

# **A Critical Review of Financial Deregulations in Japan**

—A Study of Politics and Economic Policy Making from the Historical Standpoint—

**Satoshi Kuribayashi**

## **Summary**

Since and well before deregulations in the financial market with the catchphrase of freedom, fairness and globalization were declared sonorously in 1996, the Japanese economy has been in a miserably depressed state. Apparently this means that deregulation policies have not worked well and the Tokyo Big Bang in particular and structural reforms in general have failed. It may not be a gross exaggeration to say that the failures are mainly explained by the fact that Japanese politicians, business executives, bureaucrats and sham economists, the quartet of fools, have not learned from the history. Do they acknowledge their faults, *mea culpa* ?

The members of the quartet seemed to be collusive accomplices who have perennially gangrened Japan. There is too many a *piece justificative*.

The following observations of the two great historians may need no comment.

“A crowd of critics, of compilers, of commentators, darkened the face of learning, and the decline of genius was soon followed by the corruption of taste” (Gibbon).

“In that year our tongue was enriched with two words, Mob and Sham, remarkable memories of a season of tumult and imposture” (Macaulay).

## **Part 1. Tokyo Big Bang: The Castle in the Air or the Cataclysm?**

### **Where Have Freedom, Fairness and Globalization Gone?**

On 11<sup>th</sup> November, 1996, the Japanese-flavored Big Bang or the Reform of the Financial System was declared by the then Prime Minister Hashimoto. The target was to resuscitate Tokyo as an international financial center once more comparable to New York and London by the year 2001. Exactly ten years before, London launched Big Bang in the City, and twenty years before, New York abolished fixed commissions of securities trading (May Day). At that time, the Japanese politicians and bureaucrats appeared to learn from the history.

However, the reform plan was one of the worn-out platitudes of the ruling political parties. Some with insight feared already at the time that the Big Bang here was a mere party platform and therefore

turned out to be another castle in the sky instead of bringing the cataclysm to the financial market.

The Tokyo Big Bang intended to introduce free commissions of securities trading, and more generally to reform totally both money and capital markets. The catchphrase was freedom, fairness and globalization in the market as well as in the financial industry. Excellent if it could be brought to realization!

Big Bang in the City and May Day on the Wall Street, first of all, embarked on reforming the stock exchanges. It was aimed to introduce the principle of competition to the exchanges under the belief that they should be as competitive as the private enterprise. The free commission scheme was a natural consequence. In Tokyo, on the contrary, no specific discussions were made on the reform of the Tokyo Securities Exchange. This is the main difference in reforms between Tokyo and the rival financial centers.

The seat of Chairman of the Tokyo Securities Exchange has been occupied by ex-vice minister of the Ministry of Finance, leader and stubborn protector of non-competition policy in the domestic and international financial activities. Thus the catchphrase seemed to be a fiction written in the sand. No apparent initiatives were taken by the securities industry.

There is a sequel to the story. In the reshuffle of the Cabinet in December, 2000, Hashimoto was appointed as Minister in charge of administrative reforms. Can anyone believe that Lady Thatcher come back as Minister on the British political scene?

Instead of the revival of the Tokyo market, Hashimoto was reborn, another typical example of the man of words, not of deeds. Is he a real *amaranth* blooming after repose and forgetting golden-rod. *Une immortelle* ! He must have been in limbo on the Tokyo Big Bang which was proudly announced by himself and must be enjoying his *primavera della vita* as a *miles gloriosus* again !

The performance test of any policy or election campaign pledge has never been made into effect in Japan. Political follies and razzle-dazzles are incessantly repeated, the symbol of which is the failed Prime Minister without any pain.

Now it becomes clear that Tokyo will be unable to catch up with New York and London that are running with a dog-year speed and the difference will be bigger and bigger.

### **Non-stop Scandals in the Government and Politics**

There is no disguising the fact that Japanese Government policies have been in a fuddled state. It is really an un-heard and an unending series of scandals and mis- and mal-administration. Let us restrict the discussions to the recent financial policies of the Government and ruling parties which have been a principal cause of economic turmoil in this country.

The drama started with apostasy of the Government. The Government had once decided to buy back through the Deposit Insurance Organization the huge amount of credits to Sogo, a department store, which had gone bankrupt under wrong management headed by the one-man, autocrat called Mizushima who was an ex-nonelite of the Industrial Bank of Japan, a respectable bank at one time as a source of supplying bankers of ability to the leading industries. Needless to say, the money to be

defrayed is out of our taxes. A few weeks later, stunningly enough, the Government made a complete change, considering the worse effect on the recent election accelerated by growing criticism of illogical and irrational policy of saving a private firm by the Government. Thus, Sogo was forced to apply for the Civil Reconstruction Law under the unreasonable pressure and bluff, not persuasion, of a faction leader of the Liberal Democratic Party and the bureaucrats. This is our apostate government. A comic drama indeed, but a tragedy to the Japanese people.

In February, 2000, Ochi, the then Chairman of the Financial Reconstruction Commission, had to taste the bitters of resignation because of his impudence rather than his frankness of public announcement of pulling his punches at specific financial institutions. Kuze was appointed as Chairman after Ochi, as a typical outcome of rotation of office within the Liberal Democratic Party's own cliques. He was an ex-bureaucrat of the Ministry of Home Affairs. On his appointment he used a magnificent gesture in declaring that he was an utterly inexperienced person and ignorant of finance matters. Again, he was forced to leave office 27 days after the appointment. This time it was revealed that Kuze received unjust benefits from banks and real estate companies.

Baudelaire would say: *"Il y a des peaux carapaces avec lesquelles le mepris n'est plus un plaisir"*.

The beginning of the unprecedented financial crisis was September, 1997. Close on the financial failure of the Colonial Bank of Hokkaido, one of the major money center banks, Yamaichi Securities, one of the big four securities firms in Japan, went out of business. The trigger of these bankruptcies was their imprudent investments in real estates and illegal securities trading. Coping with the crisis, the Government established the Financial Supervisory Agency in July, 1998, the predecessor of the Financial Agency, which was considered nominally to be a sign of good measures. Yanagisawa took office of the first minister in charge of financial affairs in October. Around the same time, the Long-term Credit Bank of Japan became bankrupt, and in December the failure of the Bond Credit Bank of Japan was revealed. In the same month based upon the agreement between the ruling and opposition parties, the Financial Reconstruction Commission was started and Ochi took office of Chairman. But the Commission decided to postpone the lifting of payoff and showed that it could not extirpate evil practices of putting the serious issues to the future. Then the Sogo matter followed.

### **The Core Bodies of Financial Policy**

In order to surmount the financial crisis, the Financial Agency and the Financial Reconstruction Agency were newly established. Both are the core governmental bodies. What is the line of demarcation between the two?

The Financial Supervisory Agency (FSA), the predecessor of the Financial Agency, was born with the special mission of stabilizing the financial system through carrying out stringent financial inspection, executing the financial reconstruction law and expediting smoothly the sound functioning of financial activities, accelerating the speed of action towards the failing financial institutions, urging the big fifteen banks to increase their capital, etc.

On July 1<sup>st</sup>, 2000, by integrating the Financial Planning Department of the Ministry of Finance

which had been in charge of planning and designing the financial system, with the FSA which has been responsible for inspection and supervision of financial institutions, the Government renamed the FSA as the Financial Agency. The top is held by the person from among the bureaucrats. The upper institution of the FSA is the Financial Reconstruction Commission (FRC). The FSA eulogize themselves by claiming that they have been standing firmly on the market discipline and the principle of self-responsibility and attempting to establish transparent and fair financial administration based upon clear-cut measures and rules. Why, then, have the financial policies and administration been infested with ignoring the market discipline and the principle of self-responsibility?

The trouble is, it should be stressed, in the FRC, the upper institution of the FSA, and much worse is the politicians who take head position of the FRC. The FRC was established with the supreme imperative of accomplishing financial stabilization in Japan, which is a time-limited organization until the early part of the year 2001. The Chairman is a minister and is bestowed with broad powers to authorize the failures of various financial institutions and the supply of public funds to them. Thus, the Chairman becomes the object of attention in both domestic and international markets. The other four commissioners are appointed and the FRC is an administrative organization independent of the Government.

However, the Chairman is an outcome of factionalism rotation within the ruling Liberal Democratic Party as usual. The first Chairman was Yanagisawa (appointed on December 15th, 1998), an ex-bureaucrat of the Ministry of Finance, who gained a certain reputation in the market through his efforts of carrying out temporary nationalization of the Bond Credit Bank of Japan and of demanding harshly the restructuring of the big banks which had been supplied with the public money. But his successors got the wrong side of the market without exception. The second Chairman, Ochi (October 5th, 1999), representing the so-called ultraconservatism, had to resign after three months in office, due to his making allowances for financial inspections. The third Chairman, Tanigaki (February 25th, 2000), approved of purchasing the credits to Sogo by the Deposit Insurance Organization, and had to leave office soon, deluged with the criticism that public funds should not be used to save a private firm.

After the recent election, one person who was commonly acknowledged that he was utterly ignorant of finance matters was appointed as the fourth Chairman. This was Kuze. The Sogo issue made a sudden change; Sogo applied for the Civil Reconstruction Law. And it appeared to bring a happy end and a denouement. But unlawful profit contributions to Kuze were revealed soon and he was sacked. Kuze set the new shortest record of 27 days in office.

These chairmen were all political buccaneers and world lings. All of them ended with ungraceful resignation.

Now the close of the finance policy mumbo-jumbo and of the burlesque or the slapstick comedy of office rotation within the Liberal Democratic Party cliques was drawn by Aizawa, the fifth Chairman of the FRC. Aizawa, a former vice minister of the Ministry of Finance, was proud of his 81 years of age, the oldest member of the Cabinet. Oh, an *Elysium* of gerontocracy! But to him an *Asylum* ! He had a personal history of forced resignation from the Chairman of the Committee of Judicial Affairs of the Lower House on his making a false return from the stock trading. The head of the bureaucrats of the Finance Ministry was more assiduous than anyone else in accumulating money through pseudo-tax

evasion and accepted a large sum of contributions from various financial institutions. He was admitted to be the boss of conservatives and professed eagerly negative attitude to the entry of non-bank companies, e. g., Sony and Ito Yokado, into the banking business.

Aizawa was the ringleader of encouraging infamous rather than notorious non-competition policy such as convoy system and horizontal lining in the financial industry. The Panjandrum of profit accumulators through evil tools was appointed as the chief of the governmental body which is intending to promote sound financial functioning. Could any weaned-child believe that it is a bad dream?

### **Organizational Problems and Human Factors: The Chief Instigator of Trilemma**

In considering the circumstances of their establishment and organizational purposes, both the FSA and the FRC can be positively evaluated. Central government offices and ministries are going to be reformed in January, 2001. The current system of 1 office and 22 ministries is reformed to that of 1 office and 12 ministries. By the new establishment of the Cabinet Office, it is expected to correct the abuse of vertical administrations which are the main cause of anti-synergy policy. The FRC is to be abolished, too. The Finance Agency is annexed to the Cabinet Office. It appears to be a right thing to enhance the leadership of the Cabinet and to make efforts to slim the whole administration system. The reborn Hashimoto will be responsible for that business. Well, let's have a game and see how skilful he is.

So, the curtain of a comic drama of the FRC had been drawn down, started by an ex-bureaucrat of the Finance Ministry and ended by another, mixed with an ignorant person and a conservative of financial policies. Although the FRC as an organization is abolished, a Minister with special mission is created within the Cabinet Office. Pray do not repeat the follies of the Chairmen of the FRC !

We have to keep it in mind that any top person or any new institution is assessed in the market. Chairman of the FRC in particular amid considerable fanfare attracted the attention in both domestic and international markets. But the one and only who was highly valued and welcomed in the market was the first Chairman and all-round declines in rating the other chairmen were observed in the market. This trend did not stop at the baton pass from the fourth to the fifth. Stumbling on the Sogo issue and turbidness of transfer of the Bond Credit Bank of Japan have inspired people's distrust of financial administration.

To follow the bad habit of putting off the pending problems, removal of freezing of pay-off (special treatment of protection of the full sum of deposits) was deferred. In addition, each appointment of Chairman of the FRC, which was truly running counter to the times, accelerated people's suspicions of financial policy-making. Naturally the markets both at home and abroad reacted negatively. The selling of Japan proceeded not only in the stock market but also in the currency market. Added to this was the abnormally low level of interest rates. The current state of the Japanese economy is in the middle of trilemma.

What can be the reason behind? To repeat, the FRC and the FSA were established with the excellent organizational ideals. The chief instigators who trampled down the market expectation and ate up people's wealth and assets by trilemma were the heads of the administrations, notably the successive

chairmen of the FRC appointed by unprincipled rotation.

Political scandals and corruption of bureaucrats are everyday affairs in this country. The Japanese economy has been upset by a mere ex-Industrial Bank of Japan person called Mizushima, an avatar of naked king without any management principle. Indisputably this is the human factor. Politicians, bureaucrats, business executives are the chief instigators of all the evil things. They follow the same steps of their respectable predecessors. What a sad country Japan is! Beyond doubt she is one of the countries in *the Unchanging East* with derangement.

### **Moral Hazard and the Castle in the Air of Big Bang**

The term 'moral hazard' has sometimes appeared in the newspapers recently which might be a reflection of a crop of woebegone incidents around us. In economics it is interpreted as a crisis of morals and ethics. A good example is a relationship between insurance and incentives. Drivers who contract automobile insurance may lose their incentive of safe driving. Home owners whose houses are insured against fire may be less cautious of fire protection. It may develop in insurance fraud. In the extreme case it may lead to dreary incidents of insurance homicide as observed recently in this country and abroad.

These days 'moral hazard' has been used a little different of the original meaning. It implies collectively shameless and ignominious politicians, bureaucrats, top business executives, etc. who have lost morals and ethics. This is indeed a negative human factor! The Prime Minister who is the author of moral hazard appointments is enthusiastic in moral and ethical education for young people. This is nothing but a most preposterous balderdash.

The FRC and the FSA were established in order to place the Tokyo Big Bang in normal orbit, which was launched a few years before with a flag of utter deregulation and globalization in the financial market.

The originator of Big Bang is London. When Prime Minister Thatcher took her mighty leadership in politics, the City, the center of international finance, dared to finally take action and carried deregulation into effect. Evaluations of Big Bang in London are various. But doubtless it is one of the main factors which have sustained the prosperous British economy thereafter. While Thatcher adopted a platform of smaller government, the City avoided the intervention of politics to the utmost.

The British capitalism has been supported by gentlemen. French people generally show their dislike of British people. However, that Hippolyte Taine, a great French *critique litteraire*, admired the English gentleman by saying that "Gentlemen were the most enlightened, the most independent, the most useful citizens in the country and a real gentleman is a real noble.... capable of sacrificing himself for those whom he leads." The English gentleman was made as well as born, unlike the French *gentilhomme* whose status was determined solely by birth or royal appointment.

The perfect counterexample of English gentlemen is observed in the governing classes of Japan. The Tokyo Big Bang concocted by them, as easily anticipated, is another disguised pledge and castle in the sky.

## The Moral Divide

At the cost of a digression, a review of essential elements of English gentleman is given here in order to deduce the existence of 'moral divide' in Japan.

First, the 'cult of amateur' has been so familiar until recent times in every sphere of life from sport to politics and economics. Ruskin divided England into two classes: those who worked and those who played. For the playing class, 'the first of all the English games is making money'. The playing class consists of Gentlemen and makes money from finance and services. Frank Harris, who terribly detested English institutions and conventions, did not hesitate to pour out: "In all games the English have a high ideal of fairness and courtesy. No one ever took an unfair advantage of another and courtesy was a law.....It was for years the only thing in which I had to admit the superiority of John Bull." "Their love of fair play alone would make them the worthiest leaders of humanity." Gentlemanly capitalism was founded on fairness and courtesy which have been fostered by amateur sports. This is the positive human factor whose polar alternative is the Japanese-style negative human factor. All of this means the moral divide, doesn't it?

The Tokyo Big Bang has been completely distorted by the incarnation of nepotism, Ochi, who used his discretion in financial inspection, by the embodiment of plutocracy, Kuze, who accepted unreasonable amount of money in order to contend for precedence of the list of proportional representation of the Upper House election, and so forth.

Evil moral hazard thrives in the Tokyo Securities Exchange as well. The seat of Chairman of the Exchange is reserved for vice minister of the Ministry of Finance, without exception. He works a couple of years and obtains enormous retirement benefits. Is this a perquisite? His greediness may not be satisfied; so he then descends on to the private sector (*amakudari*). This is more than a logrolling of the bureaucrat and the private sector. Successive chairmen vie with each other for possession of money. *Le esclaves du desir !*

The most influential person and the key authority in the world of finance is Chairman Greenspan of the Federal Reserve Board. His annual stipend is less than one-fifth of the counterpart of the Bank of Japan and of chairman of the Exchange who enjoy lots more benevolent fringe-benefits. Restructuring of major Japanese banks has progressed at a snail's pace. Remuneration for most of the middle-class management of the banks is higher than that for that of Chairman Greenspan.

In July, 2000, the candidate for the U. S. President, Texas Governor Bush held up 'small government' as one of his party platforms which has the same way of doing of Mrs. Thatcher. In other words, he relies on the American people to a full extent and in return requests them to take responsibility. The smaller government is the better. The Republican Party has declared for a long time that the Federal Department of Education has lost its *raison d'etre* and non-lucrative.

In the early part of the twenty first century, the FRC is going to be abolished and the Finance Agency is reborn as a new institution. Whether any institution is good or bad totally depends on the human factor. Are English gentlemanship, Greenspan's integrity, Thatcher's leadership the unfinished dream in this country? "*Oh douleur ai - je reve ma vie*".

Japan lacks any man of affairs and man of decisions in the original sense. This is the problem of

the moral divide between the people of common sense and conscience or *bon sens* and the people, i.e., the trio of fools who are the *ricco ma non bel* (Ruskin). *En passant*, the Prime Minister leading a cheer of IT revolution in accordance with his new-born Japan policy, cannot discriminate IT with IC and sometimes takes IT for the pronoun 'it'. What a pity that he must be a sacrifice of 'Digital Divide'!

## A Reappraisal of Thatcherism

Loss of leadership in Japanese politicians is sometimes attributed to Responsible Parliamentary Government System. But the U.K. adopts the same system and powerful leaders such as Churchill, Thatcher and Tony Blair have been produced under this system of politics and democracy. Therefore, in order to clarify the relationship between politics and economics, it seems more instructive to review the British economic policy under Thatcherism than the U.S. whose politics is different of Japan and the U.K.

After 1815, London replaced Amsterdam as Europe's leading financial center. The Industrial Revolution and the Division of Labor made it possible to increase her control over the marketing of Britain's exports. Consequently, according to Cain and Hopkins, invisible income from finance and services accrued from exports and imports were expanding. The British economy was the dual system of invisible and visible sectors. The former sector consisted of the playing classes as Ruskin termed.

Europe was caught up in the two world wars in the first half of the twentieth century and the British economy was devastated. The U.S. dollar took the place of key currency. A quick review of the British economy after the 70s is as follows.

By the early 1970s, Britain had finally lost the imperial power base, and was faced with the prospect of becoming 'once more nothing but an insignificant island in the North Sea'.

Cain and Hopkins listed the three major issues in the post-imperial crisis:

1. The only viable alternative to cope with the crisis was membership of the EEC, which threatened to intensify competition in the domestic market.
2. Britain's troubles were aggravated by the ending of the post-war boom.
3. The economy was aggravated by the rapid inflation associated with the OPEC price rise.

The Thatcherite Conservatives took advantage of this crisis by combining emotive nationalism with free market economics. This is the essence of Thatcherism and beautiful combination of politics and economics. In this scheme Britain's economic problems could be solved by reducing the role of the state and allowing market forces to work unhindered, which is the revival of small government and market competition philosophy. Thatcher convinced that excessive public expenditure had 'crowded out' private investment and that rigorous control of money supply would remove inflation and encourage industrial revival. This reminds us of President Reagan's fundamental stance who was elected to the presidency a year after Thatcher. Policies such as high interest rates, deflation and rising exchange rates adopted by her in 1979-81 were designed to separate sound businesses from those sickly creatures which depended for survival on the unnaturally high level of demand sustained by extravagant governments during the previous 30 years. In this respect she was a real good economist.



The Thatcherite politics and economics afford instructive lessons to Japan, for she had experienced the similar situations. Japan had lost her imperial power, her domestic economic structure was completely devastated, and aggravated by the rapid inflation associated with the two OPEC price rises. Actually, she recorded for the first time after the Second World War negative real economic growth in the middle of seventies. Why did Thatcher-like politicians not come out?

The true leader is the one who can say bravely with the belief *Demain, on ne vit plus*: “*Vien retro a me, e lascia dir le genti !*” (Dante) or “*Segui il tuo corso, e lascia dir le genti !*” (Marx).

## The City and Big Bang

The chief result of Thatcherite policies was the destruction of an already ailing manufacturing sector.

While the primary and secondary industries in the U.K. were losing their shares in the economy, the tertiary sector was increasing its position. “The most successful adaptation to the new regime took place in the money market. By the early 1970s City gentlemen could no longer rely on either the empire or the Sterling Area to provide them with a world role. As the good ship sterling sank, the City was able to scramble aboard a much more seaworthy young vessel, the Eurodollar” (Cain and Hopkins). Again observe a similarity in the U.K. and Japan in the 1950s. The role of the Eurodollar was played by the Korean War that was the initiator of Japan’s miracle economic growth.

The Eurodollar appeared in the market in the late 1950s, which was the U.S. dollar held in the banks mostly in Europe not in the U.S. It was the drain of the Dollar in Europe which suffered the miserable economic situation after the Second World War. Who could imagine that the Eurodollar market would expand very quickly in the following decades? But the Eurodollar grew rapidly principally because it provided useful tools to the vast multinational companies which had become the main players in world trade and investment. This is another proof that the U.S. dollar took place of British pound as key currency. City elites were quick to recognise the potential of this market and London was able to attract the bulk of the Eurodollar and Eurobond business mainly because it was, at the time, by far the most open money market in the world in terms of taxes and transaction costs. “Competition for financial business became much fiercer from the late 1970s as the computer revolution began to make security markets truly international for the first time, and Tokyo and New York became more serious rivals” (Cain and Hopkins).

As a symbol of free market economics of Thatcherism, exchange controls were abolished in 1979. The Bank of England was shocked by the amount of business transferred to other centers on the one hand; the City responded in 1986 by embracing ‘Big Bang’, a series of reforms of which removed restraints on Stock Exchange membership and abolished many restrictive practices, on the other hand.

The first deregulation in stock exchanges took place in the New York Stock Exchange in May, 1975, which was historically called ‘May Day’ and culminated in introducing free commissions of securities trading. May Day was precursor of Big Bang. However, from the standpoint of global effects, Big Bang in the City is more instructive to other exchanges.

The relationship between Mrs. Thatcher and the City was not a friendly one. Cain and Hopkins summarized it as follows: "Thatcherites had no natural affinity with the City, and, indeed, were known to have an instinctive preference for 'enterprise which manufactures things to those which make money from money'; but, when the free market philosophy was applied to industry and finance, the former wilted under the strain while the latter embraced it with enthusiasm. Ironically, the pace of change in the international monetary sphere was so rapid that it exposed the contradictions within Thatcherite ideology and eventually precipitated a political crisis.

The relentless pressure for greater European economic unity, for financial integration and for the creation of a single currency offended the nationalists among the Thatcherites and cost Mrs. Thatcher the leadership of the Conservative Party in 1990..... Thatcher governments were not friendly to the gentlemanly element in British capitalism, especially since gentlemanly power after 1945 had often become closely associated with the extension of the role of the state. Ideologically, they had more in common with world of small producer which inspired that brand of liberalism, than they had with the paternalist Tory tradition. In the longer term, however, the withdrawal of the state, not only from direct influence upon the market but also to some degree from welfare and education, may mean that the gentlemanly networks of power associated with concentrated wealth and its inheritance, and with the institutions which wealth to a large extent controls, will actually be reinforced in the future. If so, the Thatcherite forces could be absorbed eventually by the gentlemanly culture which has shown such great powers of adaptation and assimilation in the past."

But the philosophy of Big Bang and that of Thatcherism were the same. Both relied on deregulation. Experiencing the loss of the imperial power and the severe economic problems in the 1970s, gentlemanly capitalists demonstrated a remarkable ability to adapt to changing times. A maxim that the wise adapt themselves to changed circumstances seems true. The role of the elusive creature, the English gentleman, should be reappraised, and it should be noted more than anything else that "gentlemanly capitalists created or commanded an invaluable scarce resource which was form of capital in itself: information" (Cain and Hopkins). Graduated from the elite public schools and the Universities, they shared the information through human connection and the gentlemanly networks of power. This is an intangible but real asset.

Big Bang was naturally attended with pains. The most conspicuous was the influx of a large number of foreign firms into the City and they became the dominant force in the market. Gentlemen have to survive with the massive inflow of foreign capital into the City following Big Bang and they have to become more and more globally oriented. They have a good experience how to manage once the largest economic power of the world, a British-dominated, world-wide arena based on imperialism.

As the imperial basis of its strength disappeared, the City survived by transforming itself into a marketplace which is a center for multinational business and finance than a British financial market, and the most powerful institutions and much more dynamic partners are now American, Japanese or German. In turn they still rely on the experience of British managers recruited in the time-honored manner. In any financial business, in general, no matter how much the business is computerized, the most important element is human capital. Therefore, while the present generation of City decision-making processes lie outside Britain, gentlemen still exist in some numbers in the money market, and

famous firms can still find a niche for themselves as providers of specialist services based on local 'know-how' and connections which the giant American and Japanese firms cannot supply.

Cain and Hopkins conclude: "Britain's power has declined, and it is no longer possible to provide the City: the City can now function successfully only by acting as an intermediary for powers whose economies are far stronger than Britain's. Nevertheless, the economic importance of this newly evolving City within Britain is greater than in the past and as political influence is no less significant. Inexorably, it seems, even governments like Thatcher's, which began with a genuine commitment to encouraging industrial revival, soon fell into a pattern of decision-making which promoted the interests of the City, where gentlemanly capitalists still retain a strong presence. Yet the continuing economic and political importance of the City should come as no real surprise to those who are aware that it has been the center of the most dynamic region of the British economy for the last 150 years and that its leaders have had privileged access to the controllers of political power for twice as long. The empire has sunk leaving hardly a trace behind; the future of the gentleman in British life is uncertain; but the City adapts and survives."

### Concluding Remarks

Now turn back to the Japanese economy and the Tokyo Big Bang. Since the sonorous declaration of deregulations in the financial market with the catchphrase of freedom, fairness and globalization in 1996, the Japanese economy has been in a devastated state. Apparently this means that deregulation policies have not worked well and the Tokyo Big Bang in particular and structural reforms in general have failed. It may not be a gross exaggeration to say that the failures are mainly explained by the fact that Japanese politicians, business executives and bureaucrats, the trio of fools, have not learned from the history. Do they acknowledge their faults, *mea culpa* ?

Suggestive comments on the present and future situations of Japan from the historical point of view are given below as concluding remarks.

1. The so-called global standard used to be a local standard. The idea started with "What was good for Britain was also good for the rest of the world". How did 'nothing but an insignificant island in the North Sea' transform local standard to global standard? The position of key currency shifted from the British sterling to the U.S. dollar and the Pax Britannica disappeared and the Pax Americana has come out. But this process is a superficial one. The global standard is an amalgamation of Anglo-Saxon elements which consist of free market economics, fairness, democracy, business-like politics, disclosure, etc. (for more on this, see Kuribayashi). A good example is MSCI Index which is a globally accepted stock price index and to be revised in 2001. More American and British companies are going to be included in the index which are more transparent in disclosure with more liquidity in trading than Japanese, German and other European companies.

2. As observed above, economics and politics should go hand in hand. For example, democracy, the corner stone of the modern body politic, should be considered in this respect. The positive side of democracy will be highly regarded in carrying out economic policies if it is propped up by positive human factors. Here it comes to gentleman again. The genius of the English gentleman, in Burke's judgment, was to infuse tradition with modernity, thereby preserving it. Gentlemanly capitalism was a formidable mix of the venerable and the new: it combined inherited and invented traditions with profitable enterprise in occupations which were compatible with gentility. A wise man changes his mind, a fool never. British conservatism and gentlemanly capitalism are best observed in their gradual but incessant reformation and innovation, a vital element of Schumpeterian entrepreneurship and creative destruction or of Keynesian animal spirits.

3. Some may say that Japan was formerly proud of Samurai as depicted in *Bushido*. But it is in the antiquarian past and "the true origin was lost in the mists of a fabulous antiquity". Samurai and English gentleman are, if we try to find out one common cause in them, "the men who prefer honor to life". Members of the Japanese trio of fools are those who prefer money to life.

4. Another group of people may be added to the trio. They are the sham economists who are more deteriorated in their quality than the American pop economists. Macaulay observed: "In that year our tongue was enriched with two words, Mob and Sham, remarkable memories of a season of tumult and imposture". They take part actively in the Japanese quartet of fools who are with a hard head and a cool heart (Veblen) or *without* a warm heart and a cool head (Marshall). The quartet can play anything without sensation of excruciating pain. Oh, *persona non grata!* The product of potwallopers! They are experts in two different arts: using honeyed words and making money. Or they are 'the simple outcome of inflated vanity or the empty expression of a grovelling adulation' (Frazer). The countenances of the quartet members appearing on the TV and newspapers are peculiarly very similar, representing "*Produits avaries, nes d'un siecle vaurien*" (Baudelaire).

5. Generally speaking, the Japanese quartet members have eagerly attempted to absorb the American and European knowledge. They are omnivorous, indeed. Following Macaulay's comment on Plato, they are "laborious pedants themselves destitute of taste, sense, and spirit (who) could still read and interpret the masterpieces of Plato". But "educated imbecility and finessed foolishness are the worst of all imbecilities and foolishnesses" (Ruskin).

6. Much worse, "in the first place, its specialty is in imitating" (Villiers de l'Isle-Adam). "As the practice of imitation retards knowledge, so also it retards art" (Ruskin). As Gibbon observed in the Roman Empire, in Japan "a crowd of critics, of compilers, of commentators, darkened the face of learning, and the decline of genius was soon followed by the corruption of taste."

7. "They perish in a fungous growth of plagiarism" (Ruskin). "If the word 'death' could be used to describe the passing-away of an institution, the 'death' of Hellenism would be a case of suicide, not of

murder” (Toynbee). “.....and if Rome still survived, she survived the loss of freedom, of virtue, and of honour” and “prosperity ripened the principle of decay” (Gibbon).

8. One conspicuous characteristic of the body politic of Japan with Asiatic ethics is Gerontocracy. As represented by the Liberal Democratic Party faction leaders, they never retire. Probably they are infested with Plutocracy. Plebiscite democracy was ostracized by the mob who expect perquisite accrued from their election ballots. This may lead to Mobocracy.

9. Other than Plutocracy and Mobocracy, the negative side of democracy has been pointed out by the critics with keen eyes. Ruskin said: “Now Nature abhors equality, and similitude, just as much as foolish men love them”. This is in parallel with the so-called presuppositions of Harvey Road. Keynes thought of the important decisions being reached by a small group of intelligent people; e.g., the government of Britain was and would continue to be in the hands of an intellectual aristocracy using the method of persuasion. This has been severely attacked by American economists. But it is crystal clear that policies in the hands of mediocre political merchants and buccaneers elected by a vicious democracy were and would continue to be totally unsuccessful.

10. The deepest observation of Democracy was made by Poe whom Baudelaire adored as the most esoteric and abstruse poet and philosopher: “Among other odd ideas, that of universal equality gained ground; and in the face of analogy and of God—in despite of the loud warning of voice of the laws *gradation* so visibly pervading all things in Earth and Heaven—wild attempts at an omni-prevalent Democracy were made. Yet this evil sprang necessarily from the leading evil—Knowledge. Man could not both know and succumb. Meantime huge smoking cities arose, innumerable. Green leaves shrank before the hot breath of furnaces. The fair face of Nature was deformed as with the ravages of some loathsome disease”. Baudelaire’s comment on democracy is: “*Rien de plus ridicule que de chercher la verite dans le nombre*”. He contrasted democracy with cat: “*Pouquoi les democrates n’aiment pas les chats, il est facile de le deviner. Le chat est beau; il revele des idees de luxe, de proprete, de volupte, etc.*”.

11. Ruskin’s exclamation with indignation was the same with Poe: “Then comes printing, and universal gabble of fools; gunpowder, and the end of all the noble methods of war; trade, and universal swindling; wealth, and universal gambling; idleness, and universal harlotry; and so at last...; and the reign of St. Petroleum instead of St. Peter...”.

12. Japan sung twice the joys of her economic performance: the miracle of economic recovery with two-digit rate of growth and the bubble. *Dans le temps, on etait heureux. Oh douleur comme mes annees se sont evanouies!* She seemed ‘to wither like a startling dream, whose beauty we may indeed feel, and whose instruction we may receive, but must smile at its inconsistency, and mourn over its evanescence’ (Ruskin). “The living impoverish themselves in order to enrich the dead” (Frazer). Now, a decade after the bubble burst, her economy has been in a devastated state. Two inertias should be

pointed out: one is the ascending inertia and the other the descending. The former is protection by the fixed rate of exchange of ¥360 that was the main accelerator of the miracle. The latter is a sequela of the bubble burst which is a contagious disease currently spread among all the generations of Japanese which “may have been too old and deeply rooted in the popular mind to be eradicated by logic” (Frazer). This inertia has ‘an anesthetic effect of custom’ (Proust). The descending inertia is much stronger than the ascending due to the law of gravitation. Japan is still the second largest economy in the world in terms of GDP and her financial assets well exceed fourteen hundred trillion yen! By the bye, according to Veblen, social inertia and psychological inertia support wrong conservatism.

13. If “the present is the best guide to the interpretation of the past” (Frazer), then the future must be the best guide to that of the present. The contagion may be a light one for the time being, but “there was the greatest risk that a spark might produce a flame, and that a flame might become a conflagration” (Macaulay). To quote Villiers de l’Isle-Adam: “...*en passant, comment les coups de mains, en apparence les plus devergondes, deviennent des coups d’Etat, et finissent par s’accepter, s’enchaîner et se mêler d’une manière la fois simple et bizarre, avec la fluctuation générale*”.

14. Keeping in mind of Macaulay’s ironical observation that “to garnish his conversation with scraps of French was the best proof which he could give of his parts and attainments a gentleman”, let me try to lay Japan bare, *in puris naturalibus*, by citing what Baudelaire said. On the epigram that “the weak flock together” who are the members of the quartet, he observed: “*Ces gens-la ne pensent qu’en bloc. On pense en commun. C’est-a-dire qu’on ne pense pas*”. Thus: “*Les Japonais sont des singes*” and Tokyo is “*la capitale des singes*”. *La Nipponique “est sans vie, mais non sans corruption”*. “*Cependant elle a en elle plusieurs éléments de dissolution*”. “*Heureux peuple dont la constitution organique est telle qu’il ne peut jamais se permettre une ribote d’esprit !*”

15. Finally, several remarks are quoted from Villiers de L’Isle-Adam’s *Contes cruels*. On paradoxical relativity of good and evil: “*Pascal nous dit qu’au point de vue des faits, le Bien et le Mal sont une question de latitude*». *En effet, tel acte humain s’appelle crime, ici, bonne action, la-bas, et réciproquement*”. The trio or quartet members abused by moral hazard may transform *Fiat lux* into *Fiat nox*, which implies the end of the world. The ordinary people who may follow their ‘psychological craving for authority’ (Fromm) or ‘road to slavery’ (Hayek), on the other hand, are forced to cry “*credo quia absurdum*”. This is because: “*Les actes sont donc indifférents en tant que physiques: la conscience de chacun les fait, seule, bons ou mauvais. Le poit mystérieux qui git au fond de cet immense malentendu est cette nécessité native ou se trouve l’Homme de se créer des distinctions et des scrupules, de s’interdire telle action plutôt que telle autre, selon que le vent de son pays lui aura soufflé celle-ci ou celle-la: l’on dirait, enfin, que l’Humanité tout entière a oublié et cherche à se rappeler, à tâtons, on ne sait quelle Loi perdue*”. The trio or quartet members have sometimes threatened their people with intimidation and more often seduced them with the sweet word “*Eritis sicut dii*”. A symbolic relationship between the serpent and Eve! As time passes by, *Vox populi*: “*Et, lorsque enivré de fanfares, de cloches et d’artillerie, le Peuple, troublé par ces vacarmes flatteurs, essaye en vain de se masquer à lui-même son vœu véritable, sous n’importe quelles syllabes mensongèrement*

enthousistes, le Mendiant, lui, la face au Ciel, les bras levés, à tâtons, dans ses grandes ténèbres, se dresse au seuil éternel de l'Eglise, —et, d'une voix de plus en plus lamentable, mais qui semble porter au delà des étoiles, continue de crier sa rectification de prophète: —«Prenez pitié d'un pauvre aveugle, s'il vous plait !», This cry of the beggar is *Vox dei*. At last the time has come. “L'impatience, l'attente déçue, l'incertitude de désastre alourdissaient l'angoisse. Chacun cherchait à s'aggraver encore l'avenir, et la proximité de la destruction semblait imminence”.

.....

Japan is 'a land of remote, obscure islands, tiny as scattered millet grains' (*The Romantic History of the Taira Clan*).

Is she going to decay like the glorious Venice: “the dying city magnificent in her dissipation, and graceful in her follies, obtained wider worship in her decrepitude than in her youth, and sank from the midst of her admirers into the grave” (Ruskin)?

Or is she going to be a *pessimi exempli* ?

Or, is she going to accept the cosmic rule with sighing for *meditatio mortis* ?

*Tout dormait, comme si l'univers entier était une vaste erreur.*

*Acta est fibula !*

**Our birth is but a sleep and a forgetting.**

(Wordsworth, *Ode on Intimations of Immortality*)

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