THE CHANGING PATTERN OF AMAKUDARI APPOINTMENTS – THE CASE OF REGIONAL BANKS, 1991-2000

by
Kenji Suzuki

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Postal address: P.O. Box 6501, S-113 83 Stockholm, Sweden. Office address: Sveavägen 65
Telephone: +46 8 736 93 60   Telefax: +46 8 31 30 17   E-mail: japan@hhs.se   Internet: http://www.hhs.se/eijs

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KENJI SUZUKI
Stockholm School of Economics, Sweden
PO Box 6501, S111 40, Stockholm, Sweden
E-mail: Kenji.Suzuki@hhs.se

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ABSTRACT

Amakudari, or the reemployment of the officials retired from the government into senior management positions in private companies, is one of the informal institutions most frequently mentioned in the literature of Japanese political economy. However, few studies have examined it systematically. Focusing on the reemployment from Ministry of Finance and Bank of Japan into regional banks, this study discusses the mechanism of *amakudari* appointments and its change over time. Four different perspectives (human resource, communication, monitoring and compensation) are presented, and their validity is tested by an empirical analysis with the panel data of 96 regional banks from 1991 to 2000. The result shows that the appointment of a retiree from a ministry at the retirement of a predecessor from the same ministry (chain appointment) is no longer the case. On the other hand, it is also found that *amakudari* is more likely to occur at more profitable/ safer banks than others, which supports the traditional argument that *amakudari* is used as a compensation for retired bureaucrats.

KEYWORDS: amakudari; financial supervision; Japan; incentives of regulator

1. Introduction

Amakudari is one of the practices, or informal institutions[1], most frequently mentioned in the literature of Japanese political economy. *Amakudari* means "descent from heaven", which describes the reemployment of the officials retired from the government (= heaven) into senior management positions in private companies[2].

Since *amakudari* is likely to cause favouritism between the regulators and the regulated, it is formally regulated by law. The National Civil Service Law prohibits the reemployment of the retired officials into the private companies until two years after their retirement, if they have worked for the national organizations closely related with those companies in the past five years. However, it is also provided that this prohibition does not apply if the National Personnel Authority (NPA) waives it after an investigation. Yet NPA only investigates the cases of high-ranking officials, and each ministry may give permission to the reemployment of others. Furthermore, many officials are often employed in public corporations or other non-private organizations immediately after their retirement and spend two years in these jobs to avoid an NPA investigation. In short, the law only prevents very direct connections, allowing the whole system to survive without much impact from regulation. Traditionally, the Japanese society has generally been tolerant toward *amakudari*, as it seemed to contribute to the country's successful economic development in some ways.

Amakudari has, however, been severely discredited since the collapse of the bubble economy in the early 1990s. This is partly because the social credibility of bureaucratic management has been reduced due to the long-standing economic slump, the exposure of many bribery scandals, and partly because the scope of regulatory control has been reduced as a result of deregulation.

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1 For instance, Pempel (1998: 95) clearly identified *amakudari* as an "institution".

2 However, some define *amakudari* in broader terms. For example, Colignon and Usui (2001) argue that the concept should also include the movement of retired officials into other public organizations and political life. Tsutsumi (2000) treats any type of bureaucratic reemployment as *amakudari*, including academic positions at universities.

Consequently, some indicators have started to show a decline of *amakudari* practices in recent years. One of those indicators is the number of NPA agreements (Figure 1). The number of *amakudari* fell to roughly 50 in recent years, a dramatic reduction from the more than 300 appointments in 1985. Although the numbers may partly reflect a tendency to bypass these agreements, the extent of the change is remarkable. Another indicator is the number of retired officials reemployed in executive positions in listed companies, provided by *Kigyo Keiretsu Souran* (Toyo Keizai Shimposha), a private publisher. According to this source, the number of newly reemployed officials in the listed companies fell from 77 in 1988 to 55 in 1998[3].

<FIGURE 1 NEAR HERE>

While it may be significant to consider how the "real" number of *amakudari* cases has changed, the present study aims to examine qualitative, rather than quantitative, changes. However, the examination does not cover all types of practice, partly because of the difficulty in collecting all relevant information, and partly because the pattern of *amakudari* seems to vary from one type to another, and a holistic examination may obscure important industry-specific findings. Thus, this study focuses on *amakudari* into regional banks[4], a specific but important case. There are several reasons for this choice. First, regional banks are major destinations for officials retired from the Ministry of Finance (MOF) and Bank of Japan (BOJ). Reflecting its broad jurisdictional scope, MOF, as well as the Ministry of International Trade and Industry, was the most representative actor in the *amakudari* system (Okimoto 1988: 320; Ikuta 1995:

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[3] However, it is also shown that the number of *amakudari* officials sitting in executive positions increased from 993 to 1,061 in the same period, although with the share of *amakudari* executives in the total number of executive positions falling slightly (from 2.74% to 2.66%).

[4] Precisely speaking, regional banks are classified into two groups: "(first-tier) regional banks" and "second-tier regional banks". The latter group is smaller, and its members were converted into regular banks only in the late 1980s. There is not much difference in their functions, despite the formal classification. This study does not distinguish between them but identifies them with the generic concept of "regional banks".

81). The destinations of its retirees were thus widespread[5], but regional banks were one of the most prominent destinations, against the background of the ministry's supervisory role (at least until the advent of the Financial Supervisory Agency in 1998). Regional banks were also the major destinations for BOJ retirees, despite the lack of a direct regulatory relationship between the BOJ and regional banks[6].

Second, there was a significant change in the trend of *amakudari* appointments to regional banks, both from MOF and from BOJ. This seems to have resulted very typically from the reduction in the social credibility of bureaucratic management and in the scope of regulatory control, which may have caused some qualitative changes in the pattern of *amakudari* (see the third section).

Finally, it is important to clarify the mechanism of this connection between financial authorities and regional banks, in order to understand Japan's ongoing economic crisis. Although national political discussion often focuses on a few very large banks, regional banks as a group intermediate a significant proportion of Japanese savings. While the largest seven banks accounted for 47% of the deposits of all banks, in 2001, regional banks as a whole accounted for 45% (Japanese Bankers Association 2002)[7].

There have already been a number of studies focusing on the *amakudari* practices from MOF and BOJ into regional banks (Rixtel and Hassink 1998; Horiuchi and Shimizu 2001; Suzuki forthcoming). The first two studies were based on data up to the early 1990s. The last study uses data through the 1990s, and examines how the presence of *amakudari* executives affects the

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[5] For example, see Suzuki (2002) for the case of Fair Trade Commission.

[6] The BOJ's monetary policies clearly affect business decisions at regional banks; information about the details of monetary policy may be valuable to commercial banks, and information about the health of regional banks may also be useful to the BOJ in setting monetary policy.

[7] The other 8% of deposits belong to eight trust banks and a long-term trust bank. Postal savings, credit associations, and other financial companies are excluded.

management behaviour of banks. This study attempts to shed light on the pattern of *amakudari* appointments into regional banks and the change in the pattern over time.

The rest of the chapter is organized as follows. The next section discusses four perspectives for understanding *amakudari* practices. The third section investigates the trend of *amakudari* appointments in the 1990s and describes several factors underlying that trend. The fourth section identifies the pattern of *amakudari* appointment throughout the 1990s with a statistical analysis of panel data. This is followed by the conclusion.

2. Perspectives on *amakudari* practices

Although *amakudari* is a popular practice in Japan, it is seldom considered systematically. There are numerous arguments and discussions about it, and they can be classified into the following four perspectives: human resource, communication, monitoring, and incentive.

1) Human resource perspective

Utilizing valuable human resources is the reason most often mentioned in the official statements of ministers and recipient companies. For example, Masaru Hayami, Governor of BOJ from 1998 to 2003, believed that *amakudari* executives "are those who were recruited because their special knowledge and experience were appreciated"[8]. Likewise, Hakuo Yanagisawa, Minister of Financial Sector from 2001 to 2002, implied that the recruitment of retired officials would be necessary because "the number of those who are able to manage various practices with special financial knowledge and with strategic foresight is very limited"[9]. In fact, the Japanese government has recently established a system to help private employers obtain information from retired officials[10].

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[8] House of Representatives, the 155th Session, Budget and Finance Committee, Vol.1, 29 October 2002.

[9] House of Representatives, the 151th Session, Budget and Finance Committee, Vol.13, 31 May 2001.

[10] See National Personnel Agency (2001), Chapter 10, for details.

With regard to those officials reemployed into top executive positions, they may well be highly resourceful in some areas. After all, only a few high-ranking officials are considered for an appointment to such good positions. Since internal promotion is highly competitive in the government, it is not surprising that those appointed to high positions in private firms have human capital that is highly valued by the firm.

It may be said that government retirees have considerable knowledge about relevant policies and regulations. Given that discretionary administrative guidance is often more important than legal text, it is beneficial for private companies to employ those who know the unwritten code of practices in government. Calder emphasized this aspect, arguing that "[t]he most important function of most former government officials in Japan is providing information to their adopted organizations, concerning both likely regulatory actions by their former employers and more general economic and political developments" (1989: 392).

However, their contribution is debatable. From his observations of the collapse of the bubble economy and an interview with a MOF retiree, Hartcher concluded that *amakudari* officials had "no notable insights into how bank lending was contributing to the accumulation of a large speculative bubble in land and stock prices" (1998: 121). It should also be noted that regional banks might be biased to overestimate the resources of government officials, due to a somewhat exaggerated appreciation of the University of Tokyo, whose graduates occupy the largest share of high-ranking officials in the government. As a Japanese banker pointed out in an interview, "they [regional bank executives] simply believe that MOF-retired officials must have special knowledge and information to the extent that those regionally employed can never achieve, because they are the graduates of University of Tokyo" (Amyx 2002: 287).

2) Communication perspective

While the human resource perspective tends to put more emphasis on the benefits reaped by recipient companies, the communication perspective illuminates the mutual benefit between recipient companies and home ministries. From this perspective, *amakudari* is often considered to be the glue reinforcing the public-private relationship in business. Johnson, for instance, argued that "*[a]makudari* provides one more channel of communication for the government, the business community, and the political world" (1982: 71). Wolferen (1989: 45) went further, saying that "the *amakudari* bureaucrat surpasses any official channels in his effectiveness in maintaining the flow of information between bureaucracy and enterprises".

For recipient companies, it is significantly less costly and more effective to communicate with the government via *amakudari* executives than to access the bureaucracy anonymously from the general entrance hall. *Amakudari* officials are often quite useful in encouraging incumbent officials to listen to their companies' voice, even if they cannot always force incumbent bureaucrats to meet their demands. From the company's point of view, it feels entitled to enjoy such special treatment in return for its salary payments to *amakudari* executives. For those companies, the expected benefit of communication via *amakudari* executives must exceed the cost of their employment.

For home ministries, incumbent government officials also seemed to enjoy communicating via *amakudari* executives, at least until the mid-1990s. According to a 1993 survey of bureaucrats, 43% believed that *amakudari* was beneficial because it developed the connections through which they obtained policy demands from the private sector (Nihonkeizai Shimbunsha 1994: 424). From this perspective, *amakudari* officials are viewed as the agent of their home ministries, acting as the terminals for information gathering. The assumption here is that they "work" for the sake of their former employers, even though they are formally working for the private firm.

3) Monitoring perspective

Extending the communication perspective, the monitoring perspective assumes that *amakudari* executives convey even such information that companies would rather not reveal, playing the part of regulator. From this perspective, retired officials are most likely to be dispatched to companies with operational or financial problems. Their task is to assess the nature and degree of the problems, assist in developing solutions, and to advice the home ministry as to progress in resolving the problems. To those who prefer to keep the problems secret, the use of *amakudari* executives seems to be better than the mobilization of incumbent officials.

The public authorities would also be inclined to utilize *amakudari* executives as informal regulators. While formal and direct control, e.g. nationalization, may be more effective, the government seemed to prefer such an informal approach, because they knew that "another request for public funds could only bring greater political wrath" (Amyx 2001: 61). It should also be noted that monitoring via retired employees (or those seconded just before retirement) has been common in Japan, between private companies and their largest creditors, so-called "main banks" (Aoki 1994).

While the informal monitoring through *amakudari* is useful in avoiding unnecessary disturbance, it may well exacerbate a problem when the government fails to solve it. Conditions may become worse, and disturbance may increase when the public learns both the extent of the problems and the fact that the government tried to solve the problems secretly. The government is reluctant to make the problem open once it has been committed, and tries to hide it. Knowing the government's reluctance, companies may well seek special secret treatment.

Amakudari may also facilitate the deterioration of company management, since company managers regard the employment of *amakudari* executives as ”insurance” against failure. Consistently, Horiuchi and Shimizu implied that banks tend to take more risk when they employ ex-MOF executives, with the empirical evidence being that the ratio of equity to assets is negatively correlated with the employment of ex-MOF executives (Horiuchi and Shimizu 2001). This author reaches the same conclusion with more recent data and a different set of control variables (Suzuki 2003).

It should also be remembered that *amakudari* executives would monitor banks as expected, because there is no compensation for good monitoring, nor sanction for negligence. In other words, their principal-agent relationship is unstable. *Amakudari* executives may be diligent in their mission since they are often deeply attached to their home ministries, partly because they had worked there for a long time and partly because they feel indebted to the ministries' arrangement of their reemployment. They might also be afraid of being judged to be incompetent by their former colleagues. Nevertheless, it is not surprising that they would hide information that might risk their current status, even against the interest of the government. They would understandably be reluctant to announce a problem that may cause bankruptcy, since it could mean the loss of their own income.

4) Compensation perspective

Amakudari is also described as a system providing incentives to government officials to work hard. While intense competition for internal promotion in the government ensures a high quality of *amakudari* appointees - as stated in the context of the human resource perspective, such competition is created by the expectation of the reemployment into bank positions with high social status and good working conditions. As Aoki pointed out, "the longer a bureaucrat survives in the ranking hierarchy of the ministry, the better are his/ her prospects for post-bureaucrat *amakudari* positions". *Amakudari* positions are thus considered "the final prize in the competition among bureaucrats in the ranking hierarchy" (Aoki 1988: 266).

Those who take this perspective often mention the salary of bureaucrats, which is apparently lower than that of a typical employee in a private company. According to Ramseyer and Rosenbluth, a roughly calculated mean wage for elite national bureaucrats was JPY 318,000 in 1989, 11% lower than the monthly mean national wage. They also suspect that such comparisons understate the sacrifice of those bureaucrats, since they would have earned much more than the mean national wage at private companies, being the brightest graduates from the preeminent universities (1993: 116-117). Indeed, the above-mentioned survey of bureaucrats also shows that 22% of the respondents thought that *amakudari* was necessary because their salary was low (Nihonkeizai Shimbunsha 1994: 424). In fact, the salary of top *amakudari* executives was perceived to be very high due to their receipt of multiple retirement payments as the result of repeating retirement and reemployment. Such a benefit system apparently reinforces public criticism to *amakudari*, since retirement benefit is a one-time-only award for most of the other workers (Tsutsumi 58-63).

Another way to explain *amakudari* from this perspective lies in the retirement system of government officials. Traditionally, first-class officials are identified with the year of their university graduation throughout their careers, and there is a rigid custom that they should retire when their same-year colleague becomes the vice-minister, i.e., administrative head, of a ministry, so that the colleague can hold absolute seniority within the ministry (Johnson 1995: 149-150). The vice-minister is thus expected to take care of same-year friends in return for the promotion. Since the promotion age to vice-minister is in the mid-50s, same-year colleagues also retire by that age. As a result, the average retirement age of the bureau chiefs giving way to their vice-minister colleague is around 55 (National Personnel Agency 1997; Rothatcher 1993: 173-174). Therefore, the *amakudari* system "makes for a larger turnover of government officials and the injection of young blood into the system" (Blumenthal 1985: 320). In return for the early turnover, the ministry "has the responsibility to see to it that its graduates are well cared for in their postbureaucratic life" (Prestowitz 1989: 235).

From the compensation perspective, *amakudari* also encourages government officials to align their interest with that of private companies. "Since they will one day be responsible for the regulated firm's operations, responding to opportunities for cost reductions and to changes in consumer demand" (La Criox and Mak 2001: 217). However, the alignment of public and private interests may also produce unnecessary economic rents, which may rather deteriorate company operation (ibid.: 218).

The above four perspectives are mostly complementary. In fact, *amakudari* is normally explained by a combination of some of those perspectives. This does not mean, however, that they are always consistent with one another. For instance, the monitoring perspective implies that government retirees are more likely to be appointed to weak firms requiring monitoring. If, however, the companies are very weak, they are less likely to offer a good salary - a fundamental part of the compensation perspective.

The expected pattern of the *amakudari* appointment differs across the four perspectives. From the human resource and the communication perspectives, *amakudari* executives may be appointed to a rather wide range of companies. Appointment to a limited number of weak companies is expected by the monitoring perspective. It may be true that weak companies tend to replace their executives; hence there are more chances for *amakudari* appointment. Yet new executives do not have to be ex-bureaucrats. When companies face red ink, they may gain more from new executives with managerial or financial expertise than from new executives with regulatory or political expertise. It may also be argued that weaker companies would be more likely to reinforce communication with the government by employing *amakudari* executives. However, this is the case only if *amakudari* executives are committed more to the regulatory process, that is, to the extent that the monitoring perspective envisages.

On the other hand, the compensation perspective implies that “chain appointments” are likely. A chain appointment is the appointment of a retiree from a ministry at the retirement of a predecessor from the same ministry. In this way, ministries may well save the costs of seeking new positions, investigating working conditions, and negotiating with companies for *amakudari* acceptance.

With these theoretical perspectives on *amakudari* in mind, the following sections carry out empirical analysis focusing on *amakudari* into regional banks from MOF and BOJ. Our main question concerns how the pattern of *amakudari* appointment through the 1990s fits those perspectives. Do any of those perspectives explain the *amakudari* into regional banks in the 1990s? Was there any change during the 1990s? If so, what was it? As the first step, the next section presents a general description of the trend of the *amakudari* into regional banks in the 1990s, and discusses a number of factors that could potentially have transformed the system.

3. *Amakudari* into regional banks in the 1990s

Firm-specific data on *amakudari* executives are obtained from *Kigyo Keiretsu Souran* through 1999 and from *Yakuin Shikiho* for 2000. They specify the names of the regional bank executives with work experience at public institutions. Sometimes they also specify the names of the executives with work experience at other banks. They do not provide data for all regional banks because they cover only listed companies. Since approximately 80% of the regional banks are listed, the data set should be sufficient to analyze the overall phenomenon[11].

Table 1 displays the number of *amakudari* into regional bank executives from MOF and BOJ during the 1990s. The number of *amakudari* executives from MOF generally increased in the early 1990s but decreased thereafter. There were 92 MOF *amakudari* executives in 1994 and only 47 in 2000. The most remarkable change occurred in 1998, when 20 ex-MOF executives left their positions (including 2 because of bankruptcy) but no new appointments were made.

<TABLE 1 NEAR HERE>

For the *amakudari* from BOJ, on the other hand, the trend was rather consistent. With the exception of 1995 (+4) and 1997 (0), the number of *amakudari* executives decreased through the 1990s. Furthermore, the degree of annual change is generally smaller than the case of MOF.

In order to understand those trends, it should firstly be remembered that the social credibility of bureaucratic management has been reduced, as noted in the first section. This was typically the case in the field of financial and monetary policy. As Cargill (2001: 151) noted, it turned out that “[t]he regulatory approach rooted in the old financial and monetary regime was not able to resolve the growing financial distress” in the mid-1990s. One of the key events was the bankruptcy of Hyogo Bank in 1995. The political distress caused by the financial problems of housing loan companies called *jusen* also impaired the social credibility of the financial

[11] It should be noted that amakudari are allegedly more likely to be appointed to non-listed banks and other smaller financial institutions with less public managerial roles. If this allegation is correct, then our data set underestimates the likelihood of amakudari appointment.

authorities. One of the largest security companies, Yamaichi Shoken, went bankrupt in 1997. This was followed by the bankruptcy and nationalization of Long-Term Credit Bank in 1998. Besides those problems, various bribery scandals and collusions between bureaucrats and banks were revealed, causing strong public emotion against bureaucrat elites.

The second factor to be noted is deregulation in the financial sector, which was partly the result of the reduction in the social credibility of bureaucratic management. The “Big Bang” deregulation started in 1998. More significantly, the function of supervising the financial sector was transferred away from MOF to a newly established organisation, the Financial Supervisory Agency[12]. Meanwhile, BOJ seems to have reduced its authority, mainly due to the decline of national monetary policy in consequence of the development of international financial markets.

Furthermore, *amakudari* itself has become a target of social criticism. No matter how company leaders evaluate it, 89% of middle-rank managers of private companies consider it “unnecessary” or “rather unnecessary” (Nihonkeizai Shimbunsha 1994: 433-444). Social criticism toward bureaucrats has grown in the course of the economic slump, as private employees recognize that public employees enjoy more employment stability than they do (e.g. no layoff). Against this background, the cabinet and the Diet have discussed *amakudari* for a long time. However, no remarkable change has occurred thus far, at least in the formal institutional framework.

So how do those factors explain these trends in the number of *amakudari* appointments? The general downward trend is well explained from the human resource perspective. The reduction in the social credibility and regulatory scope of financial officials, especially after the advent of the Financial Supervisory Agency, would devalue their human capital, and thus banks would be less willing to employ the retirees. Banks would also see a career in the public sector as rather disadvantageous in light of the severe social criticism directed toward *amakudari*. However, the

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[12] The Financial Supervisory Agency was renamed the Financial Services Agency after its reorganization in July 2000.

effect of recent social and regulatory changes may be muted if retired officials are being hired primarily because they have accumulated good general skills and information about the industry over time.

The communication perspective may explain why *amakudari* appointments to MOF increased in the years immediately after the collapse of the bubble economy. To solve their financial problems, bank managers would be inclined to increase communication with the regulatory authority. However, *amakudari* executives may be too costly if their function is only to facilitate communication. Banks would probably expect more than just communication, especially when suffering from financial difficulties. Therefore, the monitoring perspective may be more appropriate than the communication perspective as an explanation for the increase in *amakudari* appointments after the collapse of the bubble economy. Banks would prefer *amakudari* monitoring, even though it means costly employment and regulatory intervention in management. Such costly intervention may be preferred to bankruptcy.

From the communication and monitoring perspectives, the decline in the number of ex-MOF executives in the late 1990s is explained primarily by the decline of the regulatory scope of the financial authority. This is also applied to the general downward trend of *amakudari* appointment from BOJ. It may not be coincidental that the number of *amakudari* executives from both MOF and BOJ started to drop sharply in 1998, when the government launched the "Big Bang" and established the Financial Supervisory Agency.

In contrast to the other three perspectives, the compensation perspective does not explain the trend by itself. After all, no remarkable change has occurred in the promotion system within the financial authorities. It was observed in the mid-1990s that "[t]here seems to be some agreement that the old promotion pattern needs to be less rigid" (Schaede 1996), but there is little evidence of any major change. Social criticism may have reduced the value of *amakudari* as an incentive for bureaucrats, but this does not explain the reduction of *amakudari* executives in regional banks. More retirees may choose to take another job or not to work, but regional banks are still attractive reemployment choices for many retirees, who would otherwise be offered less prestigious and less gainful jobs.

The current section has considered aggregate statistics. While they provide important information, our understanding can be considerably improved by analyzing variation in *amakudari* appointments over time and across individuals. Using multivariate analysis, the next section investigates how MOF and BOJ retirees are appointed into regional banks.

4. Pattern of *amakudari* appointment

Corresponding to the variety of perspectives on *amakudari* executives, the pattern of their appointment may be considered in various ways. From the monitoring perspective, there must be a tendency that *amakudari* executives would more likely be appointed to weaker banks. From the compensation perspective, "chain appointment", i.e., the appointment of a retiree at the retirement of a predecessor, should be more prevalent, as discussed above. From the human resource perspective, larger banks can more likely afford to employ a larger variety of executives, including ex-government officials with legal/ policy expertise. The pattern may be more random from the communication perspective. While larger banks may be more able to afford *amakudari* employment, smaller banks would be keener to employ *amakudari* as a communication channel, for they would otherwise have more difficulty in direct communication with the government. From the viewpoint of the financial authorities, they would be happy to appoint their retirees to banks in various conditions, if they see *amakudari* only as a communication tool.

Furthermore, the appointment may be affected by the number of *amakudari* executives already on board, since some banks employ more than one government retiree from MOF, BOJ or both. Many small regional banks also employ retirees from nationwide banks or large regional banks with which they have close business relationships; such appointments are often regarded as *amakudari*. Nonetheless, it is unclear how the appointments of the retirees from MOF, BOJ and superior banks affect one another.

This study uses a multivariate regression model, specifically a logit model, to understand the factors underlying a bank's amakudari appointments. The logit model is chosen because the dependent variable is binary: the bank either appoints or does not appoint a government retiree to a top position at the bank[13].

Data

Our panel data set includes 96 regional banks in the period between 1991 and 2000. It includes 934 observations in total. It is unbalanced, partly because several banks went bankrupt before 2000, and partly because a number of others were not listed until after 1991. During that period, there were 60 appointments from MOF and 45 appointments from BOJ, as shown in the last section. Only one is appointed in most of the cases, but there are four cases (Hyogo Bank in 1993, Osaka Bank in 1994, Hokuyo Bank in 1994 and Shinwa Bank in 1995) where two MOF retirees were appointed at the same time. To avoid too much complication for such a small number of cases, however, our model only considers the probability of the occurrence of *amakudari* appointment, regardless of the number of appointees.

To put it another way, we use a logistic regression model whose dependent variable is binary. Since each bank has various characteristics that are different enough to affect the probability of its *amakudari* appointment, a conditional fixed effect model is applied. The model also includes time dummy variables on the assumption that the probability of *amakudari* appointment varies across different years, due to such factors as deregulation of the banking sector and social criticism of MOF and BOJ bureaucrats. Therefore the model is presented as:

$$\Pr(y_{i,t} = 1) = \Lambda(\alpha_i + \beta' X_{i,t} + \delta_t)$$

13 For logistic regression, see Demaris (1992), for example.

$y_{i,t} = 1$ where *amakudari* appointment is observed at $bank_i$ in $year_t$; 0 otherwise. α and δ denote the effect of each bank and each year respectively. Λ is the logistic distribution function of $\Lambda(z) = \exp(z) / [1 + \exp(z)]$.

The explanatory variables ($X_{i,t}$) are classified into four categories. The first category includes variables regarding the static economic profile of banks. This includes the equity/asset ratio, the profit/asset ratio, and the asset size in year t.

The second category relates to changes in the bank's economic profile. It consists of the changes in the three variables discussed above from year t-1 to year t. This category also includes a variable which proxies for changes in the economic environment within which the bank is embedded. The proxy is the change in land prices, an asset which often serves as collateral for regional bank loan. The available data source (*Todofuken Chika Chosa/ The Survey on Land Prices of Prefectures*) provides average prices of commercial and residential lands by prefecture, and the prices of commercial lands are applied since it seems to be more influential in the management of banks than the other. Average land price data by prefecture is appropriate since regional banks typically confine their business within prefecture boundaries.

The third category concerns *amakudari* executives of the same origin and includes two variables: the number of those executives already on board and the number of those executives leaving the bank.

The fourth category includes the variables describing the status of other executives. In the model of MOF *amakudari*, this means that the variables are the number of ex-BOJ executives on board, and the numbers of new appointments from BOJ and retirements of ex-BOJ executives. Likewise, the model of BOJ *amakudari* includes the corresponding numbers of ex-MOF executives as explanatory variables.

Estimation and results

The model is estimated with two different dependent variables, MOF *amakudari* and BOJ *amakudari*. Since a conditional fixed effect Logit panel model excludes the observation groups, i.e., banks, with all positive or all negative outcomes (Gould 2000), the numbers of observations used for the models of MOF and BOJ *amakudari* are reduced to 378 and 361 respectively. With regard to the explanatory variables, no serious multicollinearity is observed[14].

Table 2 shows the estimated coefficients on the explanatory variables for the models. In both models, the significance of the overall model is sufficient, according to the diagnosis using Likelihood Ratio (LR) chi-square statistics.

With regard to MOF *amakudari*, statistically significant variables include profit-asset ratio, asset size, change of equity-asset ratio, change of profit-asset ratio, the number of other ex-MOF executives on board, and the number of new appointment of BOJ retirees. The contribution of the first two variables and the last variable is positive, while the others contribute negatively.

The negative contribution of the dynamic financial status (change of equity-asset ratio and change profit-asset ratio) may imply that banks were more likely to employ MOF retirees when their financial conditions deteriorated. This is consistent with the human resource, communication, and monitoring perspectives, which may suggest that banks would prefer either to enrich their human resources, to improve their communication with the authority, or to ask the authority for help, when they face financial difficulties.

On the other hand, the positive contributions of profit-asset ratio and asset size means that MOF retirees were more likely to be appointed to more profitable and bigger banks, which may fit the compensation perspective. In other words, *amakudari* appointment seems to occur not just when banks are motivated, but also when it is attractive from the viewpoint of the retirees.

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[14] For instance, the highest value of the variance inflation factor (VIF), which is often used for the diagnosis of multicollinearity, is 3.45 in the MOF-model, and 3.59 in the BOJ-model. In general, a VIF in excess of 10 is an indication of serious multicollinearity. See, for example, Neter, et al. (1985).

Amakudari appointments are, however, negatively correlated with the number of incumbent ex-MOF executives. This seems to reflect the fact that many banks have a fixed number of executive positions specifically allocated for MOF retirees. Yet it should also be remembered that our result does not show statistically significant contribution of the retirement of incumbent *amakudari* executives. This means that "chain appointments" are not a significant determinate of *amakudari*.

The appointment from MOF is also correlated with the appointment from BOJ, although its statistical significance is rather weak. From this, it might follow that BOJ's *amakudari* appointment occurs in the same manner as that of MOF. Nevertheless, our result of the estimation of BOJ *amakudari* marks a somewhat different pattern of correlations.

The positive contribution of the equity/asset ratio may indicate that BOJ retirees tend to be appointed to more stable banks. This is analogous to the case of MOF, whose retirees are more likely to be appointed to more profitable and bigger banks. However, it is not clear why MOF and BOJ are associated with different static variables. On the other hand, none of the variables regarding dynamic financial status and economic environment are statistically significant. Furthermore, the negative correlation with the change of the number of ex-bank executives is specific to the case of BOJ *amakudari*, while the negative correlation with the number of incumbent ex-officials on board is just the same as in the case of MOF *amakudari*. This implies that banks often treat BOJ retirees as an alternative to the retirees from other banks.

<TABLE 2 NEAR HERE>

5. Conclusion

Amakudari is well known in Japan, but the literature on Japanese political economy has seldom examined it systematically. Moreover, it is often assumed to be a system that never changes. This assumption is apparently convincing particularly in the case of regional banks, where many incumbent *amakudari* executives and even new appointments are still observed despite the shrinking scope of regulation and growth in public scepticism about bureaucratic control. Nonetheless, we should recall the observation shared by the scholars of institutionalism that "institutions themselves may be resistant to change, but their impact on political outcomes can change over time in subtle ways in response to shifts in the broader socioeconomic or political context" (Thelen and Steinmo 1992: 18).

The change in the pattern of *amakudari* appointments seems to be consistent with that observation. While 'chain appointments' were considered to be important prior to the 1990s (see Horiuchi and Shimizu 2001, for example), the logit results show that they were not important in the 1990s. On the other hand, the fact that appointment is more likely to occur at profitable and big banks in the case of MOF *amakudari* and at stable banks in the case of BOJ *amakudari* partially justifies a traditional view that "retiring bureaucrats would "descend from heaven" to take high-level, high-paying jobs" (Pempel 1998: 95).

It is not clear how the *amakudari* system will change in the future, in consequence of such socio-economic changes as further deregulation and financial globalization. In April 2003, the Japanese government launched a reform of the promotion system of government officials to restrict the *amakudari* practice. To discuss the result of this effort is left to further studies. The key question for policymakers is not the precise identification of the fall in *amakudari* numbers but rather how the incentives to make such appointments changed over time. The theoretical framework and the empirical observations presented in this study may be useful in addressing that question.

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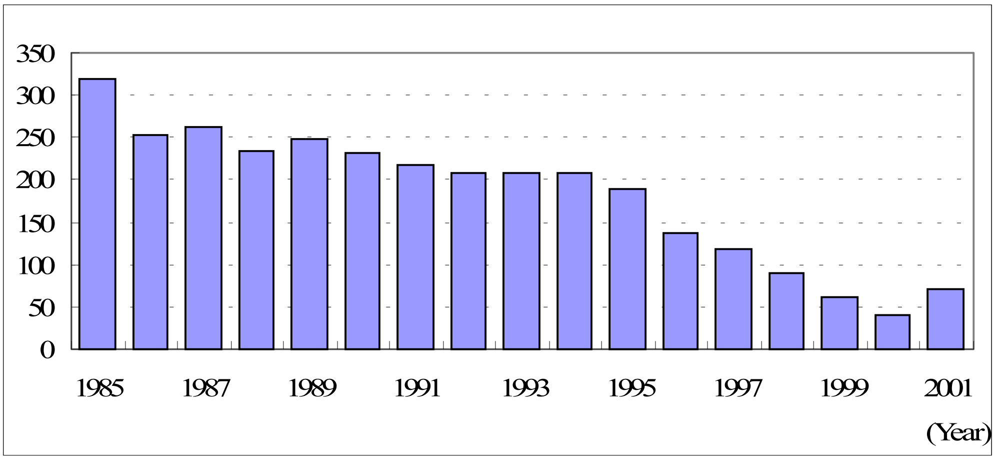
Figure 1 Number of agreements registered by National Personnel Authority for *amakudari*: 1985-2001



Source: National Personnel Authority, various years.

Table 1 *Amakudari* into regional bank executives: 1991-2000

Year	Retired	Appointed	Retired due to merger/ bankruptcy	Newly counted due to merger/ new listing	Total number of amakudari executives	Change from the previous year
Ministry of Finance						
1991	14	6	0	3	75	
1992	7	5	2	2	73	-2
1993	5	11	0	3	82	9
1994	9	18	0	1	92	10
1995	7	7	0	0	92	0
1996	7	1	2	0	84	-8
1997	6	3	2	3	82	-2
1998	18	0	2	0	62	-20
1999	9	2	2	1	54	-8
2000	12	7	4	2	47	-7
1991-2000	94	60				
Bank of Japan						
1991	2	3	0	2	64	
1992	9	4	2	2	59	-5
1993	11	8	0	0	56	-3
1994	6	4	0	1	55	-1
1995	4	8	0	0	59	4
1996	4	4	1	0	58	-1
1997	4	5	1	0	58	0
1998	6	4	1	0	55	-3
1999	9	2	1	1	48	-7
2000	4	3	3	0	44	-4
1991-2000	59	45				

Source: Toyo Keizai Shimposha, various years.

Table 2 Estimation of the factors affecting *amakudari* appointment from MOF and BOJ to regional banks

	Amakudari appointment			
	from MOF		from BOJ	
Independent variables	Estimates	Wald statistics	Estimates	Wald statistics
Financial profile of banks				
Equity-asset ratio in the previous year (%)	93.979	(1.02)	198.042	(2.21)**
Profit-asset ratio in the previous year (%)	143.190	(2.01)**	-141.635	(-1.45)
Asset size in the previous year (million yen, logged)	5.108	(1.65)*	-9.355	(-1.34)
Dynamic financial status and economic circumstances				
Equity-asset ratio, change from the previous year (%)	-11.051	(-2.63)***	-2.209	(-0.83)
Profit-asset ratio, change from the previous year (%)	-0.046	(-1.95)*	0.026	(1.01)
Asset size, change from the previous year (%)	3.489	(0.38)	0.165	(0.02)
Prefecture-average prices of commercial lands, change from the previous year (%)	-7.568	(-1.47)	9.258	(1.64)
Amakudari executives of the same origin				
Retirement of ex-MOF executives, number	-0.742	(-1.10)		
Other ex-MOF executives, number on board	-5.319	(-5.43)***		
Retirement of ex-BOJ executives, number			0.316	(0.42)
Other ex-BOJ executives, number on board			-4.864	(-4.54)***
Status of other executives				
Ex-BOJ executives, number on board	-0.688	(-0.78)		
New appointment from BOJ, number	1.799	(1.86)*		
Retirement of ex-BOJ executives, number	-1.544	(-1.55)		
Ex-MOF executives, number on board			-0.654	(-0.95)
New appointment from MOF, number			2.465	(2.90)***
Retirement of ex-MOF executives, number			0.026	(0.03)
Ex-bank executives, number on board	0.357	(0.56)	0.810	(1.23)
Ex-bank executives, change from the previous year (%)	-0.454	(-0.80)	-1.615	(-3.11)***
Number of observations	378		361	
LR chi-square	130.08***		108.00***	

Note: Wald statistic in parenthesis; asterisks indicate statistical significance at the 10% (*), 5% (**) and 1% (***) levels.