



How to Make A Market?

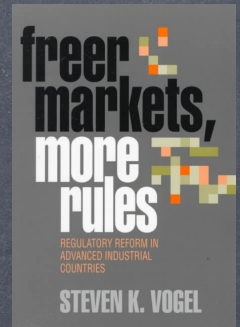
(Building strength in "ichiba-zukuri")

Comments on Steve Vogel
by Ulrike Schaede
JFIT/STAJE conference 2016



Summary

- 👁️ Japan's postwar economy was a heck of an arrangement.
 - 👁️ very nice summary, for those of us who teach this material
 - 👁️ the resulting machinery is best summarized as a “coordinated market economy” (really?)
 - 👁️ the setup was a rational, stable equilibrium with “institutional complementarity”
 - 👁️ e.g., patient capital and long-term labor; no need to worry about SGA/sales ratio
 - 👁️ it worked!
- 👁️ For Japan to “liberalize”, it will take a lot more work
 - 👁️ “liberalization” is not just a matter of abolishing some stuff and unleashing the dogs
 - 👁️ institutional complementarities: change in one realm requires concomitant change in many other areas
 - 👁️ “construction of a broad spectrum of laws and regulations that sustain competition in modern markets, combined with a fundamental shift in business practices and social norms”
 - 👁️ just introducing , say, “stock options” does not translate into the same incentives unless these take on real value (monetary, societal, etc.)
 - 👁️ this reads a bit like an enhanced, new and updated version of “freer markets, more rules”; well done!



First Comment

- ① What is the phenomenon you are trying to explain here?
 - ① Is it: “Japan is not changing into a liberal market economy” ?
 - ① Is that even the goal? Or, what is Japan’s goal?
 - ① Are LMEs somehow “better” than CMEs?
 - ① Methinks: Japan doesn’t care what type of “market economy” it is, as long as it can create some economic momentum and compete in a changing global setting.
 - ① Or is it: “Why, after all these reforms, is Japan not faring “better”, as measured in economic growth?”
 - ① Japan is reforming, but it is not changing?
 - ① What is your evidence of “no change”?
- ① maybe this is laid out in the book, but not sure it’s clear in this paper/chapter

Some witty-gritty stuff (1)

- Tour-de-force through the changes that Japan has actually introduced
- “What would it take for Japan to develop more competitive capital, labor and product markets” ? (p.9)
 - is this a post-hoc list? “The government would need to” (“it didn’t work”)
- Mid-career labor market: head-hunting firms, more permissions to dismiss, etc.
 - are the *gaishikei* already doing this?
 - Table 2 under labor: move “HC ban” to finance
 - Table 3: add 2003/4 revision of “Standard Labor Law” revision
- p. 13 “Japan’s financial Big Bang of 1996”:
 - came into effect in 1998. Pick which date you want to list: passing of law, of effective date?
 - Big Bang technically did not include *Gaitamehō* revision, or FSA creation; that just happened in 1998, too
- p.14 Koizumi’s postal reform had 2 main goals
 - disempower old LDP folks
 - remove government guarantee to create equal playing field with banks on FDIC
 - not sure it was about channeling more savings into other banks; rather, just making all savings the same

Some more witty-gritty stuff (2)

- p. 14: J-SOX (金融商品取引法): M&A, spin-offs, etc were part of revisions of the Commercial Code???
- p.16: Commercial Code (会社法): June 2005 or 2006? Again, writing of law or effective date?
- p. 17: “gov’t sought to ..make Japanese firms more attractive to foreign investors”.
 - Really? Or, make them stronger against foreign investors in a globalizing financial system?
- p.18: Labor law revisions “did not make it any easier for firms to dismiss regular workers”?
 - is this true? 2003/04 revision for the first time introduced the word “dismissal” into the law.
 - overall, on labor, it appears that by far the biggest “change agent” is the looming labor shortage
- p. 19: interesting Yanagawa proposal to reduce retirement age to 40, jumpstart new labor market
 - Japan already has this system, so the alternative way to go would be to increase retirement age to 70
 - this is already happening?
- p. 22: holding companies
 - in addition to cross-subsidization (possible without HC), the biggest benefit is to hedge risk of any single business

Comment #2

- Goal: “show how government and industry have attempted to adapt market institutions to a changing environment” (aka, “adventures in marketcraft”)
 - Finding: “in both cases, government officials devised comprehensive reform visions...., successfully implemented many of these, yet they failed in their larger projects of emulating the U.S. model.”
 - “in spite of multiple strategies to stimulate innovation ... when the dominant technological paradigm shifted away from areas of Japan’s competitive strength”
- Is it perhaps the alleged goal that is the problem here, rather than the reforms?
 - Where are these reforms headed? Do you really find that the reforms “failed”?
 - How do you know? Some of these are fairly recent.
 - Ok, let’s just say they failed. Why? Because they didn’t do enough? Why are they not doing enough?
- We both agree that something is still not working.
 - the government hasn’t done enough in terms of “supervisory regulation” v. “the government is still doing too much”
 - METI et al. still have this knee-jerk reaction of wanting to “structure” any market; politicians just can’t let go (even Abe)
 - “stock price are too important to be left to the market” (MOF Minister in 1991)
 - Time to unleash the hounds?

Comment #3

- What comes first, the government or the market?
 - it's perhaps an academic debate, but can you use it to your advantage?
 - in Tokugawa-period Dojima (Osaka), rice merchants traded futures, based on rules that made it work for them (self-regulation)
 - in case of disagreement, they could go to the *machi-bugyō* for adjudication
- The government cannot just “deregulate” without cause / just for the fun of it.
 - It needs an ecosystem to administrate deregulation. There has to be an interest demand (business, consumer, etc.)
 - Why is there not a stronger interest? Why is “Old Japan” so persistent?

