

# **CHANGING PATTERN OF *AMAKUDARI* APPOINTMENT – THE CASE OF REGIONAL BANKS**

by  
**Kenji Suzuki**  
**Working Paper No 198**  
**September 2004**

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](mailto:japan@hhs.se)    Internet:  
<http://www.hhs.se/eijs>

Changing pattern of *amakudari* appointment – the case of regional banks

KENJI SUZUKI

Stockholm School of Economics, Sweden

PO Box 6501, S111 40, Stockholm, Sweden

E-mail: Kenji.Suzuki@hhs.se

## 1. Introduction

*Amakudari* is one of the practices, or informal institutions<sup>1</sup>, 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<sup>2</sup>.

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's 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.

---

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

<sup>2</sup> 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, less than one sixth of the level 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<sup>3</sup>.

<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<sup>4</sup>, 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:

---

<sup>3</sup> 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%).

<sup>4</sup> 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<sup>5</sup>, 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, although BOJ's engagement in the management of regional banks is more limited, only through monetary policy measures.

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 small number of largest banks, the role of regional banks is far from marginal. 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)<sup>6</sup>.

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 use data through the 1990s, and examines how the presence of *amakudari* executives affects the 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.

---

<sup>5</sup> For example, see Suzuki (2002) for the case of Fair Trade Commission.

<sup>6</sup> The other 8% belong to eight trust banks and a long-term trust bank. Postal savings, credit associations, and other financial companies are excluded.

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* appointment 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, the governor of BOJ since 1998, believed that ‘[*amakudari* executives] are those who were recruited because their special knowledge and experience were appreciated’<sup>7</sup>. 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’<sup>8</sup>. In fact, the Japanese government has recently established a system to help private employers obtain information from retired officials<sup>9</sup>.

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

---

<sup>7</sup> House of Representatives, the 155th Session, Budget and Finance Committee, Vol.1, 29 October 2002.

<sup>8</sup> House of Representatives, the 151th Session, Budget and Finance Committee, Vol.13, 31 May 2001.

<sup>9</sup> See National Personnel Agency (2001), Chapter 10, for details.

government, it is not surprising that those appointed to top positions have valuable human capital that helped them be promoted to such high positions.

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 (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 connection 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 dispatched to companies with some problems, seeking what is happening in the company’s management, to help their home ministries consider better solution. 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).

The monitoring perspective implies that *amakudari* may well contribute to moral hazard. 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. This may cause moral hazard to both the government and recipient companies. 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. In other words, ‘the more closely aligned incentives ... induce regulators to design regulations to produce economic rents for the regulated industries’ (La Crix and Mak 2001: 218). In this context, *amakudari* is considered a rent-sharing scheme.

Moral hazard may also occur at the level of company management, when 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 asset 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 could catch moral hazard. After all, there is no formal contract between the government and *amakudari* executives. There is no compensation for good monitoring, nor sanction for bad work. 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 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 the information that may 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

pre-eminent 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 is conceived to be very high, especially because they often get a very generous retirement benefit several times by repeating reemployment and retirement. 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 around the mid-50s, same-year colleagues should leave by that time. 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; Rothacher 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, it is also pointed out that *amakudari* 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, senior bureaucrats have incentives to ensure that regulated firms remain in good financial health, responding to opportunities for cost reductions and to changes in consumer demand’ (La Crix and Mak 2001: 217).

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 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 suffer from economic problems, they are perhaps more likely to require management resources rather than legal/ political knowledge. 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 the working experience at other banks. They do not provide the 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<sup>10</sup>.

Table 1 displays the number of *amakudari* into regional bank executives from MOF and BOJ throughout the 1990s. The number of *amakudari* executives from MOF generally increased in the early 1990s, but then the trend reversed afterwards. There were 92 MOF *amakudari* executives in 1994, but the number of the executives declined to 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.

---

<sup>10</sup> However, it should be noted that *amakudari* is allegedly more likely to be appointed to non-listed banks and other smaller financial institutions, whose management profile is not presented so widely as listed banks. As a result, our dataset involves a risk of underestimating the likelihood of *amakudari* appointment.

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 problem of housing loan companies called *jusen* also impaired the social credibility of the financial 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<sup>11</sup>. 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), for instance. Social criticism toward bureaucrats has grown in the course of the economic slump, as private employees recognize that public employees enjoy more stable employment status (e.g. no layoff) than themselves. Against this background, the cabinet and the Diet have discussed

---

<sup>11</sup> The Financial Supervisory Agency was renamed the Financial Services Agency after its reorganization in July 2000.

*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 resources, and thus banks would be less willing to employ the retirees. Banks would also see the career in the public sector as rather disadvantageous in light of severe social criticism toward *amakudari*. However, the effect of recent social/ regulatory changes may not be so much 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. In order to solve economic problems, bank managers would incline to increase communication with the financial 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 they suffered from economic difficulties. Therefore, the monitoring perspective may be more appropriate than the communication perspective in order to explain an incentive to *amakudari* appointment after the collapse of the bubble economy. Banks would prefer *amakudari* monitoring, even though it means costly employment and regulatory intervention in management. After all, it is better than 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 that does not seem to have become widespread hitherto. 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 destinations of reemployment 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 is considerably restricted unless we analyze the pattern of *amakudari* appointment more closely. 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 in close connection with themselves, which is often regarded as *amakudari* as well. Nonetheless, it is unclear how the appointments of the retirees from MOF, BOJ and superior banks affect one another.

In order to consider *amakudari* appointment with taking account of all those conditions, this study applies a multivariate model, specifically logistic regression. The reason for choosing that particular model is that the variable to be explained is binominal, that is, whether or not a government retiree is appointed to a bank under certain conditions<sup>12</sup>.

#### *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 started being listed 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, Hokujo 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.

---

<sup>12</sup> For logistic regression, see Demaris (1992), for example.

To put it another way, we use a logistic regression model whose dependent variable is binominal. 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 and social criticism. Therefore the model is presented as:

$$\Pr (y_{i,t} = 1) = \Lambda (\alpha_i + \beta X_{i,t} + \delta_t)$$

$y_{i,t} = 1$  where *amakudari* appointment is observed at bank<sub>*i*</sub> in year<sub>*t*</sub>; 0 otherwise.  $\alpha$  and  $\delta$  denote the effect of each bank and each year respectively.  $\Lambda$  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 static economic profile of banks. This includes the levels of equity and profit in terms of the ratio to asset, as well as the size of asset in the year (t-1) previous to the observation year.

The second category relates to the variables indicating dynamic situation. It consists of the changes in the profile of banks (equity-asset ratio, profit-asset ratio and asset size) from two years before (t-2) to the previous year (t-1) before the observation year. This category also includes the change in the economic circumstances affecting observed banks. As a measure of such economic circumstances, the change in land prices is used on the ground that banks take lands as collateral in most loan cases. The available data source (*Todofuken Chika Chosa/ The Survey on Land Prices of Prefectures*) provides the prefecture-average prices of commercial and residential lands, and the prices of commercial lands are applied since it seems to be more influential in the management of banks than the other. The use of prefecture-average data looks

appropriate, since a regional bank usually runs its business within the borders of a particular prefecture.

The third category concerns *amakudari* executives of the same origin and includes two variables. The first is the number of those executives presently employed in the bank except new appointee, and the second is the number of those executives retiring from the bank, replaced with the new one. If *amakudari* appointment is carried out somewhat orderly, those variables should be correlated with the likelihood of new appointment.

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. Assuming that the status of the executives from superior banks may also affect the pattern of *amakudari* appointment, the number of those executives and its change from the previous year are also taken into account.

#### *Estimation and results*

The model is estimated with two different dependent variables, MOF *amakudari* and BOJ *amakudari*, and with four different combinations of the explanatory variables. Since a conditional fixed effect Logit panel model excludes the observation groups, i.e., banks, with all positive or all negative outcomes, the numbers of observations used for the analyses of MOF and BOJ *amakudari* are reduced to 378 and 361 respectively.

With regard to the explanatory variables, the first estimation only includes the variables in the first category in addition to the variables of panel identification, i.e., bank identification and time. The variables are increased category by category, and the fourth estimation includes the variables in all four categories. Even when all variables are included, the value of the variance

inflation factor is less than 4 for all independent variables. This implies that none of those estimations suffer from serious multicollinearity.

Table 2 and Table 3 show the estimates of the explanatory variables for the analyses of MOF and BOJ *amakudari* respectively. In both analyses, the significance of the overall model, in terms of Likelihood Ratio (LR) chi-square statistics, improved remarkably when the third-category variables, i.e., the variables concerning *amakudari* executives of the same origin, are added to the model. The addition of the variables in the fourth category further increases the significance of the overall model.

With regard to MOF *amakudari*, statistically significant variables in the fourth estimation 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 went worse. 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, positive contribution 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.

However, it should be noted that *amakudari* appointment is 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 appointment” is not a case, at least in our observation period.

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 equity-asset ratio may indicate that BOJ retirees tend to be appointed to more stable banks. This is analogous to the case of MOF retirees, although it is difficult to explain why BOJ *amakudari* is associated with stability, whereas MOF *amakudari* is associated with profitability and size. On the other hand, none of the variables regarding dynamic financial status and economic circumstances indicate any statistically significant contribution. 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>

<TABLE 3 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 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 appointment” is often pointed out by the observations of the period prior to the 1990s (see Horiuchi and Shimizu 2001, for example), it is no longer the case according to our result. 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* justifies a traditional view that ‘retiring bureaucrats would “descend from heaven” to take high-level, high-paying jobs’ (Pempel 1998: 95), at least to some extent.

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. However, the key question is not how much *amakudari* appointments reduced in number, but rather how the incentives underlying those appointments are modified. The theoretical framework and the empirical observations presented in this study may be useful in addressing that question.

## REFERENCES

- Amyx, Jennifer A. (2001) ‘Informality and Institutional Inertia: the Case of Japanese Financial Regulation’, *Japanese Journal of Political Science*, Vol.2 No.1, pp.47-66.
- (2002) ‘Okurasho Nettowaku – Kenryokuno Kakudaito Seiyakuno Kiketsu (Ministry of Finance Network – The Result of Power Expansion and Restriction’ in Muramatsu, Mikio

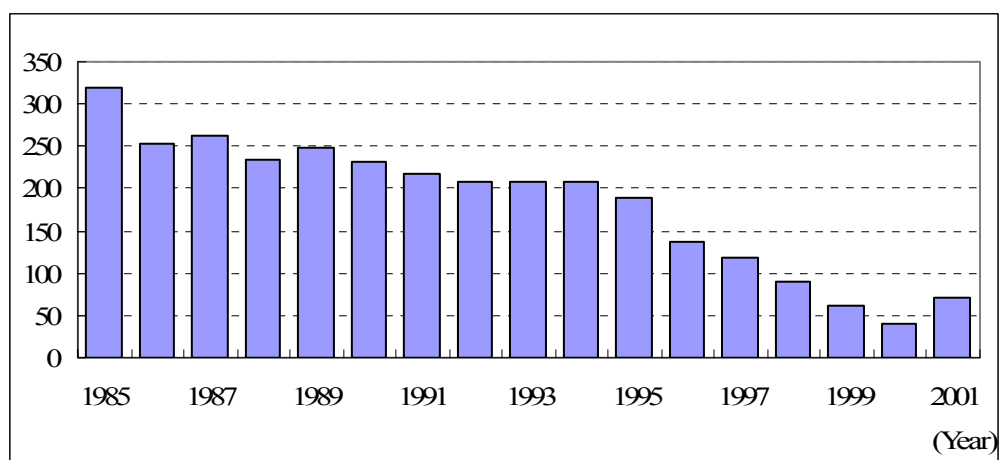
- and Okuno, Masahiro (eds.) *Heisei Baburuno Kenkyu, Ge (Study on Heisei Bubble, Volume II)*, Tokyo: Toyokeizai Shimposha.
- Aoki, Masahiko (1988) *Information, Incentives, and Bargaining in the Japanese Economy* (Cambridge: Cambridge University Press).
- (1994) 'Monitoring Characteristics of the Main Bank System: An Analytical and Developmental View' in Aoki, Masahiko and Patrick, Hugh T (eds.) *The Japanese Main Bank System: Its Relevance for Developing and Transforming Economies* (Oxford : Clarendon Press), pp.109-141.
- Blumenthal, Tuvia (1985) 'The Practice of *Amakudari* within the Japanese Employment System', *Asian Survey*, Vol.25, No.3, pp.310-321.
- Calder, Kent (1989) 'Elites in an Equalizing Role: Ex-bureaucrats as Coordinators and Intermediaries in the Japanese Government-Business Relationship', *Comparative Politics*, Vol.21, Iss.4, pp.379-403.
- Cargill, Thomas, F. (2001) 'Central Banking, Financial, and Regulatory Change in Japan' in Blomström, Magnus, Gangnes, Byron and La Croix, Sumner (eds.) *Japan's New Economy: Continuity and Change in the Twenty-first Century* (New York: Oxford University Press), pp.145-161.
- Colignon, Richard and Usui, Chikako (2001) 'The Resilience of Japan's Iron Triangle', *Asian Survey*, 41: 5, pp.865-895.
- DeMaris, Alfred (1992) *Logit Modeling: Practical Applications* (Newbury Park: Sage Publications).
- Hartcher, Peter (1998) *The Ministry: The Inside Story of Japan's Ministry of Finance* (London: Harper Collins Business).
- Horiuchi, Akiyoshi and Shimizu, Katsutoshi (2001) 'Did *Amakudari* Undermine the Effectiveness of Regulator Monitoring in Japan?', *Journal of Banking & Finance*, Vol.25, No.3, pp.573-96.

- Ikuta, Tadahide (1995) *Kanryo, Japan's Hidden Government* (New York: NHK Publishing).
- Johnson, Chalmers A. (1982) *MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press).
- (1995) *Japan: Who Governs? the Rise of the Developmental State* (New York: W.W.Norton & Company).
- La Croix, Sumner and Mak, James (2001) 'Regulatory Reform in Japan: The Road Ahead' in Blomström, Magnus, Gangnes, Byron and La Croix, Sumner (eds.) *Japan's New Economy: Continuity and Change in the Twenty-first Century* (New York: Oxford University Press), pp.215-241.
- Ministry of Land, Infrastructure and Transport, *Todofuken Chika Chosa (The Survey on Land Prices of Prefectures)* (Tokyo: Ministry of Land, Infrastructure and Transport).
- National Personnel Agency (1997) *Annual Report 1996* (Tokyo: National Personnel Agency) Online. Available at <http://www.jinji.go.jp/hakusho/h08/h8f.htm> (in Japanese)
- (2001) *Annual Report 2000* (Tokyo: National Personnel Agency) Online. Available at <http://www.jinji.go.jp/english/annal2000/index.htm> (in English)
- Nihon Keizai Shimbunsha (ed.) (1994) *Kanryo - Kishimu Kyodai Kenryoku (Bureaucrats - Creaking Great Power)* (Tokyo: Nihon Keizai Shimbunsha).
- Okimoto, Daniel I. (1988) 'Political Inclusivity: The Domestic Structure of Trade' in Inoguchi, Takashi and Okimoto, Daniel I. (eds.) *The Political Economy of Japan Volume 2 The Changing International Context* (Stanford: Stanford University Press).
- Pempel, T. J. (1998) *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Ithaca, N.Y.: Cornell University Press).
- Prestowitz, Clyde V. Jr. (1989) *Trading Places: How We Are Giving Our Future to Japan and How to Reclaim It* (New York: London Basic Books)
- Ramseyer, J. Mark and Rosenbluth, Frances McCall (1993) *Japan's Political Marketplace* (Cambridge, Mass.: Harvard University Press).



- Rixtel, Adrian A. R. J. van and Hassink, Wolter H. J. (1998) 'Monitoring the Monitors: *Amakudari* and the Ex-post Monitoring of Private Banks', Discussion Paper No. 1785, January 1998 (London: Centre for Economic Policy Research).
- Rothacher, Albrecht (1993) *The Japanese Power Elite* (Basingstoke: Macmillan).
- Schaede, Ulrike (1996) 'The Ministry of Finance, Change, and Sherlock Holmes', *Social Science Japan*, No.7 August 1996. Online. Available at <http://web.iss.u-tokyo.ac.jp/newslet/SSJ7/Schaede.html>
- Suzuki, Kenji (2002) *Competition Law Reform in Britain and Japan: Comparative Analysis of Policy Network* (New York: Routledge).
- (2003) 'The Effect of *Amakudari* on Bank Performance in the Post-bubble Period' in Park, Sung-Jo and Horn, Sierk (eds.) *Asia and Europe in the New Global System* (London: Palgrave Macmillan).
- Thelen, Kathleen and Steinmo, Sven (1992) 'Historical Institutionalism in Comparative Politics' in Steinmo, Sven, Thelen, Kathleen and Longstreth, Frank (eds.) *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press).
- Toyokeizai Shimposha, *Kigyo Keiretsu Soran (The Comprehensive List of Corporate Keiretsu)* (Tokyo: Toyokeizai Shimposha).
- (2001) *Yakuin Shikiho (Seasonal Report on Corporate Executives) 2001* (Tokyo: Toyokeizai Shimposha).
- Tsutsumi, Kazuma (2000) *Kyodaishouchou Amakudari Fuhai Hakusho (White Paper on Amakudari Corruption of Giant Ministries)* (Tokyo: Kodansha).
- Wolferen, Karel van (1989) *The Enigma of Japanese Power: People and Politics in a Stateless Nation* (London: Macmillan).

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 to regional banks

Independent variables	Estimates			
	I	II	III	IV
Financial profile of banks				
Equity-asset ratio in the previous year (%)	12.762 (0.34)	12.984 (0.28)	69.788 (0.87)	93.979 (1.02)
Profit-asset ratio in the previous year (%)	-16.132 (-0.35)	79.015 (1.25)	116.689 (1.79)*	143.190 (2.01)**
Asset size in the previous year (million yen, log $\epsilon$ )	0.461 (0.28)	0.722 (0.45)	5.030 (1.98)**	5.108 (1.65)*
Dynamic financial status and economic circumstances				
Change of equity-asset ratio from 2 years before to the previous year (%)		-1.526 (-0.92)	-9.048 (-2.64)***	-11.051 (-2.63)***
Change of profit-asset ratio from 2 years before to the previous year (%)		-0.044 (-2.34)**	-0.047 (-2.20)**	-0.046 (-1.95)*
Change of asset size from 2 years before to the previous year (%)		-3.387 (-0.61)	4.684 (0.58)	3.489 (0.38)
Prefecture-average prices of commercial lands, change from the previous year (%)		-4.461 (-1.37)	-8.148 (-1.67)*	-7.568 (-1.47)
Amakudari executives of the same origin				
Retirement of ex-MOF executives, number			-0.768 (-1.13)	-0.742 (-1.10)
Other ex-MOF executives, number on board			-5.073 (-5.65)***	-5.319 (-5.43)***
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-bank executives, number on board				0.357 (0.56)
Ex-bank executives, change from the previous year (%)				-0.454 (-0.80)
Number of observations	378	378	378	378
LR chi-square	37.35***	47.38***	125.66***	130.08***

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

Table 3 Estimation of the factors affecting *amakudari* appointment from BOJ to regional banks

Independent variables	Estimates			
	I	II	III	IV
Financial profile of banks				
Equity-asset ratio in the previous year (%)	58.314 (1.30)	68.598 (1.41)	137.557 (1.89)*	198.042 (2.21)**
Profit-asset ratio in the previous year (%)	-46.979 (-0.90)	-50.696 (-0.83)	-112.412 (-1.38)	-141.635 (-1.45)
Asset size in the previous year (million yen, log $\epsilon$ )	-1.373 (-0.42)	-1.018 (-0.28)	-2.894 (-0.48)	-9.355 (-1.34)
Dynamic financial status and economic circumstances				
Change of equity-asset ratio from 2 years before to the previous year (%)		-0.596 (-0.38)	-0.890 (-0.48)	-2.209 (-0.83)
Change of profit-asset ratio from 2 years before to the previous year (%)		0.009 (0.36)	0.001 (0.06)	0.026 (1.01)
Change of asset size from 2 years before to the previous year (%)		-2.820	-3.930	0.165
Prefecture-average prices of commercial lands, change from the previous year (%)		4.502 (1.36)	2.700 (0.72)	9.258 (1.64)
Amakudari executives of the same origin				
Retirement of ex-BOJ executives, number			0.667 (1.07)	0.316 (0.42)
Other ex-BOJ executives, number on board			-3.628 (-4.71)***	-4.864 (-4.54)***
Status of other executives				
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				0.810 (1.23)
Ex-bank executives, change from the previous year (%)				-1.615 (-3.11)***
Number of observations	361	361	361	361
LR chi-square	8.34	10.76	86.19***	108.00***

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