decades, sliding to 39 percent of total loans outstanding in 1982, to 25 percent in 1960. On the other hand, the lending share of government-related financial institutions has increased steadily. The sustained expansion of loans made by the Trust Fund Bureau—from 10 percent of the total in 1960 to the current 22.7 percent—has been instrumental in lowering the banking industry's share of the lending pie.

Since funds garnered in the PSS are channeled, via the Trust Fund Bureau, to governmental lending institutions and hence to private industry, the more money post offices absorb and make available for lending, the steeper the competition is among commercial banks. The private financial sector, in effect, must compete directly with an institution that has direct access and hence to private industry, the more money post offices absorb and make available for lending, the steeper the competition is among commercial banks. The private financial sector, in effect, must compete directly with an institution that has direct access.

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The main overseer of almost all aspects of the Japanese financial system is the Ministry of Finance (MOF). The MOF is the powerful budget-making agency with broad responsibilities, including the financial management policy of the central government. The only exception to the MOF's domain is the PSS, which is under the authority of the Ministry of Posts and Telecommunications (MPT).

The central bank, the Bank of Japan (BOJ), works in concert with but under guidelines set by the MOF in determining monetary policy. The Federal Reserve System. Bank credit replaces a large portion of equity capital in Japan, i.e., many Japanese firms are very highly leveraged, depending heavily on bank credit rather than on forms of internal finance. Thus, the monetary authorities rely heavily on credit controls (particularly ceilings on central bank credit to private banks) and "window guidance," the nature and levels of bank lending being directed by the BOJ according to its assessment of economic and industrial policies. Rather than change reserve ratios or perform open-market operations, the central bank uses loan reform primarily by changing its credit and discount policies.

To meet the high demand of Japanese banks for commercial banks borrow heavily from the BOJ through its discount window. The BOJ discount rate is the ceiling of the interest rate structure of the entire financial system. Short-term interest rates, along with the lending rates of private financial institutions, generally move by the same margin as the change in the discount rate. Interests on postal savings and deposits are again the exception, being deter-

jined independently by a committee of the MPT.

The government plays a direct and active role in financial intermediation and credit allocation. These functions are central to the implementation of Japan's industrial and social policies. Funds are channeled through a group of government-owned banks and finance corporations to promote and develop key industries, foreign trade, small- and medium-sized enterprises, agriculture, housing, and social infrastructure. The Japanese public is a major supplier of funds to these institutions, the primary intermediary being the PSS.

Post office savings, which now account for about 30 percent of the entire personal savings of Japan, are turned over to the Trust Fund Bureau (TFB) of the Ministry of Finance. The TFB channels the money, along with pension-fund payments, into areas specified for development (see figure). The TFB receives slightly more than one-half of its financial resources from post office savings and is the main supplier of funds for the Treasury Investments and Loans program. Under this program, which is determined each year along with the national budget, funds are allocated to various government- owned agencies. In the 1950s and 1960s, funds from Treasury Investments and Loans were used primarily for large-scale industrial projects, foreign-trade finance, and promotion of small- and medium-sized enterprises. The focus of the program shifted in the 1970s to meet the financial needs of social infrastructure investment. The current phase emphasizes energy resources and technology as well. Last year treasury savings and loans were channeled more than $72 billion into government-lending institutions, and net lending for fiscal year 1983 rose to a high of $86 billion.

Postal savings funds are also used, via the TFB, to finance part of the government's budget deficit. Absorbing almost one-fourth of the total government bond market outstanding, the TFB serves as an outlet for bonds that the central bank purchases in the secondary market. The underwriting of government bonds is, however, one of the more controversial uses of postal savings proceeds. Making it easier for the government to maintain expenditures in excess of revenues may lead to an expansion in the fiscal deficit.

Reasons for Growth

The PSS has become highly contro-

versial, primarily because the size of its financial base has grown at such an aston-

ishing rate over the past 20 years. In the mid-1960s, PSS deposits topped the 2 trillion yen level, swelling to over 24 trillion yen by 1975—a growth of 9 times in 10 years. The growth of postal savings deposits has occurred in recent years, soaring to over 80 trillion yen in August 1983. The PSS has captured an increasing share of personal savings, while the share of commercial banks and savings institutions has de-

clined consistently in recent years. PSS deposits now total more than five times the deposits of Japan's largest commercial bank.

There are several reasons for the rapid growth of postal savings and in-

dividuals' increasing preference for this system over other financial institutions. With more than twice as many branches as all commercial banks combined, the PSS is very accessible to depositors, even in remote parts of the country. Post offices are the leading
dispensers at the major post offices, the PSS recently implemented an on-line com-

puterized network that enables depositi-

tos to withdraw or deposit at any one of a myriad of nationwide branches. The PSS has mustered a strong political backing within local governments and in the Diet (parliament). This political strength, combined with an advantageous, the most impor-
tant elements of which are preferential rates, is a major reason for the private banking industry views these accounts as an "interest-rate monster." The PSS is not under the jurisdiction of the monetary authorities, PSS deposits gener-

cally are considered as other rates of interest than bank deposits.

Lending and the Allocation of Capital

The disparity of interest rates in favor of the security and the flexibility provided by its accounts are steady drained funds from private commercial banks. Post office savings are now posing a threat to commercial banks, not only in the accumulation of deposits but also in lending to both private and commercial banks. The lending share of commercial banks has declined consistently in the past two decades. In 1952, commercial banks had 72 percent of time deposits (about 80 percent of all deposits were on-hand deposits). In 1982, the two factors were only 13 percent and 8 percent, respectively. Nishihara Suzuki, "Deregulation in Domestic Financial Sector," Japan Economic Journal, October 7, 1980.
the powerful budget-making agency of the Japanese financial system is the Ministry of Finance (MOF). The MOF is the main overseer of almost all aspects of the Japanese financial system, with many responsibilities, including the regulation of the nation's financial markets. Thus, the monetary authorities rely heavily on credit controls (particular ceilings on bank credit to private banks) and "window guidance" (the nature and levels of bank lending being directed by the BOJ according to the needs of the government and economic policies). Rather than change reserve ratios or perform open-market operations, the BOJ directly influences the financial structure of the entire financial system, primarily by changing its credit and discount policies.

To meet the high credit demands of Japan's expanding commercial banks to support the government's massive budget deficits, the BOJ is the major source of funds for government-owned banks and finance corporations. These banks and corporations have a monopoly on government lending, which in turn is the foundation of the interest-rate structure of the entire financial system. The BOJ influences financial markets along with the national budget, funds appropriations for FY 1983 rose to a high of $86 billion.

Postal savings funds are also used, via the Telegraph, to finance part of the government's budget deficit. Absorbing almost one-fourth of the total government bonds outstanding, the Telegraph serves as an outlet for bonds that the central bank purchases in the secondary market. The underwriting of government bonds is, however, one of the more controversial uses of postal savings proceeds. Making it easier for the government to maintain expenditures in excess of revenues may lead to an expansion in the fiscal deficit.

Reasons for Growth

The PSS has become highly controversial primarily because of the size of its financial base has grown at such an astonishing rate over the past 20 years. In the mid-1960s, PSS deposits topped the 2 trillion yen level, swelling to over 24 trillion yen by 1975—a growth of 9 times in 10 years. The growth of postal savings deposits since then has been even more rapid, reaching over 80 trillion yen in August 1983. The PSS has captured an increasing proportion of personal savings, while the share of commercial banks and savings institutions has declined. In the 1960s, PSS deposits now total more than 5 times the deposits of Japan's largest commercial bank.

There are several reasons for the rapid growth of postal savings and individual investment in this system over other financial institutions. With more than twice as many branches as all commercial banks combined, the PSS is very accessible to depositors, even in remote parts of the country. In addition, Japan Post is well respected by a special committee of the MPT, and the PSS has recently implemented an on-line computerized network that enables depositors to withdraw or deposit at any one of a myriad of nationwide branches. The PSS has mustered a strong political backing within local governments and in the Diet (parliament). This political strength and bank's favorable legislation, the most important elements of which are preferential rates, integrated marketing, and the security and flexibility provided by its accounts have been major reasons for the PSS's political backing within local governments and in the Diet (parliament). This political strength and bank's favorable legislation, the most important elements of which are preferential rates, integrated marketing, and the security and flexibility provided by its accounts have been major reasons for the PSS's success. PSS is a state-run enterprise that is not under the jurisdiction of the Ministry of Finance, and PSS deposits generally are not subject to interest taxes.

Interest-rate advantages. Another issue in the postal savings system is the dual system by which interest rates are set. Postal savings rates are decided by a special committee of the MPT, while a committee of the finance ministry and the central bank set market rates. Both systems are designed to encourage deposits. PSS deposits are generally much lower than commercial bank deposits.

Lending and the Allocation of Capital

The disparity of interest rates in favor of the government and the security and flexibility provided by its accounts as compared to the steady drained funds from private commercial banks. Post office savings are now posing a threat to commercial banks, not only in the accumulation of deposits but also in lending to both private individuals and businesses. The lending share of government savings which has declined consistently in the past two decades has an average rate of about 5% over the past two years.

The main overseer of almost all aspects of the Japanese financial system is the central government. The only exception of the MOF’s domain is the PSS, which is under the authority of the Ministry of Posts and Telecommunications (MPT). The central bank, the Bank of Japan (BOJ), works in concert with but under guidelines set by the MOF in determining and implementing national monetary and fiscal policies. The major instruments of monetary policy available to the BOJ are open market operations, most notably Bank credit, which has had a large portion of its capital in Japan, as well as the Japanese firms. The BOJ is very heavily leveraged, depending heavily on bank credit rather than on forms of internal finance. Thus, the monetary authorities rely heavily on credit controls (particularly ceilings on central bank credit to private banks) and “window guidance” (the nature and levels of bank lending being directed by the BOJ) according to the BOJ’s economic and industrial planning policies. Rather than change reserve ratios or perform open-market operations, the BOJ lend and lend heavily to the small and medium-sized enterprises, primarily by changing its credit and discount policies.

To meet the high demands of Japan’s growing commercial banks, commercial banks borrow heavily from the BOJ through its discount window. The BOJ discount rate is the main determinant of the interest rate structure of the entire financial system. Short-term interest rates, along with the lending rates of private financial institutions, generally move by the same margin as the change in the discount rate. Interests on postal savings accounts and deposits are again the exception, being determined independendy by a committee of the MPT.

The government plays a direct and active role in financial intermediation and credit allocation. These functions are central to the implementation of Japan’s industrial and social policies. Funds are channeled through a group of government-owned banks and finance corporations to promote and develop key industries, foreign trade, small- and medium-sized enterprises, agriculture, housing, and social infrastructure. The Japanese public is a major supplier of funds (around 30 percent of the entire personal savings of Japan, are turned over to the Trust Fund Bureau (TBF)). The Ministry of Finance, in turn, directs the TBF channels the money, along with pension-fund payments, into areas specified for development (see figure). The TBF receives slightly more than one-half of its financial resources from post office savings and is the main supplier of funds for the Treasury Investments and Loans program. Under this program, which is determined each year along with the national budget, funds are allocated to various government-sponsored agencies. In the 1950s and 1960s, funds from Treasury Investments and Loans were used primarily for large-scale industrial projects, foreign trade finance, and promotion of small- and medium-sized enterprises. The focus of the program shifted in the 1970s to meet the financial and social infrastructure investment. The current phase emphasizes energy resources and technology as well. Last year treasury savings and loans channeled more than $72 billion into government-lending institutions, and underwriting of government bonds is, however, one of the more controversial uses of postal savings proceeds. Making it easier for the government to maintain excesses in expenditures of revenues may lead to an expansion in the fiscal deficit.

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There are several reasons for the rapid growth of postal savings and individual saving in Japan. In contrast to the United States, where tax savings is always tax free, but an exemption from an additional 3 million yen in personal savings. Under the current Japanese tax system, an individual is exempt from the 35 percent withholding tax on personal savings. However, because postal savings rates are set. Postal savings rates are decided by a special committee of the MPT, while a committee of the finance ministry and the central bank set market rates. The PSS is not under the jurisdiction of the monetary authorities, PSS deposits generally have lower rates of interest than bank deposits.

Lending and the Allocation of Capital

The disparity of interest rates in favor of the security and the flexibility provided by its computerized network that enables depositors, even in remote parts of the country, to be directed by the BOJ according to the change in the discount rate. Privatized laws, the government and finance companies, however, are again the exception, being deter-mined independently by a committee of the MPT. The government plays a direct and active role in financial intermediation and credit allocation. These functions are central to the implementation of Japan’s industrial and social policies. Funds are channeled through a group of government-owned banks and finance corporations to promote and develop key industries, foreign trade, small- and medium-sized enterprises, agriculture, housing, and social infrastructure. The Japanese public is a major supplier of funds (around 30 percent of the entire personal savings of Japan, are turned over to the Trust Fund Bureau (TBF)). The Ministry of Finance, in turn, directs the TBF channels the money, along with pension-fund payments, into areas specified for development (see figure). The TBF receives slightly more than one-half of its financial resources from post office savings and is the main supplier of funds for the Treasury Investments and Loans program. Under this program, which is determined each year along with the national budget, funds are allocated to various government-sponsored agencies. In the 1950s and 1960s, funds from Treasury Investments and Loans were used primarily for large-scale industrial projects, foreign trade finance, and promotion of small- and medium-sized enterprises. The focus of the program shifted in the 1970s to meet the financial and social infrastructure investment. The current phase emphasizes energy resources and technology as well. Last year treasury savings and loans channeled more than $72 billion into government-lending institutions, and underwriting of government bonds is, however, one of the more controversial uses of postal savings proceeds. Making it easier for the government to maintain excesses in expenditures of revenues may lead to an expansion in the fiscal deficit.

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There are several reasons for the rapid growth of postal savings and individual saving in Japan. In contrast to the United States, where tax savings is always tax free, but an additional tax-exemption limit. A preference primarily is given to the PSS, to be "a state-run financial monster." Preferential tax treatment. In contrast to the United States, where tax preferences on corporate income are exempt from taxes on interest income, the Japanese government promotes saving and grants special tax exemptions to encourage personal savings. Under the current Japanese tax system, an individual is exempt from the 35 percent withholding tax on personal savings. However, because postal savings rates are set. Postal savings rates are decided by a special committee of the MPT, while a committee of the finance ministry and the central bank set market rates. The PSS is not under the jurisdiction of the monetary authorities, PSS deposits generally have lower rates of interest than bank deposits.

Lending and the Allocation of Capital

The disparity of interest rates in favor of the security and the flexibility provided by its computerized network that enables depositors, even in remote parts of the country, to be directed by the BOJ according to the change in the discount rate. Privatized laws, the government and finance companies, however, are again the exception, being derived in this type of account. The absence of required formal reporting of PSS accounts has led to widespread abuse of tax-exemption privileges. With little difficulty, individuals can open multiple accounts in excess of the legal limit. In 1980 the PSS maintained a phenomenal 310 million yen, or more than two and a half times the total Japanese population. Unfortunately, tax evasion is relatively easy and fairly common. The dismay of the government whose program was to channel new savings is always tax free, but an additional tax-exemption limit. A preference primarily is given to the PSS, to be "a state-run financial monster." Preferential tax treatment. In contrast to the United States, where tax preferences on corporate income are exempt from taxes on interest income, the Japanese government promotes saving and grants special tax exemptions to encourage personal savings. Under the current Japanese tax system, an individual is exempt from the 35 percent withholding tax on personal savings. However, because postal savings rates are set. Postal savings rates are decided by a special committee of the MPT, while a committee of the finance ministry and the central bank set market rates. The PSS is not under the jurisdiction of the monetary authorities, PSS deposits generally have lower rates of interest than bank deposits.

by Laura A. Kuhn

Japan maintains the highest personal savings rate of all the major industrialized countries. In 1982 the Japanese personal savings rate was 40 percent of disposable income—almost three times that of the United States.1 Many analysts consider the spirit and culture of the Japanese people to be the primary reason for that country's tremendous industrial growth and technological advancement after World War II. Through the postal savings system (PSS), the Japanese government has structured an effective system that has attracted personal savings deposits into the national industrial policy. 

Implications for Monetary Policy

The PSS sets interest rates on its own deposits independently of the market. The interest-rate differential of the MPT to cut interest rates on postal savings accounts when the BOJ decides to lower the discount rate influences the timing of money market effects desired by the BOJ. When declines of interest rates on postal deposits lag behind those of private financial institutions, a shift of funds to the PSS often results, reducing the share of funds made available through private sources, particularly smaller commercial banks. Consequently, the financial system is concerned about the power that the PSS has amassed and the encroachment of government institutions in areas of private-sector finance. The debate centers around the issue of whether a bureaucracy is better qualified to direct the flow of credit than a private market. Also debated is how increased governmental intervention will affect the efficiency of a free-market system. Determining the appropriateness of government vs. private financing is a problem not peculiar to the Japanese situation. Indeed, American policymakers are now raising similar issues about the development of a national industrial policy.

Conclusion

The Japanese government has played an active and important role in financial intermediation and credit allocation. By collecting personal savings through the PSS and then allocating them to public institutions, the Japanese government has structured an effective system that functions in concert with its industrial and social policies. Although unopposed in terms of free-market fluctuations, this system provided the needed capital for postwar economic reconstruction. Now, however, the financial community is concerned about the power that the PSS has amassed and the encroachment of government institutions in areas of private-sector finance. The deposits of the PSS are about three times those of the author nationwide (in terms of deposits) and about five times those of the Bank of Japan, National Commercial Banks and Trust and Savings Banks. The deposits of the PSS are about three times those of foreign banks, which were the primary reason for that country's tremendous industrial growth and technological advancement after World War II. Through the postal savings system (PSS), the Japanese government has structured an effective system that has attracted personal savings deposits into the national industrial policy. This system, the Japanese financial market structure is highly specialized. The system shows extensive separation of financial activities, a complex degree of regulation and control of private financial institutions by the monetary authorities, and a more active governmental role in financial intermediation.


Japan maintains the highest personal savings rate of all the major industrialized countries. In 1982 the Japanese personal savings rate was 22.7 percent of disposable income—almost three times that of the United States. Many analysts consider the size of the Japanese system to be the primary reason for that country's tremendous industrial growth and technological advancement after World War II. Through the postal savings system (PSS), the Japanese government has amassed and channelled funds into long-term capital for industrial, trade, infrastructural and social development. The state-run PSS has played a vital role in channeling capital for postwar economic reconstruction. The question arises of whether a bureaucracy is better qualified than the market mechanism to direct the flow of capital and whether a system of public financial institutions is more efficient during the reconstruction of the capital market. Now, as the capital market becomes more active, the efficiency of extensive government influence over the flow of funds is being questioned.

Implications for Monetary Policy

The PSS sets interest rates paid on its own deposits independently of the market. However, the influence of the absence of the MPT to cut interest rates on postal savings accounts when the BOJ decides to lower the discount rate influences the timing of money market effects desired by the BOJ. When declines of interest rates on postal deposits lag behind those of private financial institutions, a shift of funds to the PSS often results, reducing the share of funds made available through private sources, particularly smaller banks and thrift institutions. In July 1972 and in May 1977, for example, when interest-rate declines in PSS accounts lagged behind the reductions in private-sector deposits by 15 days, the total value of postal savings, as a proportion of all fixed deposits, increased substantially. For the same reason, during July-September 1980, the accounts of the Treasury moved into a sizable surplus, the counterpart of which was a record shortage of funds in the money market itself.

The MOF and the BOJ are adopting unification of the present two-tier deposit system. In the process, they are establishing a new system that reorganizes the postal savings system with a view to increasing the efficiency of the system. A new system has merely changed. If, however, the PSS follows through with plans to expand its own lending capacity (currently a personal loan of up to about $2,800 per borrower is allowed), it is clear that the PSS has amassed and is channelling funds into long-term capital for postwar economic reconstruction. The question arises of whether a bureaucracy is better qualified than the market mechanism to direct the flow of capital and whether a system of public financial institutions is more efficient during the reconstruction of the capital market. Now, as the capital market becomes more active, the efficiency of extensive government influence over the flow of funds is being questioned.

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