Japan: Financing Reconstruction. The Monetary Implications of the Nuclear Catastrophe

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WHY THE JAPANESE GOVERNMENT CAN AFFORD TO REBUILD: IT OWNS THE LARGEST DEPOSITORY BANK IN THE WORLD

The Japanese government can afford its enormous debt because it owns the bank that is its principal creditor. But competitors are attempting to force the bank's privatization. If they succeed, they could propel the country into debt servitude along with other credit-strapped nations.

When an IMF spokeswoman said at a news conference on March 17 that Japan has the financial means to recover from its devastating tsunami, skeptical bloggers wondered what she meant. Was it a polite way of saying, "You're on your own?"

Spokeswoman Caroline Atkinson said, "The most important policy priority is to address the humanitarian needs, the infrastructure needs and reconstruction and addressing the nuclear situation. We believe that the Japanese economy is a strong and wealthy society and the government has the full financial resources to address those needs." Asked whether Japan had asked for IMF assistance, she said, "Japan has not requested any financial assistance from the IMF."

Skeptics asked how a country with a national debt that was over 200% of GDP could be "strong and wealthy." In a CIA Factbook list of debt to GDP ratios of 132 countries in 2010, Japan was at the top of the list at 226%, passing up even Zimbabwe, ringing in at 149%. Greece and Iceland were fifth and sixth, at 144% and 124%. Yet Japan's credit rating was still AA, while Greece and Iceland were in the BBB category. How has Japan managed to retain not only its credit rating but its status as the second or third largest economy in the world, while carrying that whopping debt load?

The answer may be that the Japanese government has a captive funding source: *it owns the world's largest depository bank.* As U.S. Vice President Dick Cheney said, "Deficits don't matter." They don't matter, at least, when you own the bank that is your principal creditor. Japan has remained impervious to the speculative attacks that have crippled countries such as Greece and Iceland because it has not fallen into the trap of dependency on foreign financing.

Japan Post Bank is now the largest holder of personal savings in the world, making it the world's largest credit engine. Most money today originates as bank loans, and deposits are the magic pool from which this credit-money is generated. Japan Post is not only the world's largest depository bank but its largest publicly-owned bank. By 2007, it was also the largest employer in Japan, and the holder of one-fifth of the national debt in the form of government bonds. As noted by Joe Weisenthal, writing in Business Insider in February 2010:

Because Japan's enormous public debt is largely held by its own citizens, the country doesn't have to worry about foreign investors losing confidence.

If there's going to be a run on government debt, it will have to be the result of its own citizens not wanting to fund it anymore. And since many Japanese fund the government via accounts held at the Japan Post Bank — which in turn buys government debt — that institution would be the conduit for a shift to occur.

That could explain why Japan Post has been the battleground of warring political factions for over a decade. The Japanese Postal Savings System dates back to 1875; but in 2001, Japan Post was formed as an independent public corporation, the first step in privatizing it and selling it off to investors. When newly-elected Prime Minister Junichiro Koizumi tried to push through the restructuring, however, he met with fierce resistance. In 2004, Koizumi shuffled his Cabinet, appointed reform-minded people as new ministers, and created a new position for Postal Privatization Minister, appointing Heizo Takenaka to the post. In March 2006, Anthony Rowley wrote in Bloomberg:

By privatizing Japan Post, [Koizumi] aims to break the stranglehold that politicians and bureaucrats have long exercised over the allocation of financial resources in Japan and to inject fresh competition into the country's financial services industry. His plan also will create a potentially mouthwatering target for domestic and international investors: Japan Post's savings bank and insurance arms boast combined assets of more than ¥380 trillion ($3.2 trillion) . . .

A $3 trillion asset pool is mouthwatering indeed. In a 2007 reorganization, the postal savings division was separated from the post office's other arms, turning Japan Post into a proper bank. According to an October 2007 article in The Economist:

The newly created Japan Post Bank will be free to concentrate on banking, and its new status will enable it to diversify into fresh areas of business such as mortgage lending and credit cards. To some degree, this diversification will also be forced upon the new bank. Some of the special treatment afforded to its predecessor will be revoked, obliging Japan Post Bank to invest more adventurously in order to retain depositors–and, ultimately, to attract investors once it lists on the stock market.

That was the plan, and Japan Post has been investing more adventurously; but it hasn't yet given up its government privileges. New Financial Services Minister Shizuka Kamei has put a brake on the privatization process, and the bank's shares have not been sold. Meanwhile, the consolidated Post Bank has grown to enormous size, passing up Citigroup as the world's largest financial institution; and it has been branching into new areas, alarming competitors. A March 2007 article in USA Today warned, "The government-nurtured colossus could leverage its size to crush rivals, foreign and domestic."

Before the March 2011 tsunami, that is what it appeared to be doing. But now there is talk of reverting to the neoliberal model, selling off public assets to find the funds to rebuild. Christian Caryl commented in a March 19 article in Foreign Affairs, published by the Council on Foreign Relations:

As horrible as it is, the devastation of the earthquake presents Japan and its political class with the chance to push through the many reforms that the DPJ [Democratic Party of Japan] has long promised and the country so desperately needs.

In other words, a chance for investors to finally get their hands on Japan's prized publicly-owned bank, and the massive deposit base that has so far protected the economy from the attacks of foreign financial predators.

The Japanese government can afford its enormous debt because the interest it pays is extremely low. For the private economy, public debt IS money. A large public debt owed to the Japanese people means Japanese industries have the money to rebuild. But if Japan Post is sold off to private investors, interest rates are liable to rise, plunging the government into the debt trap it has so far largely escaped.

The Japanese people are intensely patriotic, however, and they are not likely to submit quietly to domination by foreigners. They generally like their government, because they feel it is serving their interests. Hopefully the Japanese government will have the foresight and the fortitude to hang onto its colossal publicly-owned bank and use it to leverage its people's savings into the credit needed to rebuild its ravaged infrastructure, avoiding a crippling debt to foreign interests.

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