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Syncretism:

The Politics of Japan's Financial Reforms

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1. Introduction

The question of how capitalist societies, diversely organized, evolve in an age of ever-increasing internationalization has been a longstanding area of scholarly inquiry.¹ Mechanisms of institutional change in particular have been a recent focus, as political scientists and sociologists move beyond simple models of exogenous, shock-precipitated change to examine a variety of gradual transformations and patterns of change.² One core characteristic of how each political economy is organized, and consequently a key driver of how each changes, has been the financial system, from which aspects such as corporate governance and employment stem.³ To examine processes of institutional change more closely, we analyze the financial system of Japan, a country traditionally situated at one extreme in almost all typologies of how diverse capitalist systems are organized; Japan, along with Germany, has long been considered the polar opposite of Anglo-American, market-centered models of capitalism, described variously as a nonliberal (Yamamura and Streeck, 2003) or coordinated market economy (Hall and Soskice, 2001), with a bank-centered financial system with heavy state intervention to shape the economy (Zysman, 1983).

An examination of extremes—Japan in this case—often reveals processes of change most clearly. Japan's financial system is a valuable object of inquiry since it has greatly transformed over the past couple decades, in part by incorporating many aspects of Anglo-American financial systems, but convergence does not seem likely any time soon. Instead, Japan has crafted a more diversified financial system that has retained some of the features of a nonliberal system, adopted some features of an Anglo-American system, and also created some new practices that are distinct from any pre-existing systems. This non-convergence, in a form we term *syncretism*, has actually shielded Japan's financial system from the 2007 global financial crisis that severely damaged financial sectors worldwide.⁴ Therefore, understanding how Japan's financial system is now configured, and uncovering the mechanisms of how it transformed, provide useful insights into the fast-growing scholarship exploring processes of institutional change.

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1.1 Syncretism: The Observed Outcome in Japan's Financial System

Japan's traditional post-war financial system during much of the postwar era had two major components. The banking system took deposits from households and firms, and used these funds to provide loans to industry. Investment areas were shaped heavily by the government through a variety of policy tools, led by elite officials at the Ministry of Finance (MOF) and Bank of Japan (BOJ). The other component, the postal saving system, took household deposits and invested in infrastructure projects, chosen by politicians, to serve the latter's political bases to win local votes. This postwar Japanese financial system was essentially closed to new entrants and carefully segmented into subcategories such as banking, insurance, and securities industries, each with strictly limited business models. Individual asset investment opportunities were essentially limited to domestic deposit-taking institutions, and kept within the country.

Japan's financial system has undergone an extensive transformation since the 1980s, becoming far more open and diverse. By the late 2000s, bond and equity markets were highly developed, and a variety of new entrants, both domestic and foreign, brought a wide range of new business models. The banking system played a smaller role in the economy, foreign insurers and securities firms became major players, and the postal saving system became corporatized, en route to full privatization and competition in the same markets as private sector firms. The overall complexity rose considerably, a trend shared worldwide. It has been pointed out that labeling these new forms of financial systems everywhere has become exceedingly difficult (Deeg, 2010).

We contend that Japan's new financial system is best characterized as *syncretic*, in which new, old, and hybrid forms of practices, norms, and modes of organization *coexist*.⁵ The old have not been simply replaced by the new, nor entirely morphed into hybrid forms. While the breadth of the new has expanded, and hybridization is occurring to a significant degree, large portions of very traditional organizations, norms, and practices remain within the industry. Syncretism, therefore, is a specific form of diversity.⁶

The "new" are best represented by foreign investment banks, securities firms, insurers, and some new Japanese entrants. They introduced new business models (such as derivatives and

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annuities), practices (particularly regarding employment and inter-firm relations), and norms (their perceived *raison d'etre* to maximize profit, and especially for many foreign firms, maximize short-term shareholder returns).

The “hybrid,” which melds traditional and new elements, are best represented by the three major financial groups, Mizuho, Mitsubishi UFJ, and Mitsui Sumitomo, centered around their respective mega-banks. The mega-banks were created by mergers between historical main banks, and the financial groups, organized as holding companies, were allowed to expand into previously restricted areas such as securities, trust banking, and insurance. The financial groups embrace a combination of new and old business models (ranging from traditional deposits to foreign currency denominated accounts and a variety of annuities and insurance products), multiple forms of employment practices (traditional seniority-based banks versus performance oriented securities subsidiaries, for example), as well as new and old interfirm relations (acting as relational “main banks,” but also entering into joint ventures and tie-ups with foreign financial institutions).

The “old” are exemplified by regional banks, which overwhelmingly retain traditional strategies (continued heavy reliance on retail banking), organizational structures (seniority based hierarchies) and norms (regionally based with close ties to local governments, emphasis on relationship banking as a key source of client information).

The postal system has also become a combination of the new, old, and hybrid. The corporate form is new, with the corporatized Japan Post Holding Company fully owning the bank, insurance, and postal services as subsidiary companies. Top management was given to businessmen, with a new concern for profitability, and employees—including postmasters—are no longer public servants. The postal companies also offer new products and services, such as mutual funds and credit cards, with tie-ups to foreign firms' insurance and annuity products. At the same time, Japan Post Bank is a hybrid in that the government currently still owns 100% of the shares of the parent holding company, with plans for the government to retain one third of the shares. This hybrid ownership form, where the organization is that of a corporatized holding company but the

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controlling shares belong to the state, has led to calls of unfair competition from Japan Post's private sector competitors. However, the core business remains traditional: the Japan Post Bank takes retail deposits through its nationwide network, and it is a significant buyer of Japanese government bonds—about one third of the 700 trillion yen Japanese Government Bond (JGB) market.

In Japan's new financial system, the new, old, and hybrid coexist. Table 1 shows the roughly similar deposits amounts in each area. Note that the total amount of deposits in Japan's sixty-odd regional banks even slightly exceeded those of city banks (including mega-banks and some others) by 2010. And the Japan Post Bank, as a single financial institution, still dwarfs the mega-banks. (See Table 2)

[insert Table 1 here]

[insert Table 2 here]

1.2 Process of Change: Syncretization

The core question posed by this paper is how this observed syncretism in Japan's financial sectors occurred. Answering this question immediately thrusts this paper into scholarly debates around institutional change. While various notions of institutions developed over the past few decades, we settle with an increasingly widespread middle-of-the-road conception: 1) they include formal and informal "rules of the game," which can include external structures and cognitive frames, and 2) they include not only the rules of the game, but also how those rules are concretely played out (Djelic, 2010, p. 33).

In analyzing change, we recognize that change can occur rapidly in the form of shocks, or gradually and endogenously over time in a variety of patterns (Pierson, 2003; Streeck and Thelen, 2005; Mahoney and Thelen, 2010). We heed recent calls to re-insert the notion of power struggles in shaping change or sustaining existing arrangements, and to avoid overly functional analysis that infer from the current function of institutions their purpose (Jackson and Deeg, 2008; Thelen, 2010). We are sensitive to the fact that the political logic for issues when they are not at the

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electoral forefront ("quiet" times) can differ from times when they are politically salient
(Culpepper, 2011).

In the financial sectors, the main rules of the game include: the formal legal regulatory framework as ultimately determined by politicians, bureaucratic discretion to interpret and enforce the regulatory framework, and firm strategies about how to operate—both in markets and in political strategies to influence policy. Norms play a significant role in determining what firms are maximizing (their business model), and how they pursue strategies in the face of uncertainty (eg. business models, and how and when to lobby the government for what), particularly when governance structures provide leeway for interpretive ambiguity (such as shareholders not actively demanding immediate maximum returns).

This paper finds that the "rules of the game" in Japan's financial sectors shifted in the following manner: in the private sector financial system, formal regulatory frameworks shifted gradually since the late 1970s, guided by bureaucratic leadership in the context of global financial market liberalization. Then, in the mid-1990s, a major thrust of political leadership-driven reform significantly accelerated liberalization while restructuring bureaucratic financial oversight. The leadership's reform focus, in turn, was driven by a normative political institutional change; for the first time since the LDP took power in 1955, it was electorally vulnerable: expectations shared by voters and the LDP of the LDP's continued rule no longer held, with electoral defeat a real possibility.

The new financial regulatory framework enabled new entrants, who brought new business models and norms into the sector, altering the dynamics of competition in many areas, shaping the new and hybrid areas. In the postal system, a far stronger, electorally motivated, politically spearheaded reform drive spearheaded legislation to corporatize and privatize the entire postal system. However, political backlash against efforts to disrupt long-practiced forms of redistributive politics gradually eroded the initial reform plans, ending in a revised Postal Privatization Law under the new political leadership in April 2012.

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The main contention of this paper is that at its core, the Japanese financial system's syncretic outcomes were driven by a particular pattern of interest group politics, which we call *syncretization*. While the gradual reform followed traditional interest group politics, at the junctures of rapid change, major political thrusts, driven by electoral concerns, trumped these powerful interest groups. Put simply, *the actors pushing for reform were not the incumbent, traditionally powerful interest groups most affected by reform*. As a result, in the private sector financial system, *only some firms immediately rushed to embrace the new possibilities opened up by the reforms*. Hence, the coexistence of old, new, and hybrid elements. Moreover, *since the interests pushing reforms were not those being reformed, once the political leadership lost its strong drive for reform, the process slowed, and even reversed in some cases*. This was particularly true for postal reforms.

Within the context of scholarship on institutional change, this study contributes to frontier research by incorporating political struggles as a key driver of change (Jackson and Deeg, 2008; Mahoney and Thelen, 2010; Thelen, 2010). Rather than focus on macropolitical or broad distributional political struggles, however, this study provides a concrete demonstration of how political power struggles can shape “rules of the game,” at the sector level for market actors, who are themselves engaged in power struggles over industry positions. A major contribution is that it shows *how the role of politics can drive gradual change according to one logic, and more rapid, drastic change when the relevant issues take the front stage in electoral politics*. In doing so, it adds to recent studies observing differences in political dynamics across issues that vary in electoral salience over time (Culpepper, 2011). Typologies and conceptions of gradual, transformative change (Streeck and Thelen, 2003; Mahoney and Thelen, 2010) apply to the period of gradual evolution, while electoral political considerations—a product of domestic political dynamics—reshape the major sector-level bargains underlying the formal rules, informal norms of interaction, who the actors are, and their relative autonomy to pursue policy or business models.

In addressing the literature on comparative capitalisms, this study shows how convergence of core financial sectors is unlikely to proceed as long as regulatory shifts include the option to

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retain traditional characteristics, and political dynamics can slow or attempt to reverse market-oriented reforms. Within scholarship of Japan's transformation since the 1990s (Vogel, 2006; Aoki and Jackson and Miyajima, 2007; Schaede, 2008; Aoki, 2010), given the recent developments in postal reform, this study provides one of the first political analyses of both private sector and postal sides of Japan's financial system. It adds to scholarship revealing how political logic shapes institutional change in core sectors.

The remainder of this paper examines the transformation of the private sector financial system, followed by postal system reforms. The conclusion will suggest implications and take an initial stance on how far the pattern of syncretism, driven by the politics of syncretization, might apply beyond finance, and beyond Japan.

2. The Private Sector Financial System

In the private sector financial system, MOF carefully managed a gradual liberalization of Japan's postwar bank-centered, government directed financial system since the late 1970s, as finance liberalized globally. Traditional interest group political patterns consisted of bureaucracy-mediated compromises pushed by intense lobbying from large Japanese financial institutions.

In the mid-1990s, however, Prime Minister Hashimoto's Cabinet promulgated the financial "Big Bang" reforms, driven by electoral concerns since the LDP faced unprecedented vulnerability; shared expectations of LDP's continuing electoral victories no longer held, an institutional change in the realm of norms (Toya, 2006). The reforms drastically accelerated liberalization by reorganizing the regulatory framework, breaking down sectoral compartments, enabling new entrants, and providing a wide range of new options for corporate organization and business strategies. The MOF itself was broken apart, and its vast discretionary authority sharply curtailed, precipitating normative shifts surrounding firms' market and political strategies as a rule-based regulatory model took hold. New entrants also brought new norms, organizations, and business strategies, altering the very dynamics of competition – what firms competed over—in the sector.

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These reforms departed from historical interest group political patterns. Nor did they result from political pressure from foreign firms – the largest beneficiaries of reform. Instead, the reforms were spearheaded by the political leadership despite intense industry opposition. Since the interest groups most affected (large incumbent Japanese financial institutions) were not driving the reforms, unlike in the US and UK, incumbent firms did not rush to embrace new business models and organizations. As a result, Japan's financial sectors did not converge to those of the US or UK, leaving a different configuration of strategies and firms. An unexpected benefit was Japan's financial system emerging largely unscathed from the 2007-2008 global financial crisis. The primary cost was in the large inefficiencies of assets held by large and regional banks not being put to productive use. In the political realm, since the financial reforms did not result from financial interest group politics, such as in the case of the US, political pressures for further reform were not particularly strong.

2.1 The Traditional “Japanese Model” of Financial Sectors and Gradual Reform

The *traditional industry model* dominated by MOF, provided very little leeway for diversity in organization, strategy, or norms about market competition or political strategies. Through formal and informal rules, MOF compartmentalized the sector into segments such as banking, insurance, and securities, and sub-segments such as city and regional banks. MOF restricted market entry and tightly managed business models through discretionary licensing. In exchange for this control and compliance with the government's investment objectives, MOF provided implicit guarantees of financial institution rescue, usually through government-orchestrated mergers—part of shared norms between regulators and the regulated.⁷ The result was a remarkable homogeneity in products and services across firms, which led to policy strategies of cultivating interpersonal relationships with MOF officials; “MOF-tan” were employees whose sole mission was to court, wine and dine MOF officials to obtain information and curry favor.

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The *traditional policy model* entailed dense informal bargaining and coordination between industry actors, MOF, and LDP politicians, usually those specializing in financial affairs (known as “zoku” politicians).⁸

Gradual reforms began in the late 1970s, carefully managed by MOF (Vogel, 1994).⁹ MOF gradually de-compartmentalized the sectors and incrementally deregulated business models restrictions such as brokerage fees (Vogel, 1996), carefully maintaining balance between each segment, such as matching new privileges in securities (such as trading in the secondary market for certificates of deposits), with banks (such as participation in bond futures markets) (Rosenbluth, 1989, p. 155).

Put into Mahoney and Thelen's (2010) typology of institutional change, the political context of weaker veto possibilities and characteristics of the targeted institution having high levels of discretion in interpretation and enforcement, lead the MOF-orchestrated gradual liberalization to be considered a process of “conversion,” in which the regulatory framework including compartmentalization and licensing, originally established to effectively channel investment towards strategic ends, was used to incrementally liberalize the sector. This changed in the mid-1990s.

2.2 The Financial “Big Bang” Reforms

The Financial Big Bang reforms, initially announced in 1996, rapidly accelerated the sector's liberalization, taking matters beyond MOF's control. The plan, a 1000 page omnibus bill, revised 24 financial and tax laws. Passed in March 1998, it took effect that December, and was implemented in multiple phases through 2001.

The reforms covered the areas within MOF's domain--banking, securities, insurance, accounting, and foreign exchange—but not the postal savings system (Ministry of Posts and Telecommunications (MPT)'s jurisdiction) or pension funds (Ministry of Health and Welfare's jurisdiction). The three parts included: 1) measures to enhance competition and reduce government control, such as deregulation of international capital transactions and products such as securities,

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de-compartmentalization between the segments, and removing the ban (since 1945) on financial holding companies; 2) market development and transparency enhancements such as international accounting standards, stricter disclosure rules, and safety net creation; and 3) restructuring regulation by splitting apart MOF with a new Financial Supervisory Agency (FSA) supervising banking, securities, and insurance sectors, and a revision of the Bank of Japan (BOJ) Law to drastically increase its independence from MOF.¹⁰

2.3 The Politics Driving the “Big Bang” Reforms: Syncretization

The Big Bang financial reforms were spearheaded by political leadership within the LDP, as the party faced unprecedented electoral vulnerability. As the LDP sought broad public approval, MOF lost control of the reform agenda and financial industry interest groups, with the most to lose, were largely excluded from the process (Toya, 2006). In short, *the industry most affected by the reforms did not have a significant voice in the reform process.*

This contrasted Great Britain's financial “big bang” reforms of the 1980s, in which the cartel of British brokerages lobbied for deregulation to compete against US firms, recognizing that failure to do so would obliterate their global competitive presence (Laurence, 2001). Japan's financial markets were experiencing a similar “hollowing out” by the mid-1990s, but domestic financial firms were not lobbying for liberalization; Japan's “big bang” was not the result of domestic corporate lobbying.

The politics of Japan's Big Bang reforms differed considerably between the first phase, promulgation of the reform initiative in 1996, and the second phase, the detailed reform plan of 1997 and implementation.

In the first, phase, corporate interest groups were almost entirely absent. The LDP at the time faced unprecedented vulnerability, having lost power in 1993 and returning in 1994 with coalition partners Sakigake and the Japan Socialist Party (JSP), its traditional opposition. Widely criticized public fund injections to bail out housing loan cooperatives (known as *jusen*), and facing an ever-lower stock market price and prolonged economic slump, the LDP latched onto reform in

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the run-up to lower house elections called for October 1996. As background, the electoral system change enacted in 1994 shifted electoral salience towards broad appeal rather than traditional local compensation,¹¹ further making a reform agenda politically attractive.

Hashimoto's reform initiative announced before the election bypassed standard LDP legislative processes. Instead of going through LDP's Policy Affairs Research Council (PARC) populated by industry sympathizer financial *zoku* politicians, reformers, notably Mizuno Kiyoshi and Shiozaki Yasuhisa, had drafted a plan more comprehensive than the Big Bang reforms themselves, as part of the Administration Reform Promotion Headquarters set up by Prime Minister Hashimoto. Although the LDP's financial *zoku* opposed, a meeting of LDP top officials in mid-September 1996 decided to pursue electorally popular reform measures (including the breakup of MOF) at the expense of their hitherto powerful financial industry constituents (Toya, 2006, pp. 165-166). The LDP was also catering to the strong demands of its coalition partners, Sakigake and JSP, who wanted to avoid being blamed for taxpayer costs incurred by being coalition partners with the LDP in its reform efforts. They insisted that the MOF, who had been preparing for a more modest reorganization of its financial supervisory functions, be split apart—and the LDP agreed (Hiwatari, 2000).

At the time, the financial industry was weakened by crises and scandals, and MOF, which had worked to protect the industry, was under serious attack. In 1994, a wave of credit cooperatives bankruptcies and regional bank failures were followed in 1995 the seven *jusen* housing loan companies facing insolvency. Many had retired MOF officials in upper management and received special regulatory treatments.¹² Their losses amounted to 6.4 trillion yen, and a public bailout of 685 billion yen was incredibly unpopular – a 1996 poll by the Asahi Shimbun reported 87% of the public opposed (Toya, 2006, p. 161). Large financial institutions were unwilling to shoulder the bailout as MOF initially hoped, fueling MOF unpopularity and concerning the LDP's coalition partners as well (Hiwatari, 2000). Other scandals, such as Daiwa Bank's losses from illegal bond trading in New York, leading to US government publically

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criticizing MOF for not acting on prior knowledge, further weakened MOF. A "Japan Premium" developed, in which international financial institutions charged interest premiums on all transactions with Japanese banks in the inter-bank call market due to the lack of trust in MOF's supervision and Japanese financial institutions' financial wellbeing. Between 1994 and 1996, wining and dining scandals with Japanese financial firms lavishly entertaining MOF officials made headlines, leading to an unprecedented dismissal of MOF's two most senior officials (Toya, 2006). In short, public opinion of Japan's financial institutions and MOF hit all-time lows, just when the LDP's was most sensitive to broader public opinion, and in weakest to the demands of coalition partners.

In the second phase, Hashimoto, bolstered by an electoral victory for the LDP, immediately moved to enact his reform agenda. Finance was central to his broader "Six Major Reforms" and Hashimoto wanted to push through reforms from the cabinet level rather than through PARC committees with zoku politicians. The LDP was not interested in consulting industry at this juncture (Toya, 2006).

MOF promptly supplied its reform plan, already having lost the battle over breakup. Interested in preserving what public favor it could, it bypassed the standard industry consultations to avoid accusations of being too close to industry. MOF therefore worked to enlist the support of mass media, trading companies, and manufacturing firms. A top official is quoted as saying:

"Had we consulted the industries, they would have opposed us. We knew that public opinion would be on our side... It was obvious that deregulated businesses would be in trouble. Thus we could not consult those industries that would have faced trouble due to deregulation." (Sakakibara and Tahara, 1999, pp. 135-136).¹³

The financial industry was further weakened in 1997 with a series of racketeering scandals involving paying off organized crime to avoid disrupting shareholders' meetings,¹⁴ reducing the industry's clout in narrowing the breadth and slowing down the reforms. Thus, large financial firms with most to lose from the reforms succeeded only in slowing down implementation of

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cross-entry into different segments by somewhat credibly pointing to the possibility of a wave of bankruptcies. Securities firms lobbied for a "soft landing," with complete brokerage commission liberalization in 1998, and bank subsidiaries waiting until 1999 to enter the securities businesses. The insurance industry, aided by incumbent foreign insurers who mobilized US diplomatic pressure, successfully lobbied to delay bank entry into insurance until 2001, and even then, limiting bank participation initially (Toya, 2006).

Significantly, *those with the most to gain – foreign financial institutions – were not strongly lobbying for the Big Bang reforms*. Foreign diplomatic pressure mobilized by financial firms peaked in the mid to late 1980s over the issue of market entry. Once inside, however, they did not organize into strong political associations, since their positions did not necessarily align on issues; some with longstanding ties to the Japanese government preferred to remain independent, while others were leery of political involvement (Pauly, 1987). Moreover, foreign firm industry associations within Japan, separated from major Japanese industry associations until after the Big Bang, were seldom organized to exert political pressure. For example, the Foreign Banking Association established in 1984 revolved around European banks, represented only about 40% foreign banks, and was primarily an information exchange association rather than lobbying organization.

For many foreign firms, significant investments into Japan's existing industry arrangements deterred them from liberalization or new entry. For example, joining the Tokyo Stock Exchange, opened to foreign members in 1986, cost up to a billion yen (including indirect costs). The 22 foreign firms that had joined by 1988 were, unsurprisingly, silent on the issue of liberalizing commission fees that would have nullified the benefits of their exclusive membership (Laurence, 2001, p. 131). This was understandable, since, historically, liberalization of privileged foreign market segments, such as dollar denominated "impact loans" had rapidly dried up in the face of competition from new entrants, both foreign and domestic (Pauly, 1987).

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In short, the policy process for the Financial Big Bang reforms departed considerably from the ongoing gradual reform process orchestrated by MOF. Driven by electoral considerations, in the context of Japan's political logic, and prevailing circumstances weakening traditionally powerful interest groups, the political leadership drove a strong reform agenda.¹⁵ The nature of the reforms led to syncretism in market outcomes.

2.4 Market Outcomes of the Financial “Big Bang”: Syncretism

The financial Big Bang reforms transformed the logic of competition in Japan's financial industry in a syncretic form. Foreign firms and new entrants took advantage of new opportunities to offer services and products, becoming highly profitable. Incumbent Japanese firms were disadvantaged, since their organizations and strategies were optimized for previous regulatory conditions of limited products and services. While free to enter new business areas, their existing workforces lacked necessary expertise, and radical workforce reductions were legally difficult and normatively prohibitive. After years of adjustment, many incumbents adopted *hybrid* structures, with holding companies, multiple employment structures, and diverse market strategies. Regional banks, with neither the resources nor will to transform thoroughly, overwhelmingly adhered to *traditional* structures and strategies.

2.3.1 The New: New Actors, New Strategies, New Products and Services

The *new* areas of finance that the Big Bang reforms introduced entailed truly dramatic changes. Foreign firms, previously confined to relatively niche segments, became major players in almost all areas of Japanese finance. In the securities industry they became highly profitable, pioneering Wall Street-type employment with high salaries and bonuses, little job security, and fluid labor mobility among firms for mid-career professionals.¹⁶ In insurance, firms such as Aflac and Metlife Alico took prominent market shares, with several appearing in the top fifteen since 2000. And in banking, foreign investment funds turned around and thoroughly restructured several banks, most notably Shinsei Bank and Aozora Bank, the seventh and eighth largest banks in Japan

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(though far smaller than the four mega-banks and the postal bank), along with regional banks Tokyo Star Bank and Kansai Sawayaka Bank.¹⁷

New Japanese entrants also became highly successful. By 2012, retail bank Seven Bank, owned by retailing giant Seven and i Holdings, had become a prominent player with ATMs in ubiquitous Seven Eleven stores. In insurance, Sony Life and Sony Sonpo casualty insurance became eighth and tenth in terms of policy sales income. In securities, electronic trading company Rakuten Securities, a subsidiary of Japanese online commercial giant Rakuten, ranked among the top twenty (at 19) in operating income (TDB, 2012).

The performance gap between domestic and foreign firms was particularly stark in securities. In 1996, the Japan Securities Dealers' Association's Japanese members' operating profits dropped 40% from the previous year while that of foreign securities firms grew an incredible 21 fold (TDB, 1998, p. 370). The breadth of foreign activity increased dramatically after the Big Bang reform. After 1998, Japan's financial Big Bang reforms enabled foreign trust banks to offer dollar-denominated overseas investment trusts. Combined with Japan's low interest rates and banking crisis, this led to an inflow of Japanese savings; between 1998 and 1999, despite overall shrinkage of Japanese corporate pension funds entrusted to major Japanese trust banks, the nine foreign trust banks recorded a 30% combined increase in corporate pension fund assets (Sato, 1999). In the first half of fiscal 1998, the total assets held by foreign trusts increased by approximately 40% (TDB, 1999, p. 31). A particularly successful dollar-denominated investment trust developed by LTCB Warburg took in 50 billion yen in its first week (1998). By late 2004, a survey showed that foreign institutions took 26.5% of all shares of funds managed by investment trusts, investment advisers, and pension funds, totaling 147 trillion yen, an increase of 80% since 1997.¹⁸ In 2000, the total operating income for the 238 domestic securities firms dropped 23%, reflecting a 45% drop in commission revenues, while that of the 50 foreign firms rose 33%, with revenue increasing by 44% (TDB, 2002, p. 22).

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2.3.2 The Hybrid

A range of interesting hybrid organizational forms became apparent as new firms, business models, and organizations appeared after the Big Bang reforms. Most prominently, multiple employment systems emerged within single firms.

A prime example is Shinsei Bank, the former Long Term Credit Bank that became insolvent in 1998, was rescued and reformed by US investment fund Ripplewood, and began operations in June 2000. Most interestingly, it implemented a two-tiered compensation scheme. "Permanent staff" enjoyed higher job security but lower pay, while "market staff," mostly mid-career hires and foreigners, received higher pay in return for lower job security (Vogel, 2006, pp. 182-183).¹⁹ Firms such as Mizuho Securities and PWC Japan have also implemented two-tiered employment schemes that allow employees to choose whether to take longer-term employment at lower upfront pay, or high upfront pay with less employment security.

Since many of the major Japanese financial institutions, burdened with large numbers of employees and constrained from shedding them quickly due to long term employment obligations, their solution to offer new products was to partner with foreign firms. In a sense, they created financial "supply chains" by selling products created by foreign firms through their own sales networks. Japanese banks, trust banks, insurers, and even securities firms were among those that sought partnerships with foreign firms in the mid-2000s. For example, Sumitomo Bank and Daiichi Kangyo Bank created tie-ups with Templeton and JP Morgan, respectively. Sumitomo Trust Bank partnered with Chase Manhattan. Japan's largest life insurer, Japan Life, entered into a tie-up with Deutschebank, Yasuda Life with PaineWebber, and Yasuda Fire and Marine with Signa International. New joint ventures were created as well, including Prudential-Mitsui Trust Investments, Nomura BlackRock Asset Management, Meiji Dresdner Asset Management, and others (Kushida, 2010).

2.3.3 The Traditional

In contrast to the vast changes of the new and hybrid, regional banks by and large retained their traditional organizations, strategies, and normative underpinnings. Japan's 64 regional banks

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located nationwide originated from post-war government efforts to finance and rebuild regional economies. Their primary profits are from retail banking, catering to local small and medium enterprises (SMEs). The SMEs, their customers, are politically salient largely due to their numbers; over 95 percent of firms in Japan are SMEs, comprising over 80 percent of the labor market.

The preferential financing available for SMEs also protects regional banks via credit guarantees. By lowering the risk associated with loans given to SMEs, credit guarantees allow regional banks to distribute loans to financially weak SMEs. These publicly funded credit guarantees also provide post-retirement positions for local officials. So long as credit guarantees exist, zombie SMEs will survive, ensuring the survival of regional banks. The lack of middle-risk loan markets also signifies the inefficiencies of this sector, and can only be explained by government intervention (Schaefer, 2004).

The strength of regional banks' "relationship banking" strategies also sustains their continued survival in traditional form. Regional banks nurture close relationships with their SME customers over a long period of time, averaging well over 10 years for larger SMEs,²⁰ giving them detailed, long-term information about their customers. Interviews with regional bank officers reveal that bankers see their SME customers at least once a week for banking purposes, but often have more frequent contact in various settings within the community. On-site visits by bankers to SMEs are not only to enhance relations to increase business, but also to get a better sense of their business performance.

A third factor supporting regional banks in their traditional form is the practice of each prefecture having at least one regional bank as the designated financial institution of the local government. These designated financial institutions maintain the financial stability of local public institutions, including prefectural and municipal governments. Their roles include handling fiscal cash management, managing payroll accounts of public officials, and financing local governments. These transactions, until recently without fees, are increasingly a financial burden for regional banks, but at the same time, the transactions provide precious information about regional economic

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health. In particular, as administrator of local tax collection for local citizens and especially
businesses (taxpayers are required to make payments through their local governments' designated
financial institution), they receive valuable information on the performance of individual local
businesses, giving them an advantage in the SME loan market.

3. The Postal Savings System

Japan's postal system was reformed through a politically spearheaded drive of privatizing
the entire system to bring it into competition with the rest of Japan's financial sector. Japan's postal
savings system is thought to be the world's largest holder of personal savings; at its peak it held 224
trillion yen (2.1 trillion dollars) of household assets in its savings accounts (*yu-cho*) and an
additional 126 trillion yen (1.2 trillion dollars) of household assets in its life insurance services
(*kampo*). Together, its assets accounted for nearly a third of Japan's household assets. With these
funds, the postal savings system and the postal insurance system served as key contributors to the
Fiscal Investment and Loan Program (FILP).²¹ During the post-war years, FILP was the source of
government investment in industrial development, small and medium enterprises, public works, and
other government funded projects which in turn provided politicians the ability to influence votes
with public funds (Iwamoto, 2002; Amyx *et al.*, 2005). Japan's reformers saw postal privatization
as a necessary part of Japan's overall financial reform and liberalization, since postal savings and
insurance, via FILP, placed nearly one third of household savings under government control.²²

FILP played a key role in the post-war building of Japan by financing the construction of
national highways and airports, providing funds for housing construction, subsidizing social welfare
facilities, and other public works projects. However, as infrastructure saturated nearly all corners of
Japan, the supply of funds began to exceed demand, creating abundant room for inefficient and
more clientelistic spending. Doi and Hoshi (2003) estimate that in 2001, of the 350 trillion yen in
outstanding loans from FILP, 75 percent went to already insolvent recipients, costing taxpayers 75
trillion yen, or 15 percent of GDP at the time. Imai (2006), using prefecture level data on Japan's
government loans from 1975 to 1992 shows that prefectures represented by more influential LDP

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members received more governmental loans from the FILP program, and the FILP loans increased to prefectures where the ruling LDP candidates became more electorally vulnerable, variation that was not observed in loans from private banks.

To address these problems, in May 2000, a reform bill ended the compulsory deposit of postal savings and pension reserves into FILP. Under the new law, postal savings and insurance along with pension funds became independently managed via the financial markets, though they continued to invest in FILP bonds and FILP agency bonds issued by public corporations and the like, nominally on the basis of portfolio considerations. FILP, in turn, began to raise funds on an as-needed basis by floating FILP bonds on the market. These reforms severed the direct flow of funds between postal savings and politicians via FILP. Lending under FILP dropped by 63 percent during the decade between 1996 and 2006, from 40.5 trillion yen to 15.0 trillion yen. Today, roughly a third of FILP funding still comes from postal savings and insurance.

In addition to providing politicians with the funds necessary for public investment, a nationwide network of post offices and their postmasters provided organizational support for politicians. Japan's over 24,000 post offices exist in nearly every small town and village. Among them, the more politically salient are the 18,000 "special" post offices headed by commissioned postmasters. Unlike the postmasters of ordinary post offices, these commissioned postmasters were hand-picked by postal bureaucrats from among a small group of candidates – often the sons or relatives of retiring postmasters -- and in many cases were pre-approved by local LDP Diet members (Maclachlan, 2011). These postmasters in turn served as vote collecting machines and also provided logistical and financial support through organizations like the *koenkai* candidate support groups. In short, the postal lobby has long been seen as a key vote-gathering machine not only by rural LDP politicians but now by the opposition, the Democratic Party of Japan (DPJ) and the People's New Party members as well.

Prior to privatization efforts, the postal system offered postal and package delivery services, banking services, and life insurance all under the name of the Postal Services Agency (*yusei*

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jigyosho). It had over 400,000 employees and ran 24,700 post offices throughout Japan. The Postal Services Agency was the country's largest employer, employing one third of all government employees. As a financial institution, the Postal Services Agency's biggest advantages came from their nationwide network and their government ownership. Postal savings was a low risk, convenient option for Japanese households, especially those with lower incomes or living in remote areas with few alternative options for investment. From the viewpoint of financial competitors, however, the Postal Services Agency had unfair advantages, creating an uneven playing field and hindering competition.

3.1 Politically Driven Reform

Postal privatization, like the banking reforms discussed earlier, was a politically driven reform effort most closely associated with former Prime Minister Koizumi who successfully passed the postal privatization bills in October 2005. Koizumi was long a proponent of postal privatization, beginning in the 1980s when postal privatization was first discussed. His convictions were rooted in his origins in the Mori faction and the LDP's financial *zoku* politicians closely affiliated with the Ministry of Finance and commercial banks. He viewed postal privatization as representative of a much broader program of market liberalization and structural reform. His views were supported by some bureaucrats, but especially by private banks and firms in the financial sector who saw government protection of postal savings and insurance as unfair.

Opposition to postal privatization, on the other hand, was fierce. Rooted in 130 years of postal history (postal savings was established in 1875, postal insurance in 1916), the postal lobby headed by the postmasters was both the target of reform and the most vociferous opponent. They found support among politicians from both the LDP and opposition parties who benefitted from their political support. They also found support among some in the public who viewed the old postal system as a symbol of Japan's bygone era of coexisting economic prosperity and social harmony. These citizens equated postal privatization with the evil competitive forces of market

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liberalization and competition, an economic vision that saw little value in the social benefits and community services provided by the postal workers.

Despite resistance from not only the postmasters and the general public, but also from within his own party, Koizumi successfully passed postal privatization by utilizing the institutions directly under his control. In particular, he used the Council of Economic and Fiscal Policy (CEFP), a policy group largely independent of interest group politics led by Heizo Takenaka to design the privatization process. When opponents in the LDP backed by the postmasters tried to halt the policymaking process in the CEFP and in the party more broadly, Koizumi moved the policymaking to a small group of allies in the Postal Privatization Promotion Office, effectively shielding the process from opponents (Maclachlan, 2012). Koizumi also took an electoral gamble, linking the credibility of his opponents to the passage of the postal privatization bills. By tying postal privatization to his overall stance on reform, Koizumi won a landslide victory in the so-called postal elections in September 2005, paving the way for the successful passage of the postal privatization bills the following month.

Koizumi's overall strategy in passing the privatization bills had important implications for their implementation and the ability of the opposition to limit its actual effects. While Koizumi did manage to pass the privatization bills, his strategy was to weaken the opposition by refusing to give opposing politicians in the LDP the party endorsement, rather than to strengthen the proponents of postal privatization by extolling its benefits and winning greater popular support. Such a strategy ensured the success of the reforms only as long as a strong political maverick like Koizumi remained in power. A close look at the electoral outcome of September 2005 suggests that Koizumi and his allies won votes from voters that were against the opposition parties who were unable to provide a compelling alternative to postal privatization. The LDP share of the popular vote increased only marginally over the previous election whereas of the 16 anti-postal privatization candidates, 13 still won. Thus the bill passed but narrowly. This meant that the opposition to postal privatization remained quite strong, leaving the reform vulnerable to future political compromises.

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The weakness of passing rule changes (the postal privatization bill) despite resistance from the very actors it targets (postmasters and consumers) is that unless the opposition is weakened over time (such as through market forces in the case of private sector finance) the new rules can be circumvented, or even reversed, as the trend appears to be so far.

3.2 Postal Privatization and its Outcomes

The privatization bills themselves left plenty of room for manipulation and circumvention by the opponents of the reform, setting the stage for a syncretization of the old postal system with the new businesses ushered in by the privatization process. Koizumi first began reform by turning the old Postal Services Agency (*Yūsei Jigyōchō*) into a government-owned corporation in 2003 as an intermediary step to outright privatization. Politically, this was an astute strategy, since the postmasters thwarted Koizumi's efforts to straight up privatize the postal savings and insurance systems during his time as Prime Minister Hashimoto's Minister of Health and Welfare. By the time Koizumi was prime minister in 2003, however, the political clout of postmasters had sufficiently weakened and the more reformist politicians within the LDP had gained power, allowing the transformation of the state-run postal services into an independent government agency called Japan Post (*Nippon Yūsei Kōsha*).

While corporatization was an intermediary step, it initiated a number of reforms that incentivized Japan Post to think and act more like a corporation than a government agency. Top management of its three divisions, Postal Service, Postal Savings and Postal Life Insurance fell in the hands of businessmen, mostly former corporate executives rather than the traditional retiring bureaucrats. Profitability became a concern, placing operating pressure on mail services and the network of post offices. Such pressures prompted the innovation of new products such as mutual funds and entry into new services like credit cards. These changes allowed Japan Post to early on taste the benefits of privatization while maintaining a de facto 100 percent government guarantee through government ownership, a situation that continues today.

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The October 2005 postal privatization bill paved the way for the privatization of Japan Post in October 2007. The bill split Japan Post into four separate companies: a bank, an insurance company, a postal service company, and a company to handle the post offices as retail storefronts of the former three. These four companies came under the control of Japan Post Holdings, which under the 2005 bill would sell its shares in the two financial corporations (Japan Post Bank and Japan Post Insurance) beginning in fall 2011 and ending in fall 2017. (See Chart 1)

[insert Chart 1]

3.3 Entry into New Businesses

Privatization gave the companies under Japan Post Holdings the green light to venture deeper into new lines of businesses while remaining under the protective umbrella of government ownership. Japan Post Bank now offers postal credit cards with access from the vast postal ATM network as well as some ATMs overseas. Additional services include annuity policies, mortgage and consumer loan intermediary services, and sale of funds that invest in Japanese and foreign stocks, bonds, real estate investment trusts, and other assets. Alliances with foreign corporations have also opened new business opportunities. In June 2008, Japan Post Bank and Japan Post Network began selling ING Life Japan's single premium variable annuity (SPVA) products while Japan Post Insurance sells ING's corporate-owned life insurance (COLI) products. This partnership greatly extended ING's distribution network of banks and securities houses for SPVA products and independent agents for COLI products. In addition to ING Life Japan, a unit of Netherlands-based ING, Japan Post Bank and Japan Post Network also started selling variable annuity insurance products for Sumitomo Life Insurance, Mitsui Sumitomo MetLife Insurance, and Alico Japan, greatly expanding their sales outlets.

Japan Post Insurance also ventured into new territory in late 2007, offering products to corporate customers in partnership with life insurers. The eight companies working with Japan Post Insurance include ING Life Japan, Axa Life Insurance, American Life Insurance, Sumitomo Life Insurance, Tokio Marine & Nichido Life Insurance, Nippon Life Insurance, Mitsui Sumitomo

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Kirameki Life Insurance, and Meiji Yasuda Life Insurance. They are targeting smaller businesses that can utilize these policies as tax-break measures by recording premium payments as losses. JPI continues to push for further expansion of their business. In 2009, JPI filed an application with the Financial Services Agency and the Ministry of Internal Affairs and Communications (MIC) for approval of a new stand-alone insurance product that would compete directly with the private sector and foreign companies (ACLI 2012). In 2010, a cabinet proposal was introduced that would raise caps on the amount of insurance coverage and reduce limits on the scope of JPI product offerings. The growing voice of protest against such expansions from the private sector and foreign companies upset about the statutory, regulatory, and other governmental privileges afforded JPI attests to the considerable expansion of JPI.

3.4 Retrenching to a Hybrid Form

However, as the economy continued to suffer from deflation and the aftermath of the 2008 global financial crisis-sparked recession, the public began to side with those opposed to full privatization. Riding this momentum, in November 2009, then DPJ Prime Minister Yukio Hatoyama froze the sale of shares in Japan Post's financial units, a significant retreat from Koizumi's pro-market reforms. In so doing, Hatoyama tried to appeal to those who saw Koizumi's reforms as excessively market-friendly, a line he touted during his party's landslide victory earlier that year. At 330 trillion yen (\$3.6 trillion) in assets (240 trillion yen in Japan Post Bank), although Japan Post Holdings by then accounted for only one fifth of Japan's total financial assets, down from its peak at one third, a significant portion now funded Japanese government bonds.

The current status of postal privatization is a combination of the old, the new, and the hybrid. For Japan Post Bank, the basic business model of taking retail deposits through its nationwide network remains intact. The social services component of the old postal system such as *himawari* or daily visits especially to the elderly have been retained to the greatest extent possible, although a special government fund earmarked for this purpose appears to have evaporated. Any shares of the postal savings and postal insurance companies have yet to leave the hands of the state. While these

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funds no longer are obligated to invest in FILP, the practice continues with Japan Post holding about a third of the 700 trillion yen government bond market. And while the postal lobby and postmasters have continued to lose their political influence, their jobs have been largely retained and additional jobs have been created in post-related facilities such as recreation centers and lodging. Ironically, as a result of the passing of the privatization bill, postmasters are no longer public servants and are thus free to actively participate in political activities. The postmasters are by no means as electorally influential as they once were, but they have retained enough political influence to win over the DPJ and its supporters.

In April 2012, a revision to the postal privatization bill passed as a result of an agreement between the New Komeito and the LDP. The revision removed the December 2009 Freeze Law which had halted the sale of government owned shares thereby greatly dampening the incentives for privatization (Commission Report March 7, 2012). However, support for reform in the revision ended here. The revision also removed the requirement for the sale of government stakes in the two Japan Post financial institutions (bank and insurance) by September 2017, replacing it with a much weaker recommendation their sale. While Japan Post Holdings President Jiro Saito has said that Japan Post aims to go public "at the earliest possible time", he also said that "the shares could end up being handed over to trust banks or acquired by Japan Post Holdings group firms." This, interestingly, is in contrast to the Ministry of Internal Affairs and Communications Minister Kawabata's (DPJ) position stated in Diet deliberations that Japan Post shares should be sold publicly.

The revision to the postal privatization bill also stipulated that on October 2012, Japan Post Service Company (mail delivery) and Japan Post Network Company (window services) are expected to merge. Proponents of reform see serious pitfalls in this merger, as this raises the risk of systemic shock to Japan's financial system. The Commission report by Naoki Tanaka (March 2012) states that combining these [delivery and network] business companies with a holding company would raise serious doubts about isolating two of the world's largest financial institutions

Forthcoming: please do not cite or distribute without authors' permission from [the holding company's business] risk. Rising levels of risk aside, however, this merger also creates a type of hybrid between a government-owned holding company and a privately held corporation. In regulatory terms, cross-subsidization among subsidiaries of the holding company Japan Post is only permitted due to Japan Post's status as a government owned business; in contrast, private holding companies must let subsidiaries go bankrupt.

At the same time, however, the revision paves the way for greater expansion of Japan Post into new business areas. The revisions do not permit unfettered expansion into areas already dominated by the private sector, but the legislation does open the door for new businesses and lower the barrier to entry.

4. Conclusion

This paper has examined reforms to Japan's financial system, which lies at the core of its distinct model of capitalism. We characterized the observed outcome of its transformation as syncretism, the coexistence of traditional, new, and hybrid organizational structures, strategies, and norms. Analyzing both the private sector financial system and postal system reform, we contend that syncretic industry outcomes were driven by a particular pattern of interest group politics, which we call syncretization, which also drove a distinct pattern of reform. Major thrusts of reform occurred when political leadership overwhelmed traditionally powerful vested interests; however, when the leadership advocating reform waned, the vested interests substantially slowed further reform.

We contribute to scholarship on institutional change, and in particular to conceptions of comparative capitalisms that include typologies of political economies, by demonstrating that there is much room for change—not simply marginal change, but at times quite dramatic change—that does not entail a trajectory towards convergence, let alone convergence towards an Anglo-American model. We also show how political logic can shift an ongoing process of gradual transformative change into rapid, more dramatic change. The various forms of gradual

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transformative change maybe best characterized as interludes between major disruptive change that can reshape underlying bargains between various forms of actors.

This type of reform can have several implications. First, we expect Japan's financial system to exhibit syncretism for at least the short to medium term, since the traditional and hybrid portions, in particular regional banks and mega-banks, will remain stable. While some areas of the system such as securities and investment banking are rapidly adopting Anglo-American practices, other areas such as regional banks will retain their traditional structures. The growth of hybrid practices and strategies also assures that convergence to an Anglo-American model is unlikely any time soon. Questions regarding the economic efficiency of this syncretic configuration remains, but the retention of some country specific characteristics preserve diversity in the global financial system, and can perhaps serve to limit the size of global financial crises that more easily topple similarly designed systems. For Japan, the syncretic nature of financial sector reforms insulated its financial system from the 2008 global financial crisis.

Second, the potential integration of Japan's postal savings and insurance systems into the mainstream financial system represents the entry of major new market-based players. Yet given the shifting political trajectory with vested interests advocating for a slowdown in reforms returning to political prominence, market integration has been substantially slowed. Japan Post Bank and Japan Post Insurance are still wholly held by Japan Post, itself held 100 percent by the Japanese government. In short, the reversals in the privatization process have created government-owned firms that directly compete with private firms, both domestic and foreign. This is another aspect of Japan's financial system that will remain distinct from the US or UK. But while Japan may take an alternate path, these firms as they stand now have the potential of creating new headaches for the government as it attempts to steer Japan towards greater participation in both bilateral and regional trade agreements. In the recent negotiations for the Trans Pacific Partnership, for example, Japan has already met US opposition to plans for state-owned Japan Post Insurance to enter the cancer insurance market. Syncretism may be the distinct outcome of politically led reforms, and may even

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help prevent global domino effects, but (when syncretism leads to?) lack of conformity with
liberalization trends can also lead to isolation and accusations of unfair play.

How far does this apply beyond finance, and beyond Japan? There is evidence to support the notion that this pattern extends beyond Japan's financial system, although a full analysis is beyond the scope of this paper. The coexistence of new, old, and hybrid forms of organization, strategies, and norms characterizes multiple industrial sectors in Japan (Kushida, 2010), as well as broader issues such as corporate governance. Reforms that provide options without entailing coercion towards a particular outcome, can increase diversity (Gibson and Milhaupt, 2005). Our point is that if the political reform process does not include those most affected, then the diversity in adoption will be magnified, since major incumbent players are unlikely to rapidly adopt new forms, strategies, and norms. Investigating these potential dynamics of change provide a fruitful research agenda for regulatory reform beyond Japan.

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Table 1: Total Deposits and Assets of City Banks, Regional Banks, and Postal Savings (trillions yen)

Date	City Banks	Regional Banks	Postal Savings*
Deposits			
1995	209.0	217.7	-
2000	230.6	235.0	-
2005	255.7	245.9	200.0
2010	270.3	272.6	175.8
Assets			
1995	346.9	194.7	-
2000	373.0	200.5	-
2005	395.5	216.7	194.7
2010	419.4	240.1	264.9

Source:

BOJ. "Deposits and Loans Markets."

Postal Savings adapted from Japan Post Bank Co. non-consolidated financial data.

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Table 2: Japan's Financial Groups and Postal Bank Compared (Trillions yen)

	2005			2010	
	Deposits	Total Assets		Deposits	Total Assets
Japan Post	200.0	247.7	Japan Post	175.8	194.7
Mitsui Sumitomo Financial Group	71.2	99.7	Mitsubishi UFJ Financial Group	123.9	204.1
Mitsubishi Tokyo Financial Group	70.4	110.0	Mitsui Sumitomo Financial Group	90.5	123.0
UFJ Holdings	54.6	82.6	Resona Holdings	34.1	42.7
Resona Holdings	33.0	40.0			

Source: Kaisha Shikiho 2005 Summer, Company Financial Reports

Chart 1. The 2005 Postal Privatization Bill

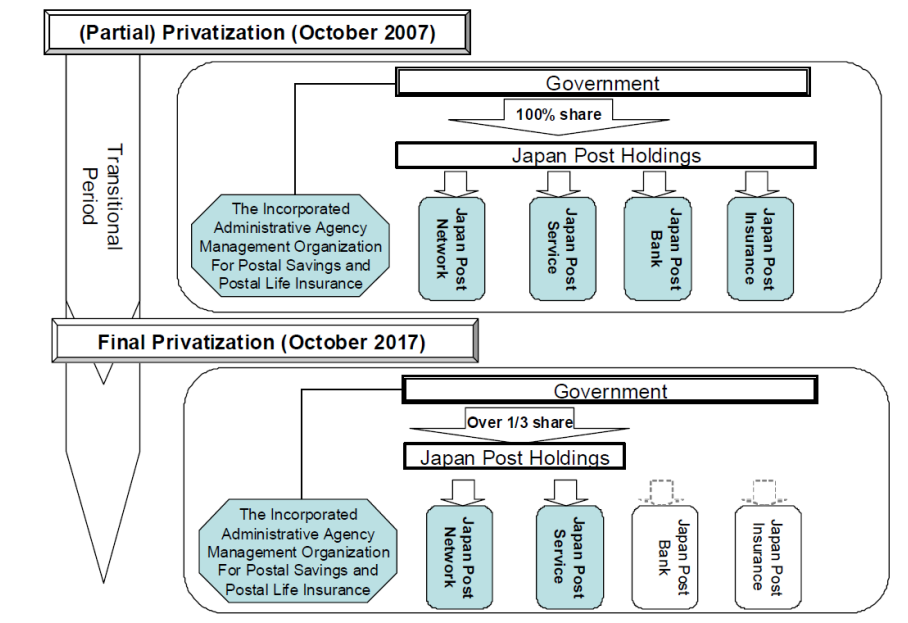
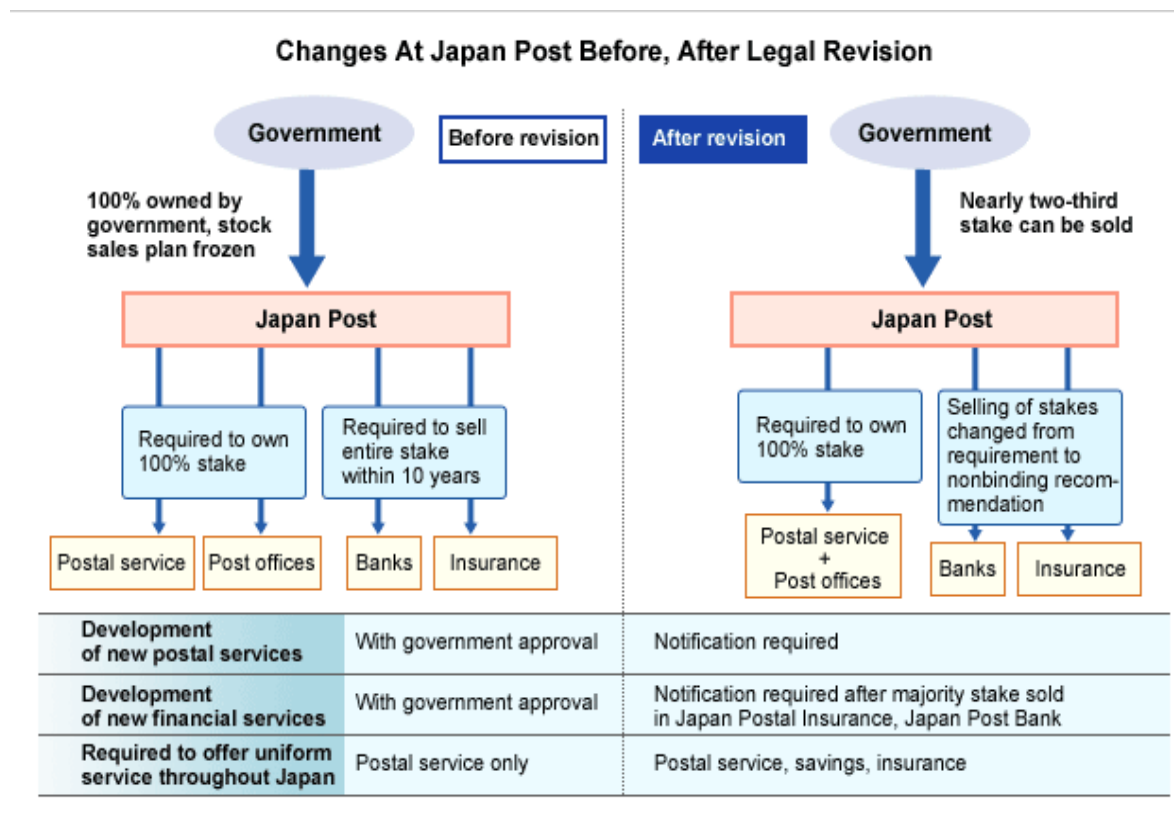


Chart 2. The April 2012 Revision to the Postal Privatization Bill



Source: The Nikkei, May 13, 2012 morning edition

¹ For an excellent overview of the “comparative capitalisms” literature, see (Jackson and Deeg, 2008).

² For an overview, see (Morgan *et al.*, 2010), particularly chapters by Thelen, Campbell, Streeck, and Jackson.

³ See, in particular, the seminal work (Zysman, 1983).

⁴ Streeck (2010) reminds us that scholars tend to evaluate institutions in terms of their relative success, but are ambiguous in their definitions . Avoiding the global financial crisis of 2007-2008 is one short term indication.

⁵ Kushida first applied this concept to Japan's transforming political economy. (Kushida, 2010)

⁶ Aoki and collaborators empirically show Japanese firms clustering around several corporate forms: the traditional J-firm model (with at least three subcategories), and multiple subtypes of two hybrid models (Aoki *et al.*, 2007; Aoki, 2010) . Our conception of syncretism is simpler, to more easily capture the dynamics of change.

⁷ For the “convoy system” see(Aoki, 1988). As Vogel writes, “Unlike their counterparts in the United States, Japanese financial institutions rarely tested the rules without the blessing of the authorities.” (Vogel, 1994, p. 225)

⁸ Notable conceptions include “Bureaupluralism” (Aoki, 1988), compartmentalized pluralism (Satō and Matsuzaki, 1986), bureaucratic-inclusive pluralism (Inoguchi, 1983), reciprocal consent (Samuels, 1987).

⁹ Vogel (1994) writes, “While MoF officials have been forced to make concessions to industry groups and to adjust to unforeseen developments along the way, they have maintained overall control of the reform process.”

¹⁰ For details, see (Toya, 2006)

¹¹ For an overview of these arguments, (Rosenbluth and Thies, 2010).

¹² They were free to invest into real estate even after MOF's banking bureau issued administrative guidance to curb such lending from banks. Major banks therefore used these housing loan companies to bypass the regulation. (Toya, 2006, p. 115)

¹³ Quoted in (Toya, 2006, p. 171)

¹⁴ In 1997 the public prosecutor's office investigated Nomura Securities, Daiichi Kangyo Bank and others, leading to arrests and MOF sanctions.

¹⁵ It should be clarified that Thelen and Streeck, and Mahoney and Thelen's conceptions of institutional change are limited to *gradual transformative* change, and do not include the type of rapid and sweeping changes constituting the Big Bang reforms.

¹⁶ For an empirical study of foreign stock brokerages, see (Morgan and Kubo, 2005).

¹⁷ For details, see (Kushida, 2010)

¹⁸ Cerulli Associates calculations based on data from the Investment Trusts Association, the JSDA, the Japan Securities Investment Advisers Associations, and other sources.

¹⁹ For more, see (Kushida, 2010).

²⁰ Smaller SMEs tend to have shorter relationships with their banks, but this is more often due shorter lifespans of small SMEs. See the SME White Paper graph on the average length of SME-main bank relationships Figure 2-3-10 {The Small and Medium Enterprise Agency, 2003 #766}.

²¹ For more on FILP, see (Park, 2011)

²² In 1997, deposits in private banks and the postal savings system were 474,629 billion yen and 237,782 billion yen, respectively. At the start of the privatization process in 2007, these amounts had shifted to 545,043 billion yen and 180,843 billion yen, respectively (Yoshino, 2008).