidate into two – JBRI and NIS merged to establish R&I in 1998. Before the merger, the market shares of the CRAs in the Japanese credit rating industry in descending order was JBRI, NIS, JCR and then the US CRAs, but higher market shares did not necessarily indicate a stronger influence or higher profitability. Yoshihiro Hayakawa states that although there was a plan to integrate all three local CRAs into one, it failed.¹¹⁰ Although Moody's and S&P's rating universes in Japan were smaller than those of the local CRAs, the American CRAs had more market influence in the late 1990s. When an unprecedented number of large firms, which were not rated by the US CRAs except for Mycal though, went bankrupt owing to the weakened systemic support from the late 1990s until the early 2000s, even

¹¹⁰ Interview with Yoshihiro Hayakawa, chairman of the audit & supervisory board at the Nikkei and former managing director at R&I, in November 2015

the local CRAs had to follow the American agencies and implement massive downgradings for Japanese financial institutions and firms.

The US CRAs' strong influence in Japan was maintained to some extent by the receded systemic support and frequent bankruptcies in the early 2000s, but the myths over these agencies started fading during this period. With regard to the failure of Mycal in September 2001, no CRAs, including both Moody's and S&P, could expect the Japanese retailer to go bankrupt in the near future even as of the beginning of 2001. Moreover, the bankruptcy of Enron, a large American energy company, in December 2001, significantly tarnished the credibility of the US CRAs – neither Moody's, nor S&P nor Fitch could detect its accounting fraud regarding its enormous off-balance-sheet transactions, and all of them assigned Enron a relatively high BBB (Baa) rating even as at the end of October 2001. When the energy company filed for the application of Chapter 11, its total liabilities reached 31 billion US dollars, but this figure could have been larger if all of the off-balance-sheet liabilities had been added. Because Enron's euro-yen bonds of 105 billion yen defaulted and hurt many Japanese investors, the American CRAs' reputation was damaged not only in the US but also in Japan. Many Japanese people realised that these agencies did not have a crystal ball or magic wand.

Nevertheless, even larger damage against the American CRAs was caused by the resurgence of systemic support in the mid-2000s. During the early 2000s, the bad debt problem of the banking industry was far from over. Based on their analysis of the insufficient attempt to contain the late 1990s financial crisis, the government and the BOJ made the following successive efforts to prevent another financial crisis: 1) the introduction and expansion of quantitative monetary easing in 2001; 2) the implementation of the Financial Revitalisation Programme (the so-called 'Takenaka plan') from 2002-2004 to accelerate the write-off of bad debts with rigorous bank inspection and public capital injections; 3) the establishment of the IRCJ, a government-backed corporate restructuring fund, in

2003; and 4) the bailout of Resona Bank in 2003. These measures drastically reduced the bad debts and major bankruptcies, and consequently the banking system regained its stability in the mid-2000s. Although a number of major firms, such as Sojitz (a general trading house), Isuzu Motors and Mitsubishi Motors, faced financial difficulties in the mid-2000s, most of them were rescued. There was no major default of publicly placed corporate bonds from April 2002 to May 2008 when it was difficult for investors in the Japanese credit market to perceive credit risk, which was a negative development for the American agencies.

Many Japanese banks and companies enjoyed very high (in hindsight excessively high) credit ratings from the US CRAs in the 1980s, but their ratings were downgraded more drastically by the American raters than the local ones after the bursting of the bubble economy. This massive downgrading made Japanese banks and companies antagonistic towards the US CRAs, and due to the resurged systemic support, fewer Japanese companies went bankrupt than the American agencies' low credit ratings suggested, which damaged the American CRAs' credibility in Japan. Merely four Japanese borrowers, among which only Mycal was rated by American agencies, caused defaults of publicly placed bonds larger than 10 billion yen from 1997 to 2004. These factors led to some borrowers' termination of rating solicitation for, or refusal to communicate with, the American CRAs as well as local investors' discontinuance of information subscription from these agencies. Matsuda (2011b) claims that Japan traditionally does not have a culture of disclosing negative information (e.g., low credit ratings and downgrading), which can threaten stability and security from a Japanese viewpoint. Such Japanese corporate behaviour reflects their strong inclination for strong ties (in-group favouritism), a prevention orientation and guardian morals, which prioritise loyalty over fairness (including fiduciary responsibility to investors).

The fewer-than-expected major bankruptcies and the dwindled credit risk perception (i.e., the resurged systemic support) lowered the American CRAs'

influence in the Japanese market from the mid-2000s onwards. The American raters tried to cultivate a high-yield bond market in Japan but in vain. This was because of Japanese investors' risk averse nature and excess funds at banks leading to cheap loans for less creditworthy companies. Most Japanese consumers believe in strong systemic support for the banking industry so bank deposits still account for over 50% of the household sector's aggregate financial assets, which is an obstacle to disintermediation. Furthermore, the weak demand for corporate credit ratings and fierce competition have caused significant discounts in ratings fees, making corporate credit rating business in Japan less profitable. Although earnings from profitable securitisation ratings compensated the US CRAs' Japan operations for losses associated with corporate ratings from the late 1990s until 2006, the 2006 revised Money Lending Law caused immense damage to the non-banking industry, a major user of securitisation in Japan. Subsequently, the GFC fatally impaired the credibility of both securitisation ratings and the American CRAs in Japan.

4.5 Credit Rating as an Ideational Battlefield

As the previous sections of this chapter illustrate, systemic support has been the largest obstacle to the convergence of the Japanese credit market towards the American credit rating orthodoxy. The Kisaikai regime reflected the endogenous Japanese social relations and norms, centred on systemic support and in-group favouritism. The ethos of the regime (e.g., the exclusion of default risk by systemic support) has remained within the 'mental framework' of both debt issuers and investors to some extent even since the Kisaikai was abolished in 1996. Yoshio Shima maintains that the US CRAs were influential in Japan from the mid-1990s until the early 2000s, when MOF and the banking industry lost power, but these agencies' influence has waned since the banks regained power in the mid-2000s after public capital injections and bad debt disposal.¹¹¹ Credit

¹¹¹ Interview with Professor Yoshio Shima in November 2015

rating in Japan is an ideational battlefield between the market liberalisation and anti-free market camps within Japan, which will be discussed further in the next chapter. Furthermore, the banking sector's recovery led to a resurgence of systemic support, which is central to Japanese society's anti-free market norms. Even today, what many Japanese debt issuers and investors actually desire credit ratings for is security of assurance rather than objective risk assessment – debt issuers would like to secure stable access to the corporate bond market, while investors hope for security from bond default risk. As long as systemic support and in-group favouritism remain, even if Japan tries to import Anglo-Saxon style financial and corporate governance, such governance does not really fit its society and political economic system.

Both the Japanese financial market and corporate society have a strong preference for long-term relations, while Japanese financial institutions and firms are generally reluctant to accept monitoring from the outside at ordinary times but ask for systemic support in times of crisis. At the late stage of WWII, corporate management obtained a freehand from the government, shareholders and banks after the failed attempts to maximise industrial output through state control, and employees acquired significant power within these organisations (Okazaki 1993: 118-20). Post-war Japanese financial institutions and firms inherited such characteristics, and the government and society had a consensus on employment maintenance. Although Japanese people generally do not prefer the survival of the fittest in corporate society due to the inflexible market, it has been increasingly difficult to maintain long-term employment since the bursting of the bubble economy. The failure of Hokkaido Takushoku Bank in 1998 caused more devastating damage to the economy of Hokkaido¹¹² than was originally expected, whereas the case of Ripplewood Holdings, an American private equity

¹¹² Hokkaido is the second largest and third most populated island in Japan.

firm, plundering the nationalised LTCB, traumatised the Japanese elites.¹¹³ Such events have made the elites reluctant to let banks and large firms go bankrupt.

A major side-effect of systemic support (risk socialisation) is the lack of individual actors' accountability, which can ultimately generate systemic risk, as observed in Japan's bubble economy and its subsequent burst. The Japanese financial system experienced serious systemic risk in the 1990s, and the government tried to transform it to capital market-based. However, the highly public characteristic of the Japanese banks has clashed with market liberalisation, whilst the backlash against financial globalisation and capitalist restructuring since 2006 has hindered the transformation. Furthermore, the securities industry could not become a counterweight against the banking industry because the former failed to obtain support from the financial authorities and trust from the general public. Although Japanese social norms have resisted the convergence to Anglo-Saxon style financial capitalism, some Japanese people, particularly younger ones, are disconnected from the traditional norms. Nevertheless, according to Yamagishi, even if some people reject the social norms, they cannot be certain of whether other people have also rejected the norms so they can hardly change their behaviour; this is called 'pluralistic ignorance' in social psychology.¹¹⁴ Furthermore, some practitioners argue that the key currency status of the British Pound and US Dollar and the international use of English facilitated the UK and US capital markets mitigating systemic risk within the banking sector through risk transfer to countless third parties, but Japan lacks these advantages.¹¹⁵

¹¹³ Interview with Mikihide Katsumata, President and COO of the Innovation Network Corporation of Japan, in November 2015

¹¹⁴ Interview with Professor Toshio Yamagishi in November 2015

¹¹⁵ Interviews with Professor Yoshitake Masuhara at Hiroshima University of Economics (previously a Member of the House of the Representatives and a high ranked MOF official) and Yasuyuki Kuratsu, CEO of Research and Pricing Technologies (former managing director at Chase Manhattan Bank), in November 2015.

The mental framework of the US credit rating orthodoxy is regarded as synchronic, whereas the US CRAs should be viewed as a nerve centre of financial globalisation under neoliberal hegemony (Sinclair 2005: 69). Synchronic financing has a high affinity to networks of weak ties, a promotion orientation and commercial morals. The synchronic characteristic of the US CRAs has been strengthened by financial activities such as leveraged buyouts, securitisation and financing for less industrialised countries, which have significantly expanded since the 1980s. In contrast, Japanese people generally have a strong preference for diachronic financing, which is closely associated with networks of strong ties (in-group favouritism), a prevention orientation and guardian morals (including systemic support). They believe that financing should not become an end as merely money making but should contribute to the real economy. The neoliberal policy under the Hashimoto and Koizumi administrations, which was a threat to traditional social relations and norms, and the GFC have justified Japanese society's strong sense of repulsion towards synchronic financing aligned with Anglo-Saxon style financial capitalism.

Although the US raters' power in the Japanese credit market, and its entire political economy, was enhanced during the mid- to late 1990s when the banking industry, the linchpin of the traditional Japanese financial system, was in crisis, its influence has waned due to the persistence of systemic support, central to Japanese society's anti-liberal, anti-free market norms and the recovery of the banking industry since the mid-2000s. In contrast, the local CRAs' legitimacy and utilisation within the Japanese credit market have increased, as these agencies take systemic support into consideration in their credit ratings to a greater extent than their US rivals – the local CRAs' ratings are closer to Japanese social norms and less conflicting with debt issuers. The essence of the local CRAs could be defined as a hybrid of the Kisaikai regime and the American CRA model. More importantly, the US credit rating orthodoxy aligned with Anglo-Saxon financial capitalism has been at odds with the Japanese credit market, which is still spellbound by the remnants of the Kisaikai regime. Consequently, the size of the

credit rating business in Japan has been constrained by such remnants as risk aversion and status quo orientation, although securitisation ratings temporarily boomed from the late 1990s until 2006. The US CRAs have scaled back their Japan operations because of the low profitability of the Japanese credit rating industry, while their local peers have continued to compete with the support of their shareholders. Although the US CRAs' influence in Japan has dwindled, the local CRAs are far from real winners. The former have underrated the persistence of systemic support for large firms, while the latter may underestimate the long-term systemic risk of the Japanese financial system.

4.6 Conclusion

This chapter has focused on an ideational conflict between the American and local Japanese CRAs, which belong to the respective market liberalisation and anti-free market camps. Although the business size of CRAs in Japan is much smaller than that of commercial banks and securities firms, the American and Japanese CRAs can be regarded as key 'ideational platforms' of these camps. Such ideational platforms spread out ideas, norms and practices to certain social groups and broader society. The American CRAs have spearheaded financial globalisation (i.e., Anglo-Saxon financial hegemony), disseminating synchronic financing, which is aligned with Anglo-Saxon society's orientation for weak ties, promotion and commercial morals, in many countries since the mid-1980s.

The Kisaikai, dominated by both MOF and the banking industry, displayed the continuity of Japanese political economy between the wartime and post-war periods as well as Japanese society's preference for diachronic financing, which is linked with its orientation for strong ties, prevention and guardian morals. The Japanese CRAs have inherited these characteristics from the Kisaikai, and taken a greater degree of systemic support into consideration in credit ratings for Japanese borrowers than the American peers. Japanese banks, most bond investors and issuers and MOF, which all belong to the anti-free market camp,

have been concerned about risk of synchronic financing (i.e., capitalist dominance) severing strong ties connecting them together. Material interests of these elites are intertwined with Japanese social norms, which are their tools to dominate subordinates.

The enormous bad debt problem, the financial crisis, the prolonged economic slump and the political scandals relatively weakened the power of Japanese anti-free market elites, enfeebling systemic support for financially troubled companies and financial institutions and strengthening the influence of the American CRAs in Japan from the mid-1990s to the early 2000s. The collapse of the financial convoy made the American CRAs anticipate the convergence of the Japanese credit market to Anglo-Saxon ones. However, despite the relative power decline of anti-free market elites, subordinate groups in Japan have continued to ask for systemic support, and the massive public capital injections due to the public call for stability have revived the banking industry, leading to the resurgence of systemic support since the mid-2000s. This proves the significance of subordinates' consent to social norms created and promoted by dominant elites, which makes a historic block durable.

The American CRAs' synchronic mental framework focusing on short-term profit and their underestimation of the persistence of systemic support in Japan contributed to their deteriorated credibility in Japan. The GFC significantly enhanced Japanese society's antipathy towards the American CRAs and synchronic financing. The American credit rating orthodoxy is at odds with Japanese social norms, and the influence of the American CRAs in Japan has waned despite their global brand and superior business resources since the mid-2000s. Put it differently, persistent Japanese anti-liberal, anti-free market social norms have struck back these agencies and resisted Anglo-Saxon financial practices.

Chapter 5: Japan's Ideational Developments and Corporate Governance

The rise and fall of the US CRAs' influence in Japan are associated with wider ideational developments, neoliberal reform and the subsequent anti-neoliberal backlash. As discussed in Chapter 4, the rise of the American CRAs' power from the mid-1990s until the early 2000s reflected the deteriorated legitimacy of the anti-free market camp and the growing influence of neoliberalism, whereas the fall of the agencies' power since the mid-2000s indicates an anti-neoliberal backlash. This chapter discusses the ideational contestation between the two major industrial associations (business lobbies) from the early 1990s to the mid-2000s, the persistent systemic support and in-group favouritism in Japanese corporate governance under financial globalisation, and the dynamics between the equity and credit markets. Major industrial associations have played roles of ideational platforms in the Japanese corporate community. An ideational conflict within the Japanese elites between the market liberalisation and anti-free market camps can be witnessed not only in the rivalry between the American and Japanese CRAs but also in that between the two major industrial associations.

5.1 Ideational Conflict within the Japanese Elite

Watanabe (2007: 296-318) contends that the Nakasone administration (1982-7) made only a preliminary attempt at neoliberal reform, while the beginning of neoliberal policy in Japan was observed under the Hosokawa administration (1993-4), which launched fiscal restructuring and electoral reforms to combat the political corruption and pork-barrel politics after the bursting of the bubble economy and the LDP's defeat. Afterwards, extensive economic reforms, such as deregulation in the financial, telecommunication and retail sectors, a reduction in public work, and privatisation of the postal savings system and the highway

building authority, were implemented under the Hashimoto (1996-8) and Koizumi (2001-6) administrations. Furthermore, capitalist restructuring was conducted in Japan during these periods. An ideational conflict within the dominant elites between the market liberalisation and anti-free market camps was witnessed from the early 1990s until the mid-2000s – the former camp consisted of market-oriented bureaucrats, reformist politicians, neoclassical economists, Doyukai (a neoliberal-oriented industrial association), non-Japanese firms and the US CRAs, whilst the latter comprised interventionist bureaucrats, anti-free market politicians, Keidanren (the largest, conservative industrial association), legal elites, banks and the local CRAs.

Japanese economic bureaucracy is not ideologically monolithic because of the bureaucrats' divergent views on market economy as well as the interests of the bureaus, which tend to be prioritised over those of entire ministries. For instance, METI has long witnessed an internal conflict between the interventionist and framework-oriented (market-oriented) factions. Within the financial authorities, the BOJ is regarded as more market-oriented than the interventionist MOF (Brown 1994: 204), although both institutions have interventionist and market-oriented factions. When the iron triangle between the LDP, bureaucracy and big business was dominant during the rapid economic growth period, the market-oriented bureaucrats were powerless. However, with the rising public debt and the intensified trade friction with the US from the late 1970s, the market-oriented bureaucrats steadily gained influence. Subsequently, the bursting of the bubble economy, political scandals and the financial crisis impaired the legitimacy of both economic bureaucracy (particularly interventionists) and the LDP, and significantly boosted the influence of the market-oriented bureaucrats and reformist politicians. Many market-oriented elites have study and/or work experience in Anglo-Saxon countries.

While members of the anti-free market camp in Japan are connected by both formal (institutionalised) and informal (personal) ties, those of the market

liberalisation camp tend to rely more on informal ties. As anti-free market norms were long embedded in key institutions such as the LDP, economic bureaucracy and big business, market liberals within these institutions used to be a minority. However, with the erosion of the old regime, market liberals became influential and started collaborating beyond the boundaries of their institutions. For instance, according to Toya (2006: 156-60), Kiyoshi Mizuno and Yasuhisa Shiozaki, who led the LDP's Administrative Reform Promotion Headquarters, and Eisuke Sakakibara, head of MOF's International Financial Bureau, worked closely and contributed to the enactment of the Japanese Financial Big Bang. Doyukai has been a key platform for market liberal business leaders, executives of foreign-capitalised firms and management consultants since the early 1990s. Under the Koizumi administration, Heizo Takenaka, an economics scholar and Minister of State for Economic and Fiscal Policy, and Yoshihiko Miyauchi, vice chairman of Doyukai and chairman of the Council for Regulatory Reform, promoted neoliberal restructuring. The two policy councils under the Cabinet Office, the Council on Economic and Fiscal Policy and the Council for Regulatory Reform, were also important ideational platforms where market-oriented business leaders and economists exercised their influence over policy making.

The market liberalisation camp was influential under the Hashimoto and Koizumi administrations. Public servants, bankers, farmers and small and medium-sized retail store owners, among others, were often seen as vested interest groups, while the average income of workers substantially declined from the late 1990s onwards. At first, many regular workers in the private sector probably considered themselves to have nothing to do with vested interests and supported the neoliberal reform, but subsequently they realised that their jobs were also protected by the old employment practices and regulations and that further market liberalisation could jeopardise them. Contrary to its neoliberal image, the Koizumi administration could not let many banks and large firms go bankrupt, and accordingly it injected a massive amount of public money into Resona Bank and established the IRCJ in 2003. These events demonstrate the

persistence of systemic support and the limit of neoliberal reform in Japan. Since 2006, when the Koizumi administration ended, an anti-neoliberal backlash has been driven both by the anti-free market camp of dominant elites and by subordinate groups such as regular workers with lifetime employment contracts and SME owners. These groups have criticised shareholder and financial capitalism as money worshipping – for instance, conservative corporate establishments despise upstarts, particularly those in the IT and non-banking sectors. Keidanren refused membership to major consumer credit companies until November 2002, when their business became much larger than a decade previously due to the financial deregulation.¹¹⁶

5.2 Industrial Associations Playing the Role of Ideational Platforms

Nobuteru Kikuchi (2005: 9), an expert in Japanese industrial associations, defines an industrial association as a federation of companies or corporate executives that coordinates the interests and opinions of its members and exerts influence over the political economy. Japan has three major industrial associations: 1) Keidanren, which absorbed Nikkeiren, an industrial association specialised in management-labour relations, in May 2002, 2) Doyukai, and 3) Nissho (the Japan Chamber of Commerce and Industry), which is a network of local economic organisations mainly focusing on SMEs.¹¹⁷ Keidanren (founded in August 1946), Nikkeiren (April 1948), Doyukai (April 1946) and Nissho (September 1952) were all established in the early post-war period. Many large Japanese firms are members of both Keidanren and Doyukai, while the latter's opinions and ideologies have changed drastically since its foundation, partly because of its personal (not corporate) membership of business leaders, unlike the former's

¹¹⁶ The *Mainichi Shimbun* newspaper dated 12 November 2002

¹¹⁷ Crump (2003) provides an empirical analysis of Nikkeiren, and sheds light on coercive class power, manipulation and mystification as features of capitalism in Japan, like elsewhere.

corporate membership. Doyukai comprises approximately 1,400 top executives of some 950 corporations, whereas Keidanren consists of about 1,350 member companies, 109 nationwide industrial associations and 47 regional economic organisations. Doyukai has been basically pro-American throughout the last seven decades, and has been affected by US ideologies, starting with broad-ranging Marxist thoughts including the New Dealers immediately after WWII, and neoliberalism since the 1980s.

Keidanren's predecessor was Juuyou Sangyo Tousei Dantai Kyogikai (the Important Industry Control Council), an umbrella organisation of 'control associations', which assisted the government in controlling procurement from key industries, boosted collaboration between related key industries and promoted key industries to form cartels during WWII. Therefore, Keidanren naturally inherited an anti-free market idea. This largest industrial association has been centred on wide-ranging manufacturing industries with a large number of employees, which has made it difficult to change its ideational stance. In particular, the investment goods sector, including industries producing plant, machinery, equipment, raw materials (metals, chemicals, etc.) and civil engineering goods, which rapidly developed in the wartime controlled economy, has been politically vocal and significantly influenced economic policy and credit allocation by the government and financial institutions in Japan (Matsutani 2009: 111-3; Teranishi 2003: 202-8). This has contributed to the prioritisation of producer interests over consumer interests. Importantly, until the mid-1990s, the government made enormous amounts of public investment in favour of investment goods manufacturers, resulting in a higher proportion of capital investment in Japan than in other economically advanced countries (Matsutani 2009 : 112-3).

The prolonged economic stagnation after the bursting of the bubble economy and successive political scandals involving politicians and MOF officials made some groups of dominant elites convinced that the Japanese post-war economic

system needed to be changed, while the deregulation of industries such as finance, retail, transportation and telecommunications and the introduction of Anglo-Saxon style business practices, including corporate restructuring, the active use of M&A, mark-to-market accounting, and pay-for-performance, executive officer and outside director systems were promoted during the 1990s and the first half of the 2000s. These movements created a schism between the market liberalisation and anti-free market camps.

From the demise of the LDP dominance in 1993 until the end of the Koizumi administration in 2006, generally speaking, Keidanren supported stakeholder capitalism and traditional Japanese style corporate governance (such as lifetime employment and in-group favouritism) although it proposed structural reform for the survival of big businesses and the reinvigoration of the Japanese economy. In contrast, the core members of Doyukai advocated shareholder capitalism and the necessity of a flexible labour market. Although the ideational demarcation between the two leading industrial associations was not necessarily clear owing to their membership overlap,¹¹⁸ I contend that the opinions of Keidanren, which reflected the interests of major industries and the whole business community, were based on collectivist perspectives, whereas those of Doyukai rested on individualist views. As Vogel (2006: 56-7) claims, Keidanren and Nikkeiren represented both the proponents and opponents of liberal reform so they had to arrange compromises between the two, which appeared somewhat favourable for potential losers from the reform. Even when Keidanren and Doyukai proposed deregulation, their purposes were sometimes different. When many of its members encountered financial underperformance, Keidanren had to protect its core members through market liberalisation such as the deregulation of temporary employment and the lifting of small retail store protection at the expense of

¹¹⁸ For instance, Yoshihiro Inayama (chairman of Nippon Steel), Gaishi Hiraiwa (chairman of TEPCO) and Takashi Imai (chairman of Nippon Steel) actively participated in Doyukai before being elected as the respective fifth (1980-6), seventh (1990-4) and ninth (1998-2002) chairmen of Keidanren.

outgroup members (including non-regular workers, SMEs, farmers and the public sector). Doyukai advocated market liberalisation based on its core members' individual belief that it served the best interests of capitalists and the capitalist economy as a whole.

The pre-war industrial association, Nippon Keizai Renmeikai (the Japan Economic Federation), was not very influential, mainly because of the dominant power of Zaibatsu conglomerates such as Mitsubishi, Mitsui, Sumitomo, Yasuda and Furukawa and the subsequent state economic control. Keidanren has been influential as the largest industrial association in adjusting and coordinating the different interests of individual industries and firms to exert influence over the government due to the dissolution of Zaibatsu. In this respect, the chairman of Keidanren have principally come from major manufacturers independent of corporate groups such as Nippon Steel, Toshiba, Toyota Motor and Canon.¹¹⁹ Kikuchi (2005: 193) contends that these industrial associations' power, which was established by the 1970s, originated from three activities. Firstly, they restricted a Zaibatsu style corporate governance system and established an economic structure in which the financial sector could not control the manufacturing sector. Secondly, the associations resolved problems within the business community by themselves and avoided intervention from bureaucrats and politicians. Lastly, they formed a system in which the business community could realise their demand for the LDP through political donations without falling into political collusion.

Interestingly, Kikuchi (*ibid.*: 45-6) claims that one major characteristic of Keidanren is that it is 'liberal', in that the manufacturing sector has been released from the yoke of the government and the financial sector, including Zaibatsu and

¹¹⁹ Paradoxically, this suggests that corporate groups such as Mitsubishi, Mitsui and Sumitomo have been influential even since the Zaibatsu dissolution, although these groups are only loose alliances among membership companies linked together by shared brand names, long-term business relationships and cross shareholdings, and are not tightly controlled by holding companies, unlike Zaibatsu.

the banks. This might be due to the personal beliefs and leadership of Taizo Ishizaka, the second chairman of Keidanren (1956-68) and president of Toshiba (1949-56), a major heavy electric machinery company. Ishizaka, who used to be with the Ministry of Communications and Transportation, was known for his dislike of bureaucracy. After expanding Dai-Ichi Life Insurance from the thirteenth to the second largest Japanese life insurance company during the pre-war period, he successfully turned Toshiba around by settling the labour dispute and reducing the workforce by 20% (around 6,000) in 1949. This success brought Ishizaka the chairmanship of Keidanren. He took initiatives regarding the liberalisation of trade and the deregulation of foreign capital investment into Japan. Although Ishizaka was liberal for a Japanese business leader, he was not a proponent of shareholder capitalism and capital freedom – he took over the helm of Toshiba and tackled its restructuring at the request of Mitsui Bank, its main bank. Most leaders (chairmen and vice-chairmen) of Keidanren over the past seven decades have been internally promoted in their firms, and constrained by systemic support (e.g., the protection of subordinates) and in-group favouritism.

Even during the 1960s, the major banks and sometimes Keidanren were involved in the rescue of numerous large firms. Sheard (1994: 213-9) enumerated 19 examples of main bank involvement in the restructuring of listed firms in the mid-1960s. Ten out of these rescued firms — were members of Keidanren.¹²⁰ In this respect, contrary to Kikuchi's view, a number of Keidanren members depended on the financial sector. Furthermore, major corporate bailouts by main banks from the mid-1970s until the late 1980s included Daishowa Paper Manufacturing, Chisso Corporation (petro-chemicals), Hitachi Zosen (shipbuilding), Mazda Motor, Eidai Industries (housing construction), Ataka & Co. (a trading company), Kanematsu-Gosho (a trading company), Japan Line

¹²⁰ They were Mitsui Chemical, Nitto Chemical, Maruzen Oil, Onoda Cement, Osaka Iron & Steel, Sanyo Special Steel, Nachi-Fujikoshi Corporation (industrial machinery), Fuji Heavy Industries (automobiles), Gosho (a trading company) and Yamaichi Securities.

(shipping) and Sanko Steamship (*ibid.*: 219-22). Hoshi and Kashyap (2001: 145) argue that the practice of banks bailing out financially troubled firms began in the occupation period and became a norm in the rapid economic growth period from the mid-1950s to the mid-1970s.

The restructuring of Maruzen Oil (currently Cosmo Oil), a major oil refinery, from 1962 to 1965 was a politically interesting case that involved its main bank (Sanwa Bank, which is the BTMU at present), Keidanren and MITI. In May 1962, MITI agreed with the financially distressed Maruzen on the establishment of an advisory committee to discuss a long-term restructuring plan (Hoshi and Kashyap 2001: 149-50). The advisory committee was chaired by Kougoro Uemura, vice chairman of Keidanren (1952-68), who became its third chairman (1968-74) after Ishizaka. The committee recommended the approval of Union Oil Company of California's equity participation in Maruzen on the condition that the American company was not directly involved in Maruzen's management and Maruzen's top management resigned (*ibid.*). Both MITI and Maruzen accepted these recommendations, whilst Sanwa Bank dispatched its executive to Maruzen as its new president.

The Kokkai Gijiroku (Diet Record) on the 17th Commerce and Industry Committee of the 43rd Diet (1963) reveals that Shunji Nakagawa, a Diet member, summoned Uemura and Kazuo Ueda, president of Sanwa Bank, to the diet regarding Maruzen's restructuring on 15 March 1963. Nakagawa expressed his concern about financial capital's growing inroads into industrial capital through seconding executives to management positions of industrial corporates, and criticised Uemura as a mediator of the business community for his excessive intervention in the management of private sector firms. Although Japanese manufacturers accepted Ishizaka's liberalisation policy when they enjoyed rapid export-led growth, which started with the special procurement associated with the Korean War (1950-3) and a dollar-yen exchange rate that was favourable for

Japanese exporters, Uemura's behaviour reflected Keidanren's underlying anti-free market ideology.

Another salient example of Keidanren's support for its member companies was witnessed when TEPCO fell into a financial crisis due to the nuclear plant accident in March 2011. A month later, Hiromasa Yonekura, the 12th chairman of both Keidanren (2010-4) and Sumitomo Chemical, asserted that the financial burden on TEPCO should be alleviated by the application of the exemption clause of the Act on Compensation for Nuclear Damage to the accident, which had been caused by an extraordinary earthquake, while the government should take responsibility for the compensation payments.¹²¹ Keidanren also opposed the separation of electric power generation operations from power distribution and transmission operations, which would be a great threat to the monopoly of major power companies, and recommended that the government restart the suspended nuclear plants immediately despite their environmental risk. This stance made Rakuten, an electronic commerce and internet company, withdraw from Keidanren in June 2011. Hiroshi Mikitani, Chairman and CEO of Rakuten, commented that Keidanren was an organisation established to advocate a convoy system to provide protection for member firms and make the society believe that its perspective was Japanese common sense, and that, in this respect, it was different from Doyukai.¹²² This anecdote demonstrates Keidanren's underlying anti-free market nature, which has hardly changed since the rapid economic growth period.

In contrast to Keidanren, Doyukai is less constrained by the common interests of the business community and key industries and tends to express its opinion more openly. The leaders of Doyukai do not necessarily come from specific industries or major companies, but two interesting tendencies can be observed.

¹²¹ *The Nikkei* dated 26 April 2011

¹²² The 20 February 2012 issue of *Nikkei Business*

Many of Doyukai's chairmen prior to the 1980s came from the public, utilities and banking sectors.¹²³ In contrast, since the 1980s, most of them – Takashi Ishihara (1985-91, Nissan Motor), Jiro Ushio (1995-9, Ushio Electric), Yotaro Kobayashi (1999-2003, Fuji Xerox), Kakutaro Kitashiro (2003-7, IBM Japan) and Masamitsu Sakurai (2007-11, Ricoh) – have been top management of internationally oriented firms. Kikuchi (2005: 29-37) describes ideational progressiveness and the incubation of future leaders for other industrial associations, including Keidanren and Nikkeiren, as key features of Doyukai.

In July 1947, Doyukai's study group, led by Banjo Otsuka, published a research report entitled 'A Draft Proposal for Democratising Enterprises – Modified Capitalist View', which called for enterprise democratisation, the separation of enterprise ownership and management, and co-ownership of business enterprises by management, capital and labour (Keizai Doyukai 1947: 2-9). Doyukai's executive board declined to accept Otsuka's perspective because of strong opposition from some members, but 'modified capitalism' became Doyukai's ideational symbol. James Burnham (1941), an American political philosopher, argues that regardless of whether ownership is corporate or governmental, with the separation of control and ownership of the means of production, the critical boundary between the dominant elites under the name of 'managers' (such as business executives and bureaucrats), who will eliminate the old capitalist class, and the mass of society was control of the means of production rather than ownership. Otsuka's modified capitalism and Burnham's 'managerial revolution' both separate control and ownership, but the former, which proposes an alliance between management, capital and labour, is different from the latter, which expects social dominance by managers or 'administrators'

¹²³ They include Kei Hoashi (tenure: 1946-7, previously executive director of the Important Industry Control Council), Shozo Hotta (1947-8, Sumitomo Bank), Masamichi Yamagiwa (1952-5, former Vice Minister of Finance), Sohei Nakayama (1957-9, The Industrial Bank of Japan) and Kazutaka Kigawada (1960-2 and 1963-75, TEPCO). Nakayama and Kigawada emphasised corporate social responsibility comprising responsibilities for shareholders, employees and the public (Okazaki *et al.* 1996: 108-11).

(in this thesis, the latter is used in order to avoid confusion with the former's meanings).

However, utopianistic modified capitalism did not work when Doyukai's proposal for labour-management cooperation encountered resistance from radical industrial labour unions aligned with the Communist Party between February 1946 and April 1948. When the US occupation forces shifted from pro-labour to pro-management (anti-communism) due to the beginning of the Cold War in April 1948, Nikkeiren was established to regain managerial authority in labour-management relations and strengthen the solidarity among employers. The industrial association, which publicly referred to itself as 'Fighting Nikkeiren', took a hard-line stance towards the radical labour unions (Pempel 1998: 94). Corporate management, who faced radical activities from existing labour unions, formed 'second unions', which were cooperative with management. Such second unions, protected by management, armed police and often thugs, sometimes violently confronted the first unions until the management deposed the leaders of the radical unions through 'personal curtailment' or other measures (ibid.). Crushing radical industrial labour unions and replacing them with obedient enterprise labour unions was Nikkeiren's largest achievement between 1948 and 1960 (Crump 2003: 77).

Japanese management-labour relations at most large firms have become cooperative since the management of Mitsui Mining, supported by Nikkeiren, defeated the radical labour union in the largest post-war labour dispute in 1960 (Kawakita 2011: 185). Whilst labour unions were moderated, corporate management tried to avoid the dismissal of designated workers, experiencing labour disputes against personnel cuts. Furthermore, encountering a labour shortage due to the rapid growth period in the 1950s and 1960s, an increasing number of large firms started to adopt long-term employment in order to secure labour. Transforming labour policy from hawkish to conciliatory, in 1963, Nikkeiren started to provide management training programmes for white-collar

workers in order to instil a management-like perspective into them, and in 1969 it displayed the slogan ‘all the employees’ participation in management’ (Crump 2003: 147-56).

Lifetime employment became a social norm, and judicial precedents established during the 1970s restricted Japanese employers’ right to dismiss their employees. In regard to the management-union dispute over layoffs at Nihon Shokuen Seizo (a salt producer), in April 1975, the Supreme Court judged that an employer’s exercise of its right of dismissal shall be void as an abuse of right, if it lacks objectively reasonable grounds and is not considered to be acceptable in general social terms. With regard to the layoffs at Toyo Sanso (an industrial gas maker), the Tokyo High Court pronounced that layoffs should meet the following four criteria: 1) necessity of dismissal, 2) effort to avoid dismissal (such as a hiring freeze and voluntary retirement programme), 3) selection of redundant workers on objective criteria, and 4) proper procedures including sufficient consultation with workers and labour unions.

Nikkeiren’s history reveals that cooperative management-labour relations in post-war Japan were not achieved by peaceful negotiations but by coercion, machinations and compromise. The relations between management, capital and labour were close to the managerial revolution described by Burnham rather than the tripartite alliance in Otsuka’s modified capitalism. The preconditions for administrators’ social dominance were inadvertently created by the US occupation forces’ elimination of major capitalists and the subsequent shift from pro-labour to pro-management policy. In the early post-war period, most of the members of Keidanren, Nikkeiren and Doyukai were not major capitalists but top management, promoted from the middle management of Zaibatsu and large firms, or bureaucrats, due to the purge of the previous top management by the US occupation forces after WWII.

Administrators as dominant elites curbed capitalist power through the separation of enterprise ownership and management, and provided protection and

support for labour in exchange for obedience. Banks were both loan providers and major shareholders, but were constrained by their long-term relationships with companies, so they could hardly desert major corporate borrowers in financial distress. In this respect, the Japanese banks lacked capital freedom and acted as administrators of corporate groups and intermediators between the private sector and the government rather than purely as profit-seeking capitalists. The most important mission for such administrators is the survival of their own organisations and (corporate) groups and the stability of the regime under which they are socially dominant. Accordingly, neoliberalism or market liberalism reasserting capitalist power has been a threat to administrators.

5.3 Growing Influence of Doyukai and Neoliberalism

Why and how did Doyukai shift from an anti-free market stance and stakeholder capitalism to neoliberalism and shareholder capitalism in the 1990s? Jiro Ushio, who was Doyukai's chairman from 1995 to 1999, provided the following explanation (the October 2007 issue of *Keizai Doyu*: 15).

When Taizo Ishizaka was chairman of Keidanren from 1956 to 1968, it strengthened its orientation towards a market economy and liberal ideology. In contrast, the mainstream ideologies of Doyukai, led by Kazutaka Kigawada and Sohei Nakayama, were: the coexistence of planned economy and corporate creativity is desirable; and we should aim for cooperative competition. In 1955, Kohei Goshi, one of Doyukai's founders established the Japan Productivity Centre. From 1955 until 1964, nearly 10 thousand Japanese managers visited the US through the Japan Productivity Centre in order to learn the best practices of American corporate management. Doyukai recognised the importance of learning modern business administration, and in 1962,

Rokuro Ishikawa created a study group that attracted prominent business scholars. When Yoshihiro Inayama, who was from the steel industry which allocated production quota to individual makers, was chairman of Keidanren from 1980 until 1986, it became orientated towards a managed economy. In contrast, when Doyukai was chaired by Takashi Ishihara of Nissan Motor, which started overseas production ahead of Toyota Motor, from 1985 to 1991, it began to advocate free competition. Consequently, the ideational positions of Keidanren and Doyukai were switched.¹²⁴

Ushio's explanation sheds some light on the ideological change in Doyukai, but Keidanren's liberalism under Ishizaka's chairmanship might be exaggerated. It is true that the different characteristics of the chairmen affected Keidanren's behaviour to some extent, but its underlying anti-free market nature is likely to have remained unchanged given its collectivist decision making. An alternative interpretation is that the industrial association chose its leaders, who had a good fit with the respective political economic climates – 'liberal' Ishizaka was suitable for the rapid export-led growth period, whereas Inayama, who was good at coordinating different interests and was nicknamed 'Mr Cartel', was chosen during the low growth period when Japanese manufacturers 'voluntarily' restricted exports to the US due to the intensified US-Japan trade friction and also formed cartels to avoid the bankruptcy of Japanese manufacturers (Kikuchi 2005: 215-6). I think that the true colours of Keidanren came to the fore when it faced great difficulties. Meanwhile, it is an important fact that Doyukai paid attention to American business practices even during the rapid economic growth period, but it is unlikely that this factor alone resulted in Doyukai's ideational change.

¹²⁴ The quote from Ushio's comment in Japanese has been translated by me.

Nissan, led by Ishihara, chose an alternative strategy to ‘voluntary export restrictions’ and cartels, foreign direct investment in overseas factories, which contributed to employment in recipient countries and abated trade friction. Japanese business leaders and bureaucrats learned about the differences in business practices and management philosophies between the US, Europe and Japan through the trade friction in the 1980s, but they were still confident in Japanese style stakeholder capitalism. Accordingly, Doyukai, under Ishihara’s chairmanship, did not denounce Japanese style business customs, such as keiretsu transactions and rebates associated with long-term contracts, and stakeholder capitalism, although it admitted that such customs intensified the trade friction. Actually, Ishihara’s expansionist strategy failed, and Nissan’s financial performance continuously deteriorated after the bursting of the bubble economy, resulting in financial difficulty in the late 1990s. However, until the arrival of Carlos Ghosn from its alliance partner, Renault, in 1999, its management could not revive the ailing automaker, owing to the negative aspects of Japanese style management, such as the excessively high costs of keiretsu transactions, a redundant workforce associated with lifetime employment, and unclear management responsibility stemming from the collectivist management style. Ghosn successfully turned Nissan around as he was not constrained by Japanese business customs and norms.

Kikuchi (2015: 261-3) regards the political and fiscal reform, which included the privatisation of Japan National Railways (JR), Nippon Telegraph and Telephone Public Corporation (NTT) and Japan Tobacco and Salt Public Corporation, under the Nakasone administration (1982-7) as the first phase of neoliberalism in Japan. While the main aim of the reform was ‘fiscal reconstruction without tax increases’, Keidanren, Nikkeiren and Doyukai all supported it, as large firms were concerned that increases in public debt would cause higher corporate tax rates. In fact, Inayama, Keidanren’s chairman, was against the JR privatisation (Kawakita 2011: 136). As mentioned above, during the 1980s, the Japanese business community did not intend to shift from

stakeholder capitalism to shareholder capitalism. Furthermore, due partly to US pressure, MOF accepted the deregulation of the Euro-yen, domestic interest rates and money markets, the abolition of the real demand rule regarding futures transactions in foreign exchange rates, and the study on CRAs, among other things, in 1984. However, MOF and the financial sector had no intention of changing the financial convoy system, although MOF acknowledged the necessity to deregulate the bond market and domestic interest rates. In these respects, as Watanabe (2007: 296-318) rightly argues, the Nakasone administration made only a preliminary attempt at neoliberal reform.

The transformation of Doyukai's stance from stakeholder capitalism to shareholder capitalism was made clear in the key-note address entitled 'Determination to Restructure Japan: Setting Global Perspective, Market Functions and Creative Management as Parameters' (Okazaki *et al.* 1996: 314-7). This address was given by Doyukai's chairman (1991-5), Masaru Hayami (Chairman of Nissho Iwai), at its annual meeting in April 1993, after the bursting of the bubble economy (1991-3) and the LDP's money politics scandals, leading to its defeat in the July 1993 House of Representatives election.¹²⁵ Before joining the executive board of Nissho Iwai (a trading company), Hayami had long served at the BOJ's international divisions, and he was appointed as the governor of the BOJ in 1998 after retiring from Nissho Iwai. The malfunctioning of the 1940 system was a catalyst in making the market liberals more influential within Doyukai, resulting in its ideational change. Hayami insisted that Japanese style management, the effectiveness of which depended on a high economic growth environment and social uniformity, had reached a dead end and needed to be restructured. Furthermore, he proposed: 1) deregulation in the retail, real estate, healthcare, food, financial, transportation, utilities, information and telecommunications industries, 2) the development of new social infrastructure

¹²⁵ The May 1993 issue of *Keizai Doyu*

regarding R&D, and information and telecommunications, and 3) cultivation of a flexible labour market.

Ushio, Doyukai's chairman after Hayami, pushed its neoliberal orientation one step further. He obtained a postgraduate degree in political science from the University of California, Berkeley in 1957 and founded Ushio Electric, a manufacturer of lamps and lighting systems, in 1964. Given its relatively small corporate size, Ushio Electric was not a major actor within Keidanren, whilst Ushio has long been recognised as a liberal leader of Doyukai. He was involved in the privatisation of JR, NTT and Japan Tobacco under the Nakasone administration as well as the further deregulation of the telecommunications industry – he was chairman of KDDI, the second largest telecoms company after NTT, from 2000 until 2003. In his key-note address entitled 'Creating a New "Market": Our Initiative for the 21st Century' at Doyukai's 1996 annual meeting, he suggested: 1) rising to the challenge of competition rather than avoiding it to accelerate the dynamism of markets; 2) creating market conditions that can accommodate international competition and meet 'global standards' by liberalising and opening markets; 3) building a market economy that is trusted by participants and based on transparent rules and laws, not on decisions of individuals; 4) making political, bureaucratic, and industrial systems and organisations more open; and 5) creating a small government to maximise the market's functions.¹²⁶

After the bursting of the bubble economy, Doyukai nominated four market liberals to be vice-chairmen, Yotaro Kobayashi (chairman of Fuji Xerox), Miyauchi, Takeo Shiina (chairman of IBM Japan) and Yuzaburo Mogi (CEO of Kikkoman), all of whom had experienced American university education and were ideationally close to Hayami and Ushio.¹²⁷ These nominations made

¹²⁶ The May 1996 issue of *Keizai Doyu*

¹²⁷ Kobayashi, Miyauchi, Shiina and Mogi obtained an MBA from the Wharton School of the University of Pennsylvania in 1958, an MBA from the University of Washington in 1960,

Doyukai clearly neoliberal-oriented, and coincided with the epochal political event, i.e., the fall of the LDP and the birth of the Hosokawa administration (1993-4). The LDP administration, led by Prime Minister Kiichi Miyazawa, failed to address public concerns over corruption, and the LDP lost power following the 1993 general election, which also caused significant turmoil in terms of political parties splitting, forming and merging before and afterwards. Prime Minister and leader of the reformist Japan New Party, Morihiro Hosokawa, formed a non-LDP, non-Communist Party coalition of eight parties,¹²⁸ and his administration focused on changes in the election laws intended to prevent political corruption, electoral system amendment and deregulation. Because of the growing trade deficit against Japan, the US government demanded that Japan open its markets and change its economic structure from export-led to domestic demand-led through the Structural Impediments Initiative of 1989-90 and the US-Japan Comprehensive Economic Council of 1993.

Hosokawa established his private advisory organ, the Economic Reform Study Group, which was led by Gaishi Hiraiwa (chairman of Keidanren) and included members such as Yotaro Kobayashi (vice chairman of Doyukai), Iwao Nakatani

a BS in mechanical engineering from Bucknell University in 1953 and an MBA from the University of Columbia in 1961, respectively.

¹²⁸ The coalition of eight parties included the Japan New Party established in May 1992, the Japan Renewal Party, the New Party Sakigake, the Social Democratic Party of Japan and Komeito. Although the Japan New Party was small, Hosokawa was backed by the Japan Renewal Party to form a coalition. Both the Japan Renewal Party and the New Party Sakigake were created by LDP defectors in June 1993, but the Japan Renewal Party and the Japan New Party were dissolved in December 1994 when they were absorbed by the New Frontier Party after the collapse of the Hosokawa administration. Subsequently, the New Frontier Party was divided into six parties in December 1997, whilst Yukio Hatoyama and Naoto Kan, who defected from the New Party Sakigake, formed the Democratic Party of Japan (DPJ) in April 1998.

(Economics Professor at Hitotsubashi University)¹²⁹ and Hiroko Ota¹³⁰ (Visiting Associate Professor at Osaka University). Both Nakatani and Ota, whose ideology was similar to that of Doyukai's market liberals, were known as neoliberal economists and influenced the discussion within the study group. Faced with the malfunctioning of the 1940 system as well as the mounting US pressure, the Hosokawa administration was more strongly motivated to proceed with neoliberal reform than the Nakasone administration had been. In 1993, the Economic Reform Study Group released the so-called 'Hiraiwa report', which emphasised deregulation, particularly in the land/housing related area, inefficient industries (e.g., retail), agriculture, import and growing industries (e.g., information and telecommunications), the creation of a flexible labour market and the invigoration of the financial and capital markets. The report proposed mutual entry into banking, securities and insurance businesses and the liberalisation of new financial products. However, Hosokawa resigned because of a financial scandal in April 1994. The proposals of the Hiraiwa report were not implemented under the Hosokawa administration, but were subsumed in the liberal reforms under the Hashimoto and Koizumi administrations.

When Ryutaro Hashimoto of the LDP became Prime Minister in 1996, he set up the Administrative Reform Council under the Cabinet Office and chaired the council in order to tackle the Six Major Reforms in the areas of administration, fiscal structure, the financial system, social security, economic structure and education. Hashimoto had been known as a conservative politician, so why did he initiate these reforms? When he became Prime Minister, his administration encountered strong public criticism against the Jusen problem. Furthermore, the LDP had to compete against the New Frontier Party advocating neoliberal reform of the Japanese system and the New Party Sakigake proposing a departure from

¹²⁹ Nakatani obtained a PhD in economics from Harvard University in 1973.

¹³⁰ Ota became a Cabinet Secretariat under the Koizumi administration and served as Minister of State for Economic and Fiscal Policy under both the Abe and Fukuda administrations.

the bureaucracy-led system. Core members (mainly manufacturers) of the industrial associations were generally supportive of the financial deregulation because they believed that unlike the world leading Japanese manufacturing sector, the Japanese financial sector lagged behind the progress of the rest of the world due to excessive government protection (Kawakita 2011: 139-40). At that time, few large Japanese companies fully understood what kind of an impact financial deregulation would have on them. Hashimoto had to appeal to the public by implementing major reforms in order to regain the LDP's lost ground (Toya 2006: 174-5).

The Deregulation Committee was established as part of Hashimoto's Administrative Reforms in 1996,¹³¹ and Miyauchi (chairman and *de facto* founder of Orix Corporation, the largest leasing company in Japan) chaired the committee on Doyukai's recommendation, as he was an advocate of deregulation and the corporate governance reform within it. He had learned about leasing business in the US and developed it from scratch in Japan. He felt strongly that bureaucratic authorisation, control and regulation were nothing more than obstacles to corporate and economic development (Kawakita 2011: 151-3). Miyauchi's entrepreneurial and capitalist perspective was in stark contrast to that of most Japanese business executives, who were internally promoted 'administrators'. The Deregulation Committee gradually expanded, and was renamed the Council for Regulatory Reform under the Koizumi administration in 2001. Miyauchi maintained the chairmanship of the committee/council for an unusually long time, from 1996 until 2006, thanks to his close relations with Prime Minister Koizumi, although he was frequently criticised on the basis that his political position and ties significantly contributed to the successful expansion of Orix (*ibid.*: 151-2).

¹³¹ The predecessor of the Deregulation Committee, the Deregulation Subcommittee under the Administrative Reform Committee, was founded under the Murayama administration in 1995.

When Vogel (2006: 99) interviewed Miyauchi in June 2003, the latter made the following comment:

Our committee has been all private sector and all pro-reform, so we have not had any fights among ourselves. We make our recommendations to the government. Then the ministries oppose us. And then we have a debate. But government officials can be vulnerable to rational argumentation. So eventually they say they will try to convince the industry. And then the industry opposes. So we have to persuade them all the way – that is the key.

The Council for Regulatory Reform consisted of 15 members from April 2001 to March 2003, including Yoshio Suzuki (president of the Asahi Research Centre, who had long been involved in privatisation and deregulation), Tatsuo Hatta (Professor of Spatial Information Science at the University of Tokyo, who proposed the liberalisation of the electric power industry),¹³² Naohiro Yashiro (Professor at the Japan Centre for Economic Research, a neoliberal economist),¹³³ Atsushi Seike (Professor of Labour Economics at Keio University), Minoru Mori (CEO of Mori Building, a Doyukai member), Eiko Kono (Chairman and CEO of Recruit Corporation, a Doyukai member),¹³⁴ Reiko Okutani (a Doyukai member, CEO of The R Co., Ltd. whose second largest shareholder was Orix),¹³⁵ Akinori Yonezawa (Professor of Computer Science at the University of Tokyo, Okutani's

¹³² Hotta obtained a PhD in economics from Johns Hopkins University in 1971, and became head of the Policy Analysis Centre at Doyukai in 2013.

¹³³ Yashiro acquired a PhD in economics from Maryland University in 1981.

¹³⁴ Recruit Corporation is an advertisement, publication and human resources (including temporary staffing) company.

¹³⁵ The R Co., Ltd. is a temporary staffing agency.

husband) and Rie Murayama (Managing Director of Goldman Sachs Japan).¹³⁶ No key members of Keidanren were included in the council. Many of the council members were Doyukai members, who were potential beneficiaries of deregulation, from the temporary staffing, financial services and property development industries and scholars close to Doyukai.

Although the progress in deregulation was relatively moderate in politically sensitive industries including retail despite the Council for Regulatory Reform's efforts, some breakthroughs were witnessed in dynamic industries such as telecommunications (Vogel 2006: 99-100). In 1984, Kazuo Inamori (founder of Kyocera, a diversified manufacturer, and a key member of Kyoto Keizai Doyukai affiliated with Doyukai) founded DDI as a new common carrier, to compete with NTT, due to the first wave of telecoms deregulation. The second wave of deregulation in the second half of the 1990s comprised a shift from the system of individual approval by the authority to the system of notification for charges by Type 1 telecommunications carriers,¹³⁷ the complete privatisation of KDD (Japan's dominant international carrier) and the lifting of restrictions on foreign capital investment (excluding NTT). When KDDI was established through the merger of DDI, KDD and IDO (another new common carrier backed by Toyota Motor) in 2000, Ushio, who had been involved in the deregulation of the telecommunications industry since the early 1980s, became its chairman. Inamori praises Ushio for his skill in coordinating many people and organising large projects.¹³⁸

I argue that Doyukai's political influence was at its peak when Ushio served as one of the private sector members at the Council on Economic and Fiscal

¹³⁶ Murayama was a sell-side equity analyst covering the property development, housing and construction sectors.

¹³⁷ Type 1 telecommunications carriers offered services using their own facilities, while Type 2 carriers did not have their own facilities and leased those from Type 1 carriers. This distinction between Types 1 and 2 was abolished in 2004.

¹³⁸ The 2 April 2009 issue of *Nikkei Business*

Policy under the Koizumi administration from 2001 until 2006. Koizumi was not in the LDP mainstream, which advocated systemic support and encountered public distrust of politics and the lengthy economic slump, and made ‘structural reform’ his political slogan. He made the council the most important policy-making arena. The council was chaired by Koizumi and consisted of 10 other members – the Chief Cabinet Secretary, the Minister of State for Economic and Fiscal Policy (Takenaka), the Ministers of Finance, Internal Affairs and Communications, and Economy and International Trade, the BOJ governor and four private sector members, Ushio, Hiroshi Okuda (chairman of Toyota Motor, Nikkeiren’s chairman 1999-2002, and Keidanren’s chairman 2002-6), Masaaki Homma (Economics Professor at Osaka University) and Hiroshi Yoshikawa (Economics Professor at the University of Tokyo). Takenaka, who learned supply-side economics (which can be regarded as a variant of neoliberal economics) at Harvard University in the early 1980s and became a professor at Keio University in Japan, was a linchpin of Koizumi’s neoliberal restructuring, and his perspective was close to those of Ushio and Homma.¹³⁹

Takenaka closely coordinated opinions beforehand and stood shoulder to shoulder with the four private sector members at the council, and obtained a majority vote at the council if he received Koizumi’s endorsement (Shimizu 2007: 24-6). However, it is important to note that Ushio invited Takenaka to the policy proposal taskforce in 2000, consisting of business leaders and economists,

¹³⁹ Takenaka was influenced by supply-side economics when he worked with Andrew Abel (currently Professor of the Department of Finance in The Wharton School of the University of Pennsylvania) at Harvard University in 1981. Supply-side economics argues that the supply of money, labour and goods / services generates demand and hence economic growth. Furthermore, Takenaka has long been acquainted with Lawrence Summers and Jeffery Sachs. In 1987, he was invited as an associate Professor of Economics to Osaka University by Homma, another supply-side economist, while Yoshikawa also belonged to the same department. After resigning from the government, Takenaka became a special advisor to Pasona, a major temporary staffing agency, in February 2007, and then its chairman in August 2009.

which led to the Koizumi reform.¹⁴⁰ This taskforce included Nakatani, Homma, Yashiro and Miyauchi (Orix's Chairman) and had meetings with key LDP politicians such as Yoshiro Mori (Prime Minister 2000-1), Hidenao Nakagawa (Chief Cabinet Secretary for the Mori administration) and Koizumi (Shimizu 2007: 45). Core members of Doyukai, who were entrepreneurs and capitalists unlike most Keidanren members, instilled neoliberal policy proposals including fiscal consolidation, bad debt disposal, deregulation, tax reforms and privatisation into these LDP politicians by utilising neoliberal economists who were ambitious to expand their sphere of influence beyond the academic community as policy promoters. Although they were not publicly elected politicians, they could exert an unprecedented level of power as private sector actors in the political arena through both the Council on Economic and Fiscal Policy and the Council for Regulatory Reform during the Koizumi administration.

5.4 Keidanren's Stakeholder Capitalism versus Doyukai's Shareholder Capitalism

How, and in what areas, have the ideologies of Keidanren and Doyukai differed since the 1990s? There has been no head to head organisational rivalry between the two industrial associations on the surface, and their memberships substantially overlap. However, some members have been more vocal in one association while keeping a low profile in the other. The ideational differences between Keidanren and Doyukai from the mid-1990s until the mid-2000s contrasted remarkably and the contrast can be described as follows: 1) administrators vs. entrepreneurs / capitalists, 2) collectivist perspectives vs. individualist perspectives, 3) stakeholder capitalism vs. shareholder capitalism, 4) anti-free market vs. market liberalism, 5) supporters of guardian morals vs. commercial morals, and 6) proponents vs. opponents of systemic support. During

¹⁴⁰ The *Asahi Shimbun* newspaper dated 30 May 2008

this period, the influence of the market liberalisation camp, including Doyukai, neoclassical economists and the American CRAs was significantly enhanced due to the declining power of the mainstream anti-free market camp.

The first example of ideational contestation between Keidanren and Doyukai can be observed in the so-called ‘Imai-Miyauchi controversy’ in February 1994. This controversy between Takashi Imai (President of Nippon Steel) and Miyauchi took place in a Doyukai study group. Although Imai was one of Doyukai’s vice chairmen, Nippon Steel was a key member of Keidanren and his management philosophy was similar to that of most of the Keidanren members (Kawakita 2011: 227-9). Asahi Shimbun (2009: 2-3) delineates the dispute as follows.

Miyauchi asserted that, ‘the most important thing for the company is the extent to which it can reward its shareholders. Corporate management does not have to consider how employment and the state should be’. Imai replied, ‘if you really think so, you are a traitor to our country. We have not run our firms for that purpose.’ Yoshikazu Hanawa, vice president of Nissan Motor, supported Imai and insisted that, ‘if lifetime employment is terminated, top management would have to take responsibility and resign first’. Then, Ushio backed up Miyauchi and contended that ‘lifetime employment and seniority wage systems will no longer be sustainable given our inverted population pyramid and aging society’. Takeo Shiina, chairman of IBM Japan, also claimed that, ‘lifetime employment has generated corporate slaves. This may be a good opportunity to address the excessively corporate centric society.’ Imai, who had to transfer an increasing number of employees to Nippon Steel’s subsidiaries, on lower wages, in order to protect lifetime employment, looked frustrated with Miyauchi’s further statement that, ‘Japanese companies have

shouldered too much responsibility for society. We should focus on making a fortune efficiently.’¹⁴¹

I argue that Imai’s perspective demonstrates Keidanren’s stakeholder capitalism stance, taking into account the rights of all stakeholders including employees, shareholders, creditors, clients and suppliers, whilst that of Miyauchi reflects Doyukai’s shareholder capitalism stance, claiming that job cuts are necessary to enhance shareholder value. The backgrounds for anti-free market elites (administrators) and market liberal ones (entrepreneurs and capitalists) were strikingly different. Both Imai and Hanawa were internally promoted administrators of manufacturing establishments at the centre of traditional elite networks binding bureaucracy, big business and the LDP, whereas Ushio, Miyauchi and Shiina were a corporate founder, a *de facto* founder and the head of a major American company’s subsidiary, respectively. Furthermore, the respective foreign shareholding ratios of Ushio Electric and Orix were 41% and 62%, respectively, as of May 2016, and their businesses are internationally oriented. By contrast, Nippon Steel (currently Nippon Steel & Sumitomo Metal) is more domestically oriented, and its foreign shareholding ratio is just 13%. As mentioned previously, Nissan shifted from stakeholder capitalism to shareholder capitalism when Renault acquired a 36.8% stake in it and Ghosn took over its helm. This is a rare example of drastic corporate governance transformation in Japan.

Most executives of leading Japanese firms (particularly manufacturers) or Keidanren members, who are administrators, are fundamentally at odds with shareholder capitalism, which denounces systemic support. This is because unrestricted capitalist power jeopardises not only the lifetime employment of regular workers, their subordinate allies, but also their own autonomy from

¹⁴¹ Asahi Shimbun’s original text in Japanese has been translated by me.

capitalists, both of which are protected by systemic support. Administrators tend to prefer less demanding providers of both debt and equity capital, such as local financial institutions and members of the same corporate group (whose management can be viewed as administrators), to capitalists. On the other hand, capitalists and entrepreneurs, who are less constrained by social ties, such as core Doyukai members, are frustrated with the vested interests within Japanese society and the inefficiency (lower investment return) of stakeholder capitalism. In an interview with *Asahi Shimbun* (ibid.: 6-7), Miyauchi commented that his company, which was established as a venture business, could not enter the mainstream financial industry and had never been protected in the Japanese system, and that given that management mistakes would lead the company potentially to bankruptcy, he could not insist that the company be run for all stakeholders. Imai stated that considering that Japanese manufacturers have a community-like consciousness among their employees and rely on their development and transfer of technology, they cannot survive without employees' trust towards their employers, and there is no universal value in American style financial capitalism (ibid.: 7-8).

The second example of the contrasting stances between the two industrial associations was seen when the Temporary Staffing Services Act was revised in 1999. This revision lifted the restriction on temporary staffing for any industry except for specified businesses such as manufacturing, medical, security and construction. Although both Keidanren and Doyukai had asked the government to deregulate temporary staffing services, their stances and goals were different. Keidanren's deregulation stance was cautious and reactive, and its primary purpose of the deregulation was to protect existing regular workers under lifetime employment by hiring cheap, easily dischargeable non-regular workers instead of hiring new regular workers. The goal of both Keidanren and Nikkeiren was 'to avoid challenging the lifetime employment system head-on but to expand the range of jobs that employers could fill with workers hired under much more flexible arrangements' (Schoppa 2006: 118). Administrators feel obligated to

provide systemic support for regular workers but not for non-regular workers. By contrast, Doyukai aggressively promoted deregulation in regard to temporary staffing services to maximise profits by exploiting non-regular workers from a capitalist and entrepreneurial standpoint.

There was an indirect disagreement over job cuts between Okuda and Miyauchi, which they expressed in separate interviews for the October 1999 issue of *Bungeishunju*, a monthly magazine. Okuda asserted that if management discharged employees, they should commit hara-kiri (i.e., resign), while Miyauchi warned that protecting employment desperately would result in a Titanic-like disaster, and stressed that companies should prioritise profit over employment (Kawakita 2011: 230-1, quoting the October 1999 issue of *Bungeishunju*). Okuda's harsh comment reflected Japan's adversary business environment in which an increasing number of Japanese firms were going bankrupt or cutting regular workers. In another interview, he urged corporate executives that 'cutting jobs is the last thing management should do. If you do so only to raise profitability or the value of shares, that's wrong in light of Japan's style of management' (Vogel 2006: 115, citing *Reuters* dated 13 May 1999). This implies that administrators' dominant status, as relatively autonomous from capitalists, is based on systemic support for their subordinates (regular workers) in exchange for loyalty, and that if the former cannot protect the latter, they will lose the legitimacy of their dominance.

The third example of Keidanren's and Doyukai's contrasting stances was witnessed during the Koizumi administration. According to Kikuchi (2005: 267), both Koizumi and Takenaka had probably misunderstood that what the business community wanted was the acceleration of structural reforms (such as bad debt disposal, fiscal consolidation, privatisation and deregulation) by strong political leadership. Ushio believed that such reforms would result in higher growth of the Japanese economy (Asahi Shimbun 2009: 220-1), and the core members of Doyukai backed up the administration. However, the reactions from Keidanren

and Nikkeiren were different from that of Doyukai. These industrial associations felt that the structural reforms, in the recession after the bursting of the dot-com bubble in 2001, were too painful for companies. In August 2001, Nikkeiren requested an 'urgent employment support programme' amounting to 1 trillion yen for the Koizumi administration, which was the first task of the Council on Economic and Fiscal Policy (Kikuchi 2005: 267-8). Keidanren also wanted the Koizumi administration to prioritise anti-deflationary measures to reinvigorate the economy, such as reforms in corporate tax and land-related tax, rebalancing between gift and inheritance taxes and manoeuvres to boost the stock price over a rapid clean-up of bad debts (Schoppa 2006: 147). Both Keidanren and Nikkeiren asked the government for systemic support rather than neoliberal restructuring. Furthermore, as Vogel (2006: 56) claims, Keidanren's support for deregulation was 'more reluctant than proactive, more formalistic than substantive, and more selective than comprehensive'.

In contrast, Yotaro Kobayashi, Doyukai's chairman (1999-2003), emphasised at its 2001 annual meeting that Japan's political leaders must deliver the following message to the nation despite its unpopularity with the people: although the final disposal of non-performing loans and corporate restructuring would make the recession temporarily unavoidable, the nation would be able to recover to steady positive economic growth after these structural reforms.¹⁴² In addition, Doyukai was proactive in introducing mark-to-market accounting (under which an asset or liability is valued based on the current market price) and impairment accounting (which means writing down the difference in fixed assets between the fair value and the book value) to improve the transparency of financial statements, while Keidanren was resistant to this. In April 2003, Kakutaro Kitashiro, chairman of Doyukai (2003-7) and Japan IBM, commented that although some politicians had tried to postpone or suspend the introduction

¹⁴² Doyukai chairman's address to the 2001 annual meeting, dated 26 April 2001, entitled 'The Moment of Truth for Reform'.

of mark-to-market and impairment accounting because of the share price slump at the end of March, such manipulation would not change the actual corporate performance.¹⁴³ Mitsuo Horiuchi (the LDP's Chairman, General Council) and Tetsuya Katada (vice-chairman of Keidanren) had discussed the postponement of the introduction of impairment accounting, which would realise latent losses held by many firms.¹⁴⁴

In May 2002, Nikkeiren was absorbed by Keidanren. Crump (2003: 155-6) points out the following three reasons for the merger. Firstly, Nikkeiren's *raison d'être* gradually waned due to its successful containment of aggressive labour union movement. Secondly, Keidanren's power was also reduced partly because the gap between its national focus and the multinational interests of competitive Japanese companies widened. Lastly, the membership fees payable to both Keidanren and Nikkeiren became a financial burden for many companies, owing to the prolonged economic slump. More importantly, Nikkeiren was a bulwark against communism, which backed the radical labour movement, but it lost its opponent to fight against due to the end of the Cold War (Kawakita 2011: 187, Anzai 2014: 14-8). Other issues were the difficulty in maintaining lifetime employment and the heavy social security burden shouldered by companies. These became big problems for the business community and they could not be handled by Nikkeiren alone (Kikuchi 2005: 68-72). The ban on temporary staffing in the manufacturing sector was lifted in 2004. However, after absorbing Nikkeiren, which included smaller company members, Keidanren came to represent a wider range of companies so it was more difficult for the largest industrial association to overcome the internal schism on reform issues under the Koizumi administration (Vogel 2006: 57; Kikuchi 2005: 72).

From the late 1990s to the early 2000s, Japanese society's loss of confidence in the economic and business sphere was intertwined with its awe of the US,

¹⁴³ Press release dated 18 April 2003 from Doyukai

¹⁴⁴ The *Asahi Shimbun* newspaper dated 17 February 2003

which created the feeling that Japan should follow American standards (Ito 2007: 155-6). This atmosphere peaked during the Koizumi administration, the first half of which witnessed a large number of major bankruptcies¹⁴⁵, which indicated weaker systemic support. The financial deregulation, the heightened recognition of credit risk and the weakened credit extension by the banking sector accelerated the rapid expansion of new debt business in Japan, such as bad debt trading, bank hybrid securities,¹⁴⁶ securitisation (asset-backed securities) and credit derivatives, which developed in the US during the 1980s and 1990s, and sharply expanded the Japan operations of both the American CRAs and investment banks, taking advantage of their expertise. Furthermore, because of the deregulation in M&A from the late 1990s until the mid-2000s, the aggregate number of M&A transactions rapidly increased from 1997 to 2006. Whilst many major M&As from 1999 until 2003 aimed for survival, an increasing number of M&As from 2004 until 2006 aggressively sought higher shareholder value.¹⁴⁷

These developments might give the impression that Japanese capitalism started to converge with Anglo-Saxon capitalism under the Koizumi administration, but systemic support died hard in Japan. After the share price plunge in September 2002, the media and public call for public capital injections into the ailing banks intensified as the public recognised that the bad debt problem would jeopardise their businesses and employment (Ikeo 2003: 5-9). At the time of the Jusen issue in 1996, the public was strongly opposed to any

¹⁴⁵ These bankruptcies included Mycal (a retailer), Sato Kogyo (a construction firm), Chisan (a property developer) and First Credit (a non-bank).

¹⁴⁶ Bank hybrid securities have both elements of debt and equity securities. Banks issue hybrid securities in order to boost equity capital without diluting shareholder value excessively.

¹⁴⁷ Major examples of the former type of M&As included the mergers between Nippon Oil and Mitsubishi Oil, between Sumitomo Bank and Mitsui Bank, and between Kawasaki Steel and NKK, while the latter type of M&As were exemplified by Kao's acquisition of Kanebo Cosmetics, Softbank's purchase of Vodafone Japan, and Nippon Sheet Glass' takeover of Pilkington.

injection of public money into the banks, as they thought that they had nothing to do with the banks' bad debt problem, but the 1997-8 financial crisis changed the public stance. Kamikawa (2010: 61) presumes that when Resona Bank, the sixth largest bank in Japan, faced the risk of capital inadequacy in May 2003, Takenaka, who wanted to accelerate the bad debt disposal through the government's direct involvement in bank management, seized the opportunity to inject public capital into Resona Bank. However, the decision on the capital injection merely followed the public opinion at that time although the public was not interested in the fundamental solution of the bad debt problem but in the protection of depositors and good-faith borrowers (Ikeo 2003: 10-1). Furthermore, as mentioned in Chapter 4, even after the collapse of the financial convoy, banks often conducted out-of-court debt restructuring in order to avoid borrowers' bankruptcy. This can also be regarded as systemic support and the limit of neoliberal restructuring in Japan.

It is true that Keidanren's influence has relatively weakened since the 1990s, but its diminution should not be exaggerated. During the Koizumi administration, Keidanren was defensive in contrast to the rising Doyukai, but maintained Japanese style stakeholder capitalism and waited for an opportunity to strike back. Hiroyuki Itami, Professor of Management at Hitotsubashi University, was invited to give a presentation on the 're-evaluation of Japanese style management' to Keidanren's Economic Policy Committee in September 2005. He emphasised three points. Firstly, 'human capitalism (jinpon-shugi)', which regards creating stable human networks as a very important basic principle for economic organisations, is a foundation of Japanese corporate management that was intact even during the 'lost decade'. Secondly, although Japanese companies had had to address both an excessive emphasis on employee treatment and disrespect for shareholder returns, these issues did not necessarily mean the collapse of Japanese style management. Lastly, Japanese companies' maintenance of human capitalism during the 1990s could be evaluated in the future as historically

meaningful resistance towards Anglo-Saxon style free-market capitalism.¹⁴⁸ I suspect that Keidanren highlighted Itami's perspective in order to justify their stakeholder capitalism stance and counter the Anglo-Saxon style shareholder capitalism advocated by Doyukai.

In June 2006, just before the end of the Koizumi administration, Keidanren published a proposal entitled 'A Suitable Corporate Governance System for Japan', which stresses three points. Firstly, companies should conduct management with an emphasis on corporate social responsibility, taking into consideration value creation for diversified stakeholders such as shareholders, employees, clients and local communities, which will consequently enhance shareholder value. Secondly, corporate management is based on an individual society's idiosyncratic culture, tradition, norms and business customs, and suitable corporate governance varies by company according to the individual corporate philosophy, vision, culture, history, strategy and industry. Lastly, importing overseas corporate governance methods, including internal control systems, uniformly to Japan should be avoided because it would cause companies and other relevant parties an excessive burden in terms of business confusion and higher costs. This proposal can be regarded as Keidanren's determination to maintain Japanese style stakeholder capitalism, which is primarily based on an alliance between administrators and regular workers through the exchange of systemic support for obedience, leading to an anti-neoliberal backlash.

5.5 Anti-Neoliberal Backlash

Major achievements of the Koizumi-Takenaka structural reforms included the clean-up of bad debts in the banking sector and fiscal consolidation. However, the Koizumi administration, lacking a strong foundation within the LDP, had to rely on its popularity among voters, so they provided systemic support such as

¹⁴⁸ No. 2785 (29 September 2005 issue) of *Nippon Keidanren Times*

the bailout of Resona Bank, the establishment of the IRCJ and quantitative monetary easing in order to mitigate the social pain associated with the structural reforms. According to Kamikawa (2010: 311), at first, the public supported Koizumi because they believed that bureaucrats and industry groups wasted public money, causing an increasing budget deficit when the recession prolonged and companies proceeded with restructuring. Subsequently, the Koizumi administration encountered a difficulty to advance the reforms when the criticism for the structural reforms widening income inequality intensified (ibid.). However, more importantly, both the anti-free market camp of dominant elites and subordinates such as regular workers and SME owners feared the rising capitalist power, and they ultimately prevented it. 2006 was the turning point when the anti-neoliberal backlash started. This section will highlight the Livedoor and ‘Murakami Fund’ incidents, the revised Money Lending Law and the Japanese reaction to the GFC as examples of the backlash. Excessive cash stemming from quantitative monetary easing and financial deregulation contributed to speculative money games by aggressive investment funds and ambitious entrepreneurs in the Japanese financial market from 2004-6. Conservative elites and workers with steadily declining wages felt disgusted with these funds and entrepreneurs, who were making large profits.

The strong anti-neoliberal sentiment was eloquently illustrated in heavy media criticism of the Livedoor and Murakami Fund incidents in 2006. Japanese prosecutors arrested Takafumi Horie, a young outspoken proponent of shareholder capitalism and the CEO of Livedoor, a fast growing IT and financial group, on suspicion of securities law violations in January 2006. Five months later, the TSE delisted Livedoor due to false statements in its annual securities reports.¹⁴⁹ In June 2006, public prosecutors also arrested Yoshiaki Murakami, a former reformist METI official and the founder of the so-called Murakami Fund,

¹⁴⁹ Horie was accused of window-dressing Livedoor’s consolidated sales by including 5.3 billion yen of profits from the sale of its own shares held by the investment partnerships in which Livedoor invested.

a shareholder activist fund, for insider trading of Livedoor shares. Both Horie and Murakami were renegade elites and they had a close relationship; their offices were located in the same building complex. Livedoor rapidly expanded its market capitalisation (which reached 930 billion yen in January 2004) through stock splits and serial acquisitions including that of a 35% stake in Nippon Broadcasting System, which was a *de facto* holding company of the Fujisankei Communication Group, a major media conglomerate. The Murakami Fund also purchased stakes of over 5% in listed companies such as Tokyo Style (apparel), Sumitomo Warehouse, Takara (toy manufacturing) and Hanshin Electric Railway, and its total investment amount exceeded 440 billion yen as of the end of March 2006.

The delisting of Livedoor might seem harsh in comparison to the continued listing of establishments such as Olympus and Toshiba, which conducted much larger accounting frauds. However, both Horie and Murakami received prison sentences and were severely criticised for being immoral money worshipers and greedy neoliberals by the media. Although their conduct was illegal, the relentless media bashing revealed Japanese society's hatred and fear of shareholder and financial capitalism, which denounces systemic support and in-group favouritism. Suda (2006: 37) claims that the special investigative squad of the Tokyo District Public Prosecutors Office started an investigation to prosecute Livedoor and Horie at quite an early stage. He also maintains that the following statement made by Motonari Otsuru, the new head of the squad who would later be in charge of the Livedoor case, at his inauguration press conference in April 2005, reflected the public's feelings of disgust with Horie: 'by all means, we would like to prosecute wrongdoing resented by hard working people, unemployed people due to job cuts, and business people who comply with laws although they recognise that they could make large profits if they breach laws' (ibid.: 37).¹⁵⁰ The following comment made by the judge on the Murakami Fund

¹⁵⁰ Suda's original texts in Japanese have been translated by me.

case at the Tokyo District Court stunned even Yasuhito Omori (2007: 182), head of the Financial Markets Division of the FSA: ‘Murakami’s extreme pursuit of profit above all else by buying low and selling high is appalling’.¹⁵¹ The two court cases suggest that legal elites in Japan share anti-free market norms with other conservative elites. Punishing both Horie and Murakami severely could be regarded as a clear warning to other capitalists and entrepreneurs.

These incidents enfeebled the power of the market liberalisation camp, in particular Doyukai. Horie had a relationship with some members of the Koizumi administration, whereas Murakami had close ties with core members of Doyukai such as Miyauchi (Chairman of Orix Corporation) and Ushio (Chairman of Ushio Inc.). In particular, Orix was a major sponsor of the Murakami Fund (Kawakita 2011: 156). The LDP, led by Koizumi, won the August 2005 election, but his administration encountered growing criticism, that the structural reforms had widened income inequality by generating a large number of low-waged non-regular workers. Miyauchi stepped down from the chairmanship of the Council for Regulatory Reform, keeping in step with Koizumi's resignation from the premiership. Interestingly, Ichiro Ozawa, a long-term power broker of Japanese politics, converted from neoliberal to anti-neoliberal in the mid-2000s. He was Secretary General of the LDP (1989-91), but left the LDP to form the Japan Renewal Party and become a mastermind of the Hosokawa administration. At that time, Ozawa was known as a neoliberal ideologue, but he started revealing his social democratic ideas when he became president of the DPJ in April 2006. According to Kikuchi (2015: 272), observing exhausted rural economies and growing economic inequality among people, he tactfully expected the correction of neoliberalism to appeal to numerous voters. The 2005 survey (with 1,320 respondents) on Japanese corporate governance by the University of Tokyo indicates that 69.1% of respondents thought employee benefits should be

¹⁵¹ Omori’s original texts in Japanese have been translated by me.

prioritised over those of shareholders, while only 18.8% thought the other way round (Takahashi 2007).

From the summer of 2007, the GFC further accelerated the anti-neoliberal trend and strong demand for systemic support in Japan. Growing income inequality caused strong criticism of the LDP, which ultimately contributed to its defeat in the 2009 election. Despite the relatively small amount of damage in Japan, caused by the subprime mortgage problem, compared to the US and Western Europe, the securitisation business in Japan shrank dramatically – the credibility of both securitisation (as an American style financing) and the American CRAs in Japan was tarnished. The sharp contraction of the securitisation market, on which many major non-banks depended, and the rising social criticism of non-banks' harsh collecting measures resulting in the revised Money Lending Law, which forced numerous non-banks to either go bankrupt or be under bank umbrellas (Kobayashi 2009). These trends in the second half of the 2000s can be viewed as a *de facto* reversal of the financial liberalisation that contributed to the booming of the non-banks during the late 1990s and the first half of the 2000s. Furthermore, the GFC gave Japanese anti-free market elites a great opportunity to denounce Anglo-Saxon style shareholder and financial capitalism. Takafumi Sato (2010: 70), former head of the FSA, points out that scepticism regarding the policy goal of strengthening the competitiveness of the Japanese capital market grew in 2009 due to the financial fiascos in the US and Britain.¹⁵² Japanese society can no longer fully rely on the old regime, but their social norms mean that they cannot accept Anglo-Saxon style market liberalism as an alternative.

The extent of neoliberal restructuring in Japan and its negative social and economic impacts, such as the growing economic inequality, the deteriorated

¹⁵² A recently popular argument in Japan is that financial globalisation aligned with neoliberalism has given undue advantage to financial capital such as hedge funds at the expense of industrial capital and labour (Nakano and Shibayama 2011: 104-9).

rural economies and the weakened international competitiveness of Japanese manufacturers, were often exaggerated by left-wing media and social scientists (for instance, Watanabe *et al.* 2009; Ninomiya 2012). As well as the market liberalisation camp, the anti-free market camp also contributed to the social and economic problems, and the latter frequently made financial globalisation and neoliberalism the scapegoat of these problems. However, even the neoliberal-oriented Koizumi administration had to provide systemic support for ailing banks and companies, but this could not satisfy the public for long. Anti-free market elites including Keidanren manoeuvred shrewdly in that they avoided direct confrontation with the Koizumi administration when it was popular, and they made the market liberalisation camp look solely responsible for the social and economic problems. The collapse of the convoy system was due mainly to the accumulated irresponsibility of anti-free market administrators, while these administrators, advocates of systemic support, have had to reduce the number of their subordinate allies (such as regular workers) – on the other hand, the number of non-regular workers who can receive limited support has substantially increased.¹⁵³

Having said that, systemic support has been persistent, and since 2006, support has spread in a diluted manner, as observed in the revised Money Lending Law, the SME Financing Facilitation Act and the establishment of numerous public-private funds. Firstly, the revised Money Lending Law of 2006 has dramatically shrunk the consumer finance business in order to protect consumers from excessive borrowing. My interpretation of this revision is that systemic support for financially distressed consumers forced countless money lenders, who are regarded as social outcasts in Japan, to go bankrupt. As described in Chapter 3, the Supreme Court judge who triggered the revision of the Money

¹⁵³ The number of non-regular workers in Japan almost doubled from 9.9 million in 1995 to 19.6 million in 2015, whereas that of regular workers decreased from 37.6 million to 32.4 million.

Lending Law, as well as conservative LDP politicians and FSA officials appeared to share an anti-free market perspective and a feeling of disgust towards aggressive capitalists, including the founders and management of non-banks (Ide 2007, Suda 2010, Masuhara 2012). Secondly, the SME Financing Facilitation Act enabled financially distressed SMEs to receive bank support from December 2009 until March 2013. Japanese politicians are well aware that providing support for the socially vulnerable appeals to voters. Thirdly, the establishment of public-private funds to support specific industries was due to the combination of the need for systemic support and the pursuit of ministerial interests. The collapse of the financial convoy in the late 1990s and the financial authorities' relatively arm's length administrative relationship with the banks made risk socialisation less certain. The government has endeavoured to bolster weakened risk taking by the private sector through these funds, but the majority of them have underperformed.

Due partly to the anti-neoliberal trend, Doyukai has moderated its neoliberal inclination, and some notable neoliberal proponents, including Ichiro Ozawa and Iwao Nakatani, have defected. At Doyukai's annual meeting in April 2007, Masamitsu Sakurai, chairman of Doyukai (2007-11) and Ricoh (a manufacturer of printers and photocopiers) commented that although Japanese management had bounced back and forth between the Japanese and American ways, the time had come to combine the respective good points of the two ways and meet the corporate social responsibility of harmonising business with society based on market principles.¹⁵⁴ Nakatani, who learned 'American (neoclassical) economics' at Harvard, was involved in market liberalisation and deregulation under the Hosokawa and Obuchi administrations, and some of his proposals were used for the Koizumi-Takenaka structural reforms. However, having experienced the structural reforms in Japan and the GFC, he criticises neoliberalism for: 1) destabilising global finance and the economy, 2) widening economic inequality

¹⁵⁴ The May 2007 issue of *Keizai Doyu*

among people (eliminating the middle class), and 3) accelerating global environmental contamination (Nakatani 2008: 18-9). He also claims that American economics, based on assumptions such as actors' extreme individualism and the pursuit of profit maximisation, is at odds with traditional Japanese values, while neoliberal restructuring has damaged Japanese society, and that better-informed elites might exploit the masses through a seemingly democratic framework of market mechanism and free competition (ibid.: 53-70). Although Nakatani rightly points out the conflict between Japanese social norms and American economics, I think he exaggerates the degree of neoliberal restructuring in Japan.

The reversal of financial liberalisation demonstrated by the Livedoor and Murakami Fund cases and the revised Money Lending Law made the Japanese financial markets (particularly its debt market) less conducive to the driving forces of financial globalisation, and subsequently the GFC has further accelerated the anti-neoliberal trend in Japan. Most American and European financial institutions have scaled back their Japan operations due to problems in their home markets and the low profitability of the Japanese debt business since the GFC. Against this background, the US CRAs have also shrunk their Japan businesses. The political superiority of Keidanren over Doyukai has remained unchanged, but interestingly, the ideational difference between the two industrial associations has narrowed since the late 2000s. Even conservative members of Keidanren have had to accept Anglo-Saxon style corporate governance at least in the *de jure* sense because of mounting pressure from international equity investors.

5.6 The Robustness of the Japanese Corporate System

This section examines three interrelated questions. Why could not the market liberalisation camp defeat the anti-free market camp in Japan under financial globalisation? Who created Japan's post-war political economic system and what

is the essence of this system? To what extent has Japanese corporate governance changed or not changed? A short answer to the first question is that market liberalism has been at odds with Japanese society's anti-free market norms, which are centred on in-group favouritism and systemic support, and has not obtained vast support from subordinate groups (including regular workers and SME owners). However, the second question needs to be explored in order to fully answer why such anti-free market norms have been so robust.

Calder (1988: 21-6) focuses on 'circles of compensation' that conservative LDP politicians have expanded by aggressively providing benefits for major prospective supporters in order to strengthen their political foundation, arguing that big business adopted a risky highly leveraged growth strategy and bureaucrats acquiesced this economically irrational behaviour in order to maintain broader stability. Although the concept of compensation politics reflects some elements of Japanese political economy, it is narrower than that of systemic support, which covers wider-ranging social relations, not only between public and private institutions (e.g., public financial institutions and firms) but also between private institutions (e.g., banks and firms) and within them (e.g., management and regular workers). In addition, the distinction between public and private in Japan is not as clear as that in the US, and most large Japanese firms and banks are not necessarily pure profit maximisers but have public characteristics in that their management provides systemic support for subordinates. In this sense, both bureaucrats, described as *de facto* legislators by Takeuchi (2000: 367-8), and management of big businesses and banks can be categorised as administrators, who play a larger role than conservative LDP politicians in the political economic system. As Takeuchi (*ibid.*: 398-9) rightly depicts, Japanese politicians are nominally legislators but in reality are lobbyists exerting influence over bureaucrats on behalf of local constituents and interest groups.

Over 30 years ago, Johnson (1982) contended that ‘for more than 50 years the Japanese state has given its first priority to economic development’. Japan’s developmental regime, portrayed by Johnson, and the 1940 system, delineated by Noguchi (2010), share some similarities, but the latter is sceptical about government policy’s positive impact on economic growth. Some scholars such as Samuels (1987), Okimoto (1989) and Calder (1993) claim that Johnson’s developmental state perspective overemphasises the bureaucratic leadership and needs to be improved by highlighting the influence of private managers, but Johnson (1999: 56-7) argues that these scholars has misconceived the relationship between public and private actors in Japan as dichotomous. I think that Johnson is right regarding this point, but his view of developmental coalition is somewhat unclear. In contrast, Noguchi (2010: 7-12) clearly illustrates the following three pillars of the 1940 system that were remnants of wartime: 1) Japanese style corporate structure, 2) the bank-centred financial system, and 3) the strong economic bureaucracy. As discussed in Chapter 2, one weakness of Johnson’s argument stems from his extremely negative view of socio-cultural approaches. Social norms are persistent but constantly change through interactions with domestic and international political economic factors. More importantly, it is crucial to identify who created and promoted social norms and institutions.

I have contended that anti-free market social norms and the 1940 system were created and promoted by administrators, including bureaucrats, conservative politicians, corporate executives and bankers, and consented to by subordinates. Conversely, a historic bloc constructed by Japanese anti-free market elites and subordinates through the exchange of systemic support for obedience to pursue political and economic stability has been extremely robust. Noguchi (2010: 207-25) claims that although both economic bureaucracy and the banking industry have been forced to change to some extent since the 1990s, large firms have hardly broken away from the deeply instilled features of the Japanese style company as closed in nature and negative perspectives on market-oriented economy.

There are various views on who governs the Japanese style company. Most Marxists believe that the capitalist class, including shareholders and corporate executives, dominates Japanese firms (Steven 1983; Crump 2003; Watanabe 2004). However, in reality, shareholders' power has been restricted in Japan (though somewhat strengthened since the late 1990s), and management has been relatively independent of shareholders. In contrast, Matsumoto (2011), who used to be a MITI official, maintains that Japanese companies, whose management rejects capitalist domination and is integrated with labour, are controlled by employees sharing part of the corporate risk. However, given that the interests of management and labour are not identical, I think that the relationship between the two parties is not integration but alliance against capitalists.

Nishiyama (1992) contends that Japanese large corporations are not dominated by shareholders but by managers (as supervisory workers) who tend to prefer debt financing, which has less influence on management, over equity financing. According to him, the decline of capitalists and the dominance of firms by supervisory workers was based on an idea that only people that provide labour should be rewarded, while those who do not are unqualified for reward (ibid.: 246). This type of idea was used by communist leaders to criticise capitalists and subsequently by post-war Japanese elites. Labour is stipulated by the constitution of post-war Japan as one of the three duties of the public along with tax payment and child education.¹⁵⁵ Okumura (1991) points out that Japan is a corporate centric society in that everybody directly or indirectly depends on and lives with companies in which Japanese wealth is concentrated, and argues that Japanese companies are mutually controlled through cross-shareholdings by companies. Nevertheless, in reality, it is impossible for companies to mutually control each other so this situation is actually tantamount to management dominance of companies in alliances against capitalists.

¹⁵⁵ By contrast, labour was not a public duty in the constitution of pre-war Japan.

As discussed in the previous chapters, a prototype of post-war Japanese companies had already been witnessed during wartime. Both the Japanese financial market and corporate society nurtured strong preferences for long-term relations, while Japanese financial institutions and firms were generally reluctant to accept monitoring from outside at ordinary times but asked for systemic support in times of crisis (Okazaki 1993: 119-20). Post-war Japanese financial institutions and firms inherited such characteristics, and the government and society shared a consensus on employment maintenance. Japanese society in the early post-war period emphasised economic growth through a public system providing systemic support in pursuit of stability and security rather than a market promoting efficiency through competition. Furthermore, Takeda (2008) maintains that Japanese companies have historically placed top priority on their organisational survival and perpetuation, unlike their American peers, which focus on financial success and shareholder returns.¹⁵⁶

Financial market liberalisation in Japan under Anglo-Saxon financial hegemony has been prevented by anti-free market norms centred on systemic support and in-group favouritism, which are deeply embedded in the Japanese style corporate system. Both systemic support and in-group favouritism, which sustain a management-labour alliance, are key components of guardian morals and indispensable to the corporate system at the centre of Japanese society. This is one major reason why systemic support has been persistent, even when the power of the economic bureaucracy and the banking industry (i.e., two pillars of the 1940 system) weakened from the mid-1990s to the early 2000s. The robustness of the Japanese style corporate system can be explained partly by both superiors and subordinates (for instance, management and regular workers, main banks and corporate borrowers, and large firms and subcontractors) mutually

¹⁵⁶ Takeda (2008: 54-6) also points out that in the 1950s the power of management increased at many American companies, whose focus shifted from shareholder returns to organisational prosperity, and this was called 'managerial capitalism'. However, capitalists gradually regained power from the 1970s onwards.

abandoning their alternative options to long-term commitment. Most large Japanese firms, except for those controlled by founding families, are based on an alliance between the administrators and regular workers in regard to avoiding capitalist dominance. Should capitalists become dominant in Japanese corporate society, they would cut off the strong ties that maintain the long-term relationships such as the management-labour alliance and keiretsu, resulting in the loss of both management's autonomous power within their firms and stable employment.

Then, the extent to which Japanese corporate governance has changed or not changed also needs to be examined. Key components of Japanese style business management include lifetime employment, seniority-based wages, enterprise labour unions, corporate groups and keiretsu, cross-shareholdings and a high dependence on bank borrowing. The prolonged economic stagnation, the financial deregulation, the financial crisis and the introduction of Anglo-Saxon financial and business customs have changed some of these elements. An increasing number of large firms have faced difficulties in sustaining lifetime employment and seniority-based wages, and the number of non-regular workers has dramatically increased. Since the 1990s, banks and companies have been forced to unwind a large portion of cross-shareholdings due to the financial crisis, corporate restructuring and the introduction of both mark-to-market accounting and the restriction on shareholdings by banks, resulting in higher foreign ownership ratios of Japanese shares. However, despite the unwinding of mutual shareholdings, long-term keiretsu transactions and subcontracting are still ubiquitous in Japan. The proportion of bank borrowing to corporate finance has been lowered since the early 1990s, but the Japanese financial system is still bank-centred. In the meantime, a variety of Anglo-Saxon corporate governance practices such as mark-to-market and impairment accounting, quarterly financial reports, and outside director and executive officer systems have been introduced since the bursting of the bubble economy.

Although corporate governance practices in Japan have seemed to change substantially as mentioned above, the core of Japanese corporate governance, in-group favouritism, has remained almost intact due to the persistence of systemic support. Noguchi (2010: 222-7) claims that almost all management at large Japanese firms, except for those that have gone bankrupt or faced a financial crisis, including Shinsei Bank (the former LTCB), Nissan Motor and Japan Airlines, are internally promoted, and that the Japanese style company places top priority on the survival of its employee community-like organisation and considers profit maximisation a sin. Given the growing influence of overseas shareholders, listed Japanese firms have had to introduce Anglo-Saxon style corporate governance practices in order to enhance or maintain their share prices and tap the capital market when necessary. However, most corporate executives of these firms do not want overseas shareholders to interfere in management issues and desire to preserve their autonomy. Consequently, many of these firms have demonstrated mock or cosmetic convergence to Anglo-Saxon style corporate governance, for instance, through their nominal introduction of outside board members and the executive officer system (Omura and Masuko 2003).

Two factors, higher bankruptcy risk and shareholders' demand for higher returns, would change Japanese style corporate governance (i.e., in-group favouritism) based on the management-labour alliance. Although these factors would enhance the bargaining power of capitalists vis-à-vis management, persistent systemic support has prevented capitalist domination. In this respect, Japanese banks, which have provided systemic support for financially strained companies, do not belong to the capitalist (market liberalisation) camp. Choosing either stakeholder capitalism (the market liberalisation camp) or shareholder capitalism (the anti-free market camp) is not simply right or wrong but rather a philosophical and normative question. Most importantly, their ultimate fault line is either to continue or to restrict strong systemic support. Fujita (2015: 15) reveals that industrial and corporate metabolism in Japan is much slower than that in the US due to the former's less frequent major bankruptcies, resulting in

the underperformance of the Japanese equity market.¹⁵⁷ Noguchi (2010: 227) insists that survival and the status quo maintenance of old (declining) industries and companies, which tend to discourage the development of new ones, should not be supported in order to escape from the 1940 system and reinvigorate the economy.

5.7 Dynamics between the Equity and Credit Markets

As mentioned in Introduction, Calder (1988: 465-6) and Okimoto (1989: 31-2) focus on the trade-off between (market) efficiency and (social) stability / security. CMEs including Japan tend to prioritise social stability / security over market efficiency, which strongly affect their corporate governance. By contrast, corporate governance in LMEs such as Anglo-Saxon countries are inclined to prioritise market efficiency over social stability / security. Social stability and security are associated with the orientation for strong ties, prevention and guardian morals, while market efficiency is linked with that for weak ties, promotion and commercial morals. Furthermore, capitalist dominance (i.e., shareholder capitalism) is constrained in CMEs whose financial system is mainly based on the credit market, in contrast to LMEs which are dominated by capitalists, mainly shareholders in the equity market.

In fact, capitalist dominance used to be constrained even in Anglo-Saxon countries during the Cold War when there was a compromise between labour, government and capitalists in order to restrict the influence of communism on labour. However, since the end of the Cold War, the diminished necessity of such a compromise has enhanced ICM, hence the power of capitalists. Capitalist dominance (mainly driven by the equity market) has been clearly witnessed in LMEs, but has encountered stronger resistance in some CMEs. Importantly, the roles of debt in CMEs and LMEs appear to be quite different. Debt in CMEs,

¹⁵⁷ Tsutomu Fujita is vice chairman of Citigroup Global Markets Japan.

particularly Japan, often reflects the ties between lenders and borrowers, both of who aim for organisational and relational stability. Anti-free market Japanese are concerned about capitalist dominance jeopardising social stability. In contrast, debt in LMEs is primarily used to maximise shareholder gains by pursuing higher capital efficiency.

As referred to in Chapter 1, uneven changes in board and management characteristics across the Japanese financial market have been observed, and the pressure to change is much stronger in the equity market, where the influence of overseas investors has increased, than in the credit market, which is dominated by local players. While equity markets in advanced industrialised countries tend to be fairly open and standardised (i.e., synchronic), credit markets retain more parochial elements such as domestic regulations, local practices and a high proportion of local participants. One possible reason for this difference is that state regulation and home bias are much stronger in credit markets than in equity markets because of the former's much greater market size including that of public debt, a greater number of participants (including consumers and SMEs) and lower risks and returns (albeit with some exceptions), although synchronic features have been enhanced in Anglo-Saxon credit markets. I contend that the Japanese political economy contains both equity market pressure for the convergence to Anglo-Saxon style capitalism and systemic support, associated mainly with the credit market, to resist convergence, but that the latter is still stronger than the former.

5.8 Conclusion

This chapter has discussed an ideational conflict within the Japanese elite, particularly focusing on that between Doyukai and Keidanren, which belong to the respective market liberalisation and anti-free market camps, and Japanese corporate governance. These two major industrial associations are key ideational platforms of the respective camps, which display different types of corporate

governance in Japan. Keidanren is a successor to the umbrella organisation of control associations established in 1940. This is another example to prove the continuity of Japanese political economy between the wartime and post-war periods. Keidanren has disseminated anti-liberal, anti-free market norms centred on systemic support (e.g., bailout of big businesses and lifetime employment) to Japanese society, and shared such norms, closely associated with the orientation for strong ties, prevention and guardian morals, with other anti-free market elites such as interventionist bureaucrats, conservative LDP politicians, legal professionals, bankers and the local Japanese CRAs. A management-labour alliance against capitalists and interlocking business relations are the keystones of Japanese style stakeholder capitalism.

Pro-American Doyukai strengthened its neoliberal orientation from the early 1990s until the mid-2000s, and the industrial association, together with non-Japanese firms (including the American CRAs), neoclassical economists and reformist bureaucrats and politicians, supported Anglo-Saxon style shareholder capitalism. When Japanese society lost confidence in Japanese style stakeholder capitalism closely linked to systemic support and in-group favouritism, an increasing number of Japanese elites felt that Japan needed to follow American standards (including shareholder capitalism, American credit rating orthodoxy, and other American financial and business practices), which promoted market liberalisation and neoliberal restructuring under the Hashimoto and Koizumi administrations. These trends made both anti-free market administrators and subordinates such as regular workers and SME owners concerned about risk of capitalist dominance severing social ties.

The anti-neoliberal counteraction driven by both administrators and subordinates, which started in 2006, has diminished the influence of the market liberalisation camp including Doyukai, which failed to obtain support from the public. I argue that the ideational conflict between the market liberalisation and anti-free market camps has been a moral dispute between Anglo-Saxon global

norms and Japanese social norms. Making short-term profit in financial markets and severing long-term social ties (i.e., prioritising individual goals over those of collectives) still tend to be regarded as morally wrong in Japan.

Both the American CRAs and Doyukai were ideational platforms promoting the American credit rating orthodoxy and shareholder capitalism, respectively, both based on Anglo-Saxon global norms, in Japanese society. Global norms are influential but not necessarily compatible with social norms in many countries. Persistent Japanese social norms, which prioritise stability over efficiency, has resisted Anglo-Saxon global norms in order to maintain the dominance of administrators who provide support for subordinates in exchange for obedience. However, the resistance to global norms has required Japan to take heavy tolls, i.e., growing contradictions within Japanese society, which will be discussed in the next chapter.

Chapter 6: The Dilution of Systemic Support and Growing Contradictions

This chapter will analyse the contribution of systemic support to Japan's rapid economic growth first, then examine why and how the characteristics of systemic support have changed since the 1990s, and finally discuss growing contradictions to systemic support. During the Cold War period, systemic support bonding long-termist administrators, committed labour and patient capital together, along with the hegemonic support from the US, significantly contributed to Japan's rapid economic growth. However, the enhanced ICM after the mid-1970s eroded the autonomy of Japanese bureaucrats, and the weakening of the Soviet Union during the 1980s and the end of the Cold War in 1991 lowered Japan's strategic importance for the US, reducing the US support for Japan. Furthermore, excessive systemic support, which paralysed dominant elites' sense of responsibility, resulted in a series of political scandals, the bursting of the bubble economy, the fall of the LDP and the financial crisis in the 1990s.

Although the systemic support in Japan weakened when economic bureaucracy (MOF in particular) and the banking sector lost power from the mid-1990s until the early 2000s, it resurged in the mid-2000s due to the public call for stability as Chapters 3, 4 and 5 have demonstrated the remarkable persistence of systemic support in Japan. However, the relative power decline of anti-free market elites has changed the characteristics of systemic support from quasi-public goods to virtual subsidies to specific interest groups, which can be called a dilution in its public characteristics. The dilution of systemic support has generated growing contradictions within the 1940 system.

6.1 The Dilution of Systemic Support

Prior to the bursting of the bubble economy and the fall of the LDP in the early 1990s, systemic support justified the legitimacy of administrators' dominance in Japan, whilst the great majority of Japanese people were protected both directly and indirectly by such support. During that period, systemic support was provided as quasi-public goods by dominant elites in an orderly manner. For example, the government supported banks that backed large firms, which, in turn, supported their employees and SMEs through lifetime employment and long-term business relationships, respectively. The agricultural sector, one of the LDP's traditional constituencies, also enjoyed systemic support. Nevertheless, the dominant elites primarily aimed for high economic growth, and the government and banks did not directly provide strong support for SMEs and citizens. Importantly, the rapid growth and the restraint of capital mobility sustained orderly social protection via wealth redistribution to wide-ranging social groups. However, administrators have lost control of systemic support since the financial crisis, political scandals and economic slump diminished the legitimacy of their dominance. This has transformed systemic support from quasi-public goods to *de facto* subsidies to specific social groups.

Although the exchange of systemic support for loyalty was not the sole driver for Japan's post-war rapid economic growth, it successfully drew a strong commitment from Japanese workers to their jobs, contributing to the expansion of Japanese firms from the 1950s until the 1980s (Matsumoto 2011: 12-26, Takeuchi 2000: 378-85). However, with regard to Japanese large firms' governance, systemic support exemplified by lifetime employment and seniority-based wages was central to a management-labour alliance that prevented capitalist power from maximising short-term profits. These firms prioritised sales expansion and stability (i.e., long-term relations) at the expense of efficiency and profitability, but such support was unsustainable without high levels of macroeconomic growth. In Japan, SMEs play a role as shock absorbers for large

firms, which force the former to lower prices and lengthen the receivable turnover period, enhancing SMEs' bankruptcy risk, in economic downturns. Most SMEs did not have the traits of Japanese style companies, including lifetime employment and seniority-based wages, and were much more capitalistic than conservative large firms (Matsumoto 2011: 111-2). Unlike privileged big businesses, the financially strained SMEs were not bailed out by the government and banks. The lifting of the wartime state economic control, the dissolution of Zaibatsu conglomerates, and the US trading policy and dollar-yen exchange rate being favourable for Japanese exporters during the Cold War provided growth opportunities for entrepreneurial SMEs such as Sony, Honda and Kyocera in the early post-war period, when numerous SMEs were founded and a large number of them went bankrupt.

The allocation of credit was concentrated in large firms, particularly manufacturers, during the early post-war period, and firms with better employment conditions attracted high-quality human resources. These factors put SMEs in a disadvantageous position vis-à-vis big businesses, which dominated the domestic market. Furthermore, Watanabe *et al.* (2013: 86-91) point out that excessive competition among SMEs based on abundant cheap labour aggravated their bargaining position against large firms. Accordingly, a large portion of SMEs without competitive business resources became subcontractors of large firms, which exploited the former's cheap labour, in order to secure stable orders from the latter. Long-term subcontracting between large firms and SMEs became a form of systemic support and an integral part of Japanese style corporate management. While the significant growth of large firms benefited subcontracting SMEs during the rapid economic growth period, the latter's dependency on the former was reinforced. However, the following three intertwined problems surrounding SMEs have continued since 1950, when large firms started recovering: 1) exploitation by large firms, 2) scarce business resources as well as limited state and bank support, and 3) market dominance by large firms (*ibid.*: 86-91).

Nishiyama (1992: 247) identifies three major deficiencies of Japanese style corporate management. The first deficiency is the risk of corporate bureaucratisation through the 'hierarchicalisation' of both companies and workers, resulting in weakened entrepreneurship and labour market rigidity. The second is excessive reliance on debt capital. The last is the inadequacy of capitalist monitoring of corporate governance. Regarding the first point, most large Japanese firms had a bureaucratic inclination because of the US occupation forces' elimination of major capitalists and the purge of top management at large firms. Their bureaucratisation was further reinforced by a management-labour alliance against capitalists. Although SMEs had a capitalistic tendency immediately after WWII, the entrepreneurship of subcontracting SMEs receded in accordance with their enhanced dependency on large firms. With respect to the second point, generally, Japanese companies' financial leverage was higher than that of their American peers until the financial crisis. However, as discussed in Chapter 3, the corporate loans provided by main banks had the characteristics of *de facto* quasi-equities. Whilst the Japanese corporate sector has lowered its financial leverage since the financial crisis, the quasi-equity-like features of main bank loans have weakened. Rather, a real problem is the Japanese banking industry's *status quo* orientation, which has hindered the development of emerging industries and companies (Noguchi 1995: 175-6; Ikee 2003: 89-99). Regarding the third point, insufficient monitoring from the outside, in-group favouritism of Japanese organisations and risk socialisation made responsibility and accountability weaken within the Japanese style corporate system, which contributed to the enormous bad debt problem (Ito 2007: 214-25).

Market inefficiency associated with domestic systemic support in Japan was partly compensated for by the US hegemonic support for Japan during the Cold War. Embedded liberalism under Pax Americana, which constrained ICM, was favourable for Japan's CME. However, such external support waned towards the end of the Cold War when Japan's strategic importance for the US diminished. The US (and other Anglo-Saxon countries) shifted from a diachronic form of

financing and Fordism mass-producing standardised products to synchronic financing and post-Fordism, focusing on shorter-run production for more diversified and specialised markets through financialisation and information technology innovation. However, Japanese manufacturers have encountered intense competition with developing countries since the 1980s, whilst Japanese administrators have tried to preserve Japanese-style Fordism and diachronic financing, delaying the shift to knowledge intensive industries such as finance and information technology.

When the Japanese economic growth slowed down and the yen sharply appreciated against the US dollar from the early 1970s until 1990, the relationship between large firms and SMEs became somewhat conflictual. Big businesses put pressure on SMEs to lower product prices in order to maintain their own earnings, whereas the former entered into areas traditionally associated with the latter. Furthermore, domestic demand has stagnated since the bursting of the bubble economy in the early 1990s, and large manufacturers have increasingly shifted their production abroad to grasp overseas demand and avoid the negative impact of the higher yen. The business environment for Japanese SMEs has deteriorated due to fierce competition with other Asian rivals and Japanese big businesses. Nevertheless, an METI official maintained that most SMEs have continuously depended on less profitable transactions with large firms as they regard these transactions as sources of social credibility.¹⁵⁸ It has been increasingly difficult for large firms to afford to provide support not only for SMEs but also for the agricultural sector. In the late 1950s, responding to the Socialist and Communist parties' bids for millions of tenant farmers, the LDP successfully formed a 'steel and rice' coalition, whereby manufacturing industries provided money for anti-communist campaigns and the agricultural sector, which, in turn, became voting blocs for the party (Rosenbluth and Thies

¹⁵⁸ Interview with Yuki Takishima of the Small and Medium Enterprise Agency, METI, in November 2014.

2010: 77-8). However, Keidanren proposed to deregulate such areas as agriculture to ease the protectionist pressure in the US (Schoppa 2006: 105).

Since the financial crisis in the late 1990s, it has become difficult for large firms to protect regular workers although most of them have tried hard to preserve lifetime employment. The failures of major Japanese financial institutions, including Yamaichi Securities, Hokkaido Takushoku Bank and the LTCB, made the American CRAs think that the Japanese government's grip of the Japanese financial and economic system was not as strong as the agencies had previously thought and expect the future convergence of Japan's political economic system towards that of Anglo-Saxon countries. The American CRAs significantly reduced the expectation of systemic support in credit ratings for Japanese banks and companies, downgrading these borrowers severely. A large number of big businesses, most of which did not have credit ratings and were mainly in non-manufacturing industries such as construction, property, retailing and non-banking, went bankrupt due to weakened systemic support from the government and banks from the late 1990s until the early 2000s, when MOF and the banking industry lost power. Corporate bankruptcies and the discharge of regular workers shook up a management-labour alliance.

The financial crisis and the introduction of mark-to-market accounting have forced Japanese banks and companies to unwind a large proportion of cross-shareholdings, which used to contribute to forming corporate groups and keiretsu relations. Cross-shareholding was widely introduced to Zaibatsu groups to expand equity capital without weakening solidarity among group member companies from the early 1930s onwards (Teranishi 2003: 214-6). The US occupation forces' 'securities democratisation' had shareholdings by the dissolved Zaibatsu and institutions sold off to individual investors, whose shareholding ratio of all of the listed companies reached 69% in 1949 (Ito 2011: 17). This made the managers of large firms feel vulnerable to corporate takeover risk, and these managers' strong lobbying through Keidanren successfully relaxed

the restrictions on cross-shareholdings among companies and financial institutions in 1949 and 1953 (Teranishi 2003: 217-8). This relaxation together with the capital liberalisation in 1963, which was perceived as the risk of takeover by foreign capital, dramatically enhanced the corporate and financial institutions' shareholdings ratios and lowered the individual investors' shareholding ratio until the 1980s. Subsequently, the cross-shareholding ratio of the aggregate market capitalisation of all of the listed companies more than halved from 18.1% in 1990 to 7.6% in 2003, while the foreign shareholding ratio rose from less than 10% to over 20% (Ito 2007: 218-9).

With the rising foreign shareholder ratio (29.8% as of 2015¹⁵⁹), the capitalist pressure on the management of large firms for changes in corporate governance to Anglo-Saxon style and higher shareholder returns has been intensified. Both regulatory compliance for companies and shareholder monitoring of management have become stricter, while the risk of shareholder lawsuits against management has been seemingly heightened. Nevertheless, key elements of the Japanese style corporate system, such as the main bank system, lifetime employment, keiretsu, and long-term subcontracting, have persisted, although they are somewhat weakened. Interestingly, there are relatively few examples of foreign capital acquiring Japanese firms - some examples are the acquisition of the LTCB by Ripplewood Holdings, Nissan by Renault, Seiyu (retailer) by Wal-Mart, and Sharp by Taiwan-based Hon Hai Precision Industry - despite the significant unwinding of cross-shareholdings. As discussed in the previous chapter, regardless of the introduction of Anglo-Saxon style corporate governance measures, the core of Japanese corporate governance, in-group favouritism, has remained almost unscathed thanks to persistent systemic support – the great majority of top managers at large firms are still internally promoted. A management-labour alliance in Japan has been shaken up by intensifying capitalist pressure, but not broken, over the last two decades.

¹⁵⁹ 2015 *Shareownership Survey* by Japan Exchange Group dated 20 June 2016

Nevertheless, Japanese society's diminished confidence in systemic support along with its stagnant domestic demand has lowered the risk taking capacity of the corporate and household sectors, sharply expanding the excess of deposits over loans of the banking industry from breakeven in April 2000 to 199 trillion yen in December 2014.¹⁶⁰ Japanese companies' risk taking (such as capital investment) used to be bolstered by systemic support from the government, banks and corporate groups. However, the corporate sector drastically reduced debts because of the weakened systemic support which heightened bankruptcy risk from the mid-1990s until the early 2000s. In the mid-2000s, systemic support for financially troubled large companies resurged along with the recovery of the banking industry after the massive public capital injections and the bad debt disposals as well as the establishment of the IRCJ. Even so, corporate risk taking has not sufficiently recovered since then, partly due to the transformation of the financial regulation from discretionary interventionist to relatively arm's length, principle-based. Japanese banks have become less certain about government support for them and more cautious about corporate lending to less creditworthy companies, which, in turn, has discouraged corporate risk taking. Furthermore, the dismal prospect of the Japanese economy has likely made corporate behaviour defensive, reducing debt and piling up cash. The household sector has also maintained enormous bank deposits because of anxiety over employment and social security, ironically curbing economic growth.

More importantly, systemic support in Japan has been transformed to *de facto* subsidies to specific interest groups, particularly the weak, including SMEs, people with multiple debts and the elderly, since the mid-1990s, when the power of administrators started to deteriorate due to the economic slump and scandals. Despite the decline of the elites, subordinates have continuously asked the government to protect them based on their consent to the exchange of systemic support for obedience. In the past, administrators could prioritise the recipients

¹⁶⁰ *Bloomberg* dated 12 March 2015

of systemic support according to their importance in regard to economic growth, as long as the economic prosperity legitimised their power: the top priority was given to big businesses, which, in turn, supported their regular workers and to a lesser extent SMEs, whilst ordinary citizens (except for regular workers of large firms) were neglected. However, with the weakened elite dominance, subordinate groups have fought for a larger share of support from the public system, whereas politicians have been keen to provide support for the weak in order to gather more votes, resulting in, for example, the revised Money Lending Law, the establishment of public-private funds and the SME Financing Facilitation Act. On the other hand, a sharply increasing number of people, mainly non-regular workers, have received little systemic support.

Ito (2007: 220-3) claims that the ambiguity of both power and responsibility within Japanese organisations produces a ‘system of irresponsibility’ – their leaders’ power and responsibility are not clearly stipulated but virtually defined in relation to their superiors (predecessors) and subordinates. He also argues that as long as Japanese organisations work well, their leaders have a free hand to make decisions and take initiatives, but in a crisis requiring fundamental changes, they cannot make a decision, as they are constrained by loyalty and obedience to their predecessors, who appointed them to their current positions, as well as self-protection (ibid.: 223-5). In other words, Japanese elites are both underpinned and constrained by the exchange between superiors’ support for subordinates and subordinates’ loyalty to their superiors within organisations. This exchange is identical to that between dominant groups’ systemic support for subordinate groups and the latter’s obedience to the former, which has long hampered political leaders pursuing change and capital mobility. Moreover, risk socialisation through networks of systemic support in tandem with in-group favouritism has generated and developed a system of irresponsibility in Japanese society. Systemic support creates a system of irresponsibility both in organisations and in society. This system may be a remote cause of both the creation and bursting of the bubble economy and the ensuing financial crisis.

Systemic support contributed to both the rapid growth and the long-term stability of the Japanese economy by creating exceptionally strong social solidarity, but simultaneously sowed the seeds of havoc by generating and developing a system of irresponsibility. Such support works effectively when capital mobility and power are restricted, and the cost of such support is compensated by high economic growth. When serious economic and political problems deteriorate dominant elites' authority and legitimacy, systemic support is likely to transform from quasi-public goods to virtual subsidies to specific interest groups under a system of irresponsibility. In this respect, systemic support has resulted in both continuity of, and contradictions to, the 1940 system, and a system of irresponsibility is one of its major contradictions. The market liberalisation camp within the dominant elites attempted to curb systemic support and remove the system of irresponsibility, but an anti-neoliberal backlash from both anti-free market elites and subordinates has caused the liberalisation attempt to fail.

6.2 Growing Contradictions within the 1940 System

What contradictions in Japan's 1940 system have been generated by systemic support? And how have they grown over time? The most salient contradiction is a system of irresponsibility, but concrete contradictory phenomena also need to be examined. The following three contradictions have been produced by the dilution of systemic support: 1) significantly weakened risk taking of the corporate and household sectors, 2) rapid expansion of public debt, which reached an alarming level, and 3) a sharp increase in the number of poor non-regular workers. These problems are closely intertwined. For instance, the stagnant economic activities of the corporate and household sectors have been compensated by large public expenditure, contributing to increases in public debt. On the other hand, it is said that growing concern over a possible crisis of social security due to excessive public debt has curbed consumer spending and

maintained an enormous amount of bank deposits (Okita 2010: 128-34). In addition, large firms with deteriorated earnings have hired low-paid, easily dischargeable non-regular workers in order to protect existing regular workers under lifetime employment.

With regard to the first contradiction, negative aspects of systemic support include a strong *status quo* orientation, the protection of economically inefficient industries including agriculture and retail, and hindrance to the growth potential of emerging industries and companies. In fact, networks of systemic support promoted social cohesion and enabled large firms to implement aggressive expansionist strategies during the rapid growth period, when dominant elites could provide sufficient rewards and protection for subordinate groups, which, in turn, legitimised the authority of elites and the system created by them. These could be regarded as positive aspects of systemic support from the viewpoint of economic growth and social stability. Yoshida (1994: 161-70) contends that the Japanese style corporate system, the bank-centred financial system and high economic growth were closely related – large firms had to keep growing just like a Ponzi scheme in order to maintain lifetime employment and seniority-based wages, whilst the bank-centred financial system was indispensable to sustaining rapid economic growth and simultaneously preventing shareholders from intervening heavily in management and seeking high profitability. However, the Japanese economy has been stagnant since the 1990s, and the financial crisis damaged Japanese society's confidence in systemic support.

Apart from aggressive risk taking backed by strong systemic support, the economic reconstruction from the war damage, young corporate management unconstrained by their predecessors and the Cold War contributed to the rapid economic growth in the early post-war period.¹⁶¹ SMEs had more opportunities

¹⁶¹ According to the 20 March 2015 issue of *Nikkei Business*, Masamoto Yashiro, former director of Esso Petroleum and the Japanese chairman of Citibank, maintains that young executives could take strong leadership after the purge of their predecessors by the US

to grow into big businesses in the 1950s and 1960s. Furthermore, during the Cold War, the US tolerated Japan's state interventionism, favourable exchange rates for Japanese exporters and these exporters' good access to the US market. However, these conditions for rapid growth started to wane in the 1970s. Since then, the negative aspects of systemic support have outweighed the positives. The competition between Japanese companies and their peers in developing countries has been intensified since the end of the Cold War. Moreover, dominant elites have gradually succumbed to a system of irresponsibility, while excessive dependence on systemic support has undermined the risk taking capacity of the corporate sector.

The household sector depositing a large proportion of money in banks was left outside the rapid economic growth mechanism, which consisted of mainly large firms and financial institutions, but was indirectly rewarded by enhanced wages and the redistribution of wealth to less competitive sectors through fiscal policy (Noguchi 2010: 114-6). One major reason why Japanese society preferred bank deposits over securities investment was the scarcity of individuals who had the capacity to take an investment risk due to the elimination of major capitalists by the US occupation forces and post-war hyper-inflation, whilst another reason was households' general distrust in securities, stemming from their experience of the government bonds forcibly sold to them during wartime becoming almost valueless after the war (Ito 1995: 151-2). Importantly, MOF and the BOJ promoted household savings for the post-war economic recovery and growth, and Savings Promotion Committees were established in all of the prefectures in 1950. An additional reason might be the household sector's faith in systemic support for the banking industry – even during the financial crisis, bank deposits were intact. Furthermore, over the last two decades, protracted wage declines and concerns over job and social security have made households more financially

occupation forces, while war-damage reconstruction naturally boosted rapid economic growth.

defensive, maintaining a huge amount of bank deposits. However, ironically, the banking industry has made an enormous investment in JGBs because of the declined corporate demand for borrowing funds.

In terms of the second contradiction, enormous fiscal support for drastic corporate debt reductions and sharply rising social security burdens associated with an aging society have contributed to the skyrocketing public debt from 301 trillion yen (67% of GDP) in 1990 to 1,285 trillion yen (232% of GDP) in 2016. The corporate sector has radically reduced its debts through decreases in capital investment and significant cuts in costs, particularly personnel costs, while the government has assisted this corporate restructuring through public capital injections into the banking sector, increases in public spending, corporate tax cuts and monetary easing, all of which can be regarded as systemic support (Tsuchiya and Morita 2011: 72-83; Takata 2012: 101-4). Over 40% of listed companies in Japan are virtually debt free now – their cash in hand exceeds their debt (Takata 2012: 101-2). Furthermore, dramatic social security benefit expansion, of both public pensions and healthcare in particular, has also enlarged the public debt. According to Keiichiro Kobayashi, an economics professor, the present value of aggregated public pension and healthcare benefits for the elderly in the next 50 to 60 years is estimated to be 700 trillion yen (Hashizume and Kobayashi 2014: 40-3).

However, it should be noted that a large proportion of the huge bank deposits possessed by the corporate and household sectors has been appropriated for bank investment in JGBs. As of the end of March 2013, just before the aggressive purchase of JGBs through drastic quantitative monetary easing by the BOJ governor, Haruhiko Kuroda, deposit financial institutions centred on banks, insurance companies, the BOJ and overseas investors accounted for 37.8%, 19.9%, 13.2% and 8.4% of the total JGBs (998 trillion yen), respectively.¹⁶² In addition to the household sector's savings, totalling 848 trillion yen, out of its

¹⁶² *Flow of Funds Accounts*, the BOJ

entire financial assets of 1,571 trillion yen, the non-financial corporate sector had bank deposits amounting to 225 trillion yen at that time.¹⁶³ Unlike other industrialised countries, Japan has financed most of its public debt domestically.¹⁶⁴ In this respect, although Japan's ratio of public debt to GDP is by far the highest – Japan 232%, the US 111%, Germany 75%, France 121% and the UK 115% – its sovereign credit risk (A1 by Moody's and A+ by S&P as of June 2017) is still relatively low thanks to its low dependency on overseas investors, which would require higher risk premiums on JGBs than domestic ones (Takata 2012: 45-9). The BOJ's share (39.5%) exceeded that of the deposit financial institutions (20.9%) of the total JGBs (1,083 trillion yen) as of the end of March 2017, but huge savings held by the household and corporate sectors are still appropriated for JGBs via banks' current accounts at the BOJ.

An enormous flow of funds from the household and corporate sectors' savings to JGBs could be regarded as the loyalty and obedience of these sectors to the government in exchange for systemic support, but this does not necessarily rule out the risk of Japan's sovereign credit deterioration in the future. One of the major risk factors for credit deterioration is sharp increases in the social security burden. Although some economists expect an aging society to reduce household savings, leading to current account deficits and interest rate hikes (Hashizume and Kobayashi 2014, Oguro 2010), Japan's credit deterioration may be exaggerated. As Ito (2007: 248-52) rightly indicates, Japan's national burden ratio ($= [\text{tax burden} + \text{social security contribution}] / \text{national income}$) is fairly low among industrialised countries – Japan 41.6%, the US 32.5%, the UK 46.5%, Germany 52.6% and France 67.6% in 2013 – so there is substantial room for

¹⁶³ *Flow of Funds Accounts*, the BOJ

¹⁶⁴ According to the statistics *Nippon no Zaisei Kankei Shiryo (Japan's Budget / Fiscal Condition-related Data)* published by MOF in October 2016, the respective proportions of foreign ownership to the outstanding government bonds in the US, Germany, France, the UK and Japan are 41% (as of March 2016), 52% (March 2016), 61% (March 2016), 26% (December 2015) and 10% (March 2016).

raising its national burden ratio. Furthermore, protracted deflation in Japan has caused the financial assets of the household and corporate sectors to be concentrated in savings and lowered interest rates, mitigating the government's financial burden.

Japan has sufficient ability to reduce the public debt substantially currently, but one problem is whether it can demonstrate its political willingness to do so. Although Japan should not adopt excessively drastic measures to cut back JGBs, which would cause a recession, it has less room to allow its public debt to expand further and needs to reduce it at a moderate pace through social security reforms and tax increases. Furthermore, if a larger amount of household savings were to be used for JGBs, the corporate sector would face a shortage of funds, restricting its economic activity. Takata (2012: 210-2) argues that both direct and indirect JGB investors' (i.e., the public's) tacit confidence in the following three assumptions has prevented a JGB crash. Firstly, Japan will return to a growth track again in the future. Secondly, the government will decide to exert the power of tax collection by raising tax rates when the economy is back on a growth path. Lastly, governance to implement policy decisions exists within the government. If such confidence were to wane, the risk of capital flight would rise and damage JGBs' creditworthiness, although Japanese society has very strong home bias, which has hindered capital flight so far, due to its robust cohesion. However, the prolonged economic slump and anxiety about future uncertainty have impaired Japanese society's cohesion.

With regard to the third contradiction, the dilution of systemic support has pushed an increasing number of people outside its realm, widening economic inequality, while interest groups have struggled for a larger share of support from the government. The managers of large firms have increased the number of low-paid non-regular workers (which include the underclass in Japan) in order to protect existing regular workers (subordinates) – non-regular workers are outside a management-labour alliance, and most of them are excluded from in-house

labour unions. The number of non-regular workers (their proportion of total labour) more than doubled from 8.8 million (20%) in 1990 to 19.6 million (37%) in 2014.¹⁶⁵ According to a questionnaire survey by the Japanese Trade Union Confederation, around 70% of non-regular workers are categorised as ‘working poor’, whose annual income is less than 2 million yen.¹⁶⁶ In contrast to the growing economic inequality between the capitalist class and the labour in Anglo-Saxon countries, that between regular and non-regular workers is highlighted in Japan.

Japan’s Gini coefficient (which reflects the income inequality of a society) from 2009 until 2012 was lower than those of the US and the UK but higher than most other European countries, including Germany, France and Sweden. Its Gini coefficient started to rise sharply in the 1980s, and the rising curve steepened from the mid-1990s until the 2000s. Furthermore, Japan’s poverty rate in 2012 was the 6th highest among the 35 OECD countries and higher than those of all European countries. Takata (2015) points out that Japan’s wealth concentration in ‘ultra-high net worth individuals’ (with a net worth of 50 million US dollars or above) is much lower than that of the US, whilst the expansion of the underclass and the economic deterioration of the middle class are major issues in Japan. Although the total amount of Japan’s social security benefits has been skyrocketing over the last two decades due to its rapidly aging society, its social security level is lower than that of most European countries. This may be one major reason for the enormous savings of the Japanese household sector, apart from strong systemic support for the banking industry. In addition, Tsuchiya and Morita (2011: 214-5) claim that the younger generations in Japan are generally much worse off than the older ones, and that Japan should not allow the elderly to become the largest vested interest layer. With regard to social security, the existing elderly, at 60 years of age or above, benefit by 120 million yen more per

¹⁶⁵ Ministry of Internal Affairs and Communications report dated 24 July 2015.

¹⁶⁶ The *Mainichi Shimbun* newspaper dated 20 January 2016

person than the future generations, currently under 20 years of age (Oguro and Kobayashi 2011: 65). This is analogous to protecting existing regular workers at the expense of non-regular workers.

Japanese social security heavily depends on families and companies. It is often considered that Japan has a large government due to its state interventionism, but in reality, the proportion of its social security benefits to GDP (22.2%) as of 2009 was lower than those of the UK (24.1%), Germany (27.8%), Sweden (29.8%) and France (32.1%). Article 877 of Japan's Civil Code stipulates that 'lineal relatives by blood and siblings have a duty to support each other' – for example, elderly people in financial difficulty should be taken care of by their children and relatives before receiving public assistance. It is a heavy physical, mental and financial burden for Japanese workers to look after their parents: 73% of respondents to a survey by the newspaper had experienced the excessive burden associated with caring for their relatives.¹⁶⁷ In addition, Japan's national burden rate (the proportion of aggregate taxes and social insurance contributions to national income) was the 6th lowest (41.6%) among the OECD countries and lower than those of most European countries (the UK 46.5%, Germany 52.6%, Sweden 55.7% and France 67.6%) as of 2013. Individual income tax rates for wealthy people in Japan were significantly lowered from the late 1980s until the mid-2000s, and corporate tax rates have declined dramatically since the mid-1980s, owing to international competition initiated by the UK and the domestic financial crisis – lowered corporate taxes have assisted corporate balance sheet adjustments.

Japanese companies provide various social security measures that are normally taken on by governments in other countries – for instance, these companies carry out unemployment countermeasures by keeping redundant regular workers inside their organisations and/or shifting them to other divisions and businesses (Matsumoto 2011: 224). Ito (2007: 248-68) contends that the

¹⁶⁷ The *Mainichi Shimbun* newspaper dated 4 April 2016

proportion of tax and security insurance premium burdens on Japanese companies to GDP (7.6% in 2003) is relatively light compared to those of their European peers (Germany 9.1%, Italy 11.7% and France 14.0%), but the costs these companies bear in regard to unemployment countermeasures are not included in this proportion. The ratio of Japanese companies' security insurance premium payments to GDP (4.5% in 2003) is lower than those of Germany (7.3%), Italy (8.9%) and France (11.4%), but if the unemployment countermeasure costs were to be included, the ratio for Japan would be close to those of these European countries. Nevertheless, the Japanese corporate sector's contribution to social security has declined owing to the increase in non-regular workers.

6.3 Conclusion

This chapter has examined the contribution of systemic support to the Japanese rapid economic growth during the Cold War, the dilution of systemic support since the mid-1990s, and growing contradictions to systemic support. The Japanese-style corporate system, in which long-termist administrators, committed labour and patient capital connected by systemic support, worked well during the Cold War when capital mobility was restricted and the cost of systemic support was compensated by US hegemonic support. However, the end of the Cold War, which dramatically changed the world order to Anglo-Saxon neoliberal hegemony, was a negative game changer for Japanese administrators. This change resulted in the dilution of systemic support, which was the transformation in the characteristic of systemic support from quasi-public goods to *de facto* subsidies to specific interest groups as the relative power decline of administrators (especially bureaucrats and conservative LDP politicians) made them unable to control the realm of systemic support.

Since the mid-1990s, the dilution of systemic support has generated growing contradictions in Japanese society, which can be regarded as side-effects of maintaining the 1940 system and resisting Anglo-Saxon neoliberal hegemony.

One contradiction is significantly weakened risk taking by the corporate and household sectors, which has prolonged economic stagnation and generated another contradiction, i.e., rapid expansion of public debt reaching an alarming level. However, I argue that the most serious contradiction is a sharp increase in the number of poor non-regular workers, which is a grave social class issue and injustice, and that more systemic support in Japan should be provided for individuals, particularly those in younger generations, rather than big businesses. Without a sufficient level of social security, young people face a difficulty in taking risk to pursue their goals and instead tend to be exploited by businesses and the elderly. In order to enable young people to do so, the basis of social cohesion needs to be enhanced from the small group level to the national one.

Conclusion

This thesis has tackled the research puzzle, ‘why has Japan’s financial disintermediation lost momentum despite its financial deregulation during the 1980s and 1990s?’ by adopting a neo-Gramscian approach in tandem with sociological, psychological and philosophical concepts. It has focused on an ideational conflict within the Japanese elite, and the concept of systemic support has been offered as the solution to the puzzle. Neo-Gramscian approaches provide three keys – social norms established by dominant elites, subordinates’ consent to such norms, and an ideational conflict between key institutions – to solving the research puzzle. From an Anglo-Saxon rationalist (i.e., synchronic) perspective, Japan’s long-term resistance to financial disintermediation is indeed an enigma.

The first key to solving the puzzle is to recognise that the administrators (e.g., bureaucrats, bankers, corporate executives and LDP politicians) of the 1940 system created and promoted anti-liberal, anti-free market social norms closely linked with Japanese society’s emphasis on strong ties, prevention orientation and guardian morals. However, I disagree with cultural or ideological determinists who assert that Japanese culture or ideology has exclusively shaped Japanese style capitalism (Morishima 1982, Dore 1986, Dore 2000). Morishima (1982: viii) argues that a nation’s economic structures and relations are strongly conditioned by its ethos and ethics, and that ‘a remarkably idiosyncratic ethos prevails in Japanese society, and as a result of these ethical feelings Japanese capitalism has to a considerable extent deviated from the typical free enterprise system’. According to him, there are two types of religion. The first type justifies the power of dominant groups and maintaining the status quo, whereas the second one aims to assist the subordinate or individual (ibid.: 194-6). Morishima contends that Japan had only the first type of religion (Japanese-style Confucianism) and lacked the second one, so Japanese society’s conservative,

nationalist and materialistic inclinations ‘could lead to the suppression of all liberalistic economic activity, even without the appearance of a strong leader or autocrat’ (ibid.: 196).

One major weakness of cultural or ideological determinism is that it cannot clearly answer a politics question regarding who gets what, when and how (Lasswell 1936), although Morishima (1982) rightly points out the significant anti-liberal influence of Japanese-style Confucianism on its capitalism. However, culture, ideology and norms do not exist indigenously and become influential in society; they are tools used by elites to dominate society. I have contended that the anti-liberal, anti-free market norms of Japanese society were established and promoted by the administrators of the 1940 system, with the inadvertent support of the US occupation forces, which eliminated major capitalists in Japan. Meanwhile, classical Marxist scholars stick with the capitalist-labour dichotomy when analysing Japanese capitalism (Steven 1983; Crump 2003; Watanabe 2004; Watanabe 2009). Although their effort to uncover a latent class conflict in Japan is highly appropriate, they fail to grasp the essential characteristics of most Japanese corporate executives and bankers, which are similar to those of bureaucrats rather than those of entrepreneurs or capitalists. Japanese-style capitalism aims mainly for capital accumulation on national and corporate levels (i.e., the maximisation of social and corporate wealth) rather than individual financial wealth, which is the primary goal of Anglo-Saxon capitalism.

Furthermore, analytic eclecticism is very useful in incorporating social relations and norms, which are different by region and country, into the variety of capitalism and convergence-diversity debates. Recognising differences in social relations and norms between Japan and Anglo-Saxon countries is crucial to solve the research puzzle. Neo-Gramscian approaches are effective in dealing with the influence of competing ideas and norms on international political economy, but are macroscopic so that a supplementary toolkit, such as

sociological, psychological and philosophical concepts, is needed to handle the meso and micro level analysis.

The second factor, subordinates' consent to social norms established by dominant elites, enabled Japanese society to form a counter-hegemony under Anglo-Saxon financial hegemony. Most large Japanese firms are dominated by a management-labour alliance against capitalists. Such an alliance (long-term relationship) between superiors and subordinates bound by strong ties is ubiquitous in Japanese society. The preference for strong ties and guardian morals in Japan has generated strong in-group favouritism, which is closely associated with systemic support. Habuka (2014: 39-40), a MOF official, claims that the public and private fields are inseparable in Japan, in that employers and employees represent the 'public (superior)' and 'private (subordinate)' statuses respectively, similar to the relationship between bureaucracies (public) and companies (private) and that people and groups in superior positions are supposed to protect their subordinates. During the early post-war period, Japan aimed at achieving economic growth through a public system providing systemic support in pursuit of social stability and security rather than a market promoting efficiency through competition. Japanese people seek assurance from the broadly defined public system (including a large proportion of the private sector), which covers such areas as banking, employment, healthcare, energy and transportation.

MOF, which needed to cope with the increasing public debt, securities firms and blue chip companies, had incentives for financial deregulation in the 1980s, but the pace of financial deregulation was only gradual prior to the Japanese Financial Big Bang, as the ministry (superior) was constrained by systemic support for the banking industry (subordinate), which was expected to be negatively affected by deregulation. Furthermore, despite the relative power decline of the dominant elites since the mid-1990s, the anti-liberal, anti-free market Japanese social norms, bolstered by subordinates' consent, have been persistent and resisted financial disintermediation aligned with Anglo-Saxon

style financial capitalism, which emphasises short-term profit making. The interests of subordinates, who benefit from systemic support (e.g., less creditworthy large firms assisted by their main banks, regular workers under lifetime employment and SME owners), have been at odds with financial disintermediation and financial capitalism, which generally reject systemic support and long-term social relations bound by strong ties and guardian morals.

The last factor, an ideational conflict between key institutions, is another hallmark of neo-Gramscian approaches. I have argued that there was an ideational conflict within the Japanese elite between the market liberalisation and anti-free market camps from the early 1990s until the mid-2000s and focused particularly on ideational contestations between the American and local Japanese CRAs (Chapter 4) and that between Doyukai and Keidanren (Chapter 5). Core members of Doyukai had an orientation towards shareholder capitalism and a synchronic form of financing and were opponents of systemic support, in contrast to those of Keidanren, who were proponents of stakeholder capitalism, a diachronic form of financing and systemic support. During the Hashimoto (1996-98) and Koizumi (2001-6) periods, the market liberalisation camp, particularly the American CRAs and Doyukai, was influential in Japan. Systemic support in Japan was weakened in the mid to late 1990s when the power of economic bureaucracy, the banking industry and the LDP declined owing to financial crises, the economic slump and a series of scandals.

However, after the relative power decline of these institutions, the Japanese-style corporate model, whose features entail its closed nature (in-group favouritism) and a negative view of market-based economic systems, was a remaining stronghold of the 1940 system (Noguchi 2010: 220-3). Anti-free market corporate executives, represented by Keidanren, have quietly resisted Anglo-Saxon style financial and business practices, including financial disintermediation, an emphasis on shareholder returns, and short-term profit maximisation. Their political power derives from a management-labour alliance

against capitalists. While many Japanese firms have demonstrated mock and cosmetic convergence towards Anglo-Saxon style corporate governance and practices since the 1990s, the core of Japanese corporate governance – in-group favouritism – has been kept almost intact. Due to the public call for stability, massive public capital injections and bad debt disposal resuscitated the banking industry, resulting in the resurgence of systemic support during the mid-2000s. Chapter 3 demonstrated the persistence of state and bank support for financially troubled large firms as well as the expansion of systemic support into the field of SMEs and individual borrowers with multiple debts.

The three keys provided by neo-Gramscian approaches have led to the answer to the research puzzle: Japanese society's anti-liberal, anti-free market norms centred on systemic support are a form of counter-hegemony, constraining capitalist domination and resisting financial disintermediation linked with Anglo-Saxon style capitalism, which would sever strong ties and enfeeble systemic support in Japan. Systemic support and in-group favouritism are deeply embedded in both Japan's bank-dominant financial system and corporate governance. An anti-neoliberal backlash driven by both anti-free market elites and subordinates has diminished the market liberalisation camp's influence since 2006. Whilst Japan's credit market has been dominated by a diachronic perspective and systemic support, its equity market increasingly, influenced by international investors, has gained synchronic characteristics. Although the Japanese political economy is influenced by both equity market pressure for convergence towards Anglo-Saxon style capitalism and systemic support associated mainly with the credit market, the latter is still strong enough to fend off the former.

Although many books and articles on Japanese political economy written between the late 1990s and mid-2010s observe the hybridisation of the CME and LME models in Japan or expect the future convergence of Japanese style capitalism with that of LMEs (Anglo-Saxon countries), due to the persistence of

systemic support and in-group favouritism, Japan is behind Germany and France in terms of the hybridisation of the LME and CME models at present. Furthermore, the convergence of the Japanese and LME models seems less likely in the foreseeable future, although pressure towards the convergence has strengthened in the Japanese equity market.

Financial Globalisation and the US Credit Rating Orthodoxy

This thesis not only analyses the ideational conflict between market liberalisation and anti-free market forces in Japan but also elucidates the characteristics of financial globalisation and the US credit rating orthodoxy. Financial globalisation does not simply mean the global integration of nationally bounded capital and credit markets; it also means the transnational expansion of the synchronic form of financing, which has displaced the diachronic form of financing through financial disintermediation under Anglo-Saxon financial hegemony. The characteristics of the US CRAs have become increasingly synchronic, just like those of the financial markets themselves, due particularly to the rapid development of structured finance, and the US credit rating orthodoxy has been at the centre of financial disintermediation and globalisation.

However, as this thesis clearly demonstrates, the nature of finance is not the same everywhere. Even under financial globalisation, how finance works in different places is likely to vary, while the social norms characterising the financial system are persistent. Finance is a social thing, and social norms, and the expectations and interactions of actors matter. Although officials of the US CRAs might claim that what they do is analytically neutral, their approach reflects the dominant assumptions about how finance works in New York and London. In this respect, financial globalisation can be regarded as the transnational expansion of the Anglo-Saxon synchronic form of financing and shareholder / financial capitalism. However, this expansion has encountered resistance from social norms in less liberal economies that favour a diachronic

form of financing and stakeholder capitalism. The ideational battle between the US and local Japanese CRAs in Japan reflects the differences in social norms between Anglo-American countries (primarily the US) and Japan.

Synchronic financing is reflected in higher capital mobility (i.e., less constrained capitalist power) pursuing short-term financial profits. The synchronic mentality of Anglo-American capitalists and management cannot accept an average / lacklustre return on investment. On the one hand, old industries with low profitability such as steel, machinery, and autos in the US and the UK have lost their international competitiveness partly because of insufficient investment, resulting in massive layoffs, bankruptcies and M&A (industrial consolidation). On the other hand, Anglo-American capitalists are strongly motivated to invest in innovative and high margin businesses (such as Google and Apple), which enables the new entry of a large number of companies into their credit markets. Furthermore, this synchronic mentality can be seen in the active creation of new credit products such as securitisation and credit default swaps in American credit markets. Both the vigorous ‘corporate metabolism’ (rapid corporate scrap and build) and active generation of innovative credit products are indispensable for the prosperity of the American CRAs in the US credit market.

Although the US CRAs were expected to overwhelm the local CRAs in Japan during the 1990s from a synchronic perspective, the former’s influence in Japan has diminished, while the latter have survived and gained legitimacy and utility within the Japanese credit market. The US CRAs with a narrow synchronic mental framework, just like many scholars on Japanese political economy, failed to anticipate the persistence of systemic support in the late 1990s, whilst the long-term systemic risk of the Japanese financial system, a side-effect of excessive systemic support, may be underrated by the Japanese local CRAs from a diachronic viewpoint. The formula of anti-free market social norms (linked with the diachronic form of financing) versus financial globalisation (which has

promoted the synchronic form of financing) is not unique to Japan; it can also be witnessed in other less liberal economies in Asia and Europe.

The US CRAs have thrived mainly in countries such as the UK, Australia, New Zealand, Canada, Mexico and Singapore, where these agencies' synchronic characteristics aligned with capitalist power have been accepted. In this sense, the US CRAs' global influence has not expanded evenly. In addition to Japan, other countries with a preference for the diachronic form of financing, including China, Russia, France, South Korea and Malaysia, have experienced friction with the US CRAs and resistance to their influence. In these CMEs, governments or state-owned banks often rescue financially troubled companies and banks, whereas local CRAs have been established to compete against the US CRAs. I think that administrators such as bureaucrats, authoritarian politicians, and executives of public and quasi-public institutions are inclined to be powerful in CMEs, and the power of administrators and frequent corporate bailouts may indicate the significant influence of systemic support in their societies. It is difficult for the US CRAs to accommodate diachronic perspectives as the US credit rating orthodoxy is based on an Anglo-Saxon financial society's synchronic outlook. Consequently, whilst dominant, neither financial globalisation nor the US CRAs' power may be as 'global' or hegemonic as is often suggested.

Systemic Support and Dominant Elites' Power in CME and LME

Anti-free market social norms centred on systemic support and in-group favouritism are often in tandem with the interests and power of dominant elites (administrators or guardians) in CMEs. Administrators are acutely aware that their authority requires the consent (loyalty and obedience) of their subordinates, and that once they leave their organisations they will lose their power. In this respect, organisations (e.g., bureaucracies, political parties and companies) are similar to territories and castles during the pre-modern period, and preserving such organisations and territories is a top priority for administrators (guardians).

Administrators are expected to focus on accumulating wealth and capital on national or corporate levels rather than on a personal level.

In CMEs, capital mobility is constrained by the strong ties between administrators and between superiors and subordinates, and capital tends to be tied to specific organisations. Subordinates are rewarded in exchange for their loyalty and obedience to administrators and their organisations. Both administrators and subordinates pursue stability and security through strong ties such as a management-labour alliance and keiretsu. Although, even in CMEs, there are some elites who endeavour to shift their countries to LMEs, their efforts are hampered by anti-free market social norms and they are often criticised for attempting to destroy social cohesion or maximise capitalists' profits at the expense of hard-working labour. One major feature of CMEs is that most organisations and people bound by strong ties commit themselves to preserving such ties by mutually abandoning alternative options. Moving from a CME to an LME is very difficult for most countries. It is probably not a coincidence that most LMEs are Anglophone countries centred on the UK and the US, which are the respective countries with the former and present key currencies. Japan and most other CMEs lack such advantages as an internationally used language and key currency status.

Capitalists want to minimise systemic support, which often prevents them from maximising short-term financial profit, but even in LMEs some elites believe that capitalist power needs to be curbed to some extent and that social security for the public should be strengthened. In this respect, CMEs and LMEs should be regarded as a spectrum rather than as having a binary relationship. Germany and France, which are often included in CMEs, are closer to LMEs in the spectrum than Japan. Within LMEs, the UK seems to be closer to CMEs than the US. However, in addition to the significant capitalist power in LMEs, a large proportion of people in these economies are unwilling to be constrained by strong ties and abandon alternative options regarding their social relations. In this

respect, excessive systemic support, which usually hinders the market mechanism, is an anathema in LMEs.

Some may think that this thesis exaggerates the differences between Japanese and Anglo-American capitalism, pointing out that systemic support was extensively provided in the US and the UK during the GFC, while neoliberal backlashes have been observed in these countries since then. Systemic support can be seen in any country, and major banks in economically advanced countries usually receive support as the banking sector along with the capital market play a credit creation function that is indispensable for both CMEs and LMEs. A distinction lies in the non-financial corporate sector. Whilst state and bank support for financially troubled large firms (particularly manufacturers) is the norm in Japan, such support is quite exceptional in the US and the UK – the US government bailout of General Motors and Chrysler and the UK government's support for Jaguar Land Rover during the GFC were exceptions. Moreover, although the anti-neoliberal backlash in Japan meant the rejection of the LME model by both anti-free market elites and subordinates, resulting in the partial reversal of the previous financial liberalisation, those in the US and the UK, which demonstrated the tension between capitalists and labour and between immigrated and native labour, have not changed their LME model.

Areas for Further Study

There are two potentially fruitful areas of further study stemming from the concepts and findings of this thesis. The first area is a comparative study of systemic support, particularly the politics of corporate bailouts in various CMEs such as Japan, France, South Korea and Malaysia. What are the similarities and differences among these countries with regard to the degree and sphere of systemic support and the mechanism of corporate bailouts? Are corporate bailouts in these countries, for instance, those of Alstom (French engineering firm) in 2004, Hynix (South Korean semiconductor manufacturer, currently SK

Hynix) in 2001 and Malaysia Airlines in 2014, conducted in order to maintain employment and social stability or to sustain national prestige? To what extent have financial deregulation and market-based financial practices progressed in these countries? Such a comparative study could demonstrate why some CMEs prioritise social stability or national prestige over economic efficiency.

The second area is a comparative study on the differences in financial liberalisation among CMEs, particularly between Germany and Japan. Although both Germany and Japan are often categorised as CMEs or stakeholder capitalism with a bank-centred financial system, there are many differences between the two. For example, Thelen and Kume (2001) point out their different non-liberal worker training regimes, which may reflect different social relations and norms. In terms of the development of the corporate bond market and market-based banking, Germany has been ahead of Japan since 2000 (Hardie and Howarth 2013a). What factors (e.g., the timing of the financial crisis that hit each country, the influence of key political actors, and changes in corporate governance) have contributed to the difference between the two countries? Jackson *et al.* (2004: 39-41) point out that Germany has experienced substantial changes in corporate governance, particularly an enhanced emphasis on shareholder value, while preserving ‘the core institutions of German industrial relations, codetermination and collective bargaining’. This study could further clarify the characteristics of Japanese capitalism.

Epilogue: Future Prospects of Systemic Support in Japan

Considering that the dilution of systemic support in Japan has caused the contradictions and enfeebled economic dynamism described in Chapter 6, what future prospects can be conceived for systemic support? Restricting diluted systemic support through market liberalisation, which is often proposed by neoclassical economists, would face strong resistance given Japanese society’s deeply embedded anti-free market norms, particularly among the older

generations. Furthermore, in addition to the GFC, anti-liberal backlashes, such as those in the UK and the US, which were demonstrated in the former's EU membership referendum on 23 June 2016 and the latter's presidential election on 8 November 2016, would encourage the anti-free market camp in Japan. Prime Minister Shinzo Abe advocated so-called 'Abenomics' based on the 'three arrows' of fiscal stimulus, monetary easing and structural reforms in the December 2012 general election, but the Abe administration has not been able to implement meaningful structural reforms because of the political constraint of systemic support. However, the growing public debt will restrict systemic support in the form of drastic fiscal austerity or hyperinflation over the long term.

It will be increasingly difficult for Japan's decreasing working population to shoulder the sharply increasing costs of social welfare. With its deteriorating fiscal position, Japan has been inclined to focus on: 1) providing a positive environment and incentives that encourage internationally competitive industries to continue domestic investment, rather than 2) protecting public safety, 3) dealing with the aging issue, 4) enhancing the birth rate, and 5) preserving nature and promoting the tourist industry (Tsuchiya and Morita 2011: 221-5). This is not surprising given that administrators have instilled the norm of prioritising producer over consumer interests into Japanese society (Noguchi 2010: 147-9). This norm tallies with the characteristics of collectivism, which gives precedence to the interests and goals of groups (companies) over those of individuals (consumers). However, as Tsuchiya and Morita (2011: 220) rightly claim, Japanese society should place more emphasis on points 2-5 above and less emphasis on point 1. Put simply, support for individuals should be prioritised over that for companies.

Another problem is that social security in Japan tends to prioritise the older generations, who receive larger pension and healthcare benefits, over the younger generations, whose future prospects for social welfare are bleak despite their heavy social insurance premium burden. Allowing the older generations' vested

interests to prevail erodes society and ultimately lowers the welfare of the entire society – there is a significant gap between the older generations, who enjoy the fruit of the rapid economic growth period and the bubble economy, and the younger generations, who have to shoulder the burden stemming from excessive social welfare benefits for the elderly (ibid.: 220). The suicide rate of Japanese youngsters (from 15 to 24 years old) skyrocketed from around 7.0 (per million) in 1990, which was the lowest among advanced industrialised countries, to 14.8 in 2012, the highest among them.¹⁶⁸ Furthermore, suicide is by far the top cause of death for Japanese young people (aged 15 to 39 years), according to the 2015 statistics of the MHLW. It is increasingly difficult for the younger generation to become regular workers, whilst it is not easy for them to live on welfare. The typical working poor in Japan were single women in low-wage non-regular employment until the 1980s, but the number of young male non-regular workers has dramatically increased since the bursting of the bubble economy. These days, the working poor in Japan are single men and women in non-regular employment, who are too poor to have a family (Hashimoto 2013: 198-208). Nevertheless, anti-government protests by the working poor are not common in Japan, probably because most of them could not escape from the anti-liberal social norms, which suggest that receiving public assistance has a social stigma.

When corporate or sovereign borrowers' financial position (i.e., creditworthiness) deteriorates, they normally have to pay higher risk premiums to creditors, which is the norm in Anglo-Saxon countries. However, most Japanese borrowers (including the Japanese government) do not pay substantial risk premiums in the local bond market. This is mainly because the Japanese bond market is dominated by local investors who still believe in strong systemic support for major borrowers, while non-Japanese investors account for a minor portion of the investment, as they believe that the returns on most Japanese bonds are too small to justify their risk. In addition, the BOJ has actively purchased an

¹⁶⁸ World Health Organization's *Mortality Database*

enormous amount of JGBs and corporate bonds as part of the aggressive monetary easing. The behaviour of local investors, depositors and the BOJ could be regarded as ‘obedience’ to administrators.

What will the Japanese government do when the JGBs reach a level at which they cannot be financed by domestic investors without significant interest rate hikes? The future prospects for systemic support will be affected by the government’s action at that time. There will be three major options for the government. The first will be to finance a larger proportion of JGBs from non-Japanese investors by allowing interest rate hikes. The second will be the combination of drastic austerity measures and tax increases. The last option will be the BOJ’s aggressive purchase of JGBs, which could potentially lead to hyperinflation. While the first option would likely result in Japan’s market liberalisation, weakening both administrators’ power and systemic support, the second option would restrict vested interest groups’ voice and ad hoc systemic support. However, the first option would be least favoured by the government as this would further erode its domestic financial autonomy. With regard to the second option, austerity measures would face fierce opposition from the older generations, while major industrial associations would be opposed to increases in the corporate tax rate. Although big businesses would accept drastic increases in the consumption tax (value-added tax) rate if the corporate tax rate were lowered, both SMEs and consumers would strongly resist consumption tax hikes. In these respects, the second option would be blocked by vested interest groups.

Then, would the BOJ’s aggressive purchase of JGBs (‘hyper-monetisation’) be the most likely option by elimination because this option would not require acceptance by the public? Obata (2013: 152-68) claims that hyper-monetisation would destroy both the pricing and asset allocation functions of the financial markets, resulting in the ‘euthanasia’ of the financial markets where excessive capital would be allocated to the government sector that could generate much less value addition than the private sector. Moreover, hyper-monetisation would

produce spiralling higher inflation via enormous money supply, capital flight and drastic currency depreciation, shifting wealth from net creditors with more assets than liabilities (mainly the household sector, particularly the older generations) to net debtors with more liabilities than assets (chiefly the government). If hyperinflation occurs, the public debt would be dramatically reduced at the expense of bank depositors (*de facto* ultimate holders of JGBs). Whilst this would be a disaster for the older generations who would likely possess the great majority of household assets, it would stimulate business investment and be relatively positive for the younger generations. In fact, Japan experienced hyperinflation from the end of WWII to 1949, making JGBs almost worthless, and bank accounts were blocked from 1946 to 1948 and wealth tax (capital levy) was imposed in 1947 by the government. Hyperinflation is an undemocratic way of reducing public debt, but it might be the only remaining option if drastic austerity measures and tax increases were to be blocked by vested interest groups.

Would the third option be the most likely scenario? The BOJ's hypermonetisation to purchase JGBs by aggressively printing money would cause substantial inflation but not necessarily hyperinflation, which is extremely painful for the household and corporate sectors. The rising fear of hyperinflation in Japanese society would strengthen administrators' power vis-à-vis the general public, and justify the government in taking drastic measures (i.e. option two), such as austerity and tax increases, to prevent hyperinflation. In this scenario, administrators (particularly bureaucrats) might regain power vis-à-vis vested interest groups and systemic support as quasi-public goods would be maintained but ad hoc systemic support would be curbed. However, if the government were to miss the timing of tax increases, hyperinflation might crash JGBs (Fukao 2012: 28-9).

Appendix: List of Interviews

#	Date	Name	Position & Organisation
1	01/10/14	Kiyoto Ido	Vice Chairman, Institute for International Economic Studies (Former Head of International Bureau, MOF)
2	01/10/14	Tsuyoshi Oyama	Partner, Centre for Risk Management Strategy, Deloitte Touche Tohmatsu (Previously Deputy General Manager at the BOJ)
3	02/10/14	Nobuo Tomoda	Executive Director (Board Member), Head of Information/Operations, Tokyo Shoko Research (Provider of credit information on SMEs)
4	02/10/14	Takahiro Morita	Director, Japan, World Gold Council (Former Managing Director, Head of Japanese and Korean Corporate Credit Rating, Moody's)
5	03/10/14	Prof. Osamu Ito	Department of Economics, Saitama University
6	06/10/14	Prof. Yoshio Shima	Department of International Management, Tamagawa University (Former Managing Director at Deutsche Bank, credit analyst at S&P)
7	06/10/14	Hidetaka Tanaka	Senior Executive Vice President, Rating & Investment Information (Former General Manager at the Industrial Bank of Japan)
8	07/10/14	Shizuharu Kubono	Vice Chairman, The Life Insurance Association of Japan (Former Deputy Head of the Banking Bureau, MOF)
9	07/10/14	Takamasa Yamaoka	Managing Director, Criteria Officer in Japan, S&P
10	07/10/14	Prof. Kazuo Ikeo	Department of Economics, Keio University (Previously, a member of the government's Financial Council and Financial System Council)
11	08/10/14	Takuji Aida	Chief Japan Economist, Societe Generale Securities
12	08/10/14	Yoichi Kaneko	Member of the House of Councillors (Previously, an official at the Cabinet Office)

13	09/10/14	Hirofumi Imaji	Chief Marketing Officer, Mezzanine Corporation (Private investment funds)
14	09/10/14	Teruki Morinaga	Director, Financial Institutions, Fitch
15	09/10/14	Hideki Goto	Senior Advisor, Research Institute for Environmental Finance (Former credit analyst at S&P)
16	10/10/14	Tomone Kawachi	Executive Partner & CIO, WERU Asset Management
17	10/10/14	Joji Tagawa	Managing Director, Head of Investor Relations, Nissan Motors
18	10/10/14	Yoshinori Komiya	Director-General, Office of Space Policy, Cabinet Office (seconded from METI)
19	14/10/14	Dr Azusa Takeyama	Director and Senior Economist, Institute for Monetary and Economic Studies, the BOJ
20	14/10/14	Dr Akane Enatsu	Senior Analyst, Nomura Institute of Capital Markets Research
21	14/10/14	Taketoshi Tsuchiya	Senior Executive, Fixed Income Group, Mizuho Securities
22	15/10/14	Yuki Takishima	Deputy Director, Finance Division, Small and Medium Enterprise Agency, METI
23	15/10/14	Tsutomu (Tom) Okubo	Member of the House of Councillors, Lead Director, Committee on Financial Affairs (Previously Managing Director at Morgan Stanley)
24	16/10/14	Kei Kitayama	Representative Director, Moody's Japan K.K.
25	16/10/14	Nana Otsuki	Managing Director, Banking Sector Analyst, Bank of America Merrill Lynch
26	16/10/14	Katsuaki Nakaoki	Vice Chairman, Fixed Income, Currencies & Commodities Japan Sales, Bank of America Merrill Lynch
27	17/10/14	Hitoshi Oda	CIO, American Life Insurance Company
28	17/10/14	Prof. Toshio Yamagishi	Emeritus Professor in Social Psychology, Hokkaido University
29	18/10/14	Fujio Nakatsuka	Head of Financial Markets Research, Chief Researcher, Rating & Investment Information
30	20/10/14	Dr Hironari Nozaki	Managing Director, Banking Sector Analyst, Citigroup Global Markets Japan
31	20/10/14	Hajime Takata	Managing Executive Officer, Chief Economist, Mizuho Research Institute

32	21/10/14	Kazutaka Shimoura	Corporate Senior Vice President, Risk Management Headquarters, Orix Corporation
33	16/11/15	Prof. Yoshitaka Kurosawa	Saitama Gakuen University (Previously an officer at the Development Bank of Japan and an credit analyst at Japan Credit Rating Agency)
33	16/11/15	Yoichiro Yokoyama	Director, Japan Credit Rating Agency (Former managing executive officer at the Development Bank of Japan)
34	17/11/15	Hirohide Hirai	Director-General for Nuclear Accident Disaster Response, METI
35	17/11/15	Dr Nobuteru Kikuchi	Associate Professor, the Department of Sociology at Tsuru University
36	17/11/15	Dr Minoru Honzawa	CEO of Kyosei Investment Advisor
37	18/11/15	Yasuhiro Harada	Member of the Board, Director General, Future Architect (Previously CEO of Rating & Investment Information, Deputy Director General of International Department, the BOJ)
38	19/11/15	Prof. Chieko Matsuda	Graduate School of Social Science, Tokyo Metropolitan University (Former credit analyst at Moody's)
39	19/11/15	Hiroaki Toya	Managing Director, LIM Global Advisors (Former MOF Official)
40	20/11/15	Prof. Yoshio Shima	Department of International Management, Tamagawa University (Former Managing Director at Deutsche Bank, credit analyst at S&P)
41	20/11/15	Prof. Toshio Yamagishi	Emeritus Professor in Social Psychology, Hokkaido University
42	23/11/15	Prof. Yoshitake Masuhara	Hiroshima University of Economics (Previously a Member of the House of the Representatives, a high ranked MOF official)
43	24/11/15	Toshiyuki Miyoshi	Director, Debt Management Policy Division, Financial Bureau, MOF
44	24/11/15	Katsuyuki Tokushima	Chief Fixed Income Analyst, Financial Research Department, NLI Research Institute
45	24/11/15	Takanori Mitsui	Head of Credit Research and Products, DIAM Asset Manager

46	25/11/15	Shuzo Ikeda	Member of the Board, Japan Industrial Solutions
47	25/11/15	Akira Nakamura	General Manager, Tokyo Branch, Lotte Capital
48	25/11/15	Yasuyuki Kuratsu	CEO, Research and Pricing Technologies (Former Managing Director, Chase Manhattan Bank)
49	25/11/15	Yu-Tsung Chang	Executive Officer, Business Development & Planning, Ibbotson Associates Japan (Former Executive Managing Director, S&P)
50	26/11/15	Prof. R. Taggart Murphy	International Political Economy, University of Tsukuba
51	26/11/15	Yoshihiro Hayakawa	Chairman of the Audit & Supervisory Board, Nikkei
52	26/11/15	Tadashi Nunami	Advisor, Sompo Japan Nipponkoa Insurance (Former Director General of International Department, the BOJ)
53	27/11/15	Mikihide Katsumata	President & COO, Innovation Network Corporation of Japan
54	27/11/15	Hiroaki Hayashi	Director and Executive Officer, General Manager of Investment Department, Fukuokushinrai Life Insurance
55	28/11/15	Prof. Tetsuji Okazaki	Economic History, Faculty of Economics, The University of Tokyo
56	28/11/15	Mitsuo Kojima	Representative Director, Lombard Odier Trust (Japan)

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