

opinion

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EDITORIAL

Alternatives to Mr. Abe’s way

The campaign for the July 21 Upper House election officially kicked off Wednesday. The results of this election will have a great impact on the future of Japan because it is being fought over extremely important issues such as constitutional revisions, nuclear power generation and the Trans-Pacific Partnership (TPP) free trade pact. Voters need to read campaign promises and think carefully before casting their votes. Prime Minister Shinzo Abe will eagerly try to sell his economic policy, which is coupled with massive monetary easing by the Bank of Japan. But small and medium-size companies and local economies have not benefited from his policy. It must not be forgotten that if a large amount of money is poured into an economy in which businesses’ desire to increase capital investment and people’s purchasing power are weak, it is likely to cause an economic bubble. Opposition parties must present alternative, convincing economic policies to voters. These days Mr. Abe is playing down his call for weakening the Constitution’s Article 96, which is designed to prevent imprudent constitutional revisions. But the Liberal Democratic Party’s campaign promise includes draft revisions to the Constitution that would change Article 96 so that amendments could be initiated with a concurring vote of a simple majority of all the members of each House of the Diet, instead of the present two-thirds or more. Such a move will make it easy to weaken the principle that sovereignty rests with the people; the no-war principle; freedom of thought, speech and expression; freedom of assembly and association, etc. — all the basic and important tenets of the Constitution. Even if political forces favoring weakening Article 96 do not get a two-thirds majority of the Upper House in the coming election, Mr. Abe will try again in the 2016 Upper House election. Voters should take into account the possibility that Mr. Abe will dissolve the

Lower House in 2016 to hold a double election in an attempt to revise Article 96. If the LDP wins the coming election, Mr. Abe will likely introduce a bill to guard national secrets along with a bill to create a National Security Council. Such a bill will restrict people’s right to know what their government is doing, limit the activities of journalists and lead to the accumulation of more national secrets, thus weakening the foundation of democracy. Mr. Abe will also likely to change the interpretation of the Constitution so that Japan can exercise the right to collective self-defense. Voters must pay sufficient attention to these possible future moves by the prime minister. The LDP is the only party that appears eager to restart nuclear power plants. Political parties must delve into the question of whether it is safe and rational to operate nuclear power plants in this quake-prone country and whether there is adequate technology to safely store high-level radioactive waste. The TPP includes an investor-state dispute settlement mechanism. This could empower global business enterprises to supersede policies and actions of the central and local governments in such areas as environmental protection, food safety and social welfare, including health insurance. Political parties have not fully discussed this point. Voters need to carefully consider the nature of the ISD mechanism. The LDP government rarely talks about social welfare, an issue that will become increasingly important in Japan’s future. Political parties should discuss how to create a sustainable social welfare system while ensuring there is sufficient support for the needy. Voter turnout for the last Upper House election in 2010 was only 57.92 percent. To boost turnout in the coming election, political parties must make serious efforts to come up with policy platforms that truly address the needs of the people.

Shuffling the books on nursing care

The health and welfare ministry is considering cutting nursing care insurance costs by shifting elderly people who do not need intensive nursing care from care services provided under the insurance system to care services provided by municipalities. Because local governments’ financial conditions vary from municipality to municipality, such a change could introduce inequality into the level of services offered to elderly people. To receive services under the nursing care insurance system, people must take tests to receive certification that they need care. Those who are approved are classified into one of seven categories in ascending order from the least to the greatest need of care. Each category has a limit on available services calculated in terms of cost. Within the limit, insured people have to shoulder 10 percent of the cost. Beyond that limit, they must pay all costs. Under the ministry’s new plan, services from the insurance system would be ended for people classified in the lowest two categories. Instead, municipalities would provide services to them. As of December 2012, some 1.5 million people fell into those categories, accounting for more than a quarter of all elderly people recognized as having need of care. Helpers mainly assist with housekeeping, shopping and cooking. The costs of these services amount to about 5 percent of the total costs of the services provided under the nursing care insurance system. Total costs have been on the increase from the initial ¥3.6 trillion in fiscal 2000 to ¥7.8 trillion in fiscal 2010 and to ¥8.9 trillion in fiscal 2012. They will likely reach

¥21 trillion in fiscal 2025 when most postwar baby boomers are at least 75 years old. Unless premiums for the insurance system are raised, more tax money will need to be injected into the system. The average monthly premium paid by people aged 65 and up was about ¥2,900 in fiscal 2000. In fiscal 2013, it was about ¥5,000. The ministry says that if nothing is done, the average monthly premium will go up to about ¥8,200 in fiscal 2025. The ministry insists that if municipalities use volunteers and nonprofit organizations, they will be able to provide services to elderly people requiring a lower level of care at a lower cost than under the nursing care insurance system. But many municipalities are suffering from shortages of funds and human resources, and there is the danger that the quality of the services will worsen. First and foremost, excluding some people from the nursing care insurance system runs counter to its spirit. The ministry’s proposal also will lead to a deterioration of measures designed to maintain the physical and mental health of elderly people whose care needs are presently small. As a result, the number of elderly people whose conditions are severe will increase, thus pushing up the total costs of the insurance system. The ministry should realize that its proposal will not lead to lower costs unless the quality of care is reduced as well. It should instead try to rein in costs by coming up with economical and effective ways to keep elderly people as healthy as possible. As the saying goes, an ounce of prevention is worth a pound of cure.

THE GLOBAL PERSPECTIVES

Bugs draw out EU sense of melodrama

BY KODO

There seems a touch of playacting in the outrage that France, Germany and other European governments have been venting since the online edition of Der Spiegel, the German newsmagazine, reported that the National Security Agency had bugged diplomatic offices and monitored their internal computer systems. Spying on allies looks bad and is rarely discussed in public except when, as now, spy agency documents are leaked to the press. But governments on both sides of the Atlantic (and almost everywhere else) have spied on allies and enemies alike for a long time. NSA was secretly created in 1952 with a mandate to intercept all kinds of communications from foreign sources, using every kind of listening device imaginable. The new element is computer technology that makes storage so cheap

and data analysis so fast. That makes policy restraints all the more important. But it is hard to debate wise policy when every detail is kept secret from public view. Most European governments presumably have long been aware of NSA’s capabilities. Ordinary Europeans, however, were unaware, until Der Spiegel published the numbers this week, of just how many private phone calls, e-mails and text messages NSA now monitors in Europe each month. The magazine reported 500 million in Germany alone in a single month. That large number raises suspicions that a lot of NSA snooping has no connection to America’s national security. NSA listening in on ordinary Europeans is perfectly legal under U.S. law; the agency is prohibited only from snooping on Americans without court authorization. German intelligence agencies are similarly prohibited from spying on Germans. It is

naive to assume that allied intelligence agencies do not share data that may be off limits to one and not the other. That’s why the outrage of European politicians seems overblown, as are their threats to suspend talks on a trans-Atlantic trade deal (negotiating strategies may have been the aim of NSA monitoring). It would not be surprising to learn that the Europeans have been trying to glean intelligence on America’s negotiating strategy, too. Still, a deal remains in the best interest of all participants. One good result of the recent disclosures might be to reinforce European demands for tighter rules on the collection of data about private individuals by companies and governments. NSA may not view such rules as limiting its covert activities, but they might cause the agency to be more careful and selective in its practices.

New York Times (July 3)

New York’s ‘stop and frisk’ conundrum

THE WASHINGTON POST

New York City, home to more than 8 million people, is the nation’s largest metropolitan area. It’s also America’s safest big city. Last year the New York City Police Department (NYPD) recorded 419 homicides, nearly a 20 percent decrease from the year before and the lowest rate per 100,000 residents since the department began keeping reliable tallies in 1963. If New York had the same homicide rate as the District of Columbia, it would be investigating 800 more murder cases per annum; if it had Detroit’s statistics, nearly 4,000 more New Yorkers would be murdered every year. Without question, the Big Apple is doing something right.

Officials say much of that has to do with its “stop and frisk” policy, under which officers can stop and search anyone on the street they deem to be suspicious. Mayor Michael Bloomberg and his police chief, Raymond Kelly, say the procedure has saved up to 5,000 lives in the past 10 years. The policy is controversial, though, and the subject of a federal class action lawsuit because the vast majority of those stopped are young men of color. According to the New York Civil Liberties Union, 87 percent of those stopped in 2012 were black or Latino, a figure more or less consistent throughout the last decade. This tends to hold true even in predominately white, affluent neighborhoods where blacks and Latinos make up barely a quarter of the

population but nearly 80 percent of stops. The racial disparity is a problem that can’t be ignored. Last week, the New York City Council approved a pair of bills known together as the Community Safety Act. The first would create an inspector general to supervise NYPD’s activities; the second would create avenues for citizens to sue NYPD in state court not only for cases of individual bias but also against policies without clear law enforcement components that have a disproportionate impact on protected groups, such as racial minorities. Bloomberg opposes both measures. He should be more open to some reform, especially if he wants his policies to persist after a new mayor is elected in November.

(July 3)

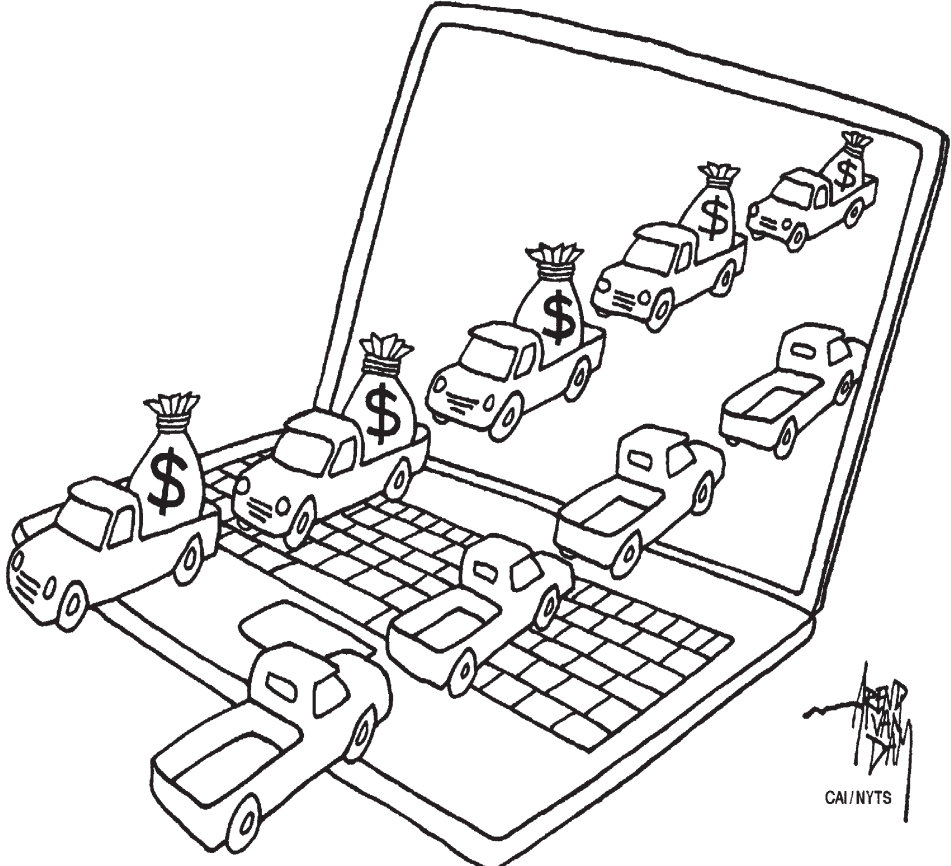
The cyber highway potholes

HUGH CORTAZZI



London

The British media have been full of stories about cyber warfare, spying on government, company and personal communications, and misuse of the Internet to disseminate pornography. Computers and the Internet have contributed significantly to productivity in industry and commerce and are now essential tools in the administration of governments throughout the world. They are also valuable tools for learning and education. For most consumers booking tickets and ordering goods on the Internet are part of everyday life but even such simple tasks can be frustrating and time-consuming if Internet sites are badly organized or disrupted by cyber attacks. To protect ourselves we have to set up firewalls and formulate passwords and other devices to try to ensure that our data are not compromised or misused fraudulently. Internet companies make a lot of money by providing anti-virus protection and “apps” galore. Microsoft and Apple vie with one another to improve their software while manufacturers of hardware compete in producing new models. Competition has made personal computers cheaper in real terms, but none of the companies involved have yet been able to produce a personal computer that will never freeze and is totally impervious to outside interference. The practical benefits of computing must be balanced against the threats that are being exploited by governments, companies and malign individuals. The Internet has already been misused in frightening ways. There may well be a case for using the Internet to disrupt organizations planning to use or develop nuclear weapons. It is alleged that such use of the Internet has already been made by the United States and Israel to slow down reprocessing by Iran of nuclear fuel that could be used to produce atomic weapons. But the use of cyber measures to disrupt utilities and public transport in other countries would be much more difficult to justify. There is extensive evidence suggesting that Chinese organizations and companies have managed to hack into U.S. establishments and companies to gather commercial information and know-how. It seems likely that governmental agencies and companies in other countries have made similar attempts to hack into competing networks. The head of the British government’s communication organization (GCHQ) recently stated publicly that his organization learn daily of new foreign cyber attacks on British interests. The British defense minister has warned that Britain must be ready for a cyber war. Helicopter gunships and unmanned drones will still be needed as will “boots on the ground,” but our armed services will have to be not just computer literate but trained in all the latest techniques involved in cyber warfare.



The threat of terrorism and the growth in crimes that have an international dimension, including sophisticated fraud and money laundering, have led the British Security Service and the police to demand that Internet service providers and telecommunications companies maintain records of the timing and place of all calls and emails, thus enabling the authorities to keep a track of suspected criminals and terrorists. Access to the contents of emails and conversations would however still require a warrant authorized by a government minister or a judge. This limited proposal has been fiercely opposed by human rights organizations and has not yet been approved by Parliament. Papers leaked by U.S. former CIA contract worker Edward Snowden have caused a furor in Europe by alleging that U.S. intelligence agencies had “spied” on European Union offices and hacked into EU internal communications. It is not clear at what U.S. government level this activity may have been authorized, but these allegations will inevitably sour relations between the U.S. and its European allies in Europe at least for a time, and could have implications for the negotiation of the proposed wide-ranging free trade agreement between the EU and the U.S., which has been backed in principle by the U.S. president and European heads of government. Attention in Britain has recently focused on the dangers arising from the availability of extreme pornography which, it is alleged, induces pervers to commit sexual crimes of a particularly nasty kind involving children. One horrific murder of a child in rural Wales by such a pervert was particularly shocking. Demands have been made that Internet providers should make greater efforts to screen out such material. But it may not be easy to decide where to draw the line and to stop ways of

circumventing such screening. Most people in Britain support efforts to prevent pornographic images being available on the Internet, but they deplore the sort of censorship of Internet communications practiced in China. The development of the Internet was welcomed by all who hoped for the development of truly democratic institutions in China. It was at first thought that there was no way in which effective censorship could be enforced on the Internet. But Chinese censorship has prevented Chinese citizens from accessing freely material on the Internet that the Chinese authorities consider critical of the regime. The Internet poses a significant threat to privacy. Medical records and bank details are now increasingly stored on Internet sites. Huge amounts of data are stored on memory sticks and computer disks. It may be argued that if we have done nothing illegal, we have no grounds to fear that our privacy may be invaded by computers, but most people are sensitive about the privacy of their family affairs and don’t want records of their failures or details about health becoming freely available. In Britain, the Data Protection Act has been designed to ensure that our privacy is preserved, but it is far from easy to define the proper extent of what should be private and what should be in the public domain. The Internet has been a mixed blessing, but there is no going back to the pre-Internet era. Nor would it be in our overall interests to try to limit its further development. We must now try to ensure that the principle of freedom of information is not significantly undermined either by cyber censorship or cyber attacks.

Hugh Cortazzi served as Britain’s ambassador to Japan from 1980-1984.

Financial engineers restarting the risk generator

Kevin P. Gallagher
Boston

The U.S. economy continues to have a hard time recovering from the biggest financial crisis since the Great Depression. So the last thing one would expect the U.S. government to do is to engage in policies that open the floodgates to severe risks in financial markets once again. Yet, that is precisely what’s going on. For all the attention that is paid to the Federal Reserve’s “tapering,” what Washington has in its crosshairs is something quite different. It is putting massive pressure on the Commodity Futures Trading Commission (CFTC) and the Security and Exchange Commission (SEC). Unless concerned policymakers and the public at large act quickly to counter that pressure, the disastrous past — a financial industry running amok — may well be in the future of not just the United States but also the world. How is this even possible? Even though the U.S. Congress passed the Dodd-Frank financial reform law a few years ago as a bulwark against recurring financial crises, the legislation actually left most of the key decisions — the actual detailed rule-making to rein in the financial industry — for later. At the center of this issue is Gary Gensler, a former Goldman Sachs partner who is now the Commodity Futures Trading Commission Chairman. Gensler is one of the few officials who can credibly say that, having worked in the lion’s den for many years, he is committed to rectifying what he knows is truly troublesome in the boiler rooms of the U.S. financial industry. Yet the deck is stacked against him. The fundamental imbalance at the heart of this issue is not just irritating but also profoundly undemocratic. Just look at the numbers. The Sunlight Foundation found in a study released last year that Wall Street has met 1,298 times with government officials to influence the new rules. By sharp

contrast, public interest groups have only been able to get 242 such meetings. They have been outgunned 5 to 1. This unsettling imbalance in the U.S. political process has consequences way beyond U.S. borders as the U.S. financial industry is still in a dominant position globally, setting many of the standards and practices for “what goes.” The Group of 20 and the Financial Stability Board have pledged that powerful nations like the U.S. will ensure that the global impact of their rule-making will be taken into account. Now the U.S. may blow a hole in the Dodd-Frank law by allowing many of the key global operations of U.S. banks to be exempted from regulation. The first blow came quietly late last year while Congress was on its Thanksgiving holiday. The Treasury Department exempted foreign exchange (FX) swaps and forwards from the regulations. Why should Americans and the global public care about this? When U.S. banks operating offshore, and in places like South Korea, sell FX derivatives to exporters, they can hedge against foreign exchange risk. That sounds innocuous enough. But when the last financial crisis hit, there was such a flight of capital out of emerging markets and back to the U.S. that many of those positions were rapidly unwound — to the great detriment of those economies. Such are the massive — and global — transmission effects of today’s tightly integrated financial markets. Never relenting, these same FX derivatives market operators got very busy again right in the wake of the global financial crisis. Hedge funds and big banks engaged in the carry trade; they borrowed in dollars at low interest rates then invested in foreign currencies in a broad range of countries — from South Korea, Brazil, Chile, Colombia, Mexico, South Africa, Indonesia, to Thailand. They then built FX derivatives that shorted the dollar and went long on those currencies. This fueled exchange rate appreciation and asset bubbles that are part

of the reason for the slowdown in emerging markets. Now that the Federal Reserve is looking to wind down its easing policies, capital is fleeing emerging markets, causing exchange rates to depreciate and debt burdens to rise. By now it’s a familiar story. Financial engineers, largely at American-owned firms, generate serious blowback in the real economy, and get hurt themselves. Citigroup, a too-big-to-fail bank, may lose \$7 billion in FX derivatives markets if the U.S. dollar appreciates as capital flies back to the U.S. The next regulatory blow may hit any day. The CFTC and the SEC are now considering exempting those same foreign subsidiaries and branches of hedge funds and big banks headquartered, or with stakes, in the U.S. that have been packaging derivatives overseas. This would be disastrous for emerging market and developing countries attempting to maintain financial stability for development. To their credit, South Korea and Brazil have put in place their own regulations on FX derivatives, but emerging markets alone cannot carry the burden of regulating a \$4 trillion per day market. CFTC chair Gensler has said that, if these regulations are swapped out of the rule-making, hedge funds can evade the rules “by setting up shop in an offshore locale, even if it’s not much more than a tropical island P.O. Box.” Gensler needs a majority of commissioners to help him close this loophole by July 12. Time is running out. The world cannot afford to allow the creation of major loopholes that could threaten the global financial system yet again.

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