Chapter 8

THE POSTAL SAVINGS SYSTEM, FISCAL INVESTMENT AND LOAN PROGRAM, AND MODERNIZATION OF JAPAN’S FINANCIAL SYSTEM

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The postal savings system and the Ministry of Finance’s Fiscal Investment and Loan Program (FILP) represent an extensive involvement of government financial intermediation in Japan’s flow of funds. As such, they constitute important parts of Japan’s financial system, but they are little known and little discussed outside of Japan.

Many postal savings systems have been established and many continue in operation throughout the world. Japan’s, established in 1875, is one of the oldest in continuous operation. In a few countries, other systems play a larger relative role in their country’s financial system; however, the Japanese system is special. It is the largest in absolute terms and close to the largest in relative terms. Japanese post offices also sell life insurance, accounting for 31% of life insurance sold in fiscal 1998.¹

Most of the funds collected by the postal savings system are used in FILP which provides repayable funds through various government intermediaries to local governments and private users. The receipts and disbursements of FILP are an official part of the government budget process and are determined simultaneously with the general budget. The program is over half the size of the general budget and, as a result, has earned it the designation as Japan’s “second budget.” The collection and distribution of FILP funds combined with receipts and expenditures in the general budget reflect the combined fiscal impact of the government on the economy.

Postal savings and FILP pose troubling and complex issues for Japan’s effort to achieve a transition to the type of modern financial structure outlined in the
Big Bang proposal of November 1996, which is the operating outline for Japan’s financial liberalization. Neither institution was mentioned in the proposal, nor were they part of the flurry of legislative action in 1997 following the Big Bang announcement (Cargill, Hutchison, and Ito 1998). Indeed, despite over two decades of an official policy of financial liberalization, postal savings and FILP have increased their role in Japan’s financial system. There have been no meaningful reforms to either institution, although some modest reforms have occurred to postal savings beginning in October 1994 and some steps toward revamping FILP began in June 1998.

Unless Japan can develop an acceptable exit strategy for the government to significantly reduce its extensive involvement in the financial system, Japan will not achieve a modern financial system consistent with the goals of the Big Bang.

This chapter discusses the postal savings system and the FILP from an institutional, quantitative, and policy perspective. The focus is on the relationship between these institutions, the efforts to reform Japan’s financial system during the past two decades, and the financial distress that has been the dominant feature of Japan’s financial system in the 1990s.

First, the current structure and size of the two institutions are explained, followed by a history of their development. The early history of postal savings and FILP and the role they played in the old—pre-liberalization—financial system are outlined to provide context for later events. Development from 1976 (when the first official liberalization policy action was taken) through the end of the bubble economy in 1989 is reviewed in light of concerns raised about their growth by private financial institutions, especially banks, and the Bank of Japan. Attention then shifts to the role in the economic and financial distress of the 1990s played by government financial intermediation and its relationship to the Big Bang.

With that context, the report and recommendations of the Asset Management Council of the Trust Fund Bureau (of which Yoshino is a member since 1996) and the subsequent legislation of June 1998 that initiated fundamental reforms of government financial intermediation are taken up. These have the potential to deal seriously with this complex issue of Japanese finance. Finally, we offer a solution that, although not ideal, would significantly reduce the problems generated by the postal savings system and FILP as they existed in mid-1999. The solution, if adopted, might provide a basis for the complete withdrawal of government from the business of offering deposit services in Japan.

(In this chapter, the phrase “postal savings” includes both the postal savings system and the postal life insurance system. It is the deposit service that generates the most serious problems, but the issues raised with regard to the role of the post office as a life insurance provider are clearly nontrivial.)