The Politics of Financial Institutional Continuity and Change in Japan
—An Analysis of Institutional Change and 1990s Depression in Japan by Rational Choice Institutionalism Approach—

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The purpose of this article is to explain the political cause of Japan's Depression in 1990s.

I classify Japan's Depression in 1990s into three of the 1992-1994 depression periods, the 1995-1996 business recovery periods, and the 1997-1999 negative growth periods. The analysis of economics that explains Japan's depression in 1990s is the discussion focuses on the continuance of a Japan's economic system, the discussion focuses on the mistaken financial austerity, the discussion paying attention to the mistaken monetary restriction, the discussion focuses on the postponement disposal of bad loans, and bubble economy emergence and banking crisis emergence. The discussion paying attention to the continuance of a Japan's economic system, the discussion paying attention to the mistaken financial austerity, the discussion paying attention to the mistaken monetary restriction, and the discussion paying attention to the postponement disposal of bad loans is not suitable for the explanation of business cycle. I adopt the discussion of bubble economy emergence and financial crisis emergence explaining business cycle. This discussion explains an economic performance in the 1990s Japan as follows: i.e. in the 1992-1994 depression periods, the large-scale stock adjustment were brought by excessive business investment in the bubble economy; in the 1995-1996 business recovery periods, recovery of business investment were brought by end of stock adjustment; and in the 1997-1999 negative growth periods, credit crunch was brought by the restraint of business investment, in financial crisis.

Why ware bubble economy and financial crisis generated?

First, direct cause of bubble economy emergence is the rapid increase of the property related loan in the late 1980s. The rapid increase of the property related loan as follows: the change of corporate finance restriction is increasingly less dependent on bank loans for financing; the change of corporate finance restriction and interest rate control bring rise of cost of capital procurement of bank; and the continuity of separation between the banking and securities business regulate banking business. corporate finance restriction and interest rate control changed on the other hand the separation between the banking and securities business continued, brought the rapid increase of the property related loan in the late 1980s.

Second, indirect cause of bubble economy emergence is the Bank of Japan's easing of monetary supply. The Bank of Japan's easing of monetary supply was brought authority of the Japanese government and Ministry of Finance to Bank of Japan. That is, The Japan's government and Ministry of Finance made Bank of Japan easing of monetary supply by using authority of the Japanese government and Ministry of Finance to Bank of Japan. In addition, the continuity of authority of the Japan's government and Ministry of Finance to Bank of Japan is indirect cause of bubble economy emergence.

Third, cause of financial crisis emergence is the chain failure of financial institutions by default in the call money market, when Sanyo Securities fails. Though there is insufficient institution of the disposal of a failed banking corporation in Japan, it is a cause that the Ministry of Finance fails Sanyo Securities. In addition, the continuity of insufficient institution is cause of financial crisis emergence.

To sum up the matter, the change of financial regulation, on the other hand the continuity of authority of the Japanese government and Ministry of Finance to Bank of Japan and insufficient institution of the disposal of a failed banking corporation brought Japan's Depression in 1990s. Therefore, I explain why has financial institutions changed to that form.

The hypothesis of this article is as follows. Authority players of institutional change, e.g. politician in the government party and Ministry of Finance decides institutional change or institutional continuity, after considering benefit institutional change and benefit institutional continuity, through interaction of non-authority players, e. g. banking corporation and securities corporation.

First, in corporate finance restriction and interest rate control, authority players of institutional change benefit institutional change than institutional continuity, through interaction of non-authority players of institutional change. In consequence, corporate finance restriction and interest rate control changed. In the separation between the banking and securities business, authority players of institutional change benefit institutional continuity than institutional change, through interaction of non-authority players of institutional change. In consequence, the separation between the banking and securities business continued.

Second, in authority of the Japanese government and Ministry of Finance to Bank of Japan, Authority players of institutional change and non-authority players of institutional change benefit institutional continuity than institutional change. In consequence, authority of the Japanese government and Ministry of Finance to Bank of Japan continued.

In insufficient institution of the disposal of a failed banking corporation, authority players of institutional change benefit institutional continuity than institutional change, through interaction of non-authority players of institutional change. Insufficient institution of the disposal of a failed banking corporation continued.

The organization of this article is as follows.

Chapter 2, I show that the change of financial regulation, on the other hand the continuity of authority of the Japanese government and Ministry of Finance to Bank of Japan and insufficient institution of the disposal of a failed banking corporation brought Japan's Depression in 1990s. In doing so, the purpose of this article is clarified.

Chapter 3, I investigate previous research on institutional change, and I show analytical framework on institutional change.

Chapter 4, I study the case with the financial deregulation, and I explain why has corporate finance restriction and interest rate control changed, on the one hand why has the separation between the banking and securities business continued.

Chapter 5, I study the case with monetary policy and national debt management policy, and I explain why has authority of the Japanese government and Ministry of Finance to Bank of Japan continued.

Chapter 6, I study the case with disposal of a failed banking corporation, and I explain why has insufficient institution of the disposal of a failed banking corporation continued.

Chapter 7, finally, I review this article's arguments.