

AJISS-Commentary

The Association of Japanese Institutes of Strategic Studies

IIPS

Institute for International
Policy Studies



The Japan Forum on
International Relations

JIIA

The Japan Institute of
International Affairs
(Secretariat)

RIPS

Research Institute for
Peace and Security

Editor:

Akio Watanabe

Editorial Board:

Kenichi Ito
Masashi Nishihara
Seki Tomoda
Taizo Yakushiji

Online Publisher:

Yukio Satoh
President, JIIA

No.27. 11 March 2008

A REMEDY FOR THE SUBPRIME CRISIS: TIME TO UTILIZE POSTAL SAVINGS

Heizo Takenaka

The subprime mortgage crisis that originated in the United States is spreading across the world's financial markets. Unfortunately, the level of suffering will turn out to be far greater than expected. The losses suffered by Japanese financial institutions are considered small compared with those of their counterparts in the US and Europe. Nonetheless, Japan must clarify its role in tackling this global financial problem. During the last World Economic Forum held in January, I asked the participating business and political leaders in a questionnaire what they considered the

The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.

greatest risk factor for the world economy in 2008. Many of them pointed to the lack of coordination among major economies rather than the actual financial losses.


I would like to point out four things that I regard as particularly important for Japan. The first is to minimize the losses that Japan might suffer on its part. It is extremely important for a country with the world's second largest GDP to keep its economy growing. The future of the Japanese economy remains uncertain largely because the momentum for economic reform has been lost at home. Japan must make continued efforts to enhance market expectations by refreshing the agenda for reform once again.

The second is policy coordination with other countries. When concern about the credit crunch spread last summer, central banks acted in union to inject liquidity into their respective banking systems. Some minor points such as the timing and volume of the liquidity injection may have been subject to criticism, but it was overall a wise international reaction. The challenge facing us now in a worldwide recession is how major countries can coordinate their economic policies at the macro level. At the World Economic Forum in Davos, Switzerland, Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, urged countries to draw up their own fiscal plans, and not just monetary plans, where appropriate. It will be very difficult for the Japanese government to resort to fiscal stimulus at the moment, but it should at least respond to the IMF's call with flexible monetary policies.

The third is to send out the right message drawn from Japan's bitter experience of dealing with its own financial and economic crisis. In doing so, however, it must be remembered that the United States has already learned what it can learn from our experience in the 1990s. In the decade after the burst of its asset bubble, Japan was continuously plagued by balance-sheet problems as symbolized by the massive bad loans held by financial institutions. The best way to cope with this problem is ascertaining the overall picture and disclosing information as quickly as possible so that troubled banks can strengthen their capital bases. It took a whole decade for Japan to do this with the eventual infusion of taxpayers' money. In

contrast, the American reaction looks swift. In less than a year since the subprime crisis came to a head, some of the US major banks have already sought capital infusions. What Japan needs to do is to keep warning that a late response entails great costs.

This leads to my final suggestion. Japanese institutions should actively help American and European banks bolster their capital. Capital injections to this end may open up new opportunities for Japan's financial institutions, which have finally almost cleared up their accumulated non-performing loans. Of course, decision-making must be based on cautious management plans. Yet given the current situation in which American financial institutions are considering turning to sovereign wealth funds in the Middle East, they might well appreciate help from Japanese private institutions. Wouldn't it be symbolic if the new Japan Post Bank, the world's largest bank created as part of the privatization of the Japanese postal services, could take the lead and lend out the vast pool of its under-utilized postal savings? I think this is at least worth considering.

The confusion stemming from the subprime problem is unlikely to end anytime soon. In the meantime, Japan must understand that it can play a significant role in bringing to an end this international financial turmoil. 

Heizo Takenaka is Professor and Director of the Global Security Research Institute at Keio University in Japan. He was appointed Minister for Economic and Fiscal Policy in the cabinet of Prime Minister Junichiro Koizumi in 2001 and, over the next five and a half years, spearheaded structural reform of Japan's economy.