

Comments on Kazuhiko Toyama's Presentation: Japan's New Industrial Policy Initiatives

Columbia University Conference on
“State Intervention and Private Enterprise: Japan, the US, and China“
October 2, 2013

Sota Kato

Professor, International University of Japan
Senior Fellow, Tokyo Foundation

Return of Activist State

“Nation states in the aftermath of Lehman Brothers bankruptcy **are forced to be actively involved in all fronts of economy.** Nation states needs to increase fiscal stimulus and **run investment funds by themselves. State capitalistic movement has now emerged** in the world economic system.”

Shinzo Abe (June, 2013)

Key Differences with the Past

	Public-private Funds	High-growth Era Industrial Policy
<i>Financial Tools</i>	<p>Equity funds</p> <ul style="list-style-type: none"> • 4,000 Billion Yen in total • 2,000 Billion Yen for INCJ <p>(Cf. The total size of all the private funds in Japan is 1,000 Billion Yen.)</p>	<p>Tools</p> <ul style="list-style-type: none"> • Direct subsidies • Off-budget finance (e.g., FILP) • Subsidized credit and R&D policy • Tax policy <p>Little influence on bank finance.</p>
<i>Political Involvement</i>	Very high	Weak
<i>MOF</i>	Cooperative	Gatekeeper , tension with MITI
<i>Duration</i>	15-20 years	Yearly budget – 5-10 years R&D project
<i>Role of the Government (Intuitive description)</i>	Equity investor ? (Depending on the role of the fund managers.)	Coordinator with some financial and regulatory tools?

Divergent Motivations

□ Economic

- Fix classic market failures (**positive/negative externalities, public goods**).
- **Supply-side pump priming measures** for market dysfunction.
- **Shortage of patient risk money.**

□ Political

- Growth strategy with **little political resistance. Quick** results.
- Strong state.
- New **pork**?

□ Bureaucratic (METI)

- Sentiment: “We did enough of (horizontal) institutional reforms. **It’s our turn.**”
- Long-awaited desire to acquire **powerful financial tools.**
- Turf? Posts?

□ Bureaucratic (MOF)

- Can respond to political pressure for economic recovery plans with **little negative effect on fiscal balance (in the short run)**.

Challenges

How can the funds establish and maintain purpose, principles, and guidelines that Mr. Toyama raised?

❑ Divergent stakeholders' interests inside.

✓ Difficult task of consolidating political, economic, and bureaucratic motivations. Can market incentive prevail from the mess?

❑ Less checks and balances from outside.

✓ Who plays the role of MOF, banks, and private firms (who often did not follow MITI's guidance) in the past?

✓ How to govern long-term funds.

✓ Economic/business rationales are still not clear.

❑ What's public (interest)? Who determines?

✓ "Public" usually include democratic interests.