A New Financial Irritant Between the United States and Japan

Gary Clyde Hufbauer discusses the US opposition to Japan's efforts to rescind the privatization of Japan Post, the largest financial institution in the world.

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Steve Weisman: What is the largest financial institution in the world and why is the United States government upset about it? This is Steve Weisman at the Peterson Institute for International Economics with Gary Hufbauer, senior fellow here, to answer that question. Gary thanks.

Gary Hufbauer: Thank you. Well, it'll be a surprise to many people in the United States that the largest institute is not Bank of America, or Goldman Sachs—

Steve Weisman: Or Citibank—

Gary Hufbauer: Or Citibank; it's Japan Post. Japan Post in Japan, which is a public institution—Japan Post is like combining the US Post Office with Citi Group, Bank of America, and maybe toss in one or two other banks. I mean it's just enormous.

Steve Weisman: And most Japanese have their accounts there?

Gary Hufbauer: Yes, they not only have their savings accounts there but also a lot of their insurance as well. It's an all-purpose universal financial provider as well as being an express post, so you can toss in FedEx as well, UPS, and of course normal postal service as well. It probably is the largest firm in Japan, with about 250,000 employees.

Steve Weisman: Our listeners and readers might also be surprised to know that this institution is the source of friction between Japan and other countries, and also a source of instability in the Japanese political system and the government. Why?

Gary Hufbauer: Let me go back a few years. Prime Minister [Junichiro] Koizumi in Japan [2001–06] wanted to try to break up the power of Japan Post. He was kind of, to Japan, what Theodore Roosevelt was to the United States with the Sherman Act, the antitrust bust-the-trust.

Steve Weisman: And he was prime minister in the first part of the last decade.

Gary Hufbauer: Right, and he put a plan in place. Not only did foreign governments cheer the plan but also Japanese firms. Insurance firms, private banks, and of course, express service firms—all thought this was terrific. Now, the more recent government, the [Prime Minister Yukio] Hatoyama government, which fell a month or so ago and was replaced by the [Naoto] Kan government, of the same party—the DPJ of Japan.

Steve Weisman: Democratic Party of Japan.

Gary Hufbauer: Correct. It was on the threshold of reversing the Koizumi reforms. You can imagine with 250,000 people on the job, there's a lot of political push there not to break it apart.

Steve Weisman: Right. He ran as a reform candidate allegedly, but actually, one of his principal platform proposals was to revert back to this government-owned system, which maybe some people wouldn't regard as a reform.

Gary Hufbauer: The reason it didn't reform is that the savings accounts and life insurance are guaranteed by the government, which doesn't happen with any private life insurance or private bank. So that gives them this extra security. And this huge banking system cycles a lot of funds back into public works, many of which have an established rate of poor performance. So that's part of the very slow growth in the Japanese economy.

Steve Weisman: So this rescinding of this important Koizumi step was about to take place until it too hit a snag.

Gary Hufbauer: Well, that was Sunday [July 11]. On Sunday, the upper house of the Japanese—there was a vote, and the DPJ had a huge reversal. They lost the majority they were hoping to have together with their coalition partners. It was a big blow. Now, Japan Post was one of the factors, but it certainly was not the most important issue. However, the Japan Post story may be a silver lining in this cloud for the government because the defeat of the government in the upper house may succeed in keeping the Koizumi reforms at least on life support.

Steve Weisman: Meanwhile, the US government, through the World Trade Organization, has informed Japan that it regards any step to reverse that reform as what—a violation of trade agreements?

Gary Hufbauer: Oh yes. Way back in the General Agreement on Trade and Services, which Japan signed, Japan essentially promised to liberalize the insurance dimension of Japan Post. In other words, to give equal conditions to insurance companies—not only foreign but Japanese—which is not to say that the Japanese private insurance companies are the biggest supporters of reform. There are foreign companies from Europe and the United States [that] are also clamoring for reform. So the US government was pretty unhappy—as was the European government and others—that the slow path to reform, which they accepted, which put Japan on track to honor its agreements in the WTO, was on the threshold of being reversed.

Steve Weisman: It's certainly not uncommon that foreign pressure forces domestic change in Japan. The Japanese even have a word for foreign pressure—gaiatsu.

Gary Hufbauer: You're right.

Steve Weisman: What's your prognosis?

Gary Hufbauer: My prognosis is that the Kan government, the DPJ, is just too weak to carry this forward. I don't think they'll kill it. I think it'll just be on the back burner until we get a stronger government in Japan, and we'll see how that plays. I don't think you can say the reforms are necessarily going to go forward, but it's certainly not clear that they will be reversed this year.

Steve Weisman: It's worth pointing out, isn't it Gary, that the United States has had some tense relationships with DPJ over other issues, especially the location of American forces in Okinawa, which was another thing that caused the government to reverse course because of US pressure. That also contributed to the lower public approval ratings of the previous prime minister.

Gary Hufbauer: Absolutely. The flip-flop of Prime Minister Hatoyama on the Okinawa issue was probably the main reason for his downfall and was quite an embarrassment to the DPJ. I guess history will tell whether the United States was wise to press the Japanese government so hard on that issue. And that's far above the Japan Post issue.

Steve Weisman: What's the state of US-Japan relations right now?

Gary Hufbauer: The United States and Japan remain strong allies, and when Japan looks across at ever-growing China, it does not want it to abandon or break or diminish the alliance with the United States, even though it finds the Okinawa situation a big, big embarrassment. I guess you could say the state of the relationship is, "We need you, but you're maybe pressing us a little bit too hard," when they talk to Washington.

Steve Weisman: Gary, thanks very much.

Gary Hufbauer: Thank you.