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Financial Deregulation and the Privatization of Housing Finance Policy in Japan: An Argument against abolishing the Government Housing Loan Corporation

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Abstract

In postwar Japan, the public policy to promote housing provision was served mainly by the three institutions established in the 1950s: the Government Housing Loan Corporation（GHLC）, the municipality-managed Public Housing System and the Japan Housing Corporation. However, from the mid-1990s onward, remarkable changes in housing policies began to appear. The changes include a drastic restructuring of the existing system and institutions.

This paper, focusing on the government's plan to abolish GHLC, provides a critique of the restructuring in Japan's housing finance policy. First, we discuss the background against which the changes in housing finance policy are concerned: financial deregulation and bad loan problems. Secondly, we describe the government's plan to abolish GHLC, and thirdly, examine this plan's actual implications and possible consequences. Lastly, we raise an alternative perspective for desirable reforms of housing finance policy.

1 Introduction: Restructuring of Japan's housing policy

In postwar Japan, the public policy to promote housing provision was served mainly by the three institutions: The Government Housing Loan Corporation（GHLC）, financing the middle class to buy homes, was established in 1950. The municipality-managed Public Housing System, providing the lower-income class with rented houses, was established in 1951. The Japan Housing Corporation, providing the residents of large cities with houses for rent and sale, was established in 1955 and afterwards merged into the Housing and Urban Development Corporation in 1981. However, from the mid-1990s onward, remarkable changes in housing policies began to appear. The changes include a

［*］ This is a revision of the paper "Restructuring of Japan's Housing Finance Policy: Should the Government Housing Loan Corporation be abolished?" presented at the ENHR（European Network for Housing Research）Vienna Conference in July 2002. The author would like to thank Gary A. Dymski for his comments on an earlier draft. Thanks are also due to the colleagues of author's, Hitoshi Tsutsui and Nabil Maghrebi.

drastic restructuring of the existing system and institutions.

Upon revising the Public Housing Law in 1996, the upper-income limit for tenants of public housing was lowered, while the government curtailed its subsidies for public housing construction. These measures led to increasing residualization in the provision of public housing. In 1999, the Housing and Urban Development Corporation was abolished and replaced with the Urban Development Corporation, which began to withdraw from housing provision. In 2000, the government introduced deregulation into the Housing Lease Law. It led to the weakened protection of tenant's right to privately rented houses. In 2004, the Urban Development Corporation was abolished and replaced with the Urban Renaissance Agency supporting mainly urban redevelopment business.[1] And now, the government is planning to abolish GHLC and replace it with a new corporation 'the Housing Finance Agency' dealing exclusively in securitization business on bank housing loans. Overall, this ongoing restructuring is in accordance with a principle that housing policy has to be limited to supplementing the market operation. This is the neo-liberalist doctrine to support both privatization and deregulation in Japan's housing policies.

This paper, focusing on the government's plan to abolish GHLC, provides a critique of the restructuring in Japan's housing finance policy. First, we briefly discuss the background against which the changes in housing finance policy are concerned: financial deregulation and bad loan problems. Secondly, we describe the government's plan to abolish GHLC, and thirdly, examine this plan's actual implications and possible consequences. Lastly, we raise an alternative perspective for desirable reforms of housing finance policy.

2 Background: Financial deregulation and bad loan problems

The logic behind the recent changes in housing policies was given, in 1995, by the report of the Council for Housing and Residential Land, an advisory commission for the Minister of Construction. This report entitled *Principles of Housing and Residential Land Policy in the Twenty-first Century,* raised the new idea that an aim of housing policy is to establish the prerequisites for smooth functioning of housing markets. Arguably, the restructuring of housing finance policy may be regarded as a part of the necessary steps to achieve this target. Nevertheless, to reveal its actual meaning, we have to begin by considering the macro-economic context in light of the structural changes in financial markets. The background of the changes in housing finance policy can be summarized in the following two issues: financial deregulation and bad loan problems.

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[1] For a detailed consideration on the recent changes in housing policies, see Oizumi, 2002, pp.182-183., and Oizumi, 2004, pp. 68-70.

Japanese 'Big-Bang' Policy as a financial deregulation

In November 1996, the 'Banking and Securities Market Big-Bang' was announced by the then Prime Minister Hashimoto. It indicated the government policy to carry out comprehensive reform and deregulation of Japan's financial system during the period from 1999 to 2001. The contents of this policy were diverse, including the deregulation of foreign exchange dealings, securities dealings and selling of hybrid financial products, the elimination of restrictions on the competition among banking, securities and insurance businesses, and the establishment of financial holding companies, as a means to promote the capital concentration across the various sections of financial business.

The 'Big-Bang' policy, in the long run, was intended to complete at a stroke the financial deregulation started from the 1970s. The central concern of the financial deregulation, in fact, lies in large commercial banks（city banks）' interests. To clarify this point on financial deregulation, we first need to examine the historical context of Japan's industrial-financial relations[2].

During the high-growth years from the 1950s to the early 1970s, the most significant customers of banking institutions were large industrial enterprises that borrowed from banks to finance vigorous investments. However, from the mid-1970s the relation between large enterprises and banking institutions started to change. In the lower-growth years that continued into the 1980s, the level of money capital accumulation in the industrial sector increased remarkably, thanks to high retained earnings and fund surplus. Conditions were such that large industrial enterprises needed to invest less in production capacities even while their money assets accumulated. Large enterprises, therefore, shifted away from bank-financing to self-financing, and large banks consequently faced a declining role in corporate financing. It was in this environment of lower-growth and increasing money capital accumulation that financial deregulation was initiated.

Deregulation began with the bonds market. In 1975, the government began to issue larger volumes of government bonds to cover its growing budget deficit. Faced with the drastic rise in government bond issues, the Ministry of Finance, in 1977, relaxed restrictions on the secondary market for bonds. The next step was the liberalization of interest-rates. With the creation of CD（negotiable certificates of deposit）market in 1979, the government gradually liberalized interest-rates. In 1994, when the Ministry of Finance liberalized completely deposit interest-rates, the entire system of interest-rate regulation, which had supported Japan's financial system during the postwar period, came to an end.

The changes in corporate finance and financial deregulation put large banks in a double bind. On the one hand, by losing major customers — because large industrial enterprises were also major depositors for banks —, these banks started to face a keen competition to collect deposit. They began

［２］Matsumoto, 2002, pp.130-132, presents a good analysis about the changes in corporate finance and their impact on banking institutions.

to expand the network of their branches in order to collect as many deposits as possible, often through the merger and acquisition of banks. On the other, they were forced not just to expand lending but also to seek new business in money markets. Losing low-risk borrowers — because large industrial enterprises were already finding alternative sources of funding —, these banks competitively relaxed their loan requirements in order to expand their loan portfolios. Financial deregulation furthered such banking policy at the same time. Consequently, banks' lending was diverted into risky investors in stock and real estate markets. In contrast, housing loans were appreciated with lower-risk and proved more profitable business for banks, so private housing loans began to rapidly grow from the 1970s, as will be mentioned later.

This strategy reached a problematic climax in the 'bubble economy' years from 1985 to 1991. After the G 5 ' Plaza Accord in 1985, when the Bank of Japan began to reduce its basic money rate and increase money-supply to banks, 'bubble economy' prevailed. Banking institutions entered into a fierce competition in the lending market. Banks concentrated their lending almost exclusively on borrowers investing in stock and real estate markets. Supported by an extraordinary rise in stock and land prices, speculative property financing escalated, and after all, collapsed.

Thus we can conclude that financial deregulation was precipitated by the lower economic growth and the changes in corporate finance, and that it promoted competition among banks in the money market. Although this deregulation process furthered the capital concentration in large banks, the banks were damaged heavily through the collapse of bubble economy. What the 'Big-Bang' policy intended, therefore, was to resume strengthening the financial dominance of large banks.

The 'Big-Bang' policy, in the short run, was intended to activate securities markets. The lasting depression in stock markets, along with banks' bad loan problems, caused the instability of Japan's entire financial system. Seemingly, the government expected that financial deregulation would stimulate the shift of individuals' financial assets away from deposits and savings to securities. The time it was conceived, households' financial assets were estimated at 1200 trillion yen (10 trillion US dollars as of 1997), 55.1 percent of which were composed of deposits and savings. The expected increase in such flow of funds into securities markets would bring about the recovery of stock markets, and Tokyo financial markets would 'come back' as one of the world money centers, where large banks could play a leading role. The 'Big-Bang' policy thus mainly targeted the deregulation in securities markets[3].

However, the result was contrary to what the government expected. The 'Big-Bang' policy, along with the failure of the policy to urge banks to dispose of bad loans, led the financial system to a

[3] JSRI, 2000, provides a comprehensive explanation of the deregulation in Japanese securities markets.

serious crisis. Next we consider another issue: bad loan problems in banks.

Bad loan problem as a crisis of banking system

Recent Japanese recession is, in a sense, a financial crisis, because the recession intertwines with the bankruptcy of many financial institutions and the credit crunch resulting from the pressure of bad loans piled up in banks. During the bubble economy years, most sectors of the Japanese economy enjoyed an enormous amount of capital gains and its 'wealth effects' caused an increase in consumption and investment. Since the early 1990s, however, the situation has changed dramatically for the worse. Caused by a fall in the prices of stocks and real estate, an enormous amount of capital loss appeared. It was estimated that a burst of the bubble in both share prices and land prices destroyed 1000 trillion yen in assets value. The 'reverse wealth effects' causing a decrease in consumption and investment created a downward over-shooting in business cycles.

Banks were in special troubles, because of the BIS guideline that banks should observe the 8 percent capital adequacy-rate. With the vanishing of their latent capital gains, banks had trouble maintaining this ratio and hence had to restrict severely their loans. Many medium- and small-firms, which depended on bank loans to finance their business, were forced to reduce their activities, or failed. As the credit crunch spread these difficulties into a widening range of businesses, firm bankruptcy and unemployment rates increased remarkably.

The burst bubble and the difficulties of both financial institutions and industrial sectors thus ensued a vicious circle. The problem is complicated by the fact that given the credit crunch, medium- and small firms cannot finance their business without bank loans. In this destructive deflationary spiral, bad loans cannot easily be reduced. Rather they have increased, reaching 103 trillion yen (955 billion in US dollars), or 22 percent of banks' total loans, as of March 2000[4].

Chiefly to mitigate the hardship in banks and stock market, the Bank of Japan gradually reduced its basic money rate to 0.5 percent in September 1995, and afterwards led the interest-rate of call money in the inter-bank market to zero percent in substance, from March 1999 onward, through continuously supplying money. This easing of monetary policy has worked as a rescue for banks and other financial institutions. Moreover, the emergency rescue operations for them were absorbing huge amounts of public funds. In 1998 and 1999, 30 and 70 trillion yen (250 and 583 billion US dollars in 1999) of public funds, respectively, were prepared for the rescue of financial institutions in distress

[4] For this estimation, see Matsumoto, 2001, pp.153-155. Note that this amount represents the total bad loans in all banks (city banks, regional banks, trust banks, and long-term credit banks). There is also a large amount of bad loans in other financial institutions composed of credit unions, credit cooperatives, public financial institutions, and 'non-banks' (leasing companies, and, consumer and business finance companies).

due to cumulative bad loans[5].

These rescue operations were accompanied by the double pressures towards merger among large financial institutions and elimination among weakened small-sized financial institutions. The government policy urging banks to dispose of bad loans, in fact, revolved around the double standards of 'too big to fail' and 'too small to be rescued'.

The results of both the 'Big-Bang' policy and the unsolved bad loan problem, thus, can be summarized as follows:

(1) A drastic merger wave in financial institutions created the four major banks: Mitsubishi-Tokyo, Mizuho, Mitsui-Sumitomo and UFJ. Besides, UFJ is going to merge into Mitsubishi-Tokyo Bank. Despite the overwhelming concentration of money capital in these mega-banks, they have serious weaknesses: the underdeveloped skills in financial assets management, and the consolidated bad loan problems. Japanese major banks are, therefore, faced with the double necessity of making forays into securities markets, and developing profitable money lending markets.

(2) A severe elimination wave is spreading among regional banking institutions. They have faced double hardships, the bad loan problems and the intensifying competition against larger banks for lending markets. In the eleven years from 1990 to 2000, more than 200 regional banking institutions failed. In just a single year 2000, one regional bank, 9 credit unions and 37 credit cooperatives failed[6].

(3) 'Big-Bang' deregulation was, as it were, a bet on securities markets at the expense of the established system of intermediation. However it made borrowing-lending relationship more confused, involving also regional banking institutions. Cumulative bad loans escalated this confusion into a financial crisis.

The above considerations lead us to direct our attention to the shifting interest of banking institutions into the housing finance market. Growing housing finance is an important arena wherein major banks could develop their lending and securitization business. In the following sections, we address issues in the restructuring of housing finance policy and then the situation of housing finance

[5] Itoh, 2002, provides a comprehensive review of Japanese financial system, housing finance market and their instability from a macro-economic perspective.

[6] Generally, the scale of Japan's regional banking institutions is much larger than that of Western European savings institutions and the US thrift institutions. Therefore, the impact that their failure makes on the Japanese regional economies is very serious. The average sum of deposits of a credit union amounts to more than 200 billion yen (1.5 billion in US dollar), and that of a credit cooperative amounts to more than 60 billion yen (460 million in US dollar). Besides, the scale of regional banks is much larger than that of credit unions and cooperatives.

market.

3 Restructuring of housing finance policy

In April 2001, the new Cabinet led by Prime Minister Koizumi started, with a slogan that the deregulation of the economy and the downsizing of the public sector have to be thoroughly executed. As part of this resolve, the government declared the privatization of both postal services and special administrative corporations including GHLC. This policy means a drastic restructuring of the public credit system that has supported the Japanese economy since the postwar period.

Japan's public credit system is operated by the Treasury Investment and Loan Program, called the 'Zaito' system for short. The 'Zaito' system, starting from 1953, was designed to finance government policy measures, such as the construction of social infrastructure including housing and the development of medium- and small-firms, with households' funds drawn from postal savings, employees pension and national pension funds channeled through special accounts, government-affiliated financial institutions and public corporations. GHLC is one of such financial institutions, moreover, the one taking the largest amount of funds from the 1970s onward.

Government's plan to abolish GHLC

In December 2001, the government adopted the reform program of special administrative corporations. According to this program, GHLC will be abolished within five years, and replaced by an independent administrative corporation, which models itself on the agency system in Britain, dealing exclusively in securitization business of bank housing loans. GHLC will begin to curtail gradually its housing loan service from the year 2002, while the government will not provide GHLC with interest-subsidy, in principle.

Why should GHLC be abolished? The rationale behind the government decision can be interpreted as follows:

(1) GHLC had worked as the major tool of the policy to promote housing provision; as a result, housing and housing finance markets have fully grown. GHLC has already ended its role, and turned to rather an obstacle against the growth of private housing finance. GHLC, with the total sum of housing loans amounting to 74.5 trillion yen (573 billion in US dollars) as of March 2000, is the largest among the specialized housing financial institutions in the world. Its share of Japan's housing finance market reaches 44 percent as of March 1999.

(2) Banking business circles strongly claim that GHLC is crowding out their expansion of housing loans. Their reproaches are, in particular, concentrated on government subsidy given to GHLC.

The resources of GHLC loans are, available via the 'Zaito' system, postal savings and welfare pension funds. When the interest-rate for GHLC borrowing from these funds becomes higher than that for GHLC housing loans, the interest gap is replenished by government subsidy. This is the measure to keep the interest-rate for GHLC loans low and constant. However, banking circles claim it is unfair practice that GHLC exclusively enjoys government subsidy.

(3) The aim of housing finance policy should be to establish the prerequisites whereby the housing finance market can work smoothly and appropriately. The abolition of GHLC would create the wide room wherein private housing loan can grow all the more. The disposal of GHLC loans through sale would offer private financial institutions an opportunity to obtain lower-risk and profitable financial assets. A new administrative corporation exclusively dealing with securitization business would lead to the growing secondary market of housing loans, as Fannie Mae and Freddie Mac in the USA once did.

That's all about main grounds of the government's plan. Next we examine them.

Examining Government's plan to abolish GHLC

To clarify the actual implication of this policy restructuring, we consider the development of GHLC and housing finance market in a historical context.

Originally, GHLC was established to provide public funds for the construction of both owner-occupied and rented housing. The Act of GHLC stipulated that the aim of GHLC was to promote the construction of private housing, through long-term lending with low interest to households buying homes and corporations constructing rented houses. GHLC standard terms of lending were prescribed as follows: The term of payment was to be less than 15, 20 or 30 years (1950-1977), and less than 25 or 35 years (1978-the present), and the basic interest-rate was to be fixed and less than 5.5 percent per year (the rate was sometimes changed, within this limit, in accordance with the changes in the interest-rate of 'Zaito' fund)[7].

However, despite acute needs for housing construction, the amount of funds distributed through GHLC remained very limited, with the bulk of public and private funds distributed to industrial investments. The number of housing construction funded by GHLC was 310 thousands units in the years from 1950 to 1955, while that of private housing construction without any public assistance was 1.11 million units in the same period.

[7] The interest-rate of 5.5% was the cheapest, equal to that of government bonds, among long-term interest-rates at that time. Historical considerations on GHLC' operations are given in Honma, 1987, pp.174-189, 191-196; and Harada, 2000, pp.36-37.

To fund as much housing construction as possible within the limited resources, GHLC strongly tended to loan to constructing owner-occupied houses for the middle or upper-middle classes, and hence loans to rented house construction remained less than 10 percent of the total sum. In short, despite the similarity in appearance to the German social housing system, which mainly funded rented housing construction, the actual function of GHLC was the exclusive promotion of homeownership.

As the consecutive 5 year programs of housing construction started from 1966, the public policy to promote housing construction intensified. GHLC was placed in the center of the policy favouring home ownership. GHLC began to expand its housing loans from the 1970s on. Annual GHLC loan increased from just over a trillion yen in 1973 to 3 trillion yen in 1979, and further to 5.5 trillion（34 billion in US dollars） in 1990. This remarkable increase has been supported by the government's business-cycle policy. When the economic recession during the years from 1970 to 1971 appeared, the government increased the 'Zaito' funds to be distributed to GHLC in order to stimulate the economy. Supported by this measure, GHLC could expand its housing loans. Since then, the government has used GHLC loans as a part of Keynesian fiscal policy[8]. From the government's perspective, the expansion of GHLC loans was an effective and relatively inexpensive policy tool, because it immediately led to the expansion of housing construction with strong ripple effects to industries concerned.

It was noteworthy that, despite the rapid growth of GHLC loans, housing loans by private financial institutions grew faster than that by GHLC from the 1970s on. Housing finance became an important, relatively safe, and profitable business field for banking institutions after the high-growth period ended. Private housing loan reached 5.5 trillion yen in 1980 and increased to a peak in 1990 of over 21 trillion（131 billion in US dollars）.

However, the rapid growth of both public and private housing loans was accompanied by the problem that, due to skyrocketing land and housing prices, homeownership was getting more difficult without larger amounts of borrowing. From the perspective of the government' economic policy, the growth of housing loans led to the boosting of housing construction and economic growth, while, from the perspective of urban residents, this led to the increasing affordability problem in homeownership.

Nevertheless, to present a balanced view, we need to pay attention to another function of GHLC loans. GHLC has played an important role in directing the improvement of dwellings' quality. The building standards applied to GHLC housing loans include stricter regulations than those included in

［８］ For a detailed consideration of this issue, see GHLC, 1980, pp.134-138.

the Code of Building. For instance, there are regulations on the structure, requirements and size of detached houses, and the common facilities of apartment houses in the building standards of GHLC loans, while none of such regulations exists in the Code of Building. These regulations make dwellings funded by GHLC better quality than dwellings regulated only by the Code of Building. However, regrettably, the building standards of GHLC loans are not linked with the regulations in the City Planning Act. So far, they cannot contribute to the improvement of urban space itself[9].

Thus we can tentatively conclude as follows:

(1) GHLC has provided the working class people with easier access to home purchases[10], and led the growth of housing finance market wherein private banking institutions could expand housing loans. The characteristic of GHLC loan is long term lending with fixed and low interest-rate. Is this merit really replaceable by private financial institutions?

(2) GHLC has concentrated its lending on owner-occupied housing. Combined with the lack of advocacy for policy neutrality on housing tenures, this concentration led to the serious backwardness in the provision of affordable rented houses. To resolve this problem, housing finance should support to provide not just owner-occupied houses but also rented houses. Is this dual working really replaceable by private financial institutions?

(3) GHLC has contributed, through the building standards applied to its lending, to the improvement of dwelling' quality. This important role of housing finance should be kept and developed. Is this role really replaceable by private financial institutions?

Regrettably, the government decision has never given convincing answers to the above questions, because the priority was apparently given major banks' interests in increasing their share of housing finance market, without regard to the merits and demerits of GHLC operation.

4 Possible consequences of abolishing GHLC

The above questions about the government new policy have to be supplemented with the consideration on the possible consequences of abolishing GHLC. These implications are likely to be greatly conditioned by the present trends of housing market and housing finance market.

[9] For a detailed comparison of GHLC' building standards and the Code of Building, see Honma, 1987, pp.256-260.

[10] According to a recent GHLC report, among the recipients of GHLC loans, 81.9 percent are composed of households with less than 8 million yen of yearly income, roughly equal to the average annual income of all working households, while the share of those households among recipients of private housing loans is 50.9 percent.

Maturation and increasing instability of housing market

In Western European context, housing markets in most countries experienced a rapid growth, the 'mass housing' stage, in the 1950s and the 1960s, and then entered the 'maturation' stage from the 1970s. The most remarkable features of this maturation stage are as follows: First, the greater role of the private sector in the production, allocation and financing of housing; secondly, the growing share of homeownership in the market; thirdly, the lower growth of housing construction and more dominant dealings of existing houses in the market, resulting from the filled up housing shortage; lastly, the increasing fragmentation or differentiation of housing markets[11].

Japan's housing market also entered the same stage, yet, with a poor quality of housing stock. This led to serious problems for the housing market and the policy to promote housing construction.

Although absolute housing shortage was filled up in the early 1970s when the number of housing stock exceeded that of households in each part of the country, housing construction, which was accompanied by vigorous dismantling of existing houses, has remarkably increased since then. Thanks to this 'scrapping and building' manner, the housing market and its related businesses enjoyed a very rapid growth. As a result, Japan's housing market is presently huge. Roughly estimated, the total price of newly built dwelling units, in 1990 when the property boom reached its peak, amounted to 76.8 trillion yen (480 billion US dollars), about 18 percent of GDP. The housing market is, therefore, somewhat larger in sales terms than automobile market in the country. The housing market has an important role in the domestic market, despite the fact its size reflects also the high level of land prices[12].

However, due to the lasting depression from the 1990s onward, housing provision faces a dilemma: the increasing instability in housing market. Generally, under the condition where the housing provision through markets is dominant, it is difficult to maintain and improve dwelling conditions for urban residents without stable growth in their ability to pay for rents or house purchases. Nevertheless, this requirement is in jeopardy at present. The depression and the drastic restructuring of industries have caused an increase in unemployment and a decrease in the disposal income of working people. Broader economic and labor market changes are resulting in an increasing polarization of incomes and living conditions, not just for the poor but for the middle mass as well. Both the housing market and the policy to promote housing provision face the aggravating problem that effective demand for houses continues to decline.

Urban residents face a new stage of housing affordability problems. In retrospect, the first stage of

[11] Detailed considerations on these remarkable changes in housing markets and policies in Western European countries are given in Ball and Harloe, 1994 and 1998; Hallett, 1993; and Kleinman, 1998.

[12] For this estimation, see Itoh, 2002, p.161.

these problems in the postwar period meant the variety of difficulty in obtaining a house including excessive financial burdens, poor accommodations on small plots and long hours commuting on jam-packed trains, due exclusively to the rise in land and housing prices. An affordability crisis in the bubble economy led these difficulties to a climax. Yet, despite all these difficulties, urban residents could expect homeownership in future, because their dreams had some basis in reality as long as their incomes were steadily increasing. However, the situation has changed completely. The housing market is afflicted by problems of negative equity, bad loan and repossession. Both first-time and second-time buyers suffer severe blows from declines in both income and housing prices. They face the acute risk and instability of the market.

Faced with such extreme problems, market-oriented housing policy provides only one solution, that is, stimulating house construction through deregulation and privatization. However this supply-side policy will result in more serious problems for urban residents[13].

The focus of deregulation and privatization policy, in practice, is exclusively on the redevelopment problems of large cities such as Tokyo and Osaka. This policy aims at the disposal of sites and properties as mortgage for huge bad debts, with the target of promoting 'intensive land-use' in city centers. This growth-oriented approach to urban development has never been changed since its adoption in the postwar period. But things have changed, in particular the assumption that eliminating barriers to growth will remove the binding constraint on further urban development. Increased selectivity in property investment has become crucial at present, since Japan is no longer in a milieu wherein any investment in land can make an easy gain. Profitability is, therefore, an increasingly important criterion in property investment.

This criterion, though crucial for now-cautious developers, has huge implications for the character of housing development itself. Under profit-oriented marketization, housing provision becomes increasingly differential. Housing provision by the public sector is becoming more and more residual; Private rented housing is provided in a discriminatory and profit-seeking manner; Homeownership increasingly differentiates households on the basis of wealth. These changes mean that an even larger share of housing needs goes unmet.

These historical changes and problems in Japan's housing market reflect on the housing finance market. Next we turn our examination to this point.

Increasing instability of housing finance market

The housing finance market enjoyed a rapid growth during the 1970s and the 1980s. In this process,

[13] For a detailed consideration of this issue, see Oizumi, 1994, 1998, 2002, 2004. An analysis of urban planning deregulation, linked with the policy to activate property markets, is also provided by, Oizumi, 2003, pp.180-182.

major city banks continued to expand their housing loans, while they began to set up a circuitous funding channel so as to avoid risks entailed housing loans. This channel was the private housing finance company, called 'Jusen' in short. In the late 1970s, eight 'Jusen' companies were set up by city banks and other financial institutions. Although these companies were designed for channeling banks' funds into housing market and introducing a new scheme for the mobilization of housing loans such as trusteeing mortgage debts, they moved into high-risk lending to commercial real estate business since the bubble economy appeared from the mid-1980s, and finally failed. It was because their mother banks began to expand rapidly housing loan, and consequently took away the market for 'Jusen' companies. The first large-scale attempt to introduce new business into housing finance market, thus, ended in failure.

Due to the collapse of the bubble economy and the following depression, banks' housing loans showed lower-growth. However, supported by the government policy to stimulate the economy, GHLC loans continued to expand. This contrast in performance gave banking business circles the ground for claiming that GHLC restrained them to expand their housing loans.

Besides, easy monetary policy and lower interest-rates caused a problem for GHLC. Since GHLC loans are callable, the borrowers from GHLC with previous relatively high interest-rates rushed to change their debts to private banking institutions. GHLC is suffering quite a loss from this increasing prepayment risk. Although new lending continues to expand, an increasing part of the 'Zaito' fund distributed to GHLC remains disused, because of increasing prepayment by borrowers. Furthermore, the government interest-subsidy for GHLC is swelling. This situation provides also room for claims that GHLC operation is very inefficient.

From the perspective of the neo-liberalist government and banking circles, surely this is a good opportunity for abolishing GHLC and resuming the attempt to restructure housing finance market. However, such a policy cannot produce satisfactory results for housing provision and urban residents.

Money market has provided an extraordinarily easy financing since the late 1990s. Under such conditions, banking institutions have been allocating their increased lending not to the medium- and small-firms, but to housing loans. As a result, the interest-rates on housing loans have been remarkably reduced: the interest-rate（adjustable）of major commercial banks is 2.375 percent per year as of April 2002, while the basic interest-rate on GHLC loan is 2.75 percent per year. Such lower interest-rates certainly mitigate borrowers' burden to pay. Yet, the interest-rate on housing loans is usually reduced later and less than other interest-rates: for instance, the interest-rates on time deposits, postal savings and trust deposits range between 0.02 percent and 0.07 percent.

Furthermore, many households with housing debt have difficulties in meeting their return payments because their incomes are reduced or even lost due to unemployment. Accompanied by a decrease in the prices of land and existing houses, these conditions lead to negative equity problems and increasing bankruptcy among borrowers. Thus, despite the reduced prices of new built dwellings and the easy access to low-cost housing loans, the housing market and its related businesses are experiencing a depression. This is an important part of deflationary pressures on the Japanese economy over the recent years.

So far as the lasting depression cannot easily reach a bottom or turning point, the extraordinary lower interest-rates must continue still. But this condition cannot be permanent anyway. Once monetary policies are tightened, private housing loans will be selectively or discriminatively provided and interest-rates will increase. This risk is easily transferable onto borrowers, because banking institutions have preferably introduced adjustable interests on housing loans. Besides, most households are vulnerable to such acute risk. The changes in housing finance market, therefore, will lead easily to the increasing affordability crisis.

Since there are so many poor dwellings to be replaced in urban areas, housing finance and housing construction shall have the opportunity to expand again. However, it will result in the increasing polarization of housing provision, unless the present policy is changed fundamentally.

Thus we have to conclude that the abolition of GHLC will cause new problems in the housing finance market.

(1) It is questionable that private banking institutions can substitute completely for GHLC' role to provide constantly working people with easy access to homeownership. Under financial deregulation, banks' lending strategies are increasingly volatile. The housing finance market is likely to suffer more and more from the changing influences of financial markets. The securitization business on housing loans cannot cover completely such financial risks, and it is in the distant future anyhow that the secondary market for housing loans is likely to fully grow. Besides, the development of the secondary market would cause some new problems for local housing finance markets, as the US experience demonstrates[14].

(2) It is very questionable that private banking institutions, unlike GHLC concentrating its funds on homeownership, can distribute their lending not just to owner-occupied housing but also to rented housing. It is very desirable that both affordable owner-occupied and affordable rented housing are promoted. However, needless to say that, banks' primary concern is to seek profitability in financing, so it is difficult to expect them to meet all the needs of housing provision.

(3) It is still more questionable that private banking institutions will outright accept the public regulation on building standards to be applied to their lending. In fact, their lending has been frequently extended even to houses clearly breaking the Code of Building. Despite the necessity of

expanding this kind of financial regulation to urban development, any role for housing finance in improving the quality of dwellings and their environments for all residents will remain limited, because of ongoing deregulation.

These questions lead us to the consideration on the reforms of policy and market. Despite our objection against the abolition of GHLC, it is also clear that GHLC bears some faults that need to be reformed. Despite the questions raised about market operations, it is nonsense to deny the significance of private banking sector. To resolve housing problems, it is necessary to control both GHLC and private banking institutions appropriately through a constructive reform of the regulation system.

５ An alternative perspective: for desirable revision of housing finance policy

The reform agenda of the housing finance policy should not be considered in isolation. Any simple idea will not be fruitful, unless it is accompanied with the comprehensive reform of the entire housing policies. Hence we need to consider the vision inherent in the reforms that cover both housing market and housing finance market.

Reform of housing policy and market

A new perspective on housing policy is needed as an alternative to those put forward by the neo-liberalism asserting deregulation and privatization. This new approach focuses on the development of both public policies and residents' initiatives that can manage land and housing markets appropriately in the overall public interest. Our proposals are as follows:

[14] Dymski and Isenberg, 1997, examine the US housing finance market after deregulation, and bring the following problems to light (pp.187-195): First, the integration of housing finance into the entire financial markets, through the growth of the secondary mortgage market, would destabilize the housing finance market. In particular, an increase in interest-rates frequently creates a 'lock-in' effect against housing loans. Secondly, because of deregulation, money-flows in housing mortgages increased market volatility. Thirdly, the standardization of housing mortgage, which is the requisite for issuing mortgage-backed securities in the secondary market, furthered the 'redlining', or the discrimination in mortgage lending. Fourthly, adjustable mortgage interest-rates were introduced to make the risk of changing interest-rates transferable to borrowers. Lastly, in stagnated local areas where 'spill-over' effects of the increasing assets value could not be anticipated, an entire local credit market declined. It led to the withdrawal of financial institutions from those areas. Overall, Dymski and Isenberg noted that US housing finance did not become less pro-cyclical because of the widespread adoption of securitization in the 1980s. Besides, they noted that the wider channel for 'standard' loans on 'standard' houses threatened to reduce the availability of financing means for non-standard housing loans. In this case, the term 'non-standard' means the type of neighbourhood, the income/wealth characteristics of the borrower, and so on.

(1) Public regulation over both the ownership and use of land should be strengthened to eliminate land speculation and secure sufficient housing sites in urban areas.

(2) A significant increase in the supply of public housing is required, particularly in large cities.

(3) A comprehensive system of rent subsidies and financial assistance should be developed to promote affordable housing in both private rented markets and owner-occupied markets.

(4) The improvement of poor-quality housing stock should be promoted through the collaboration of municipal authorities, developers, and residents.

(5) These orientations should be linked to the development of economic policy that promotes regional industries and increased employment.

To clarify the implications of these proposals, we need to discuss some additional points, which are concerned with the relationship between local and national considerations in urban and housing development, and the residents' initiative in the above-mentioned collaboration among interested parties.

First, if we are to resolve serious urban and housing problems, clearly some forms of economic and social planning are required. It is necessary to assess housing needs and to link housing requirements into wider economic and social priorities, and into constraints for sustainable urban development. Effective and reasonable planning at the national level is required in this context. Ongoing growth-oriented urban policy has to be completely changed, because this policy is forcing cities to compete with each other for the economic growth, and is consequently leading to the decline of local cities.

Secondly, it is also necessary to establish the local programs of house building, repair and improvement or redevelopment. These programs are to be made through the collaboration of municipal authorities, developers and residents, based on assessments of local housing needs and available resources in terms of local and national criteria. What is very important is to take account of all housing tenures.

Thirdly, residents' participation in determining the programs should be given the most precedence. Residents should have an effective voice in the development of housing programs and in detailed matters such as house design. Effective participation can only be achieved locally rather than at the national level. It is very important that residents in distinct localities can choose, through the process of political representation and within nationally laid-down minima, different levels of outputs, mixes of tenure, house types and standards.

Lastly, it is needed to develop institutional forms that support these programs nationally and locally to work smoothly and appropriately. The reformed housing finance system should be an indispensable part of them.

Reform of housing finance policy and market

The main implication of desirable housing finance reform would be to redirect the various money-flows in owner-occupation and rented-occupation, towards the effective use of economic resources to provide decent and affordable housing for all residents. Our proposals focus on constructing a financial infrastructure to secure the appropriate intermediating operations of public and private financial institutions.

⑴ **Rebuilding GHLC activities and maximizing its accountability**

One of the main features of GHLC loans is that a growing part has been directed exclusively to homeownership and subordinated to the government's business cycle policy. These defects have led to the corpulence of GHLC loans and, often, the excessive loans producing many bankrupts.

Instead, it is our belief that GHLC operation has to be subordinated to the housing system designed above. GHLC is suitable for funding the housing provision programs operated at the national level. The building standards applied to GHLC loans should be improved and closely linked with the regulations in urban planning. Under this reform, GHLC should keep playing the sound role of anchor in housing finance market, through lending with fixed and lower interest-rate. So far as this basic function is maintained, it is acceptable that GHLC provides a variety of housing finance services including securitization business and housing loan insurance.

What is very important is to maximize the accountability of GHLC management through the democratic control by the Parliament. So far, the management of 'Zaito' system including GHLC has been controlled exclusively by the government bureaucracy. The development of fiscal democracy will lead to making GHLC operate appropriately, in the overall public interest.

⑵ **Establishing the 'Japanese CRA（Community Reinvestment Act）' or the 'Financial Assessment Act' to regulate private banking institutions**

While city banks are the largest players in private housing finance, their lending strategies will show increasing volatility and strongly tend to engage in upmarket retail banking. In the context of the new housing system, regional banking institutions can play an important role in local housing markets. However, they presently face the severe elimination wave, with the credit crunch causing crises in regional industries.

It is noteworthy that, to overcome these difficulties, some councils organized locally and nationally by entrepreneurs of medium and small-firms are working towards the establishment of the 'Japanese CRA', modeled on the Community Reinvestment Act in the USA, or the 'Financial Assessment Act'. The aims of this Act are to eliminate banks' unfair lending practices or 'financial exclusion' disadvantageous to medium and small-firms, and to further banks' function to channel money-flows into the sectors where investment is needed for the stable growth of local economies and communities. To establish a fair regional financial market, which is a prerequisite for the growth of regional industries, the Act prescribes the system monitoring the business of regional banking institutions and publishing this monitoring information useful in the assessing of banks' activities. This information has to be used effectively by the financial policymakers to regulate or assist regional banking institutions[15].

Apparently, this system has to be expanded to housing finance business in order to promote a fair local housing finance market. Furthermore, the public regulation on the building standards is to be imposed also to private housing loans. These building standards can be flexible in accordance with the varying needs of good urban planning in distinct localities. This regulatory and inductive system will certainly aid in appropriately directing, in the public interest, the large private funds to the already proposed housing programs improving residents' homes and urban space.

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[15] For a detailed explanation about the proposal of Financial Assessment Act, see Yamaguchi, 2000.

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