



Political Economy of the Financial Crises in Japan & United States – A Comparative Study on the Bailout of Financial Institutions –

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Research Interest / Outline

- How a government can **address financial crisis better?**
- What is the **implication** from the recent **crisis experiences** of Japan and US?

I. Financial Crisis in Japan (review 1995-2003)

II. Analyses and Arguments (on bailout of financial institutions, by comparing Japan and US)

III. Conclusion

I. Financial Crisis in Japan ('95-'03)

- '95 **Jusen Problem**

: Initial stage leading to '97 crisis



- Failure of the housing loan companies called “Jusen”
- **Ministry** of Finance (¥ 685 billion injection, '96)
- Strong criticism
 - : 87% of the public are **against public money injection**
 - ⇒ **“Political Taboo”**

Financial Crisis in Japan ('95-'03)

- '97 Crisis

: Comparable to '08 in US



- Bankruptcy of major banks and security companies
(e.g. Hokkaido-Takushoku Bank, Yamaichi Securities)
- Then, could return to public money injection strategy
- Financial Crisis Management Committee
(within a semi governmental organization;
about ¥ 1.8 trillion injection as capital to 21 banks, '98)

Financial Crisis in Japan ('95-'03)

- '98 Finance Diet



: Further discussion on legislation

- Financial difficulties of Long-Term Credit Bank of Japan etc
- **Negotiation between LDP vs DPJ facing continuing unrest**
- Financial Reconstruction Commission
 - (a **'quasi-ministry'**;
 - about ¥ 8.4 trillion injection as capital to 25 banks, '99-'00)

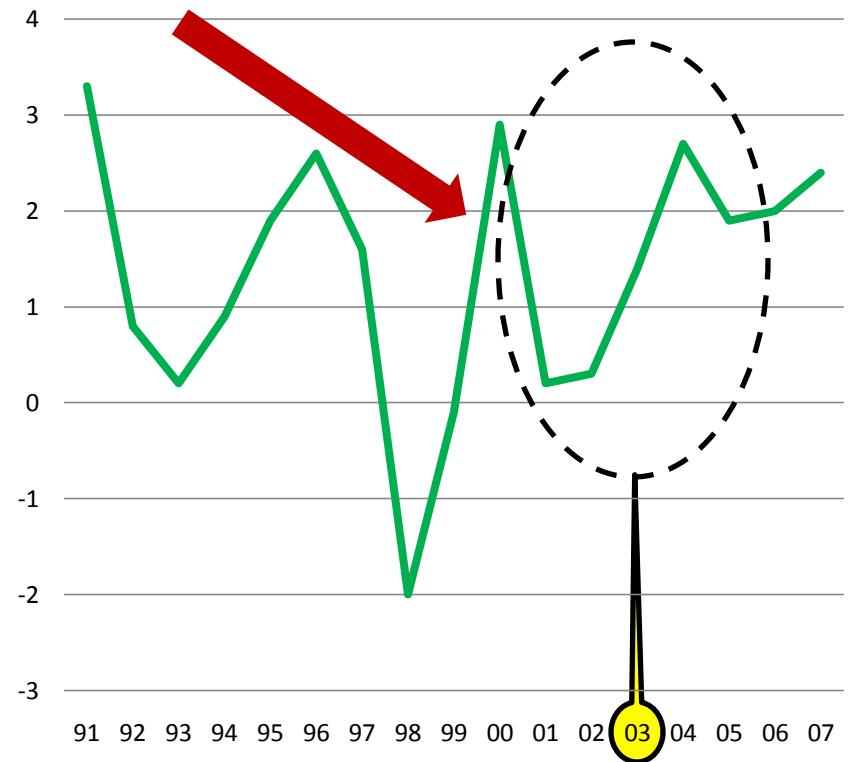
Financial Crisis in Japan ('95-'03)

● “Lost Decade”

Nikkei Stock Avg.



Economic Growth Rate (% Real, CY)



Financial Crisis in Japan ('95-'03)

- '03 Public Money Injection to Resona Bank

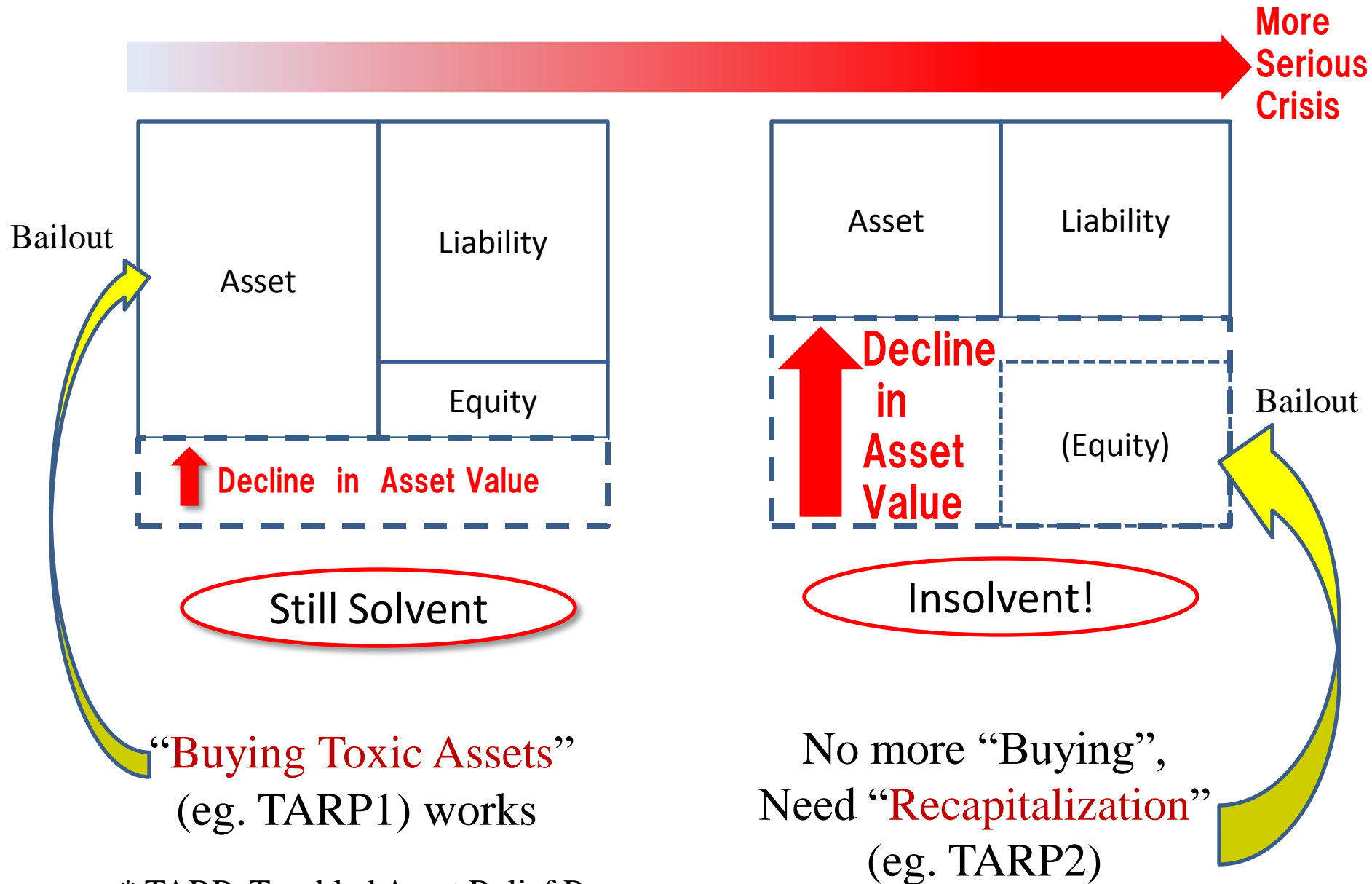
: Finally successful recovery



- "Meeting of the Financial System Management Council"
(Ministerial meeting **at the Prime Minister's House**;
about ¥ 2 trillion injection as capital)
- **Prime Minister's Statement** was specially issued
- Recovery of stock market and economic growth

➔ Japanese experience highlighted the importance of quick and effective public money injection against financial crisis

II. Analyses – Balance Sheet of Financial Institutions



* TARP: Troubled Asset Relief Program

Analyses on Bailout of Financial Institutions

- **Difficulty to confirm asset value decline**
 - Japan: Growing number of reported toxic assets
 - US: TARP1 (Troubled Asset Relief Program 1) → TARP2
- Government need to
 - **move quickly even to the stage of public recapitalization,** if that serious
 - **stop and reverse the decline** of asset value and economy
- **Key** for successful bailout
 - ① **Taxpayers' Understanding** (for quick move)
 - ② **Market Sentiment** (for improvement of assets value/ economy)

Argument (1) – Learning Effect



● How widely the necessity of bailout known?

【～① Taxpayers' Understanding】

Japan: - **Harsh criticism** from the **public**

- **Silent opinion leaders** (including academics)

US: - **Knowledge of Japanese crisis** within government
(Geithner, Summers, Bernanke)

- **Support for bailout** from opinion leaders

- Relatively **swift move** of government

➡ “Learning Effect” from Japanese crisis/ lost decade

➡ Should be crystallized into **economics textbook** (“Financial crisis is a significant ‘market failure’ and bailout may be necessary”)

Argument (2) – National Leader & Secretarial Organization

- **Credibility of government's commitment** for solving crisis

【～② Market Sentiment】

Japan: - **Left to each organization**, but still financial unrest

- **Recovery came w/ Prime Minister's direct involvement**

US: - **Established PERAB within White House**

(President's Economic Recovery Advisory Board:
Chaired by Dr. Volcker)

- **Better recovery** in early stage



➡ **Importance of action by national leader and his/her secretarial organizations** in addressing financial crisis

III. Conclusion

⚠ Japanese financial crisis: highlighted the **necessity of public money injection** to address financial crisis.

⇒ This ‘**learning effect**’ 1) has **helped the US** government take quick move with sufficient support from the public, 2) **should be crystallized** into economics textbooks.

⚠ The importance of direct and swift **action by the national leader and his/her secretarial organizations** in addressing financial crisis was suggested in the **Japanese experience**.

~ Recent actions taken by **President Obama and the White House**, with relatively early recovery of US economy, have supported this theory.