Rethinking Japan's Bad Loan Management:

Implications from a Comparison with the Swedish Case

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Abstract

Although Japan and the Nordic countries similarly experienced a serious collapse of the Bubble economy in the early 1990s, the financial recovery of the former is extremely delayed compared with the latter. In Japan, the Ministry of Finance is often accused of this, with the claim that it has acted too arbitrarily. The assumption is that it has held, or had held at least until recently, excessively strong power in the policy-making process, based on the close connection with banks and politicians.

However, the close connection between relevant actors may also reduce the scope of their performance. If the policy-making process is conceptualized as the network linking relevant public/ private actors, the Japanese financial authorities are rather seen as "trapped" into sticky relations with other actors in the network. As suggested in the literature of social network and social learning, too close and too closed connections may deteriorate the learning competence of the actors in the network, partly because their action tends to be restricted and partly because they tend to get less information from outside. This theory seems to be strongly supported by the evidence of Japan and Sweden.

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1. Introduction

While Japan and Sweden similarly experienced the collapse of their Bubble economy at the beginning of the 1990s, they have presented a striking contrast in their banking sector policy in the subsequent years. On the one hand, the bank restructuring management of the Swedish government is widely regarded as one of the "best practices"[1]. Already in 1996, the officers at the Swedish Central Bank came to proclaim proudly that 'Sweden now has a banking system that is financially robust, dynamic and competitive'[2]. Still in 1999, on the other hand, the Japanese government repeated the injection of the public fund into many banks so as to enable them to manage bad loans. It is widely recognized that '[w]hile the initial downturn in activity was smaller in Japan than in other countries that experienced a correction of asset price overheating in the late 1980s - such as the United Kingdom or Sweden - the weakness in activity has been considerably more protracted'[3].

There are various factors to explain the difference between Japan and Sweden in their performance of banking sector policy. One of the most significant factors is the difference in the magnitude of the pressure from the international financial market. Sweden was urged to take more radical measures since it is far dependent on the

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[1] See, for instance, Dziobek, C. and Pazarbasioglu, C. (1997) 'Lessons and Elements of Best Practice' in International Monetary Fund, *Systemic Bank Restructuring and Macroeconomic Policy*, pp.75-143 (Washington D.C.: IMF)

[2] Ingves, S. and Lind, G. (1996) 'The management of the banking crisis - in retrospect', *Quarterly Review*, 1996, No.1 (Stockholm: Riksbank), p.18

[3] International Monetary Fund (1999) *Japan: Staff Report for the 1999 Article IV Consultation* (Washington D.C.: IMF), para 4, p.5

international financial market (i.e. large net-borrower). Even though it would be dangerous to bet on radical measures, it was motivated by the urgent need to regain credit with the international financial market. By contrast, Japan was a large net-creditor in the international financial market, and it was not surprising that the lack of strong incentive inclined the Japanese government to postpone the solution of the problem, allowing banks to hide a great amount of bad loans, at least until recently.

The regulatory scope of the government authority and the degree of information disclosure are often mentioned as well. While Sweden achieved considerable deregulation already in the mid-1980s, the regulatory scope of the financial authority remained large in Japan. Many of the "neo-classical" critics ascribe the inept handling of the bad loan problem to the finance ministry's heavy-handed approach to its regulation of the financial sector[4]. As for the information disclosure, the contrast between Japanese and the Nordic cases is widely perceived. For example, the International Monetary Fund (IMF) pointed out that '[t]he lack of transparency in even recognizing the scale of the problems in the banking sector has undermined confidence among businesses and the public at large, with deleterious effects on domestic demand, and stands in marked contrast to the experience of the Nordic countries, where there was an explicit recognition by the authorities that transparency was a precondition to the solution of the banking crisis'[5].

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[4] For the discussion between "neo-classical" critics and their opponents, see Lee, J. (1997) 'The "crisis" of non-performing loans: a crisis for the Japanese financial system?', *The Pacific Review*, Vol.10, No.1, p.64

[5] International Monetary Fund (1998) *Japan - Selected Issues*, IMF Staff Country Reports No. 98/113, p.120

While recognizing the significance of all the above points, we here focus on the structure of "policy network" as a factor to complement the above explanations of low performance of banking sector policy in Japan compared with Nordic countries – especially Sweden. A policy network is generally defined as a set of links between actors within a particular policy field, and the underlying assumption is that its structural characteristics can be treated as explanatory variables for policy outcome[6]. One of the frameworks recently burgeoning from this approach is concerned with the relationship between policy network and social learning[7]. Based on that framework, this study examines the structure of the "banking crisis policy network" in Japan and Sweden comparatively, and discusses its effect on those countries' competence to learn better solutions.

Since the policy-making process of banking sector policy mainly consists of financial authorities, banks and politicians at the core, the next section examines the links between those three actors, mainly illuminating the particularities of the Japanese system by contrast with the Swedish system as a benchmark. The third section discusses how those particularities differentiated the performance of banking sector policy in Japan and Sweden. This is followed by the final section, which draws some implications from the comparative network analysis and discusses the effectiveness of the ongoing administrative reform. The most important implication is that the structure of the Japanese policy network seems to be so cohesive that the financial authorities cannot

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[6] For the literature review, see Marsh, D. (ed.) (1998) *Comparing Policy Networks* (Buckingham: Open University Press)

easily take quick and radical steps autonomously. Although the Japanese financial authorities reputedly hold a large regulatory scope, they in fact enjoy little discretion, being trapped in the sticky relationship with other actors. From this point of view, the recent reform discussion seems to focus too narrowly on the reduction in the power of the financial authorities, without any significant concern about the relational structure surrounding them. It is questionable, therefore, if this will really increase the competence of the banking policy management in Japan.

2. Comparing Policy Network between Japan and Sweden

Links between Financial Authorities and Banks

As noted above, it is widely recognized that the Japanese financial authorities held a large scope of regulation on banks. It is true that the large-scale "Big Bang" deregulation started in 1998, but this rather indicated how much the regulatory reform in Japan lagged behind other developed countries. Indeed, the banking-sector deregulation in Sweden was completed largely in the mid-1980s and it is considered as one of the main causes of the subsequent "Bubble economy".

Besides formal regulations, moreover, there are numerous informal regulations, so-called "administrative guidance", in Japan. As a result, 'the banks felt unable to open a new business or close it without ministry approval - even if no approval was needed

[7] For example, see Knoepfel, P. and Kissling-Näf, I. (1998) 'Social Learning in Policy Networks', *Policy & Politics*, Vol.26, No.3, pp.343-367

under the law'[8]. The financial authorities' intervention also seems to cover the issues of corporate governance such as the plan of capital increase and the amount of stock dividend. According to a report of Asahi Shimbun in 1996, for example, a foreign-owned bank provided around 3,000 reports for the financial authorities per year, while the corresponding figures for the British and American financial authorities were 60 and 400 respectively[9]. Some attempts have been made to reduce the vagueness of such informal regulation[10], but they do not appear to be very effective. Against this background, many banks had long appointed some staff to "MOF-tan" (meaning "in charge of the Ministry of Finance"), whose mission was to keep a good relationship with the financial authorities so as to avoid unfavorable regulation, at least until that practice was publicly criticized in 1998.

The other factor frequently mentioned as a particularity in the Japanese system is the personal network through retired officers in Japan - so-called the "descent from heaven" system. It may not necessarily be blameful for the financial authorities to be employed after retirement in the financial sector to utilize their specialized financial knowledge. In Sweden, such personal transfer is not seen as problematic, although the number of the cases is not basically so high. What is idiosyncratic of Japan is that jobs are offered by the ministry as a part of its personnel system. Many banks have some particular positions where retired officers come and go successively. Those positions often include

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[8] Hartcher, P. (1998) *The Ministry: The Inside Story of Japan's Ministry of Finance* (London: Harper Collins Business), p.133

[9] *Asahi Shimbun*, 13 November 1996

[10] For instance, the Administrative Proceedings Law in 1994 provides some framework of formalizing administrative guidance.

representative positions, whereby the financial authority exert a decisive influence over their corporate governance.

It is true that the National Civil Service Law prohibits retired officers from working for the companies when they had a close relationship before retirement. Yet that prohibition becomes invalid either when they obtain permission from the National Personnel Agency (NPA) or when the period after retirement exceeds two years. The latter condition is particularly important, for retired officers are usually transferred to relevant public agencies (including the central bank) for some years, and then get their position in banks without any inspection by the NPA.

Links between Financial Authorities and Politicians

In his comparative analysis of public administration, Pierre categorized several developed countries by the degree of integration in the bureaucratic system and by the degree of personal exchange between government authorities and politicians, as in Figure 1. Although it is a rough sketch as he admitted, it describes a clear contrast between Japan and Sweden. Based on his and his colleagues' study, he contrasted Japanese and Swedish government authorities, the former being most concerted and politicized and the latter being most fragmented and distant from politicians.

Figure 1 Organizational structures and different types of political and administrative career patterns

		Career patterns	
		Integrated	*Separated*
Organizational structure	*Integrated*	Japan	Germany Britain
	Fragmented	France	Sweden United States

Source: Pierre[11]

There are a number of institutional particularities of the Japanese system, which seem to contribute to the politicization of government authorities. Although abandoned in 1999, the "government delegate" system was one of the most significant institutions. Under this system, government authorities were entitled to deliver a speech against the opposition politicians in the Diet discussion, in place of politicians. Since political issues regarding the financial system often require special knowledge, politicians tended to rely on the government agencies for their answers to the Diet questions. It is often said that this had substantially atrophied the decision-making capacity of politicians, while increasing the self-confidence of government authorities.

When considering the bureaucrats-politicians relationship, we also need to take account of the special grouping system among Japanese politicians - so-called "zoku" ("tribe" in English). While it has no formal institution, nor is there any approved definition, many politicians, particularly those of the Liberal Democratic Party (LDP - the ruling party in Japan for most of the postwar period), identify themselves as a member of one or more "zoku" groups. "Zoku" groups are usually organized along policy areas such as agriculture, construction and finance. Each "zoku" has a close connection with a particular ministry, and the counterpart of the financial authorities is "Okura-zoku" ("financial policy tribe"). Since "zoku" politicians are normally sympathetic with their bureaucratic counterparts, they often lobby other politicians representing the interests of the financial authorities. The existence of close personal relationship is confirmed by the fact that many of the Okura-zoku politicians have some experience of working for the Ministry of Finance[12].

Links between Banks and Politicians

No matter what is their party affiliation, politicians generally tend to try to keep a good relationship with banks both in Japan and Sweden, because banks often play a key role in national economy, and economic climate is one of the key factors for the popularity of politicians. This may more likely be applicable to such countries as Japan and Sweden, where banks-borrowers relationship is supposed to be strong under the framework which is so-called "main-bank system"[13].

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[11] Pierre, J. (1995) 'Conclusions: a framework of comparative public administration' in Pierre, J. (ed.) *Bureaucracy in the Modern State* (Aldershot: Elgar), p.208

[12] According to the study of Inoguchi and Iwai in the late 1980s, 13 of 22 "Okura-zoku" members came from the Ministry of Finance. See Inoguchi, T. and Iwai, T. (1987) *"Zoku Giin" no Kenkyu: Jiminto Seiken wo Gyujiru Shuyaku tachi (Study on "Zoku Politicians" - Main Actors Controlling the LDP Government)* (Tokyo: Nihonkeizai Shimbunsha), p. 178

[13] However, we should note that there are some similarities and differences between the Japanese and Swedish versions of main-bank system. For the Japanese main-bank system, see Aoki, M. and Patrick, H.T. (eds.) (1994) *The Japanese main bank system : its relevance for developing and transforming economies* (Oxford: Oxford University Press). For the Swedish main-bank system, see Berglöf, E. and Sjögren, H. (1996) Combining arm's-length and control-oriented finance evidence from main bank

Yet we should note that Japanese banks are potentially more influential over politicians than Swedish banks, because they are important donors for political funding of the LDP. Formerly, most of the donations were transferred through Japan Federation of Economic Organizations (*Keidanren*) on the ground that collective donation was desirable to avoid collusion between politicians and individual companies/ business sectors. Nevertheless, in 1993, *Keidanren* stopped playing an intermediary role as the result of strong criticism against its relationship with the LDP. Consequently, the LDP come to be financed either by individual banks or by Japanese Bankers Association (*Zenginkyo*).

In Sweden, by contrast, the public contribution (i.e. from tax) accounts for a large share of the party income[14]. It is true that the Moderate Party, which often plays a leading role in the non-socialist coalition government, receive donation from particular companies, but the public contribution is still the most important part. Moreover, business donation is not the case for other right-wing coalition parties.

We should also remember that Japanese elections are far more costly than Swedish ones. This is not only because Japanese voters are often concerned about direct benefits (not so straightforward as "money", but such other forms as banquets), but also because Japanese elections are not really party-based. Despite several reforms of the electoral system, the personality of individual candidates seems to remain more significant than

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relationships in Sweden: special issue on Corporate governance and property rights (Milano: Fondazione Eni Enrico Mattei)

[14] See Bäck, M. and Möller, T. (1995) *Partier och organisationer (3rd ed.)* (Stockholm: Fritze), p.155

their party affiliation in Japan. It would naturally be costly for individual candidates to attract voters when their party affiliation does not help so much as in Sweden.

3. Explaining Policy Output by the Policy Network Structure

Traditional "Strong MOF" Model

The above particularities in the Japanese policy network are often followed by the argument of the "strong MOF" model. That is, the Japanese financial authorities not only benefit from heavy formal regulations but also enjoy establishing numerous informal rules to control even such issues as corporate governance. The control of the financial authorities is expected to be reinforced under the supervision of the executives transferred through the "descent from heaven" system.

The power of the Japanese financial authorities vis-à-vis politicians is often estimated to be large, as well. Given their informational advantage, politicized government authorities tend to take the lead in the policy-making process in place of politicians. Under the zoku system, furthermore, some particular politicians (i.e. Okura-zoku) are more sympathetic to the financial authorities than others, easier to understand their view, and more willing to help persuade other politicians. Since many politicians in other zoku identify their interest with those of other particular ministries, they also depend on the financial authorities' power of controlling budget distribution to those ministries. This results in the rise of the status of Okura-zoku among politicians, hence enhancing the power of the financial authorities. The financial dependence of politicians on banks also has a positive implication of the strength of the financial authorities. As banks have a close relationship with the financial authorities, the former may lobby politicians for the sake of the latter, as long as their interest is not inconsistent.

In consequence, few appear to pose a question to such a view that '[i]t appears no one - politicians, banks, other officials - was prepared to challenge its judgements'[15]. In the discussion on the banking sector policy in Japan, some commentators accuse the financial authorities of their failure of the banking sector policy, sometimes giving such a severe criticism that 'the ministry had stripped Japan of its economic immortality'[16]. On the other hand, some commentators observe that 'the collapse of the Bubble economy was not the unexpected failure of the MOF, but rather the deliberate scenario planned by it'[17]. In either case, most arguments start with the assumption that the Japanese financial authorities played a dominant role in the whole policy-making process, at least until they began to be exposed to severe criticism due to some bribery scandals and underwent several institutional reforms, notably the establishment of the Financial Supervisory Agency (FSA) in 1998.

Question to the Traditional Model - Comparison between Japan and Sweden

Despite a wide consensus of the traditional "Strong MOF" model, the comparison between the Japanese and Swedish financial authorities gives a somewhat different picture to us. If the particularities of the Japanese policy networks make the Japanese financial authorities strong, the lack of those elements in the Swedish policy network may well make the Swedish financial authorities relatively weak. In reality, however,

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[15] *Financial Times*, 9 February 1996

[16] Hartcher, op.cit., p.237

the Japanese financial authorities look less autonomous than their Swedish counterparts in the banking sector policy.

In Sweden, the financial authorities won strong political support for their proposal of the establishment of a special asset management agency (Securum) and of the large-scale public fund injection into the most-damaged bank (Nordbanken) in 1992. It is true that the sense of crisis was widely shared and hence it was easy to gain a consensus on such radical measures, but we should remember that no one was entirely sure of the effectiveness of those measures. There was certainly a strong popular feeling against the public expenditure for saving "bad banks". Some less-damaged banks were also worried about market distortion by such special treatment. In particular, Handelsbanken, which was most cautions in lending activity during the Bubble economy and hence the least damaged by its collapse, persistently sought to limit the scope of state intervention[18]. Under those circumstances, it may rather be surprising that the proposal of the financial authorities was largely backed up not only by the government parties but also by most of the opposition parties (except the New Democrats - the radical right/ populist party) in the end.

By contrast, the Japanese financial authorities seem to have been very weak in carrying out their proposal about bad loan management. Although it is not frequently mentioned in the relevant literature, the Japanese financial authorities had proposed the establishment of an asset management agency, like Securum in Sweden, already in

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[17] Fingleton, E. (1995) *Blindside: Why Japan Is Still on Track to Overtake the U.S. by the Year 2000* (London: Simon & Schuster), see Chapter 10 in particular.

1992. Nevertheless, they finally had to withdraw that proposal, partly because it was rejected by the LDP and partly because the financial authorities could not persuade politicians for lack of real financial information of banks. As for the first point, we should remember that the then Prime Minister Kiichi Miyazawa suggested public support for bad loan problem in 1992, but it was followed by strong popular concern about spending public fund for the sake of bad banks. He also encountered the opposition of bank managers, for they wanted to avoid making their failure uncovered as he speculated in retrospect[19]. With regard to information disclosure of banks, moreover, we should note that there was no formal legislation of requiring banks to disclose their information at that time. Whereas the original proposal of the 1981 Bank Law (written by the financial authorities) included the provision for information disclosure, it was abandoned under the pressure of banks[20]. It is therefore unclear whether the Japanese financial authorities hid relevant information by intention, even though some scholars asserted that 'it seems quite prudent with hindsight that the authorities waited until rather late in the game to become transparent' because 'greater transparency will actually reduce speculation about the overall integrity of the system'[21].

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[18] The author confirmed those observations with some interviewees including politicians and high-ranking public officers in Sweden.

[19] See the interview of Mr. Miyazawa in Asahi Shimbun (1996) *Jusen Special* <http://www.asahi.com/paper/jusen/miyazawa.html>

[20] See Mainichi Shimbun Keizaibu (1997) *2001nen Kinyu Daikakumei - Nihonban Bigguban no Shinario (The Financial Revolution in 2001 - the Scenario of Japanese-version Big Bang)*, pp.24-25

[21] Beason, D. and James, J. (1999) *The Political Economy of Japanese Financial Markets* (New York : St. Martin's Press), p.100

The problem of the housing-loan companies (so-called *jusen*) in 1996 highlighted the weakness of the financial authorities. While the public fund injection into those companies was often regarded as a sign of the power of the financial authorities, we should note that it would have been unnecessary if the financial authorities had persuaded banks and politicians to take the burdens which they calculated. As they had already incurred strong public antagonism due to some scandals in the previous year, they could naturally speculate that their expenditure of public funds would worsen the situation. Even if they thought that the public fund injection was inevitable, they would manipulate the timing, if they could. After all, they seemed to do it at the worst time. Consequently, we had better see it as the weakness, rather than the strength, of the financial authorities in Japan. By comparison, the Swedish financial authorities do not appear to have incurred any substantial damage in their reputation of policy management.

Alternative Explanations for the Japanese Model

If the above observation is right, we then need to consider why the Japanese financial authorities look rather weaker than their Swedish counterparts. For this purpose, let us reconsider the meaning of the factors specific to Japan, which we examined in the last section.

With regard to the relationship between banks and the financial authorities, we observed that their relationship often stands on informal rules and the "descent from heaven" system. While those factors are usually treated as facilitating the power of the financial authorities, the opposite is more likely to be the case in recent years. Against the background of deregulation, the connection with the authorities appears to be less attractive to banks. On top of that, the economic slump has made banks more cautious about the cost of the recruitment of the retired officers. In relation to this, we should note that over 80% of 300 middle-ranking businessmen in the largest companies in Japan answered that businesses should be more distant from the government, whilst only 7% of them considered the "descent from heaven" as 'necessary' or 'rather necessary', according to the survey of Nihon Keizai Shimbunsha in 1994[22].

On the other hand, we should note that 76% of high-level government authorities still believed at the time of 1993 that their "descent from heaven" was necessary, either because it was useful in obtaining the policy needs of the private sector (43%), because 'their salary was low' (which implies that it should be compensated by the good salary which private companies expected to offer them[23]) (22%), or because they believed that 'businesses demanded it' (11%). In either case, there is a large demand for "descent from heaven" on the side of the financial authorities. Since the current employment routine forces the majority of high-ranking officers to retire very early when they are filtered out from the promotion race, the ministries are expected to take care of them. Given those conditions, the "descent from heaven" system seems to have strengthened the bargaining power of banks vis-à-vis the financial authorities in recent years.

Against this background, the dependence on informal rules may well have reduced the scope of the regulatory power of the financial authorities. After all, banks are able to

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[22] Nihon Keizai Shimbunsha (ed.) (1994) *Kanryo - Kishimu Kyodai Kenryoku (Bureaucrats - Creaking Great Power)* (Tokyo: Nihon Keizai Shimbunsha), pp.427-435

reject the intervention of the financial authorities unless it is formal. They may threaten to stop their co-operation for the "descent from heaven" system, if necessary.

Even if banks cannot impose enough pressure in this way, they may also mobilize the support of politicians. It is clear that politicians become more dependent on the financial support of banks, given that the economic slump makes it difficult to find other financial sources. In that case, the close political - bureaucratic relationship may well contribute to the reduction in the regulatory scope of the financial authorities. While the Okura-zoku politicians are basically sympathetic to the financial authorities, they do not need to do that especially when they recognize that banks do not support the stance of the financial authorities. Once zoku politicians intend to take the initiative, the financial authorities become powerless. Since zoku politicians are knowledgeable about financial policies, they are less likely be persuaded by the argument of the financial authorities. Furthermore, they often have various personal connections which facilitate their control over the financial authorities. While the financial authorities generally gain credit with their "seniors" in the Okura-zoku group, they may seldom come into conflict against seniority. On this point, we should remember that Miyazawa, who persuaded the financial authorities to withdraw their bad-loan agency plan when he was the Prime Minister, was one of the "giants" of the Okura-zoku with much experience as a financial officer. It is quite understandable that the financial authorities became quiet once he decided not to put that plan forward.

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[23] In this respect, see Ramseyer, J.M. and Rosenbluth, F.M. (1993) *Japan's Political Marketplace* (Cambridge, Mass: Harvard University Press), pp.115-119

What is more, the political change in the early 1990s has had a negative effect on the autonomy of the financial authorities. It is true that the financial authorities once enjoyed greater autonomy under the non-LDP government in 1993-4, for the government politicians were not so skilled as the LDP politicians who had dominated the government position for almost forty years. In fact, the financial authorities took this opportunity and tried to push through a radical tax reform, which was not acceptable under the LDP government. This broke a trustful relationship between the financial authorities and the LDP politicians, and the LDP politicians has become less sympathetic and more skeptical about the advice of the financial authorities after they returned to the government. Also, their harsh treatments on some rebellious officers[24] seems to make others reluctant to give ambitious advice.

In light of those points, it seems a bit too simplistic to interpret the absence of any significant reaction to the bad loan problem entirely as the prudence or inertia of the financial authorities in the case of Japan. It is true that the economic conditions required the financial authorities to take quicker and more proactive approaches in the case of Sweden, and it may also be true that the Swedish officers were more competent and courageous than the Japanese officers. Nonetheless, we should note that the policy performance of the Japanese financial authorities is in fact much more restricted than what it is generally thought to be.

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[24] In particular, Jiro Saito, who sought to achieve the tax reform when the LDP was absent from the government in 1994, has been prevented from sitting any prestigious "descent from heaven" position for

4. Conclusion: implication from the comparative policy network analysis

This study examines the performance of the Japanese financial authorities, particularly focusing on a number of elements which make the Japanese policy network distinct from those in other countries. Whereas the Swedish policy network has its own particularities compared with other Nordic countries, the Japanese - Swedish network comparison gives a new hint to understand why Japan is so slow in recovering from the collapse of Bubble in comparison with Nordic countries. That is to say, the Japanese policy network is composed of too close and too closed connections between relevant actors. Under that condition, the actors tend to perform less autonomously with the concern about the others' interests. The evidence also corresponds to one of the traditional arguments in the social network literature that the closed network structure may not be good at learning new ideas (in this case, policy models) for lack of communication (and lack of interest to communicate) with outside parties[25].

In the literature of Japanese political economy, much discussion has been made to specify who is strong in the policy-making process, but more important is to understand why it matters. As this study shows, the same elements may function either positively or negatively for the strength of the financial authorities. What looks unchanged is that the closed network structure seems to amplify the strength and weakness of actors embedded in the network. It may be right to say that the Japanese financial authorities had previously been overwhelming in the policy-making process taking advantage of the

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four and a half year after his retirement, presumably because he has made an enemy of the LDP. See, for example, *Bungeishunju*, December 1999, p.234

closed network structure, but now they appear to reduce their policy performance considerably suffering from the sticky relations with other actors.

From this point of view, it is questionable whether the recent administrative reform goes in the right direction. Based on the traditional "strong MOF" model, much effort has been made to reduce the power of the financial authorities. While too much confidence with bureaucrats reduces social welfare, too much allergy may also lead to the same result. Given that the financial authorities have in fact followed the interests of banks and politicians in many occasions, the transition of authority to banks and politicians may not produce much significant effect. As suggested by Tomita, too much bureaucrats bashing under the name of "politics-leading" and "market-leading" may well end up with the serious distortion of the policy-making process[26]. On top of that, we should remember that the recent reform has not caused any significant change in the structural particularities of the Japanese policy network. When we discuss the future policy performance in Japan, therefore, we still need to take this into consideration.

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