

New Bank of Japan Governor is a "Realist with Ideals"

By Tani Sadafumi

A new regime was introduced at the Bank of Japan (BOJ) on March 20. The newly appointed governor of the BOJ is Fukui Toshihiko, 67, a former deputy governor of the BOJ and an ex-Chairman of Fujitsu Research Institute. One of the two deputy governors appointed to assist Fukui is 59-year-old Muto Toshiro, a former Administrative Vice-Minister of Finance. The other is 56-year-old Iwata Kazumasa, a former Director General (Economy and Finance in charge of Economic Assessment and Policy Analysis) at the Cabinet Office. The team is appointed for a period of five years and will be responsible for Japan's monetary policy until March 19, 2008.

While the governor of the BOJ has traditionally been selected from one of three backgrounds – the Ministry of Finance (MOF), the BOJ or the private sector – since the appointment of Sasaki Tadashi from the BOJ in December 1969, for over 30 years the MOF and the BOJ have taken turns in alternately supplying the BOJ's governor. But this time the custom has been broken. Fukui has succeeded former BOJ governor Hayami Masaru, resulting in two governors from inside the BOJ in succession.

At the time of the selection of the new BOJ governor, Prime Minister Koizumi Jun-ichiro, who has the right to make the appointment, stipulated various requirements. These included the ability "to actively tackle the challenge of overcoming deflation" and "to work closely with the government," as well as a "private sector background" and an "international outlook." Consequently, more than 20 candidates were considered for the job. But in the end, Koizumi, who put the emphasis on "experience, an international outlook and neutrality" (Minister of Finance Shiokawa Masajuro), settled on a safe pair of hands, appointing the most likely candidate. I would now like to examine the

backgrounds, personalities and political positions of the three BOJ helmsmen.

■ **Fukui Toshihiko:** Graduated from the Faculty of Law, the University of Tokyo. Joined the BOJ in 1958. After stints as Director-General of the Financial Markets Department and then Executive Director, he served as deputy governor to the BOJ from December 1994 to March 1998. In November 1998, he was appointed Chairman of Fujitsu Research Institute.

Fukui has considerable experience on the drafting of monetary policy, and from a young age, many saw him as a future governor of the BOJ. No obstacles impeded a smooth path to becoming deputy governor until he took responsibility for a scandal in which a BOJ executive was arrested, resigning along with then-BOJ governor Matsushita Yasuo. Following that, he served as director of a private think tank and as Vice-Chairman of the Japan Association of Corporate Executives.

To venture a thumbnail sketch of Fukui's personality, he is a "realist with ideals." He likes debate, and even after becoming a BOJ Executive Director, would willingly argue for hours with young staff members over monetary policy. Fukui has a natural tendency to question things from their roots. He clearly analyzes complex phenomena and frequently evokes the admiration of his sparring partners.

His father was an Osaka tradesman "whose trades never seemed to be profitable" (in the words of Fukui). Originally, Fukui had no intention of entering the financial world, let alone the BOJ, and wanted to be a businessman. Although he went along to attend an employment meeting for a trading company, there was a mix-up over times and a representative of the BOJ turned up. He was angry that the representative of the BOJ did not say anything

about starting salaries and later said, "It was a problem that the representative did not mention the important agreement between management and labor."

Later, when Fukui happened to go shopping at a department store, he remembered that the BOJ was close by and went in to inquire about the issue of starting salaries. He was told that negotiations between management and labor were bogged down and the matter was not decided. Accepting this, he decided that he might as well take the employment examination, passed, and was offered a job.

The comment about Fukui's character is that he is "sensitive but bold" and "upright but flexible." Because he is reasonable and not afraid of taking a realistic stance, along with having a cheerful and friendly personality, he is well-liked by politicians. While he emphasizes monetary policy approaches that have an underpinning in theory, he intuitively recognizes that the market does not always behave according to theory.

■ **Muto Toshiro:** Graduated from the Faculty of Law, the University of Tokyo. He entered the MOF in 1966 and served as Director of the Secretarial Division, Deputy Vice Minister and Director-General of the Budget Bureau until he became an Administrative Vice Minister in 2000. He finally resigned in January 2003 to become a consultant to the MOF.

While Muto had worked mainly at the Budget Bureau, the center of the MOF, he also has experience as a Director of the Small Banks Division of the Ministry's Banking Bureau. And during his time as Director of the Secretarial Division and as Deputy Vice Minister, Muto's abilities were exercised in such behind-the-scenes areas as arranging jobs for former staff of the MOF. He is highly accomplished in organizational administration and coordination, and has an outstanding sense of balance. Shiokawa, other Cabinet members and the govern-

ing party all rate his deft administrative skills highly. He is also adept at creating consensus with politicians, an area where the BOJ usually falls short.

Many capable staff, including Muto, entered the MOF in 1966. One ex-Administrative Vice Minister commented: "There was no shortage of highly able people at the Ministry at that time, but from an early stage Muto rose to the fore." In addition to his steadiness, one reason also given for his success was his "creativity in formulating policy, although it often took time to take effect."

Remaining two and a half years in the job, Muto was the Ministry's longest serving Administrative Vice Minister in the postwar period. Today he is known as the "former tycoon of the Ministry," though with his mild manner he does not give the impression of a tycoon. The scandal in 1996 that led to the dismissal of more than 100 officials at the MOF has had its effect. Muto, who was Deputy Vice Minister at the time, and at whose door responsibility for supervision was laid, submitted his resignation, but his resignation was not accepted and Muto was demoted to Deputy Vice Minister for Policy Coordination. With this setback, he strongly experienced the intensity of the criticism of the MOF and practiced "keeping his head low but ambitions high."

After resigning from the MOF in January this year, the future course of his life looked set. Many assumed that after a short time with no job, he would be appointed to the helm of a government-related financial institution or join a private corporation, and then after five years, would be viewed as a leading candidate for the governorship of the BOJ. This is because the post of deputy governor of the BOJ is seen as a step down for a former Administrative Vice Minister of Finance. Because of his appointment to the post of deputy governor, the MOF will be going all out to ensure one of their own is appointed as the next BOJ governor.

■ **Iwata Kazumasa:** Graduated from the College of Arts and Sciences, the University of Tokyo. He entered the Economic Planning Agency (EPA; now the Cabinet Office) in 1970, serving as

Research Fellow at the Economic Research Institute. In April 1996, he was appointed a professor at the Graduate School of the University of Tokyo, and in January 2001 began serving concurrently as Director-General in the Cabinet Office.

As one of three Directors-General in the Cabinet Office, Iwata had served as a brain for Takenaka Heizo, the Minister for Financial Services/the Minister of State for Economic and Fiscal Policy. Specifically, as a backroom player on the Council on Economic and Fiscal Policy (CEFP) chaired by Koizumi, Iwata's job has been to make economic judgments and analyze policy.

Iwata's explanations at the CEFP and in other forums earned a reputation from members of cabinet and other government representatives for being easy to understand. He is extremely profound in his judgments on the economic situation and tries to express himself in simple language.

After graduating from the University of Tokyo, Iwata considered going on to graduate school, but there were many political protests at the time, and it would not have been an environment conducive to study. Consequently, he entered the EPA, which handled economic statistics. After joining the EPA, he worked in the Economic Research Institute and the Research Bureau, and was dispatched to the Organization for Economic Cooperation and Development. On a request from the University of Tokyo, in 1986 he was appointed associate professor for a term of two years. Because his original inclination was for academia, he entered into the scholastic life and became a professor. He specializes in international economy and financial theory.

When the EPA was restructured to form the Cabinet Office, Iwata was appointed concurrently to the newly created post of Director-General in the Cabinet Office. He was given the responsibility of drafting the policies for economic reforms outlined by Koizumi. From the perspective of improving clarity in relation to monetary policy, Iwata advocates the introduction of an inflation target.

The BOJ's mission is to do all it can

to maintain price stability and keep confidence and order for the banking systems. At the current point in time, this means beating off deflation and disposing of non-performing loans. When I spoke with Fukui for a short time at the beginning of the year, he said: "I think no one wants to become the governor of the BOJ." This is a full admission of just how difficult it is to fulfill the BOJ's two-part mission.

But with Iwata and Fukui taking different approaches, is overcoming deflation such a simple matter? The former is progressive in introducing an inflation target, while the latter is cautious. When Fukui heard unofficially that he might be appointed to the BOJ governor, he stated that an inflation target "is no panacea," but also said he is interested in the idea. An examination of Iwata's writings shows clearly that he does not consider an inflation target to be an all-purpose policy tool. It does not seem that the two are opposed on the issue of an inflation target, and there is no need to fear that opinion within the BOJ is divided.

Relations between the BOJ and the government or Diet are expected to improve. Hayami used to speak directly from his own convictions. In one sense this produced constructive results, but it sometimes invited unnecessary confusion and had the opposite effect from the one intended. Fukui will certainly take a more realistic approach. And as a result of Muto becoming deputy governor of the BOJ, the lines of communication between the government and the Diet have been improved.

On one side of the new BOJ governor is the highly capable administrator Muto, and on the other is the able theoretician Iwata. How will Fukui use the different strengths of his two deputies? In rising to this challenge, Fukui's leadership will be tested. **JTI**

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