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China's Market Meddling Will End Like Japan's

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Dec. 26, 2018 1:45 p.m. ET

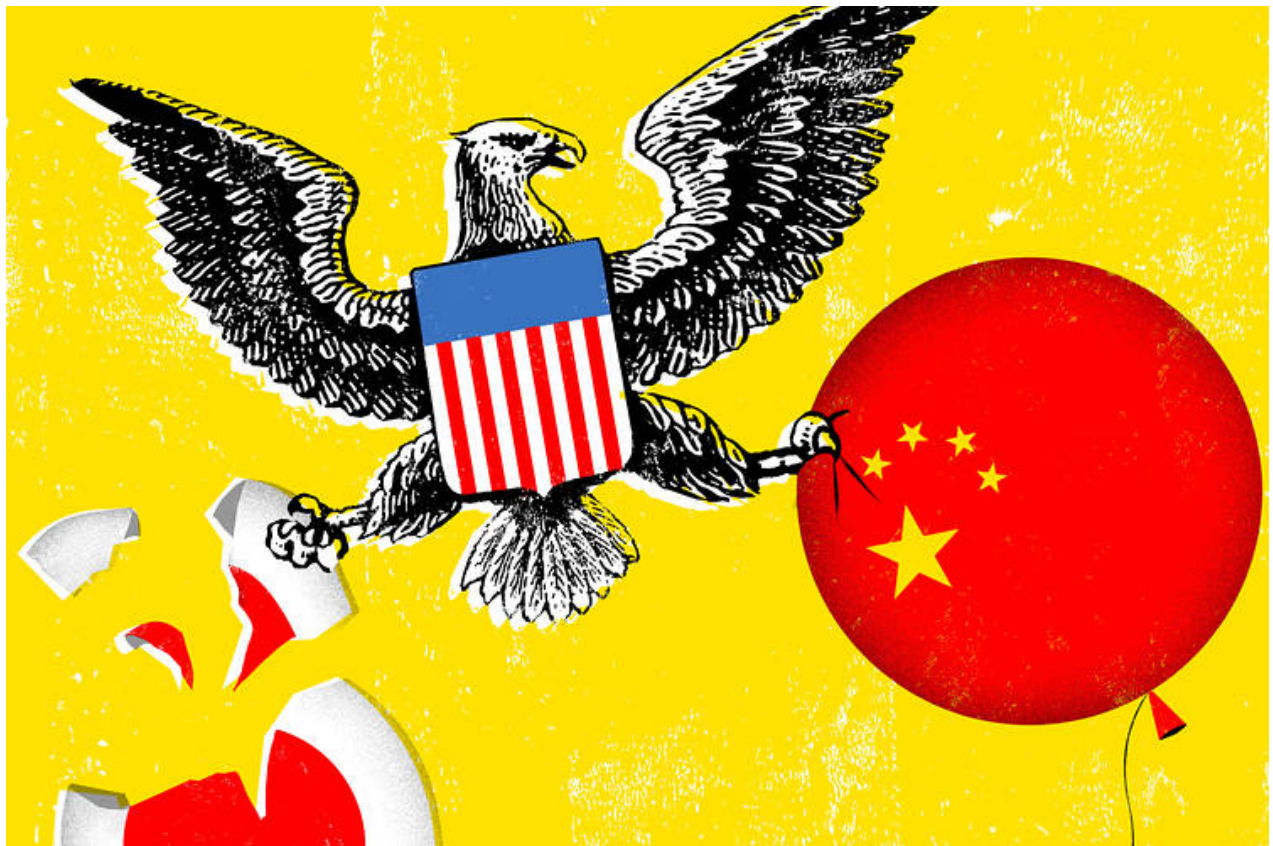


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The mandarins of China's financial bureaucracy will learn nothing from Japan's flawed system, which resembles a political entity, unaccountable to markets ([“When the Feared Trade Rival Was Japan.”](#) Review, Dec. 15).

Such is the price to be paid by a managed economy. After hundreds of visits to the Japanese Ministry of Finance in the 1980s, I concluded that Japan's highly praised

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financial bureaucrats were essentially amateurs who rotated positions every few years while gaining little practical expertise.

American liberals salivated over the possibility of emulating Japan's alleged symbiosis of government and business in the highly regulated economy. In fact, Japan's regulatory system, a vague administrative process, produced a pantomime and satire of financial institutions. The resulting irony was a system that ostensibly was highly regulated, but which was devoid of transparency, without risk or performance guidelines and impervious to developing problems. The interplay between political goals in China and Japan is fraught with peril.

America's banking crisis of 2008 was just such a government-induced debacle, as financial institutions merrily pursued political ends without observing market realities. Fortunately, America's messy version of capitalism provides an adaptive and corrective capacity if allowed to operate.

The military and technology context of the China-Japan comparison differ and make China more dangerous than Japan. But the solution to China's private-sector financial institutional morass will remain as intractable as that of Japan. China's Communist Party won't give up power to create a financial system with credible reporting, judicial review and a condemnation of fraud. The reckoning for China may be long in coming, but it will come with severe implications.

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