between government and private financial institutions is escalating in such fields as shipbuilding and construction of hotels and cement factories. All too often the government is administratively involved in the allocation of resources. In other words, the government has come to play a dominant role in the economy. Consequently, the 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 government has structured an effective system that functions in concert with its industrial and social policies. Although unsophisticated 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 stability of the PSS. The flow of funds has remained steady, but the government's "crowding out" the private financial sector is escalating in such fields as shipbuilding and construction of hotels and cement factories.

Implications for Monetary Policy

6. "Trends in Personal Savings and Personal Financial Assets Selection," Bank of Japan, Special Research Department, P.O. Box 6387, Cleveland, OH 44101

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intermediation and credit allocation. The main overseer of almost all aspects of Japan's financial management policy of the central government is the PSS, which is under the authority of the Ministry of Finance (MOF) and 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 currency policies. The major instruments of monetary policy available to the BOJ are open-market operations used by the Federal Reserve System. Bank credit replaces a large portion of equity capital in Japan, i.e., 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 certain economic and industrial policy guidelines. Rather than change reserve ratios or perform open-market operations, the BOJ lends or lends short-term funds primarily by changing its credit and discount policies.

To meet the high credit demands of Japan's commercial banks, which borrow heavily from the BOJ through its discount window, the BOJ discount rate is the foundation of the intermediate target 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 determined 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 (see figure). 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 postal 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 governmental 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 needs of the economy. The current phase emphasizes energy resources and technology as well. Last year, Treasury Investments and Loans were channeled more than $72 billion into government-lending institutions, and the TFB budget for FY 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 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 budget deficits in excess of revenues may lead to an expansion in the fiscal deficit.

**Reasons for Growth**

The PSS has become highly controversial primarily because 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 continued at an even faster rate in recent years, soaring to over 80 trillion yen in August 1983. The PSS has captured an increasing share of private personal savings, while the share of commercial banks and savings institutions has declined. In 1980, 70 percent of personal deposits were made to the PSS deposits now total more than five times the deposits of Japan's largest commercial banks.

There are several reasons for the rapid growth of postal savings and individual personal savings 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. The PSS's debenture dispensers at the major post offices, the PSS 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 came from favorable legislation, the most important elements of which are preferential rates on personal savings, tax-exempt status, and deposit proceeds over the tax-exempt limit.

Interest-rate advantages. Another issue in the postal savings controversy is the 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. Thus, the PSS interest rates are not under the jurisdiction of the monetary authorities, PSS deposits generally enjoy 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 savings is a 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 industry and the public. The lending share of commercial banks has declined consistently in the past two decades. In 1960, commercial banks held $61 billion in deposits while time deposits of $20 billion were time deposits, 75 percent of which were on deposits with the Bank of Japan.


### 2. "For a detailed account of the history and growth of the postal savings system, see Masakiyo Ikushira, "Jugendoken in Domestic Financial System," Japan Economic Journal, October 7, 1980."