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Post Bank—the secret to Japan's economic sovereignty and success

The Citizens Party's policy of an Australia Post bank has many precedents in history and around the world. For information on the biggest and most successful postal bank in the world, Japan Bost Bank, on 8 February Citizens Party Research Director Robert Barwick interviewed the former deputy director of Japan's Ministry of Finance, Daisuke Kotegawa, for the Citizens Insight *program.*

Robert Barwick: Welcome to *Citizens Insight*, the Citizens Party's interview series on matters of national and international importance. Today we're going to be talking about the great postal banking success, Japan Post Bank. And my special guest is Mr Daisuke Kotegawa, who is the research director of the Canon Institute for Global Studies in Japan. He is the former deputy director of the Ministry of Finance in Japan, and Japan's former representative to the International Monetary Fund (IMF). And I had the pleasure of accompanying Daisuke in 2014 to Canberra, to our Parliament House, to meet members of Parliament to discuss an issue on which Daisuke is an expert, which is the importance of the Glass-Steagall separation of the banking system. And that was an interesting few days we had in Canberra. So, welcome, Daisuke.

Daisuke Kotegawa: Very happy to meet you again.

RB: Yes, and we're happy to have you in this [online meeting] format.

So let me just introduce this interview by saying this: Australia needs a postal bank—a public postal bank that can force the private banks to compete. And this is a policy the Citizens Party has been pushing for a while. We have developed legislation for this, to introduce into Parliament. The legislation we've written is tailored to the Australian banking system, because you have a system here dominated by four very large banks; and other players find it very hard to compete with those banks. And those banks create a certain kind of "centre of gravity" in the financial system that puts all the money into mortgages, and building up mortgage and property bubbles. And a lot of areas of the economy miss out on credit—and those are the productive areas. And a lot of areas of the economy miss out on banking services—rural and regional Australia, and low-income suburbs, have been abandoned by the private banks. And this is the area that a public postal bank could fill.

Now, a public postal bank is not a novel idea. These have been applied around the world, for many, many years. The most effective one, and the most famous one—and the largest one—is Japan Post Bank. And so to show Australians how effective postal banks can be, we've invited Daisuke, who is an expert on the Japanese financial system, to talk about Japan Post Bank.

So, Daisuke. You are an expert in Japan's financial system; like I said, you were the deputy director of Japan's Ministry of Finance, et cetera, so you know this subject very well. How successful is Japan Post Bank, and how important has it been to Japan's economic success over the years?

DK: Well first of all, I'd like to emphasise that we need to make a distinction between two functions of a bank. Number one is a bank whose purpose is to collect savings from depositors; and the other function is to lend out money, using leverage of those collected deposits. The first of those functions in our Japan Post Bank started about 150 years ago, right after the Meiji Restoration. And it was the Japanese government which actually promoted [the idea] to increase the savings of all people in Japan, so that those financial resources could become a very big [source of] power for Japan to maintain its independence. As you know, at that time most of the Asian countries other than Japan and Thailand were actually colonised. And so the people in Japan, the leaders who conducted the Meiji Restoration, they learned how important it is for any country to stand upon its own financial resources. So they introduced this Post Bank system because, I think as in Australia, post offices have so many branches all over the country.


Daisuke Kotegawa with Robert Barwick on the *Citizens Insight* show released 15 February.

RB: Yes.

DK: So you can reach almost all people, even in very rural areas. So when you entered primary school, those kids were given a small envelope by their teacher, so that they could put 10 cents, 20 cents into that envelope, so that they can report to their teacher after one month that they collected "this" amount. The purpose of this kind of operation was to encourage people to develop the basic attitude of saving money. So I think that part has been very, very successful in Japan. And before the Second World War, these financial resources were used to promote Japanese industry, which would conform to the national policy of industrialisation; and also for providing the welfare system in Japan, even before the Second World War, with the admixture of tax money.

And then we lost WWII; but using the power given by the US occupation army, we introduced the notion of the integrated management of this kind of financial resources, collected not only from the postal bank savings, but also other sources of funds, such as public pension funds. The meaning of "integration" is that that this money has been administered by a special bureau inside the Ministry of Finance who have the expertise, and also who know what will be the next year's major policy objective, so that these funds will be used in conformity with that kind of national objective. And this system has been very, very successful since 1945. For about 50 years, the fiscal loan and investment program, which was administered under the auspices of the Ministry of Finance, was a major vehicle for promoting the so-called "post-war economic miracle" in Japan.

RB: Daisuke, what you just referred to as the Fiscal Investment and Loan Program (FILP), you're saying this was a program the government administered; it drew its funds from borrowing from Japan Post Bank depositors, and pensioners I believe, and put those funds to work. And in that way Japan Post Bank savings became a key source of the investment that fuelled Japan's economic success. Who made the decision as to where those funds were invested?

DK: Ultimately, our Parliament. Every year the Minister of Finance drafts the plan of how to allocate those funds for the next budget year. And as you know, our fiscal year starts in April and ends in March. So the drafting process of the next year's plan starts some time around August or September; and within the next three months, all the ministries that would like to use this money, they approach the people in charge in the Ministry of Finance with their own specific projects for which these financial resources should be used. And the administrator of this integrated management, the person inside the Ministry of Finance, can actually judge what are the more important projects for the next year; and then the Ministry of Finance comes up with its own draft towards the end of December. That will be submitted to Parliament in January, and it will be discussed in Parliament. And then the Parliament, every year, actually approves the yearly plan towards the end of March.

RB: Now, what you're describing—I'll make an editorial comment—from the standpoint of the very modern neoliberal, total free-market economy, sounds like a large amount of government control; however, at no point postwar, could Japan as an economy ever be accused of being "communist"! Because it wasn't. And it was incredibly successful, even with this level of government involvement in the economy. But that level of government involvement was necessary, wasn't it?

DK: Yes. Because first of all, there is no dictator who can actually dictate what is good, and what is wrong. Because they don't have such intelligence! While our approach is basically "bottom-up". That means each ministry listens to a specific group of people, who would like to start their own work, their own company; and who also would like to borrow from the government, financing [their project] with a low interest rate, in order, for example, to improve or to start their business. So each ministry listens to those people's voice; and based upon those voices, each ministry approaches the Ministry of Finance with their own projects. So it's a kind of an accumulation of the knowledge of huge numbers of people who are actually running their own businesses, or running their own local economy.

RB: And would it be true to say that this form of lending—through the FILP, funded by Post Bank etc.—this would be lending to the areas that the private banks would not be prepared to lend to?

DK: Basically, I think the very simple answer to that is this: You may have learned in university the difference between *economic* return, and *financial* return. Financial return means that if a company runs a business, that company has to have a financial return which would justify its business by way of profits. Right? But as a society, you have to also know the notion of *economic* return. That is, for example: If you improve the road, which is basically public, of course you cannot make money out of constructing a road. But if the time of travel for anybody who would like to go through that road were shortened, then society as a whole would have a big gain in saved time. So this economic return, any kind of project that economic returns, have to be considered by the government, although they are not fungible by the private and commercial banks.

Japan Post Bank Headquarters in Chiyoda, Tokyo. Photo: Wikipedia

RB: Yes. The commercial banks can't get a financial return, but there is an economic return, and it's up to the government to make that decision. And what you're describing there is the general model we would like people to think about, when we advocate a postal bank, and a National Development Bank or infrastructure bank, because it's for the same reason. The private sector invests in what it can get a *financial* return out of; we need institutions that can in what the *country* can make an *economic* return out of. So that's a very good point to make.

Now, Japan, Daisuke, is number one in the world in public debt. It has an enormous public debt—230 per cent of GDP—but it's not as bad a problem as people might think it is, because of the postal bank. Right?

DK: No, the main reason we don't have to worry about our debt is that 93 per cent of our debt has been financed internally, domestically. So there is no concern about being attacked by the so-called foreign speculators, in the case of Japan. That is not the case for the United States, or the European countries. They cannot actually finance their own debts internally, so they always suffer from potential attack by those foreign speculators.

RB: Yes. So the funds that the government has borrowed from institutions like Japan Post Bank has been able to fund Japan's economic development without relying on foreign investors. Now what's interesting about that is, going back to your earlier comment, that the leaders of Japan at the time of the Meiji Restoration foresaw how important that was, and it's still essentially Japan's model today. Which is an interesting thought.

Now Daisuke, my understanding is Japan Post, even though Japan has some of the biggest banks in the world—some real mega-banks, like Sumitomo Bank—my understanding is Japan Post Bank still has the most deposits of all the Japanese banks! So the people still have a lot of confidence in this public postal system, even though they could choose to put their money somewhere else.

DK: Sure, yeah. Because it's somewhat related to the Japanese government, and also it is a huge amount of cash inside, right? And so that's why I think people still have confidence.

RB: As I mentioned earlier, you visited Australia and we went to Parliament to talk about the importance of Glass-Steagall, which was the separation between commercial banking and investment banking that the United States used to have; Japan used to have, after WWII; China still has it, to a large degree, but it's probably one of the only places in the world. Because this was watered down in 1999-2000, and led to the massive boom in speculation. So we advocate returning to a Glass-Steagall separation, it's very important to have that—to have a part of the financial system that's separated from the casino-economy. Do you think a postal bank, because it is owned by the government and can be very large, do you think it's a good step towards a Glass-Steagall separation?

The 1868 Meiji Restoration of Japan included a realisation that foreign debt made nations vulnerable to colonial conquest, as evidenced by the colonial takeovers of all of Japan's Asian neighbours except Thailand. This awareness led to the establishment of Japan Post Bank in 1874, partly as a way for Japan to fund its needs internally. Left, an early yen note from the Meiji period. Right, this stamp commemorates the father of Japan's postal service and Post Bank, Maejima Hisoka. Photos: pmgnotes.com; unseenjapan.com

DK: Well, I think the existence of Post Bank is not directly related to the issue of Glass-Steagall. But in the case of Japan, the postal savings bank is kind of the "safety net" for the people who like to deposit their money, but I think the postal saving bank itself does not have the competence to lend out money—that is to say, they don't have expertise [to know] whether the money they lend out will be repaid adequately. So because of that, after the WWII, around the years 1950-55, we established some number of government financing corporations, each of which had expertise in, for example, very small business, which was called the Japanese Government Financial Corporation; and also another government corporation called the Japan Finance Corporation for Small and Medium Enterprise. And then we also established the Development Bank of Japan, which had expertise in lending out money to major, large-scale Japanese business, even including such companies as Toyota. And within this kind of—basically, the money which came from Japan Post Bank and also the Japanese pension funds had been distributed to these kind of government corporations, through the system of integrated management. And those [loan] approvals from those government corporations had a much, much lower interest rate than the Japanese commercial banks, if the basic objective of their business conformed to the government's policy.

RB: Well that's similar—we actually propose, in our legislation for a postal bank here, that the postal bank would do some lending locally, but also have a relationship with a national infrastructure bank; and to invest those surplus deposits into such an infrastructure bank, which is specialised, and has the expertise to know where to put that money for the economic development of Australia. Because that is not the actual role of a postal bank, to make those kind of decisions, as you say. But because it will attract so many deposits—and this has been seen around the world, it's not just Japan where they attract deposits, they attract them all over the place. Kiwibank in New Zealand, Daisuke, is a postal bank, and when it was set up it attracted a *lot* of deposits. Because people want to put their money—they like the security of a public bank, right? But you're right, you need to have people with expertise to know where to put those funds; and as you say, Japan set up these specialised institutions to do that. And this is the sort of thing that we think Australia should be modelling our postal bank on; roughly those kind of principles.

So Daisuke, in conclusion: Would you recommend Australia adopt a postal bank?

DK: Yes, sure. But two things I'd like to emphasise. Number one: to supply the money coming from the Post Bank for the purpose of building infrastructure, you've got to be very careful. Most of the infrastructure has to be built, I think, by tax money, which has no return—no repayment. But in the case of then, for example, the highway, whereby you can charge fees on the drivers, since these highways have their own revenue which can be used to repay the loans from the Japanese government, this is actually a fit to this kind of notion. And also, in the case of small businessmen who would like to borrow money, since they would pay back their loans back to those government corporations, this would fit. And also, if you need for example to build a bridge, and that bridge costs a lot, and the local government doesn't have the tax money to finance that kind of big project, then you can mix the tax money with the money coming from the Post Bank, so that the length of repayment can be longer. For example, for the first 10 years, the cost of construction of the bridge should be basically first repaid by the tax money; but then for the next 20 years, using the small space in the local government budget, the rest of the money can be repaid back to the Post Bank.

RB: What you're describing there sounds to me like the way that your FILP worked, where it was part of the national budget, but it was regarded as a "second budget", right?

DK: Yes.

RB: And that way, the public could know their funds were being put to use. Daisuke, one final question, which is coming at it from the Australian experience. If you remember from when you were here, we do have these four very large banks that dominate the Australian financial system—80 per cent of all banking is done through these four banks. And there's a lot of criticism over the fact that there's very little competition between them. And so we say that one of the benefits of a postal bank, because it's owned by the government, is that at least at a retail service level, it forces the private banks to compete. And we used to have this, before 1996, when we had what was called the Commonwealth Bank. Does Japan Post Bank similarly have a competitive benefit for the Japanese financial system?

DK: Not really, because there's a big separation that I think I already explained. Basically Japanese commercial banks are interested in only profitable projects, while since the so-called liberalisation of this integrated management which took place in the late 1990s, what Japan Post Bank has done is just buying up the bonds issued by this investment and loan program. And the actual loans, or the investment, have been made not directly from the Post Bank, but the Japanese government, or the Japanese government corporations. But just taking this opportunity, I'd like to emphasise two things. Number one is that I think the largest problem of the absence of Glass-Steagall is the fact that investment bankers use the money which has been collected through deposits of commercial banks. And they just increase the scale of a kind of gambling in the market. And if there is a separation of investment bank and commercial banks, even if investment banks would make mistakes and go bankrupt, your government doesn't have to save them. Because it will not affect your entire economic system. Those people who are overly taking risks, they just suffer; that's purely their problem. but if there is no separation, then the failure of investment banks lead to the failure of commercial banks, where you have deposits. And if commercial banks would fail, then that would have a huge adverse effect on the economy. So unfortunately, your government doesn't have any other option than saving both commercial banks and investment banks. And that will bring an incredible level of moral hazard among your bankers. That I think is a major reason why you need to have this separation.

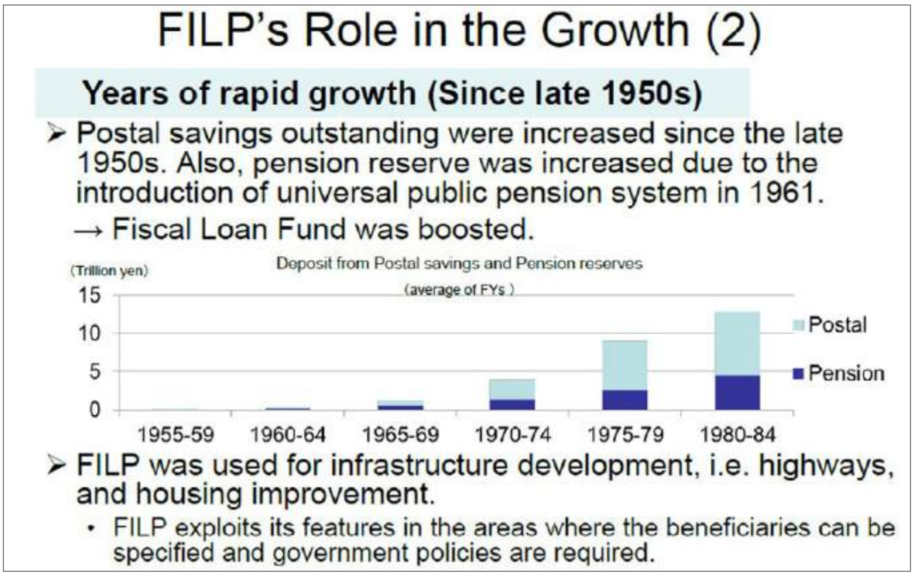
And the number two point I'd like to emphasise is, unlike the United Kingdom, and to a smaller extent like the United States, Australia still has very valuable industries, such as manufacturing, mining, and most importantly agriculture. So if you have those kind of viable industries—there is a reason why pure commercial banks exist. Basically, commercial banks would lend out money and get a part of those industries' profits in the form of interest, while that is not the case in the UK. If you don't have those kind of industries, which commercial banks can lend out [to], there is no reason why those kind of commercial banks exist! So when we started our banking system about 150 years ago, most of those even major banks started their history as very small, local banks. Including my family, which has industries in a very small area in the south of Japan. They needed some kind of bank, in order to increase the scale of their business. So they needed a bank—a local bank. So people who were very wealthy got together, and they established their own bank. And gradually, those small banks got together and became larger and larger. So always, behind the commercial banks, there are those kind of manufacturers who would like to put their money in the bank, and also who'd like to make settlements through those banks.

RB: I think that's a good insight, Daisuke, for the Australian viewer especially. You've issued a good warning, there: If we don't have that kind of separation, then we have a financial system that's dominated by investment banks. And when that goes bad—not *if*, but when—they can take down the whole financial system with them. So you need that Glass-Steagall separation to have a safe financial system—very important. And then I would add to that: Once you have that safe financial system, you can see the benefit of an institution like a postal bank, which can do the investing that private banks won't. Because it's after the economic return, not the financial return, to make sure the physical economy actually works, and the economic development that you need—infrastructure, and other things—to support those industries. Because if those industries are healthy, there's a need for the commercial banking sector, as you said—because the commercial banks will build up around those—and you want to make sure they stay connected to industry, rather than financial gambling.

DK: That's right.

RB: Right. Very important! Well, Daisuke, thank you very much for joining us today on *Citizens Insight*. Your insight has been very valuable. I hope one day you get to come back and visit us again. There are a few things to update you on since you were last here. The financial system hasn't got any better, but we're still fighting it, and we see that this idea of a postal bank has enormous merit. So thanks very much for your insight.

DK: Thank you.



In the period of Japan's post-war economic boom, Japan Post Bank did not lend out directly, but along with pension funds was the major sources of funding for the Japanese government's "second budget" called the Fiscal Investment and Loan Program (FILP), which invested for Japan's long-term needs in infrastructure and housing supply, and helped reconstruct four priority industries—shipbuilding, coal, steel and maritime. FILP made these investments though specialised development and industry banks. Source: Daisuke Kotegawa