

Richard A. Werner¹

Aspects of Career Development and Information Management Policies at the Bank of Japan

A Frank Interview with a Former Central Banker

I. Introduction

The use of eye-witness accounts to establish institutional details is common practice in many disciplines of the social sciences. While Adam Smith claims to draw on his experience of having visited a pin factory to describe the benefits of the division of labour, much of the discipline of economics has been beholden to the deductivist research methodology, which places little emphasis on the gathering and analysis of empirical data in the formulation of economic theories. However, there is a long history of inductivist economics, especially in continental Europe. Moreover, leading economists in the US have recently stepped up their efforts to engage in fieldwork.² In area studies, where country-specific features need to be explored, the concept of field work is naturally far more widespread, such as in the context of an examination of Japanese economic institutions. Examples for the use of interviews in research on the Japanese economy include the interview with Miyohei Shinohara in Amsden (2001), or the extensive use of interviews to establish details of monetary policy implementation during the 1980s and early 1990s in Werner (1999, 2002, 2003). The present paper adds to this growing strand of literature by contributing a frank interview with a former senior Japanese central bank official.

The use of eye-witness accounts is particularly pertinent in an examination of the actual conduct of central banks, since this type of institution has traditionally been prone to emphasizing secrecy. Moreover, the number of central bankers or former central bankers who have personal experience in central bank operations (as opposed to working as economists in their research departments) and who are willing to talk candidly on the record about the inner workings of central banks remains limited.

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² Such as Blinder *et al.* (1998), which draws on visits to 200 US firms to research the determination of prices, or the NBER's field work project on the sources of productivity.

In this paper, excerpts of an interview with Masayuki Ishii are presented.³ This is particularly timely, since world attention has recently been drawn to Mr Ishii by the *Financial Times*, which quoted him extensively on its cover page.⁴ Mr Ishii, born in 1948 in Hiroshima Prefecture, graduated from the Faculty of Law of Kyoto University in March 1972. He joined the Bank of Japan in April of the same year and stayed with the Bank of Japan until June 1986. During this time he worked in the Banking Department (*eigyō kyoku*), where his work involved the so-called ‘window guidance’ informal control of commercial bank lending and the implementation of monetary policy. He also worked at the International Department (*kokusai kyoku*), where he gained experience with foreign bond and currency intervention operations, and at the Shizuoka and Matsuyama Branches of the Bank of Japan, where again he dealt with the informal ‘guidance’ of regional financial institutions. Subsequently he worked at the central bank’s Institute for Monetary and Economic Studies, where academic research is conducted. During his time as central banker, Mr Ishii also gained a comparative perspective of work at other Japanese institutions, when he was seconded by the Bank of Japan to the Export-Import Bank of Japan, on issues involving Japanese plants in China, Asia and other emerging markets, and to the Foreign Ministry, where he worked in the Africa Bureau on policy cooperation with Keidanren, Japan’s big business lobby organization. Today Mr Ishii is the President of P.J.S.P. Ishii Planning, a management and financial consulting firm, where he spends much time dealing with China-related business. He is thus not any more financially linked to the central bank.

Mr Ishii has published extensively on the Bank of Japan, such as in Ishii (1996, 1998, 2001). However, these books have not been translated into English. Moreover, his books cover a wide array of issues related to the Bank of Japan, while the purpose of this interview is to contribute towards a better understanding of specific aspects of the internal management of the Bank of Japan, namely its personnel management policies and its information management policies. To preserve the authenticity of the original interview and the words used, colloquial expressions used by Mr Ishii during the interview were largely left in their original form. At the end, some of the findings are commented and used as guidance for the direction of future research. The interview took place on 19 March 2003 and 26 March 2003, covering far more ground than could be covered in this abridged interview paper. However, it was published in unabridged form as Ishii and Werner (2003) in Japanese. Rosemary Cooke kindly provided the translation into English.⁵

³ This was the first time for the author to interview this particular central banker. None of the interviews used by Werner, such as Werner (1999, 2002, 2003a), had included Mr Ishii. His testimony is therefore that of an additional independent witness.

⁴ David Ibbison, Rift opens over Bank of Japan frontrunner, *Financial Times*, 22/23 February 2003, page 1. The article, largely consisting of quotes from Mr Ishii, starts with the following paragraph: “The leading candidate to become the new governor of the Bank of Japan has been openly criticized over his record as a monetary policymaker, in a letter sent to politicians from a former senior central bank official.”

⁵ This paper follows the conventions of the English language and hence places family names after first names.

Richard A. Werner (2003), Aspects of Career Development and Information Management Policies at the BoJ

II. Interview

1. On the appointment of Toshihiko Fukui as governor of the Bank of Japan in March 2003

Ishii: I never thought that Mr Fukui would accept the office of governor. In 1998, when he was deputy governor, he resigned along with governor Matsushita over the Bank of Japan (BoJ) entertaining scandal. At that time, he assumed no responsibility for the furore, and indicated his intention to take up his 'rightful' turn of taking the position of governor; however he was forced to resign thanks to LDP elders remonstrating. Of course, in reality he did not feel personally responsible, but the resultant suicide and the loss of over 100 jobs at the BoJ clearly place responsibility on him as the top internal administrator.

Even now, I have vivid memories of hearing him say when he left the BoJ, "I'll go out into the unknown world" and "I will not return to the BoJ". That was just five years ago – to see him back now was thus a big surprise.

Werner: Prime Minister [Junichiro] Koizumi takes pride in his image as a reformer who likes to appoint unusual personnel to senior positions. However, in the case of the central bank, he opted for a tried and tested hand. Do you think that the fact could have anything to do with it that since the late 1960s, Toshihiko Fukui – then in his thirties – had been known as the 'prince', namely as someone who would in the future become governor of the Bank of Japan – to be precise, about the turn of the millennium?

Ishii: I joined the BoJ in 1972, which means that by then Mr Fukui had already been chosen as future governor. As you know, 1972 was in the middle of the bubble.

Werner: The first bubble.

Ishii: We had the Nixon shock in 1971 and Japan was changing abruptly. At that time, Sasaki was governor of the BoJ..... Listing the 'Princes of the Yen' in order since then goes like this: Sasaki, Maekawa, Mieno, Fukui. Fukui's successor is also fixed as Masubuchi. Just as you say, since Mr Fukui was a young man, he was known as a future candidate for governor. This was known to everyone internally. The 'princes' are chosen early on.

When I joined the BoJ, Mr Mieno was deputy director of the Personnel Department. This position wields overall control over personnel, the very job for the 'Princes of the Yen'. It is said that whoever becomes the deputy director of Personnel is set to become a future Director. Otherwise it's simply a matter of timing, but basically it is these kind of persons who become deputy director of Personnel. Naturally, Mr Fukui also took his turn in this position. Since future governors will be former deputy directors of Personnel, it is not

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going too far to say that BoJ top executives exert control over all personnel right down to the new hires.

Of course, Sasaki was also formerly deputy director of Personnel. From very early on in his own career, pretty much from the beginning, he was called the [future] governor. And it was Ichimada who chose him for the top job. The latter was called “Pope Ichimada” and was more important than the Minister of Finance. I think it was him who started the BoJ ‘princes’ system.

....

The role of BoJ governor is just like being a king or shogun. Just as an heir to the shogunate would be chosen, the BoJ governorship was always predetermined. When the time came, the BoJ Princes would receive the ‘scroll’⁶ from the elder Princes - a kind of confirmation that they could become future governor - and when this is presented, the details of governorship,...the full story [with the details of monetary policy], are passed on. The handing over of the scroll is in effect like saying, “You will be king”. And just as you say, this initiation process starts early.

Those who don’t have the scroll do not understand the true financial policies. In fact, [like external BoJ governors] former governor Hayami didn’t have the scroll either.

....

The BoJ’s true tool of circulating money is controlled by the Banking Department (*eigyō kyoku*).⁷ That’s why from early on, I expressed my desire to work there. On joining the BoJ, the first year is spent at head office, after which one is assigned to a branch for two years. I told my branch chief that when it was time to go back to head office, I would resign if I couldn’t work in the Banking Department. The branch chief negotiated heavily on my behalf and I was eventually assigned to the Banking Department as I had wished. It was a tough selection process where only 3 out of 30 people could return into the Banking Department.⁸ What’s more, for the same period I was the only one to go straight into the Banking Department in charge of ‘window guidance’.

At the time, former deputy governor [Yutaka] Yamaguchi was in charge. He was then the number one in charge of the Banking Department’s Planning and Coordination Division. There were five members of staff, two of whom later became executive directors. In other words, the section accumulated candidates for future directorships. The section chief, of course, was a candidate for the post of deputy governor and governor. Deputy Yamaguchi

⁶ *makimono* - the ‘insignia’ of the ruler.

⁷ Literally, *eigyō kyoku* means ‘sales’ or ‘business bureau’. While the Japanese names of central bank divisions use the terminology of government bureaucracies, we are following here the Bank of Japan’s own convention to refer to them as ‘departments’ in English. The English name of *eigyō kyoku* was changed many times during the postwar era. However, since the Japanese name remained for the longest period unchanged, to avoid confusion we stick to the first official English translation, namely ‘Banking Department’.

⁸ The reference to 30 people refers to the approximate number of the university graduates hired annually for the career-track.

did not have the scroll. The one who did was Mr Fukui. So your view that Fukui has been the virtual governor for a long time is correct.

2. On accountability and responsibility for central bank policies

Ishii: In the Diet assembly in March this year, when Mr Fukui was pressed by Diet Member [Kozo] Yamamoto [LDP], “Why don’t you say you will ‘put your whole life into this’?” Fukui repeated the words, “I will put my whole life into it”.⁹ He declared before the Diet that he would put his whole life into his position. What this signified was that the governor’s responsibility over policies had been clarified.

Of course, before we get to that point, we must recognise the policy mistakes that occurred before. Good policies are borne of good reflection. Many people realize this by now, but Fukui has been the ringleader himself of Japan’s policy mistakes.

Werner: The fact that Mr Fukui has become governor means that responsibility for past policy mistakes were not taken.

Ishii: Mr Fukui naturally has a responsibility to be accountable for his policies. But in addition there is something he should have explained even before he took up the post of governor. That is, why didn’t he dissolve cozy BoJ-business collusion such as the network of former BoJ directors employed in the powerful computer industry with Fujitsu Research Institute at the very core, and the personal network of BoJ OB [‘old boy’] relationships spread far and wide throughout Japan’s regional banks?

When Mr Fukui was chairman of Fujitsu Research Institute, there were 2 other former BoJ department heads besides him among the top executives. The post of chairman of Fujitsu Research Institute was itself created expressly for Fukui who had been forced to resign [at the BoJ], but to increase the ranks of former BoJ members to this extent leaves the BoJ wide open to criticism that it was taking over. What’s more, the annual salaries for these three, including chairman Fukui, amounted to well over JPY50m.¹⁰ Such was the cost situation of the ailing Fujitsu Group – those with good sense called them “cash eating parasites”.¹¹ Even Fujitsu’s main bank, Mizuho, had to cut salaries remorselessly, yet the BoJ OBs had exceptional treatment. When Fukui retired from his post, it is unlikely that he received a vast golden handshake, but still, all these details should be announced publicly.

⁹ Ishii quotes Diet member Yamamoto as asking Fukui ‘anatawa inochigakede yaruto doushite ienainoka?’

¹⁰ Approximately US \$455,000, at an exchange rate of Y110/\$.

¹¹ The expression used is ‘*kane kui mushi*’.

At major computer companies, former BoJ directors and department directors add their names to the list of executives. No doubt their salaries approach what they formerly received at the BoJ. This is exceptional treatment in a competitive business situation with continued pressure on profits. With their high salaries safely secured, they contribute to the promotion of their company's products through maintaining strong ties with other OBs in *amakudari* jobs as executives and heads of regional banks. This is nothing more than a parasitic arrangement.¹²

Mr Fukui is the same Fukui of 5 years ago when he had to resign. He has maintained his predispositions throughout his term as chairman of Fujitsu Research Institute. So whatever came of the strong disciplining dealt out to the central bank, which was heavily criticized by the public five years ago? Before taking up the post of governor, Fukui should have declared his intention to immediately rid the BoJ of this structural problem.

What's more, Mr Fukui should at the same time have referred to the Mizuho Bank system failure that caused a huge mess-up, the managerial responsibilities of the top executive in charge of the system, and the distinction between himself and the Fukui who formerly held the important job of deputy governor of the BoJ.

3. On 'information management' in general

Werner: Mr Fukui is praised for being very adept at dealing with - some would say influencing - journalists and the media.

Ishii: You could call it 'information management'. The Bank of Japan is well-versed in information management, although the management of information is inherently wrong. A transparent central bank must make its information public. I think it's abnormal: The BoJ spends money and even puts pressure on foreign universities. It invites almost all the top foreign [academic] economists to conferences and such events in Japan, but in doing so it is handing over a lot of money, so those academics listen to what the BoJ says. In the world what counts is money.

Even if you, Mr Werner, were to attend such a conference in order to ask the professors their own opinion, if the BoJ has given instructions beforehand, it is also possible that they just won't accept questions from critics of the BoJ. Again, it is a possibility that if you wish

¹² Literally, a 'suckfish' or 'remora' (*koban zame* in Japanese, the name of a parasitic type of fish, with the double meaning that 'koban' also refers to the pre-Meiji era coins). According to The American Heritage[®] Dictionary of the English Language, Fourth Edition, 2000, a 'remora' is "Any of several marine fishes of the family Echeneidae, having on the head a sucking disk with which they attach themselves to sharks, whales, sea turtles, or the hulls of ships. Also called *shark sucker*, *suckerfish*, *suckfish*. Etymology: Latin, delay (from the belief that they could slow ships down)", from *remorare*, to delay : *re* + *morare*, to delay (from *mora*, delay)."

to speak up at an academic conference, your turn just won't come despite you putting up your hand.

Let me explain in more concrete terms. Say there's an official based in London – the manager of the London branch [of the Bank of Japan] perhaps – and he sees the name 'Werner' on the list of attendees of a conference to be held in London, he may hunt down the conference chairman or whoever and the day before the conference takes him out to lunch and works on him so that he won't allow Mr Werner to say too much. Of course, this kind of interference does occur. Whether it should occur or not is another question, but currently it is par for the course. To be effective in this kind of role is the job of the London representative [of the Bank of Japan]. Now most people will no doubt think this not to be the case, but although the official should be there to investigate, research and analyse the European economy and financial policy, in fact information management is the more important role. And if he fails at this, he will lose his job.

Here's a real-life example: When Mr Sumita was governor, someone called [Iwane] Maru was working as his executive undersecretary. Since Mr Sumita hailed from the Ministry of Finance [MoF], the job of undersecretary was to carry out surveillance of Sumita. And Maru had to report, in detail, all the activities of Mr Sumita to Messrs Mieno and Fukui. He was not forgiven when he apologized for omitting to tell them something even once. Even when he excused himself by saying, "I apologise. Mr Sumita told me on no account to tell anyone who he was meeting with, so in my position as undersecretary I was not even able to tell you, Mr Mieno." there was no dialogue. This alone amounted to disqualification. The position of undersecretary is secretary to the governor; it's a powerful post guaranteeing a future executive directorship. And the undersecretary to a former MoF governor, in particular, is rewarded highly. In other words, Mr Maru had all that to look forward to, but with this one mistake he slipped off the career track and was never made a director.¹³

Werner: That's because he was responsible for information management but he did not manipulate the information as the 'Princes' desired?

Ishii: Precisely. This information includes policy information, financial information and undisclosed internal information. The style of information management is completely unchanged from that of the Meiji era. In other words, it's the same method of management as that of the staff officer in the former Imperial Army. For the Japanese elite, the management methods of the staff officer are very useful; they have grown accustomed to this system and followed in the same footsteps.

¹³ On this episode, see also Werner (2003a).

In fact, in terms of information management, Japan imitated the methods of German staff officers. Information management by the German military was outstanding. And not just Japan in general, but governor Ichimada, in particular, imitated it.¹⁴

4. On the role of the research division

Werner: Within the BoJ there appear to be many forms of ‘information management’. We heard the tale of undersecretary Maru. What about the management and manipulation of information internally? For example, critics of the BoJ often note that those who work at the BoJ appear to speak with one voice – to the outside world. But internally, the reality seems different. Inside the BoJ there seems to be an elite – extremely limited in numbers – who have access to all information, whereas this information does not reach the average BoJ salary man.

A recent example: those responsible for window guidance did not offer this information outside of their own department. Meanwhile, much ‘intelligentsia’ is employed in the BoJ Institute of Monetary Research and the Research & Statistics Department. They study abroad at foreign universities, return with their doctorates and write many papers. I was interested to know how they are regarded inside the BoJ and when I asked a BoJ man actually involved in monetary policy about their role, he replied along the lines of, “Well, they’re just our economists; they know nothing”.

Ishii: Yes, that’s right. In other words, the BoJ Banking Department is the axis around which everything revolves. The Planning Department and the General Affairs Department also have a high rank. However, there are also cases where the Banking Department withholds information from the General Affairs Department. Put simply, it’s like the wartime Kwantung Army.¹⁵ They have all the information and they act on it...without telling others. So the economists are expected to sort out the data for the Banking Department and to publish only that which is advantageous for the BoJ. This has been the way of thinking since way back and it continues today. They might produce a lot of papers, but that’s the reality of how it works.

Werner: So those economists giving their best at the Institute of Monetary Research and the Research & Statistics Department are just being used?

¹⁴ Hisato Ichimada was governor of the Bank of Japan from June 1946 until December 1954. For more on Ichimada, see also Werner (2003a).

¹⁵ Werner (2003) also found references to the ‘insiders’ in the Banking Department being referred to as the Kwantung Army inside the BoJ. Note that Mr Ishii had not been interviewed for any of Werner’s publications cited in Werner (2003).

Ishii: They are working hard, but they are not being put to any [proper] use. The ranking works something like this: the Banking Department holds the highest ranking within the BoJ. Nowadays it has changed slightly and I think the Planning Section sits at the top, but traditionally the Banking Department was highest. Policy-making takes place at the Banking Department and the International Department, but the International Department ranks slightly lower. Under the Banking Department there was the Planning Section or the Planning Department and the General Affairs Department. Recently the rank of the Examination Department has risen so it is now above the International Department. Thus, the Research & Statistics Department is still slightly more prestigious than internal administration; but even though it wasn't right at the bottom, its role is to collate the final data – a bit like a library.

When you are young, personnel transfers mean that you get to experience a number of different departments, but in time, you begin to be categorized and are nurtured into becoming a specialist. After working in the International Department for my first year, I later spent 3 years in the Banking Department, and a further 3 years back in the International Department. As domestic and foreign finance were not separated yet I was taught both. Now, the Financial Markets Department – which merged with the Banking Department and the International Department – is in charge of both, so rankings have changed a little, but the general idea is the same.

Werner: When anyone from outside the BoJ, such as the general public, academics analyzing the BoJ and the media, requests an interview or data, more often than not they are introduced to the economists in the Institute of Monetary Research and the Research & Statistics Department. So the real role of these economists is to act as an enquiry desk?

These two departments also produce a lot of published material such as their monthly and quarterly reports. Of course, the publications reflect the opinions of the economists, but even so these are BoJ publications. So, most outsiders end up equating these two departments with the BoJ. But if those two departments do not have a grasp on the real BoJ monetary policy information, then that's somewhat disturbing, isn't it? It's not just the economists themselves that are being misled, but the public, the critics, the academics and the media too. We are being made to think that what the economists say and print is the view of the BoJ as a whole, but if this does not reflect actual monetary policy then it's a serious issue.

Ishii: Let me first explain a little about the BoJ Research Department. It was the first research department in all Japan. Nowadays, each bank has their own research department, the Ministry of Finance also...everywhere there is a research department. But in 1882, when the first governor of the Bank of Japan took office, the Research Department was created within a short time period. The Research Department was essentially a library for those carrying out policy work. It's quicker to ask than to read, and it's convenient. When the BoJ created their Research Department, not even the government could boast having one.

Naturally, here, too, the BoJ imitated Germany. They studied the German [military] ‘staff’ structure and the policy staff, and introduced it to the BoJ. Of course, the next place to create a research department after the BoJ was in the army. The Japanese Imperial Army’s information research department originated from the BoJ. The Manchurian Railway Research Department is pretty famous, but that too found its form from the BoJ.

During the post-war era, every bank set up its own research department. Before long there were get-togethers of research department heads – the chairman of which was always the head of the BoJ Research Department. The BoJ Research Department chief was the leader of all [commercial] bank research departments.

The BoJ Research Department came into being under the direct control of the governor, with the objective of researching the economic situation and financial systems of other countries and creating data with which the governor could decide on new policies.

The first person to become well known in the BoJ Research Department was Toshihiko Yoshino: he was the first [post-war] Japanese ‘economist’. He was a Marxist economist.

....

Mr Yoshino put his heart and soul into the Research Department, and was the director of the department when I joined the BoJ. He had good results as head of the department, and after the war he was from first to last the right-hand man of [governor] Ichimada. Yoshino took charge of all Ichimada’s research.

The next member of the Research Department elite to follow Yoshino was current Liberal Party member Yoshio Suzuki. Actually, at that time there was a fine man called Bunji Kure, but after he criticised governor Sasaki he was forced to retire. It was all over when he advised Sasaki that his policies were flawed. At the BoJ it is unforgivable for the Research Department chief to resist the governor. When Kure advised the governor, “The proposal about ‘Remodelling the Japanese Archipelago’ is flawed. Mr Sasaki, if we continue along this path, there will be grave problems. This policy must not be implemented,” his comments were met with short shrift. Sasaki’s response was monosyllabic and signified the end of Kure’s career.

Thus Kure penned his resignation. He was a wonderful person. In the long history of the Research Department, he is the only one of such calibre.

Three other young members of the Research Department quit along with Kure: Seichiro Saito, Hirohiko Okumura and Seiritsu Ogura. In doing so, no doubt those three were making clear their feelings on that mistaken policy. They were three young men who roused themselves to action by resigning – one had joined the BoJ in 1963 and the other two in 1964. All three went on to become academics. They were of noble spirit.

Werner: Certainly, Kure understood the importance of loans and credit creation. He was also very knowledgeable about window guidance. He published excellent work on this topic.¹⁶

Ishii: In the Research Department, Yoshino had his way in all things. Research was undertaken immediately, according to instruction, and was subsequently reported. The reversal of conclusions [by staff] was not uncommon. And Yoshino would gather this information to provide his superior with it – this was the tradition of the Research Department.

After that, beginning with those who joined the BoJ around 1963/64, a foreign study program was initiated; at the same time econometrics studies and capital flow theories were established and the BoJ proceeded to arm itself with ‘official’ ‘BoJ theories’. Only ‘Yes men’ were welcomed. From the beginning there was no concept of opposing a policy decision. Kure was the first person in the Research Department to oppose a new policy. He was originally considered fit for the job of director. As you pointed out, he first learned of the BoJ’s traditional window guidance when working in the area of the Banking Department. Kure was a noble character, respected in the Banking Department as well. It seems that that they felt they could talk to him and leaked some of their information. Perhaps, Kure also looked after Fukui in his early days. But no one like Kure has come on the scene since. Such was the standing of the Research Section of the BoJ’s Imperial Army-style Research Department.

5. On information disclosure policy

Ishii: The fundamental principle at the BoJ is not to publicise BoJ information. There are many excellent people working in the Research Department, but nothing they have researched internally has been published. ...

Outsiders are prohibited from entering the Research Department. There’s no way to gain access. The BoJ seems to believe that nobody other than internal staff are needed. When the BoJ first introduced a computerized system, they set up the entire system themselves. Usually this is outsourced to the manufacturers. The BoJ trained a team of computer development specialists to take care of the system internally.

BoJ exclusivity extends even as far as the dining room. Based on the fear that if external people make the food they might poison it, BoJ employ staff to prepare the meals.

¹⁶ Werner (1999, 2002, 2003) cites Kure’s seminal work. Especially concerning the details and implications of the Bank of Japan’s actual monetary policy implementation, namely via its ‘window guidance’, Prof. Kure’s work remains outstanding.

Absolutely nothing is outsourced. It's the same in the military. There is a clerk in charge of testing for food poisoning; he eats at 11, and once it is established that he is none the worse, then the food is distributed to the rest of the workers. If the taster's condition changes, then the food is late. "Oh? What's up today?"... "The food will be a little delayed." And the menu is changed. The assumption is that if all BoJ staffers come down with food poisoning, they won't be able to work and there will be panic in the financial markets. This mindset is quite extraordinary.

At any rate, it is fundamental to BoJ culture to be completely self-sufficient. But the BoJ was criticized by academics for sitting on all that interesting information and not publishing it, so the BoJ decided to pretend that it has adapted to changed circumstances. They couldn't possibly open up the Research Department so they searched for an alternative and decided to create an organization called the Institute for Monetary and Economic Studies. By opening this office to external academics, the BoJ could appear as though it was holding a dialogue with the outside world.

The Institute for Monetary and Economic Studies holds conferences in which outsiders are also able to participate, and it undertakes joint research with external academics. However, this office is in the old BoJ building and access to the main building is extremely restricted. Entrance is possible for the purpose of collecting data or visiting the library, but there are instructions not to wander around unnecessarily – a surveillance system of sorts.

Thus, with the establishment of the Institute for Monetary and Economic Studies, the BoJ began making information public.

....

Werner: But is this information useful?

Ishii: Until then, nothing had been published, so the stance was that it was better than nothing. To be sure, mainly academic papers and conference papers are being published. Those who study abroad and do research thanks to BoJ coffers are writing those papers. If the general public look at those papers, they might assume they have substance, but there is something else going on there.

Books are published quarterly by this Institute and distributed free of charge to banks and universities. Window guidance by the BoJ gets no coverage but interest rates and a wide range of other fields are covered. Looking over the publications, one might feel that the researchers are highly capable, but in reality, before publication, their original work is revised, 'unnecessary' parts are edited out and only what is deemed harmless if made public remains for publication. That continues today.

Werner: So do the economists who work there have an understanding of what information is important?

Ishii: The really persistent ones may look into it, but employees in the Banking Department are very busy, they don't have much time to chat, so getting information is probably tough. Maybe you are the only one whom many internal people talked to. If internal staff kept sniffing around as you did, their bosses would no doubt get angry, saying they are being too nosy. Along comes Mr Werner, he's a nice guy, he speaks fluent Japanese, he's not a familiar face to the Banking Department; and they carelessly let their guard down a little and vital information is leaked. You delved into areas that aren't usually broached internally and obtained information that even I didn't know. How surprised they must have been when they saw your book!

6. On conflicts of interest

Ishii: So we see that the BoJ's information disclosure continues to be something of a sham. The BoJ invites all slightly renowned academics from Europe and the US to Japan and facilitates their activities. The more famous foreign academics are paid \$10,000 a month, that's over \$100,000 annually just as salary. They live in BoJ-owned housing available to BoJ staff of section chief grade. Fully furnished, naturally. The tab for utility bills is picked up by the BoJ. Obviously the academics pay for their own food, but transport costs are paid for also. Air travel is first class, including for families. At the same time, these academics are receiving salaries from their own universities, so whilst they are working at the BoJ they are able to claim a double salary. What's more, the famous ones can earn money by giving speeches at the Keidanren, Ministry of Finance and others....even more profitable. With such generous treatment, they begin to sing the BoJ's praises. Of course, their shining eyes reflect that the BoJ is a place for them to make money.

The BoJ does not limit this to foreign academics, they use all means with local academics too: gifts of money, bringing them in as advisers, making them members of inquiry commissions etc. They are also paid to give speeches and to train the younger employees. There are any number of academics that the BoJ employ in both Europe, the US and Japan. And these academics are highly unlikely to criticize the BoJ.

...

As an academic, in order to do research, one needs funding. If they can receive that funding from the BoJ, they won't want to rock the boat. But by the BoJ funding them, they should work faithfully on the BoJ's behalf – it's close to a bribe.

There's an interesting anecdote: about five years ago, the Tax Bureau imposed a tax penalty on the BoJ. According to Japanese income tax laws, money paid to academics by the BoJ – that is payment including in the form of furnished housing – falls under the salary bracket. However, the BoJ had never withheld any tax for that [as is legally required]. The Tax Bureau had not noticed until then and had omitted to tax the BoJ.

7. On the special powers of the central bank and the need for reform

Werner: I would like to turn to budgets briefly, as it's somewhat related to this. For example, bureaucrats working at the Ministry of Finance or other ministries are conscious of the fact that they are public servants. In other words, they are aware that they are working on the public's behalf. They know this because they realize that their salaries are paid out of taxpayers' money, i.e. it comes from the public.

In the case of the BoJ, I asked many people there, but they do not believe themselves to be bureaucrats or public servants. Since the Bank of Japan is a public company [*kabushiki kaisha*], in legal terms, the employees are not fully public servants.

Ishii: It's a special corporation, set up by special law.

Werner: Koizumi has been criticizing special corporations, but he has said nothing about this particular one...

Ishii: The BoJ is different. It's a 'holy cow'.¹⁷

Werner: And where does the money that it spends come from? Whoever is paying money to the BoJ would be its employer, but strangely enough, the BoJ is the only institution in Japan that doesn't have an employer in this sense. Its budget does not come from taxpayers' money. It can create money with which to pay its salaries.

Ishii: You could put it like that, but the BoJ is also earning money too. Its biggest source of income is profit from providing funding to banks. If BoJ assets rise in value, that is also a profit. What's more, when the BoJ makes temporary loans, it is able to collect interest on the loans. The income earned on business activities is pretty high.

Still, as you point out, there is not much difference between the act of making loans and the creation and distribution of cash. Ultimately, it's the supply of currency or the supply of deposit money. For sure, the BoJ is earning money on this. But, it is not earning that through its hard efforts. It's simply that this is the nature of its job. It doesn't have to do any marketing, or advertising. In that sense, as an organization it has lost all semblance of civil control.

It is often said that the Imperial Army failed because it lacked civil control; civil control is that important, that's precisely why even now civil servants control the army in Japan. The

¹⁷ Literally: *sei-iki*, sanctuary. However, the media has consistently translated Prime Minister Koizumi's slogan 'sei-iki nashi no kouzoukaikaku' (literally, structural reform without sanctuaries) as 'structural reform without holy cows'.

BoJ, on the other hand, had no civil control from the outset. Since inception, the BoJ gradually polished its organization, and control over it became increasingly difficult. That structure remains in place today. That's why staff feel strongly that they deserve high salaries – because they produce a lot of profits.

Werner: Of course, formally the Bank of Japan also has a budget that is approved by MoF. However, just as Milton Friedman has concluded in the case of the US Federal Reserve, the money derives from profits that have come about due to the special status of the central bank and is indistinguishable from the central bank simply printing money and paying themselves.¹⁸ This means that the Bank of Japan could effectively print money and buy various luxury apartments, resort facilities on the sea-side and golf courses. The case of the residence of some BoJ branch managers being as sumptuous as castles is well-known.

Ishii: A typical case is the residence of the Osaka branch manager. I don't know the exact size, but it is larger than a castle. It was originally the private residence of the head of the Sumitomo zaibatsu. It is in an area where only the extremely wealthy can afford to live. But the residence of the US consul and the BoJ's branch manager are there. However, five years ago it was criticized for being too luxurious and thus it is now only used for meetings. The Osaka branch manager now lives in a separate location.

...

The BoJ have a place called Nagakawa Annex in Akasaka where even today all important meetings with the Ministry of Finance and [commercial] bank heads take place. The place is luxurious, and all the food is sent from the Okura Hotel. When an important meeting is held at the BoJ head office, a chef is also sent from the Imperial Hotel. The cost is really not important. There is the attitude that it's OK to just pay the money.

Werner: It's easy to create the money.

Ishii: That's right, to put it simply. They have no sense for money, so whatever wine you might want to drink, you may have it. Everything can be bought with money, so they don't worry about the price, and there is no concept of moderation.

Werner: So the BoJ offers such an exceptional environment that its staff and the invited academics probably want to experience that treatment many times?

Ishii: Yes. When the academics come, they are initially overwhelmed by the food that is served. They must notice that those at the BoJ live well.

The BoJ also holds vast banquets for the media. About twice a year – it may only be once a year now – journalists are invited to a party. The entire spread of food at that party is supplied courtesy of the Imperial Hotel, and the tables are laden with expensive sushi and tempura. They must spend about Y20,000 (\$200) per head. The journalists even receive

¹⁸ See Friedman (1982).

gifts. If the party is to include an announcement by Fukui, all members of the BoJ press club are invited and ‘*companion*’ service girls are brought in to fill drinks and so on. The girls who work at the BoJ parties are always the best. The BoJ naturally expects that even these girls must be top class.

Outsiders don’t get access to these parties so they don’t know what they are like. BoJ correspondents don’t report on them. If they were once to write an article about the luxurious BoJ parties they would find themselves without work in the BoJ’s press club. Write too much and you just won’t be given any more information. The newsletters will stop arriving. BoJ executive directors regular brief a number of news agencies but anyone who reports too much will just find themselves missed off the list. No Entry. The BoJ’s squeezing of people is so severe.

Werner: The job of a journalist ought to be to analyse matters objectively. Journalism is not about writing exactly what one has been told; it’s about looking at something slightly critically, from a slightly different angle and pointing out problem areas. But, within the BoJ press club, it is doubtful whether this form of journalism can be achieved. I think there are very few journalists analyzing the BoJ in a journalistic way.

Ishii: There aren’t, nor are they able to write freely. The MoF has no money so they don’t entertain journalists, but the BoJ has money so it can take press club members to the Nagakawa Annex. They perhaps go there to interview governor Fukui. This way, journalists don’t want to give up being members of the BoJ press club. The members of the BoJ press club are all the bright journalists from the economics section of each newspaper. They have promising futures so they work hard to form good relationships with the BoJ whilst they are in the club; if they don’t receive quality information and write good articles, it will reflect badly on their future career path. Naturally, they know what will happen if they write a critical article. The Nikkei financial newspaper, in particular, is under BoJ influence.

....

The BoJ press club is a dream post within newspaper economics sections – it is not something within everybody’s reach. It’s on the upward career path. Some people come once when they are young and again right at the end. Those who reach chief of the economics section at their papers are likely to have been in the club twice. So they are trained from early on.

....

The BoJ should not be allowed to manage and control financial information in that way in the first place.

Werner: So which is more important to journalists – MoF or the BoJ? There are the dinner parties too, but in terms of where interesting information can be obtained, I believe the central bank has the upper hand...

Ishii: Even today, the central bank firmly maintains its information control mechanisms, including their treatment of academics. I would like Mr Fukui to completely reform this, and show us the true functions of a central bank. What is today recognized by the new Bank of Japan Law is the central bank's independence. Independence and transparency, i.e. disclosure of information, are different sides of the same coin. Because the current disclosure of information is insufficient, I would like the Bank of Japan to steadily disclose more from now on. In order to win the trust of the people, information must be disclosed to a greater degree.

...

In order to have communication with the markets, the Bank of Japan should disclose all information that the Bank of Japan possesses. To put it in different words, information management also means that [the BoJ] controls the markets. If information disclosure is limited, it means that it is manipulating the market. This approach is mistaken. The market must be allowed to operate freely, based on true information. The first premise to further communication with the markets is to publicly disclose information.

...

In my opinion, almost 100% of the data should be publicly available. It is wrong to choose what to announce, what to publish, what not to publish...There is still far too much information hidden from the public realm and unless we proceed to the next level, we will be unable to hold a serious debate.

III. Some Conclusions and Directions for Further Research

The excerpts from the interview have highlighted a number of issues. One is the topic of central bank independence and the greater accountability which independence calls for. The Bank of Japan became legally independent on 1 April 1998, when the revised Bank of Japan Law became effective. In exchange for independence, the Bank of Japan was obliged to become accountable to the Diet and the public. As Mr Ishii points out, for accountability to be meaningful, the central bank's activities must be transparent. It is not clear that the transparency of the Bank of Japan has increased since 1998. This includes its continued operation and use of the so-called press club system.¹⁹ Leading financial newspapers, such as the *Nihon Keizai Shinbun* (a.k.a. *Nikkei*) are still not known for critical analyses of the Bank of Japan's activities.

¹⁹ On its role, function and origin, see Werner (2003b).

World-wide, central banks have become independent from democratically elected governments and, on occasion, even from democratically elected parliaments (as in the case of the ECB). This increases the importance of accountability and transparency. However, there is no evidence that central banks have actually become more transparent and more accountable in a meaningful sense. Further research is therefore needed into the meaning and actual degree of central bank transparency, accountability and credibility.²⁰ Clearly, the Bank of Japan and many other central banks, such as the ECB, cannot be considered models of transparency and accountability. This is a problem that policy-makers, including law-makers who can shape incentive structures, should address.

Another topic highlighted by the interview is the potentially problematic relationship between the media and central bankers as well as between economists and central bankers. Further research is needed concerning the ways in which media information may be manipulated by interested parties. Similarly, the question whether economists may be interested parties themselves cannot be avoided.

It has already been noted by many academic economists who have been invited, expenses paid, to central bank research events, that very often the advice given was ignored. In the case of the Bank of Japan, Hamada (2002) notes how leading economists from many countries were invited by the BoJ in 2000 to give their advice on its monetary policy. "It is a pity that [the Bank of Japan] has hardly made use of this advice" (p. 71). This, indeed, raises the question of what the actual purpose of such invitations may be. Milton Friedman, long-standing consultant to central banks concluded after decades of working with the Federal Reserve: "I attended many such meetings of so-called academic consultants. . . . However, I finally concluded that the meetings were called purely for window-dressing purposes. I was unable to detect any influence whatsoever exerted by the consultants' comments on the system's actions. Indeed, the choice of the particular consultants invited to attend seemed designed to guarantee offsetting and contradictory advice, leaving the Fed free to pursue its own devices. However, even on those rare occasions when something approaching a consensus emerged, I could detect no subsequent effect on policy." (Friedman, 1982, p. 105).

Mr Ishii's testimony pointed out that there could be further, equally political motivations for the central bank in paying academics to act as consultants, advisers and presenters. The issue of conflicts of interest in financial markets has received much media attention, especially since the fraud, accounting scandals and illegal activities involving large financial institutions were highlighted by New York Attorney General Elliot Spitzer. Spitzer scrutinized and publicly criticized the established practices of many large financial institutions. Today, equity analysts, for instance, announce their personal financial interests when they publish their analyses and recommendations. However, the same is not yet true for economists and academic researchers. Ironically, it is the economists who assume in their models that agents always rationally maximize their own self-interest, even if this

²⁰ For important recent contributions to these issues, see Forder (1998, 2001, 2000).

neglects social or ethical norms or is of detriment to society at large. Given their publicly stated beliefs in the importance of such behaviour, it is surprising that economists themselves have not yet been placed under greater scrutiny concerning possible conflicts of interest. It is notable that central banks have stepped up the activities of their research departments significantly over recent years. For instance, the newly created ECB immediately embarked on a programme of increasing the hiring of economists working in its research sections, instead of relying on the already large number of economists working at its constituent central banks. Further research is clearly needed concerning the degree of involvement of central banks in academia, whether in the form of sponsorship, invitations, publishing papers of academics in their journals and sending staff to attend international academic conferences.

Mr Ishii's testimony also raises concerns about the mechanisms by which leading officers of central banks, including governors, are actually appointed. While the current governor of the Bank of Japan, Toshihiko Fukui, was appointed by Prime Minister Koizumi in February 2003, it appears that his selection for this job took place many years earlier, at a time when Mr Koizumi is unlikely to have been involved.

In conclusion, the interview shows that field work should be further expanded and the available human resources in the form of eye-witnesses utilized to a much greater extent in order to increase our understanding of the actual functioning of economic processes – in Japan as much as in any other country.

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