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Japan's Financial Crisis : Institutional Rigidity and Reluctant Change

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Summary

At the beginning of the 1990s, a massive speculative asset bubble burst in Japan, leaving the nation's banks with an enormous burden of nonperforming loans. Banking crises have become increasingly common across the globe, but what was distinctive about the Japanese case was the unusually long delay before the government intervened to aggressively address the bad debt problem. The postponed response by Japanese authorities to the nation's banking crisis has had enormous political and economic consequences for Japan as well as for the rest of the world. This book helps us understand the nature of the Japanese government's response while also providing important insights into why Japan seems unable to get its financial system back on track 13 years later. The book focuses on the role of policy networks in Japanese finance, showing with nuance and detail how Japan's Finance Ministry was embedded within the political and financial worlds, how that structure was similar to and different from that of its counterparts in other countries, and how the distinctive nature of Japan's institutional arrangements affected the capacity of the government to manage change. The book focuses in particular on two intervening variables that bring about a functional shift in the Finance Ministry's policy networks: domestic political change under coalition government and a dramatic rise in information requirements for effective regulation. As a result of change in these variables, networks that once enhanced policymaking capacity in Japanese finance became "paralyzing networks"--with disastrous results.

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