Chapter 6

The Case of Postal Privatization and Japanese Politics

6.1 Background

Only a few countries have privatized their post office. Governments arguably lose a great deal by privatizing. They lose regular payments to national treasury if post offices are profitable, as opposed to receiving one-time profits from privatizing. But mostly, they risk being politically unpopular with the public, especially people living in rural areas. Rural residents stand to lose affordable service, or service altogether, in a privatized postal system geared to profit. As a rule, post office competitors are not interested in privatization either. They don’t want a big private post office competing with them. Of course, some of them would like to buy up the lucrative parts of a post office, just not the money-losing but socially valuable services such as rural post offices and delivery (Bortolotti, Fantini and Siniscalco, 2004).

For well over a century, the Japanese post office has functioned as both a local community hub and a vehicle for national development. During the early Meiji period,¹

¹ One of the Meiji government’s first tasks was to update Japan’s antiquated postal system. Hisoka Maejima, appointed the Superintendent of Postal Services, hired an American expert, Samuel Bryson, to assist in the development of a national service. In 1872, the old, privately organized courier system was discarded and a new, national service, based largely on the British model, was adopted. The success of the new service was greatly assisted by the parallel development of an extensive railway system that provided access to the outer provinces. Postage stamps were introduced and postal rates became uniform throughout
small post offices operated as the state’s sole representative in rural communities and channels for the dissemination of modern ideas and practices. By the early 20th century, the postal savings and insurance systems were fueling industrial growth and military expansion abroad (Cargill and Yoshino, 2003). From the 1950s, postal savings and life insurance premiums were being channeled into the Fiscal Investment and Loan Program (FILP), Japan’s so-called “second budget” that provided much of the capital for rapid industrial growth and, later, public works spending (Doi and Hoshi, 2003). All the while, the postal system assumed important social functions from local infrastructural development to programs for tending to the elderly and making charitable contributions abroad. In keeping with the system’s multi-faceted accomplishments, the local post office is now widely viewed as a symbol of tradition as an embodiment of many of the customs and government policies that marked Japan’s distinctive entry into the modern world. It is small wonder, then, that many Japanese viewed Koizumi’s successful efforts to privatize the postal system as an attack on the very soul of Japan.

Figure 27: Amount of Total Assets of Japan Post
Source: Life insurance and Japan Banker’s association

the country. Progress in Japan’s postal system also led to a rationalization of weights and measures, making Japanese products measurable to other countries. By 1877, the postal service was sufficiently advanced that it was able to join the Universal Postal Union, therefore linking Japan with the world.
6.1.1 Liberalization and Privatization

Japanese economic planners have long recognized that transforming the postal service is a key objective in making Japan's financial markets more efficient (Rosenbluth, 1989). The country's economy has struggled through four recessions since 1991, and policymakers admit that interlocked and inefficient capital allocation is hindering growth. Moreover, as retirement funding emerges as a dominant issue with Japan's aging population, simple "postal reform" tears deep into the fabric of Japanese society. In 2005, more than 85 percent of Japanese households had postal service accounts and some 60 percent had insurance policies with Japan Post. Political and cultural opposition was strong, and there continued to be innumerable temptations to undermine real reform as politicians responded to powerful interest groups.

Prime Minister Koizumi staked his political legacy on privatization of Japan Post\(^2\) with nationwide snap elections he called in 2005. Despite passionate opposition, Koizumi won enough support to move ahead with his long-term plan to privatize the behemoth. In January 2006, the government mandated the establishment of a holding corporation - Japan Postal Services Corporation (JPSC) - whose stock is to be entirely owned by the government. JPSC in turn is structured to own the stock of four subsidiary operating corporations created as Japan Post is split up. JPSC now identifies itself as Japan Post Holdings Co., Ltd. The four subsidiaries are Japan Post Network\(^3\) (the retail post office

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\(^2\) Japan Post's formation was part of then Prime Minister Junichiro Koizumi's long-term reform plan which would culminate in the full privatization of the postal service. The privatization plan encounters both support and opposition across the Japanese political spectrum, including the two largest parties, LDP and DPJ. Opponents claim that the move would result in the closure of post offices and in job losses at the nation's largest employer. However, proponents contend that privatization would allow for a more efficient and flexible use of the company's funds that would help revitalize Japan's economy, which is still recovering from a series of four recessions since 1991. Proponents also claim that Japan Post has become an enormous source of corruption and patronage.

\(^3\) Japan Post Network will offer products and services transparently through readily available post office networks, aiming to contribute to "helping customers lead a better and comfortable life at present and in the future" and realize excellent management so that customers and consignors will use Japan Post Network's services over the long term.
operator), Japan Post Service (the mail delivery arm), Japan Post Bank, and Japan Post Insurance. The Post office operator serves as the retail arm for the other three units. This four-part structure formally came into being on October 1, 2007. The Bank and the Insurance arms were slated to be the first entities to transfer to ownership by private shareholders, by 2010. The state-owned holding company is then expected to relinquish all shares in them by 2017.

Japan Post Network and Japan Post Service will continue to be completely controlled by the holding company. They will not be privatized themselves, but the government plans to relinquish two thirds of its interest in the parent holding company by 2017. The regulatory future of the delivery entity is not clearly spelled out. A 2004 Cabinet decision left Japan’s politically appointed Minister of Internal Affairs and Communications (MIC) with virtually complete authority in mail matters approving all changes in postage rates and supervising postal operations and standards. The Cabinet ruling also continued universal postal service, and stated that the postal monopoly would not be abolished “for the time being.” In effect, the government set the prices and made the rules.

Some efforts to privatize the holdings of Japan Post Group have met with resistance. A plan to sell an unprofitable string of hotels owned by the holding company was foiled in February 2009; after the MIC called into question the deal’s transparency and sale price.

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4 Japan Post Bank provides cash withdrawal services for credit cards and cash cards issued by overseas financial institutions. Cards bearing the VISA, VISAELECTRON, PLUS, MasterCard, Maestro, Cirrus, American Express, Diners Club, JCB, China Unionpay and DISCOVER can make withdrawals at Japan Post Bank ATMs.

5 While maintaining universal services for postal businesses, JAPAN POST SERVICE will create a “network that sincerely connects people, corporations and society,” by providing communications in which the public feels secure, and certain and speedy logistics functions.

6 The Ministry of Internal Affairs and Communications is a cabinet-level ministry in the government of Japan. The English name Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT) was used prior to 2004. The purpose of this ministry is to oversee improvements to the Japanese administrative organization and civil servant system, manage local governments, elections, telecommunication, posts, governmental statistics and all concerning national basic system[clarification needed]. It was created on January 6, 2001 by the merger of the Ministry of Home Affairs the Ministry of Posts and Telecommunications and the Management and Coordination Agency. The Minister of Internal Affairs and Communications is appointed from among the members of the cabinet. Kazuhiro Haraguchi currently holds this post.
Also resisting the privatization were Japan’s postal labor unions, two of which merged in response to the announced plan. Previously rivals, the unions formed the Japan Post Group Union in October 2007; the syndicate now has more than 225,000 members. The privatization of Japan Post was at the mercy of the government. A bill that would halt the process was defeated in the lower house of the Japanese Diet in late 2008, after passing in the upper house. Post-Koizumi there was strong political will against further privatization. Despite Koizumi’s past successes, this issue remains at the forefront of Japanese politics. In early 2009, Prime Minister Taro Aso faced pressure to resign after he announced that he was rethinking the break-up of Japan Post. His approval ratings slid to under 10 percent.

6.1.2 Regulation and Control

Japan Post and its emerging subsidiaries continue to report to and be supervised by the Japanese government. As some aspects of the old postal service are “liberated,” the MIC has acquired additional authority. MIC must approve all Japan Post Service subcontracts and controls the Service’s entry into non-traditional businesses. It enforces legislative compliance and has broad powers of audit and inspection. As a result, anything resembling investor-responsible commercialization of postal delivery activity has lagged. In fact, there seems to be reluctance on the part of Japanese investors to approach companies which they are not in a position to control. Thus, the spin-offs of Japan Post are government-owned corporations. They report directly to the government and retain government guarantees and special rights. Incremental steps have been taken to relax government control. The deposits of Japan Post Bank are no longer fully guaranteed by the government. Like other private banks, they were insured by the Deposit Insurance Corp. of Japan up to ¥10 million which the present DPJ proposes to increase it to 20 million yen. The Bank and Insurance companies were seeking an end to restrictions on deposit limits and insurance benefits.
6.1.3 Oversight, Investors, and Consumer Rights

The basic Postal Privatization Law provides very little in the way of independent, outside review of the allocation of assets in the breakup or ongoing review of operations or the virtue of management. Short of market valuations, which have so far hardly entered the picture, guidelines on how the privatization of Japan Post is to move forward are incomplete and vague. Moreover, if privatization means as it does in other countries that the spin-offs from Japan Post are to have the same freedom to manage their own activities as private businesses and compete "on equal footing," then even the basic legal platform has so far not been envisioned, much less spelled out. Moreover, even within the government itself, there is no single source that circumscribes the authority of the MIC in this matter. Outside bodies that might insure compliance with private, as opposed to government obligations, are few in Japan. The Japanese Fair Trade Commission\(^7\) may widen its role, but its powers do not match the powers given to outside postal regulators in other countries going through this process.

6.1.4 Competition & Universal Service

There is no proper plan in place to phase out the postal monopoly. Universal service is recognized in Japan to comprise 6-day delivery of mail of up to 4 kilograms. Although new regulations allow competition in national service for ordinary mail, entry restrictions are written so that no private business can meet the requirements. Japan Post is in the process of modernizing its traditional mail operations. It has taken steps to form business alliances with both Japanese and European firms to gain a foothold in the high-margin package delivery market. Almost immediately after restructuring in October 2007, Japan Post forged a domestic partnership with Nippon Express, a prominent Japanese parcel delivery firm. The companies expected to be fully merged by April 2009, but the planned merger was opposed. The merged company would be the third-largest parcel delivery

\(^7\) The Fair Trade Commission is a commission in the Japanese government responsible for enforcing Antimonopoly Law. The commission is commonly known as Kōtori.
service by volume in Japan, with roughly 19 percent of the market. Major competitors are Yamato Transport \(^8\) with 38.2 percent market share as of 2008, and Sagawa Express with 33.4 percent market share.

6.1.5 Non-Postal Activities

Japan Post has introduced electronic bill-paying and also begun to offer its customers the option of moving savings into a range of investments, including stock market investment trusts managed by private financial firms. Japan Post has also formed an advertising company to take advantage of unused space inside and outside of post offices. As of 2008, Japan Post Bank offered JP-brand credit cards. Similarly, Japan Post Insurance has begun offering hospitalization and surgery insurance.

In a country often characterized by political apathy and government inertia the general election on September 11, 2005,\(^9\) was a novel in the sense that the Liberal Democratic Party had unprecedented landslide. When the voters of Japan went to the polls in early September, they provided Prime Minister Koizumi with a resounding victory. He proposed privatization of the postal service as the only issue in the campaign. For the first time in recent history, an incumbent prime minister ran and was re-elected on a platform that centered on a single, highly salient political issue. The election was effectively a referendum on privatizing Japan Post, Japan’s vast state-run postal service (Amyx, Takenaka and Toyoda, 2005).

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\(^8\) Yamato Transport Co., Ltd. (listing is as Yamato Holdings) is one of Japan’s largest door-to-door delivery service companies, competing closely with Sagawa Express and Nippon Express. Their head office is located in Ginza, Tokyo. The company’s logo is a yellow oval with a black mother cat carrying her kitten in her mouth, symbolizing the company’s promise that they take care of items entrusted to them as though the items were their own family.

\(^9\) A general election in Japan was held on 11 September 2005 for all 480 seats of the House of Representatives of Japan, the lower house of the Diet of Japan, almost two years before the end of the term taken from the last election in 2003. Prime Minister Junichiro Koizumi called the election after bills to privatize Japan Post were voted down in the upper house (which cannot be dissolved), despite strong opposition within his own Liberal Democratic Party (Japan) (LDP).
Koizumi portrayed passage as a key step in reforming Japan's burdened economic structure and rejuvenating growth. He had made clear that the election was about change: the start of a new era or the return to the politics-as-usual that marked the country's political landscape for the last several decades. He ousted dissenters who voted against the privatization bill in the Lower House from the party. The LDP became monolithic in terms of policy for the first time. Koizumi's strategy gained great success in the urban areas while the party did not have clear victory in rural districts. The result showed that the LDP was changing into a modernized party with neo-liberal policy and urban supporters. Koizumi to some extent succeeded in changing the framework of post-war politics, especially the LDP politics, and inaugurated a new regime and the 1955 system was apparently collapsing. This chapter deals with the battle Koizumi fought and finally won in privatizing Japan's massive postal system and in turn the change in LDP politics.

The change was evident at the battle over privatization of postal service, Koizumi's pet project, in 2005. The government submitted the bill for privatization to the Diet in 2005 ordinary session. Although many LDP members revolted, the Lower House passed the bill with narrow margin in July. The Upper House killed the bill because over 20 LDP members revolted. The attitude of these non-obedient members was a willingness to support Koizumi so long as they can recapture the old ways in terms of personnel and policies. They thought rejection of the privatization bill would be strong weapon to deprive Koizumi of his power. However, they underestimated Koizumi's determination for privatization. Then Koizumi did not resign as the Prime Minister but dissolved the Lower House and called for the general election or national referendum on privatization. The party banished the dissenters and nominated fresh candidates from business, civil service and local politics. People thought Koizumi bravely cut off the old side of the LDP. His popularity soared because he successfully emphasized the negative image of the old LDP. Especially, urban voters and young generation overwhelmingly supported Koizumi's LDP. It is true that there still remain many old politicians in the party. But politicians who are quick to seize their opportunities have already realized that if the LDP returns to factional in-fighting at this stage of the game, and that if the same tired old
factional bosses are brought in to replace Koizumi, then the nation will become utterly
disgusted with the LDP.

6.2 The 2005 Elections

In the September 11, 2005 elections, voters had no real choice. The two main parties,
LDP and DPJ offered cuts or more cuts in public spending. There was, however, a big
gulf in style. The victor, LDP leader and Prime Minister, Junichiro Koizumi, had
carefully crafted his image as a political rebel ever since he took over in 2001. Whereas
koizumi was widely popular for his leadership skills and style the then leader of DPJ,
Katsuya Okada, on the other hand, was dubbed ‘policy robot’ for his grim conduct.

The snap election was called by Koizumi when he failed to get his plan to privatize Japan
Post through the upper house of parliament. His political gamble paid off as Koizumi
used the campaign to clampdown on powerful party factions and increase his control. Not
only had Koizumi dissolved parliament, but he also expelled 37 LDP ‘rebel MPs’ who
voted against the privatisation. Their opposition was from the position of fighting to hang
on to vested interests, rather than any ideological defense of public ownership.

In fact, Japan Post is an essential part of the stagnant political system. Its huge funds,
accumulated from mass household savings, are used in the elaborate system of kickbacks
and political favours granted to the LDP’s traditional supporters in construction
corporations, farming and a powerful doctors’ lobby. Over decades it has helped deliver
the vote to the LDP, especially in rural areas.

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10 The setback led the DPJ leader Katsuya Okada to resign, and raised a question whether the DPJ can
remain an alternative to the LDP in the future elections.

11 Among the 37 “rebels” within the LDP who resisted postal reform, only 17 survived the election. Former
Prime Minister Ryutaro Hashimoto also retired from the Diet, effectively spelling the end of his faction and
the practice of factionalism in Japanese politics.

12 In recent years, the LDP has lost critical support from its traditional hard-core supporters from the post
offices, construction companies and farming communities. Koizumi’s charisma and electoral triumph of
winning a two thirds majority in the 2005 Lower House Election by championing the privatization of the
6.3 Main Reasons for Privatizing

The Japanese postal service is one of the biggest financial institutions in the world; some people say it is the biggest, what's clear is that it is an institution with very far-reaching tentacles throughout Japanese economy and society. So discussion of privatizing it bodes well for the modernization of financial markets in Japan. The privatization of postal savings is of particular interest to outside observers. Foremost among the reasons for this is perhaps that Japan's postal savings system represents the largest financial institution in the world in terms of asset size. One of the reasons is the economic stagnation that Japan has been suffering from and has been struggling to overcome. Koizumi deemed that Japan Post assets can be more properly utilized if the private sector is in charge. The postal service possesses an enormous amount of financial resources. It enjoys 340 trillion yen (a little more than $3 trillion USD) in assets. Almost 85% of households have post office savings accounts and more than 60% hold one of its life assurance policies. It has 24,700 branches and employs 280,000 full-time staff, a third of all public servants. Koizumi wanted to allow big business in the private financial sector to exploit this huge capital, although that was not how he presented it to the electorate. Koizumi argued that the privatization of Japan Post will facilitate the entry of these assets into the market economy, which will lead to more dynamic economic activities in Japan.
Privatization of this system would have a significant impact on the flow of funds within Japan. By subjecting the system to market forces and removing blanket deposit guarantees, privatization would affect the calculations and behavior both of depositors and of those entrusted with investing these deposits, leading to the significant reallocation of funds (Clarke and Cull, 2002). Koizumi contended that privatization will divert the huge pool of money into commercial capital markets and assure it is spent more efficiently, giving a boost to a troubled economy. He had long described postal privatization, which he has championed since overseeing the post office as a minister in the early 1990's, as the main pillar of his plan to reshape Japan’s political and economic structure and has been the focus of a major political battle playing out in Japan especially since Koizumi took over as prime minister in 2001.
Various arguments have been put forth as being reasons for privatizing the mammoth Japan Post. For much of his political career, privatizing the postal services has been at the center of Prime Minister Koizumi’s reform agenda. Although economists debate the rationality of his arguments, Koizumi firmly believed in three things:

1) That subjecting mail delivery services and the postal savings and insurance systems to private competition will lower communication costs for businesses and consumers while providing new opportunities for entrepreneurship.

2) That privatization will help in getting rid of Japan of wasteful public works programs by eliminating an important source of government income (the postal savings and insurance systems).

3) That wholesale postal reform will dismantle many of the institutional vestiges of the so-called “1955 system” that many claim to have contributed to prolonged political and economic mismanagement. The government has traditionally used funds that the post office collects to finance public works projects, many of them politically motivated and serving little apparent social need.

For Koizumi, postal privatization served several purposes. First, it promised to at least weaken the last vestiges of Tanaka Kakuei’s machine-style politics by subjecting individual post offices to market competition, diversifying the interests of the

13 Kakuei Tanaka, the legendary political shogun who was hailed for his dynamic leadership but despised as the architect of Japan’s corrupt machine politics. Tanaka’s fortunes rose and fell from being a poor farm boy to prime minister in 1972, to a felon snared in the Lockheed bribery scandal four years later. He had all but retired from politics since suffering a stroke in 1985. Tanaka’s most important support base, however, was a group called Etsuzankai (“Niigata Mountain Association”). Etsuzankai’s function was to screen various petitions from villagers in rural parts of Niigata. Tanaka would answer these petitions with government-funded pork barrel projects. In turn, the local villagers all financially supported Etsuzankai, which, in turn, funded the re-election campaigns of local Diet members, including Tanaka. At its peak, Etsuzankai had 100,000 members. The projects funded by Etsuzankai included the Tadami River hydroelectric power project, the New Shimizu Tunnel, and, perhaps most infamously, the Joetsu Shinkansen high speed rail line. During the 1950s, Tanaka brought Etsuzankai members to his residence in Tokyo by bus, met with each of them individually, and then provided them with tours of the Diet and Imperial Palace. This practice made Etsuzankai the most tightly-knit political organization in Japanese history, and it also furthered Tanaka’s increasingly gangster-like image.
postmasters, and hence loosening the postmasters’ ties to LDP politicians. As it turned out, Koizumi’s 2005 electoral ploy diluted the postmasters’ power well before his postal privatization bills had cleared the Diet; since it was clear during the 2005 election that individual LDP candidates would have no choice but to vote for privatization if they wished to remain within the LDP, the postmasters’ representative organizations at the national level severed their formal association with the party, allowing individual postmasters to vote for either the LDP or the rebels, who ran as independents or members of the newly-formed People’s New Party (PNP, Kokumin shinto).14

Second, Koizumi hoped that competition would transform the Japanese financial system. Since his early days as a member of Fukuda Takeo’s faction and an advocate of the banking system and the interests of the Ministry of Finance (although not that part of the MOF that zealously oversaw the FILP), Koizumi envisioned privatized postal savings and insurance systems that would divert money away from the FILP and foster competition among private financial firms. (Maruyama, 2005)

His 2005 privatization legislation was designed to do just that; by restructuring each postal service as an independent corporate entity and reducing opportunities for government subsidization and interference in the affairs of these entities, the laws theoretically encouraged these firms to turn a profit by investing their funds in private markets, rather than in low-yield FILP and FILP agency bonds. Upon closer scrutiny, however, it is clear that certain details in the privatization legislation and supporting documents will work at cross-purposes to Koizumi’s liberal economic objectives. One of

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14 The People’s New Party is a centre-right, Conservative, Japanese political party formed on 17 August 2005 in the aftermath of the defeat of Prime Minister Junichiro Koizumi’s Japan Post privatisation bills which led to a snap election. The Kokumin Shinto, headed by former lower house speaker Tamisuke Watanuki, includes former LDP lower house members Shizuka Kamei, Hisaoki Kamei, and House of Councillors members Kensei Hasegawa from the LDP and Tamura Hideaki from the Democratic Party of Japan, the main opposition. Most of the members of the Kokumin Shinto were formerly members of the Shisuikai (also known as Kamei Faction) of the LDP. Their strong links to the postal lobby forced them to go against Koizumi’s plans to privatise the postal system. While Watanuki was made party leader, Kamei was also seen as a public face for the party. The party was initially almost exclusively defined by its opposition to Koizumi’s “dictatorial” politics as expressed in the post privatisation debate. Eventually their platform was broadened to include ideals of serving and protecting the people, and engaging in “warm, friendly politics”.

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the laws, for instance, states that in addition to promoting the independent management of the postal services, the pursuit of free and fair competition, and the enhancement of customer convenience, postal privatization aims at the sound development of local society. Local society is also the focus of a supplementary resolution passed by the Upper House that stresses the postal network’s role as an integral component of peoples’ daily lives that must be protected. To ensure that protection, the legislation provides for the establishment of a two trillion yen fund from proceeds from the sale of Japan Post Holdings’ shares in the postal savings and insurance firms, a process that must be completed by 2017.

If the passage of Koizumi’s postal privatization bills symbolized the relative decline of the postal lobby’s political power, the bills’ content as well as that of the supplementary resolution reflected the extent of its remaining influence and distrust of market principles. Once it became clear to the postal lobby that they were powerless to halt the legislative process in the face of Koizumi’s clever manipulation of policymaking and LDP institutions, the lobby focused on pressuring policymakers for concessions. The postmasters and their employees flooded Diet members with petitions and organized countless demonstrations. LDP and opposition party members, for their own part, subjected Heizo Takenaka and Koizumi to relentless attacks in both houses of the Diet. In 2004, Takenaka partially succumbed to this pressure by publicly promising to maintain at least one post office in every village of Japan; the legislation and the Upper House’s supplementary resolution introduced measures to help ensure that this promise would be kept. To be sure, Koizumi and Takenaka recognized that these concessions were a necessary price to pay for the smooth passage of the legislation. But the measures also compromised the government’s professed commitment to slash costs within the highly inefficient network. They also preserved some of the institutional foundations of the postmasters’ historical influence.
Postal privatization would bring positive economic effects by eliminating traditional pump priming in the form of fiscal investment and loan programs (FILPs)\textsuperscript{15} essentially an "automatic money supply" thereby reducing pressure on the government budget. The FILPs, using money provided by Japan Post, were controlled by the government and politicians who were backed by local interests involved with road construction and other public works, which was criticized for years as a waste of money and a buildup of hidden losses that would ultimately be covered by tax revenue. This is the most important reason why the Koizumi administration decided to privatize Japan Post, and no politician argued in favor of FILPs directly because all Japanese voters fully understand the importance of reform (Feldman, 2004). Most postal deposits are currently invested automatically in central and local government bonds, and in bonds issued by government-owned corporations. Many private financial institutions domestic and foreign alike were eager to lure some of those funds into other financial instruments, primarily in the private sector.

Another reason why Koizumi wanted to privatize it was due to his small government argument. From his first day in the cabinet, Prime Minister Koizumi has been resolute in his political goal of organizational reform. As a result of the reform, he hoped to achieve a "small government" to cut government expenditures in this financially difficult time for Japan. Koizumi strongly believed that his goal of small government can be achieved by slimming down the number of government employees. His ultimate goal of the privatization of the postal service reinforced his overall emphasis on small government. In his election campaign, he reiterated that privatizing Japan Post would be the best way to cut down on the number of government employees. He viewed at the number of workers in different government agencies to make his argument that Japan Post has a

\textsuperscript{15} Japan's Postal Savings System (PSS) and Fiscal Investment and Loan Program (FILP) are major institutional features of Japanese finance that support a wide ranging system of government financial intermediation. Despite their size and importance, they have not received extensive attention outside of Japan. These institutions manifest characteristics of the pre-liberalization regime and despite an official policy of liberalization since the mid 1970s, the PSS and FILP have increased their role in the financial system and economy. They resisted reform until 1998, and despite a series of reforms that became effective 01 April 2001 and after the postal privatization, there is concern that reducing the role of government financial intermediation will be a slow and difficult process. The process is complicated by Japan's depressed economy that is now in its second decade of stagnant or declining growth.
large number of employees, and therefore in order to achieve a smaller government, Japan needed to cut the number of postal employees.

6.4 Efforts towards Postal Privatization

Postal privatization has been a major issue in Japanese politics since the 1980's when Yasuhiro Nakasone was the prime minister of Japan. He undertook various administrative reforms in order to curb the rising budget deficits. Although Nakasone succeeded in privatizing the three public corporations namely the Japan National Railways (JNR), Japan Tobacco (JT), and Nippon Telegraph and Telephone (NTT), Japan Post could not be privatized. Since then no government had seriously considered about the privatization of Japan Post.

Prime Minister Koizumi flocked a cram into these political fissures by manipulating preexisting institutions to shape the contours of postal privatization legislation. Although certainly the most zealous postal reformer of postwar Japan, Koizumi was by no means the first prime minister to advocate sweeping postal reform. Sato, Nakasone, Hashimoto all had toyed with privatization but none were completely successful. Hashimoto came much closer in 1998 by laying the foundations for the establishment of a public corporation (Japan Post) in 2003 and of independent investment authority for the postal savings and insurance system. (Incidentally, it was largely thanks to Koizumi's unprecedented threat in 1998 to resign his position as Minister of Health and Welfare that Hashimoto accomplished anything at all on postal reform.) What Koizumi did in 2004 was entrust the Council on Economic and Fiscal Policy (CEFP), another Hashimoto innovation, with responsibility for hammering out a comprehensive postal privatization plan. Based in the Cabinet Office, chaired by Koizumi, and effectively led by Takenaka Heizo, the council was theoretically immune to the interest group plots that had derailed past privatization deliberations based in the Ministry of Internal Affairs and Communications (MIC, formerly the Ministry of Posts and Telecommunications).
6.4.1 The Hashimoto Reforms

When Koizumi assumed the Prime Ministership in April 2001, the government-administered postal system was already being primed for corporatization in spring 2003, thanks to an initiative launched by Prime Minister Ryutaro Hashimoto in September 1997, when the Administrative Reform Council, headed by the Prime Minister, issued an interim report which recommended the privatization of the financial business operations of the postal system. The Council’s recommendation, however, faced fierce resistance from both the opposition and Hashimoto’s fellow LDP members. Reflecting such enormous political opposition, the final report, published in November 1997, included a written commitment that “postal services will never be privatized”. The final report did, however, include three policy recommendations that were designed to reduce the government’s involvement in postal services operations.

First, it called for a shift in the management of the postal system from the Ministry of Post and Telecommunication to an independent corporation, Japan Post.

Second, it recommended that Japan Post should have complete autonomy with respect to the manner in which it invests postal saving and insurance funds: in other words Japan Post has no obligation to fund the FILP.

Third, the government agencies that traditionally had relied on the FILP loans would need to issue their own securities to finance their projects. Hence, these recommendations principally were aimed at cutting off the flow of postal saving funds to seemingly wasteful government agencies and introducing some elements of market discipline into the operations of those agencies. Although tied to the postal lobby by virtue of his historical connection to Tanaka Kakuei, Hashimoto advocated the privatization of the postal savings and insurance systems as a stepping-stone to financial reform and the reinvigoration of the private banking system.
6.4.2 Koizumi’s Privatization Efforts

The second important change and final breakthrough occurred in 2001 when Koizumi, a long-time advocate of postal privatization, became Prime Minister by winning a landslide victory in the LDP presidential primary. Koizumi was a popular reformer as the popularity survey continued to show approval ratings above 70%. As soon as he took office, Koizumi assembled pro-reformers and set up an advisory panel, which immediately demanded the disclosure of the postal system’s unrealized profits and losses and sent bills to the Diet that would actually implement the reform measures spelled out in the aforementioned report. The actual implementation of postal privatization was slow, however, as Koizumi struggled to reach a compromise with the opposition group that argued that postal privatization would violate the 1997 report’s pledge that the postal system was not to be privatized. Koizumi ran for the LDP presidency in 1995 and 1999, but he gained little support in both attempts, losing decisively to Ryutaro Hashimoto and then Keizo Obuchi. In addition to postal privatization, he advocated for fiscal discipline and banking sector reform. Despite many compromises, the privatization bills still encountered fierce opposition from anti-reformers within the LDP as well as the opposition parties in the Diet.

6.4.3 Koizumi’s 2002 Legislative Experiment

One of Koizumi’s first acts as prime minister was to try to maximize Japan Post’s potential in anticipation of eventual privatization. Although Koizumi had accepted corporatization as perhaps the only politically viable option open to postal reformers in 1997, he was very skeptical that the flexible management and business accounting system of Japan Post would effectively solve the postal system’s long-term problems. Of particular concern were projections of rising interest rates, which would have a detrimental effect on the revenue streams of the system’s financial services. Since corporatization would keep the three services under one roof one of the Postal Family’s primary demands cross subsidization among the services would serve as a disincentive for the system to innovate in accordance with market demand.
In the summer of 2002, Koizumi appointed Ikuta Masaharu director of the Postal Services Agency (Yūsei jigyōchō), which was established in January 2001 to administer the postal services until the launching of Japan Post in 2003. Ikuta defied the consensus-oriented, bottom-up decision-making norms of the postal bureaucracy by imposing top-down leadership procedures onto the agency's administrative structure and by introducing a host of horizontal organizations to help overcome bureaucratic sectionalism. He also weakened the influence of the approximately 100 "family enterprises" that serviced the postal network, by injecting more competition into contract bidding. These steps not only lowered costs within the services but also made the family enterprises less appealing landing spots for amakudari bureaucrats from the MIC. Meanwhile, he encouraged product innovation within the postal services and forged a partnership with Lawson's, the nation-wide chain of convenience stores. These innovative, cost-cutting steps significantly invigorated the mail delivery service, placing it on sound financial footing after years of decline.

Koizumi's support for administrative and financial innovation in the Postal Services Agency raised the ire of bureaucrats in the MIC, many of whom had opposed him since his days as Minister of Posts and Telecommunications. In 2002, however, the postal officials were able to score a few points against Koizumi during his campaign to subject the mail delivery service to more competition. For by centering the legislative drafting process in the MIC, the very ministry that would be most affected by postal reform, Koizumi unwittingly subjected that process to pressure from MIC allies, namely, members of the LDP's postal tribe and the commissioned postmasters, both stalwart opponents of expanded competition in the mail delivery service.

In the end, Koizumi made waves by having the cabinet adopt his postal reform bills without first receiving party approval, knowing full well that the LDP was prepared to reject the bills outright. Koizumi's willingness to defy party convention was only to expand three years later, when comprehensive postal privatization was on the table. In 2002, however, his eccentric approach to the legislative process was not quite enough to
overcome the Postal Family’s resistance, as evidenced by the very content of the legislation, which was formulated under the Postal Family’s watchful eye. Put simply, the bills had been so watered down as to render competition virtually meaningless. Private firms that had been granted ministerial permission to enter the national mail services market were required to charge uniform delivery fees, thereby preventing price competition between the post offices and the private sector. In addition, new participants had to set up approximately 100,000 mail boxes (posuto) around the country, a prohibitive and needless expense for private firms like Yamato Transport Company that service their customers door-to-door (Yamato, 2004). Not surprisingly, precious few firms entered the national market between 2003 and 2005.

6.4.4 The Path to Privatization

From the summer of 2003, Koizumi put comprehensive postal privatization at the top of his agenda. In addition to fretting about the long-term effects of cross-subsidization among the services under Japan Post’s watch, Koizumi and his allies complained that the many perquisites enjoyed by the services, ranging from corporate and property tax exemptions to government guarantees of postal savings deposits provided the postal system with a grossly unfair advantage over private sector firms. Last but not least, Koizumi saw in the outright privatization and breakup of the services, an opportunity to weaken the political functions of the postal network and hence the nucleus of the anti-reform Postal Family.

Under Takenaka Heizo’s guidance, and with Koizumi’s stamp of approval, the postal privatization process departed from Japanese policymaking custom in that ample opportunity was provided for top-down “political” leadership. This did not mean that politicians had gained the upper hand over the bureaucracy within the policymaking sphere, but rather that a space had been created for the prime minister and his aides to steer the process. The most conspicuous expression of this shift was the Council on Economic and Fiscal Policy’s (CEFP) assumption of ultimate authority over the
privatization process. Operating within the Cabinet Office\(^{16}\) and led by and answerable to the prime minister, the advisory council consisted of the cabinet’s leading economic ministers plus several high-profile leaders within the private sector.

Takenaka took several steps to ensure that the CEFP would follow his (and Koizumi’s) lead on postal reform. First, he took great care in choosing the handful of private sector representatives on the committee, ensuring that they endorsed his views on privatization. Second, he and his aides drew up a list of five basic principles that were to serve as the cornerstone for council discussions and that Koizumi immediately endorsed; violations of those principles were not permitted. Briefly stated, the principles required that postal privatization: 1) invigorate (kassei) society and the economy; 2) be consistent with past financial reforms; 3) enhance the convenience of postal customers; 4) make use of the human and infrastructural resources of the postal system; and 5) protect the employment of the greatest possible numbers of employees within the system. In some ways, these principles acknowledged the concerns of the anti-reform camp relating to the adverse effects of privatization on the postal network and the employment of the postmasters and postal workers. But although the CEFP accepted the principles shortly after deliberations began in fall 2003, the discussions were quickly mired in conflict.

\(^{16}\) Cabinet Office is an agency in the Cabinet of Japan. It assists the general strategic functions of the Cabinet by drafting plans. It is responsible for handling the day to day affairs of the cabinet. The Cabinet Secretary position is usually given to a sitting minister.
Politicians’ Attitudes towards Postal Privatization in 2003

Figure 29: Attitude of House of Representative Members

Figure 30: Attitude of House of Representative Candidates

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Third, to help overcome these conflicts and compensate for the fact that none of the CEFP members were experts on the postal system, Takenaka established what he called a "guerilla unit" (gerira butai), an inner circle of close aides who fleshed out a game plan for deliberations that would keep the initiative on Koizumi's side. This game plan, which included the breakup of the postal services and the subjection of each service to the same laws that governed other private sector firms, constituted the bottom line for postal privatization. And to protect that bottom line, Takenaka initiated and Koizumi approved the spring 2004 establishment of the Postal Privatization Preparation Office (PPPO, Yūsei min'ei ka junbi shitsu) under the auspices of the Cabinet Office's secretariat. Consisting of about 100 academics and sympathetic officials from throughout the bureaucracy, the PPPO drew up the September 2004 Basic Framework for Postal Privatization, which served as the blueprint for the 2005 legislation, as well as the legislative bills themselves. At the April 26, 2004, ceremony to launch the PPPO, Koizumi himself was on board to help write the office's sign board. The event was widely reported by the press, and the accompanying photograph of Koizumi, Takenaka, and two PPPO officials emphasized to the public that the prime minister was ultimately in charge of the postal privatization process.

With these supplementary institutions in place, all that the CEFP had left to do was approve the handiwork of the PPPO. But that proved easier said than done. Of particular concern was opposition from Ikuta Masaharu and Aso Taro, the Minister of Internal Affairs and Communications and a friend of the Postal Family, to Takenaka's bottom line requirement that the postal system be broken up into three independent services. Insisting that all three services be kept under one roof, the two men effectively stalemated the deliberations. Meanwhile, key LDP leaders put relentless pressure on Takenaka, threatening to withhold party approval of the privatization plan if Aso's demands were not met. The stalemate persisted until early September, when Koizumi intervened by meeting personally with both Ikuta and Aso.

The 2004 proposal for postal privatization called for dividing the postal system into four units (over-the-counter service, mail delivery, postal saving, and insurance). The
government-owned holding company was to retain ownership of the first two units while completely divesting itself of the postal saving and insurance units by 2017. The point of contention in the proposal was its adherence to the full privatization of postal saving and insurance, and the opposing LDP members maintained that the holding company must retain some ownership of those two units. Subsequently, the government made several important compromises in an attempt to obtain enough support for passage by the Diet. In particular, the final bills made it possible for the government to retain some ownership of the postal saving and insurance units. More specifically, the holding company was allowed to buy back some shares, and the over-the-counter and mail delivery units also were allowed to buy the financial unit’s shares to form a cross-shareholding group.

Moreover, although the LDP and its coalition partner, New Komeito, enjoyed a majority in both the House of Representatives and the House of Councillors, some of the senior LDP anti-reformers openly criticized the bills by organizing a series of protest meetings with other sympathetic LDP members. In particular, the anti-privatization (Hashimoto and Kamei) factions of the LDP fiercely opposed the centerpiece of the proposed legislation that separated postal saving and insurance from mail and over-the-counter services. The anti-reformers believed that in preventing the three businesses from being divided and turn the privatized firm back into a public corporation under the next administration.

Since the government refused to compromise on this issue, it was expected that many LDP lawmakers in both the House of Representatives and the House of Councillors would vote against the bills. To force these anti-privatization members to vote for the

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17 On July 27, 2005, New Komeito’s secretary general said that his party would consider forming a coalition government with the Democratic Party of Japan if, in a snap election, the DPJ took a majority in the House of Representatives. On August 8, 2005, Prime Minister Junichiro Koizumi dissolved the Lower House and called for a general election due to the rejection of efforts to privatize Japan Post, but the opportunity for a New Komeito–Democratic coalition did not arise as the Liberal Democratic Party won an immense majority in the general election. The New Komeito Party lost around a third of its seats. Komeito lost three of its seats up for election in the 2007 upper house parliamentary election and is now part of the minority coalition in that chamber.
bills, Koizumi threatened to dissolve the House of Representatives, call a snap election, and expel those LDP lawmakers who voted against the party if the bills were defeated.

Finally, on September 7 the council adopted the Postal Privatization Basic Plan (Yūsei min’eika kihon hōshin), which was to serve as the blueprint for the subsequent legislation. Koizumi then brought pressure to bear on the party, which withdrew its opposition to the basic plan, at least temporarily. Three days later, the Koizumi cabinet officially endorsed the plan, which recommended the breakup of Japan Post into four companies, one each for mail delivery, postal savings, postal insurance, and the network of post offices, plus a government holding company that was to divest its shares in the postal savings and insurance companies by 2017. What is remarkable about this stage in the deliberations is that despite persistent pressure from the Postal Family through both the party and Aso Taro, Takenaka’s basic principles and bottom line requirements had not been compromised.

As the PPPO prepared for the drafting stage of the privatization process, Takenaka, who by late September had been appointed minister in charge of postal privatization, built up his defenses against LDP politicians, the majority of whom opposed his basic plan on one point or another. He began by launching a campaign to sell the notion of postal privatization to the public, a move that could not have come a moment too soon given the public’s confusion about privatization and the media’s fixation on the political machinations surrounding the privatization process. Assuming that public opinion was key to motivating the government and, ultimately, the LDP to line up behind privatization, Takenaka personally participated in a series of town meetings around the country, appeared on numerous local television programs, and disseminated information drawn up by the PPPO about the financial feasibility of a privatized postal system.

Takenaka and Koizumi were also prepared to offer some concessions to their opponents, knowing full well that the LDP would never vote for the privatization bills without them. These concessions included the establishment of a large government fund to help struggling post offices in rural areas adapt to market forces and to continue to provide
informal social services to their communities. Takenaka also publicly pledged during his town meetings to guarantee one post office for each village, a pledge that appeased members of the Postal Family who worried about the effects of privatization on employment within the services and the size of the postal network, as well as residents concerned about a possible decline in official services in their neighborhoods.

In addition to battling their opponents in the LDP, Takenaka had to contend with the ministries. In a nod to custom intended to facilitate the smooth implementation of the postal bills after passage, Koizumi instructed Takenaka and the PPPO to invite the input of the relevant economic ministries during the drafting stage, a concession that immediately triggered unwanted interference from the MIC. By Takenaka’s own admission, certain bureaucrats in the PPPO adhered to the long-standing custom of keeping interested politicians informed by leaking information to the MIC and members of the LDP’s postal tribe about the drafting process and Takenaka’s personal intentions. More dramatically, a group of MIC bureaucrats, with Aso’s support, drafted a series of alternative privatization bills that were put to the cabinet at the same time as Takenaka’s bills. The MIC bills proposed to keep all three services under a single institutional umbrella, thereby maintaining the custom of cross-subsidization among the services. As one PPPO bureaucrat argued, the bill had the added benefit of guaranteeing the postal network, with its politicized corps of commissioned postmasters, thereby reassuring local LDP politicians in rural areas whose electoral fortunes depended on the postal network. Koizumi not only rejected the MIC bills, but also fired two MIC bureaucrats who worked on them in collaboration with the LDP’s postal tribe, an unprecedented move against the bureaucracy that one LDP Diet member likened to “a reign of terror.”

Before the cabinet adopted the Takenaka bills, Takenaka and Koizumi carried out a series of behind-the-scenes meetings (nemawashi)\(^\text{18}\) with key government ministers, many of

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\(^{18}\) Nemawashi in Japanese culture is an informal process of quietly laying the foundation for some proposed change or project, by talking to the people concerned, gathering support and feedback, and so forth. It is considered an important element in any major change, before any formal steps are taken, and successful nemawashi enables changes to be carried out with the consent of all sides. Nemawashi literally translates as “going around the roots”, from (ne, root) and (mawasu, to go around [something]). Its original meaning was literal: digging around the roots of a tree, to prepare it for a transplant. Nemawashi is often
whom still had strong misgivings about privatization. As before, Aso Taro was particularly vocal in his opposition, attacking Takenaka personally and accusing him. Takenaka, for his own part, privately branded Aso a “front” for the Postal Family. In the end, first the ministers and then the party leadership endorsed the bills, but it was clear that their support was based on the understanding that the bills could be amended once they reached the Diet. The LDP had authorized the cabinet to submit the bills to the Lower House on April 27 without actually approving their content.

Lower House committee deliberations on the privatization bills began in late May. The proceedings were predictably contentious, with LDP backbenchers voicing their opposition as boisterously as the opposition parties. The privatization issues that proved most troublesome to the LDP were precisely those that had a bearing on the political future of the Postal Family: the impact of privatization on the size of the postal network; the effects of the breakup of the three services on the ability of individual post offices to offer a full range of financial services to their customers; and the future profitability of the privatized services. Since the Democratic Party of Japan (DPJ) was too divided to significantly influence the proceedings, the debate was for largely an intra-LDP affair. In the end, Takenaka and Koizumi granted their opponents several concessions, including the expansion of the size of the government fund to up to two trillion yen and the provision that the government holding company could retain up to one-third of its shares in the postal savings and insurance companies after 2017. It was after a host of discussions the committee finally approved the bill.

On July 5, 2005, the Lower House passed the postal privatization bills by a narrow five-vote margin, with 37 LDP members voting against them and an additional 14 either abstaining from or boycotting the vote. The next challenge was to secure passage through the Upper House, where the LDP did not enjoy a firm majority and LDP opposition to postal privatization was particularly entrenched. Despite Koizumi’s and Takenaka’s best efforts to win over individual Diet members to their side, the Upper House defeated the

cited as an example of a Japanese word which is difficult to translate effectively, because it is tied so closely to Japanese culture itself, although it is often translated as ‘laying the groundwork.’
bills by a vote of 125 to 108. Koizumi did not step back and gave a befitting answer to the opponents by dissolving the lower house and called a snap election.

The subsequent election for the House of Representatives was essentially a referendum on postal privatization, and the LDP ended up winning a landslide victory by winning votes from urban districts that traditionally voted for the DPJ. After the landslide victory, the House of Representatives quickly approved the privatization bills again on October 11. Another important concession made by Koizumi is the promise of universal financial services during the transition period (2007–2017). The LDP won a solid majority, 296 out of 480 seats, in this election. Combined with 31 seats won by New Komeito, the ruling coalition won more than two-thirds of the seats in the House of Representatives. In the House of Councillors, all but two LDP members who had previously voted against the privatization bills changed their votes to support the bills, which resulted in the Diet’s final approval of the legislation on October 14, 2005.

The passage of postal privatization legislation in October 2005 was one of the most remarkable political events in recent Japanese memory. Economically, the legislation promised to transform the very foundations of the Japanese financial system. Politically, it marked the decline of the vested interests of the postal lobby’s political influence. (Yomiuri Shimbun, 2005).

6.5 Factors Contributing to Koizumi’s Victory

Several factors deserve mention as having contributed to Koizumi’s victory in this election. One is the improvement in Japan’s economic performance. Fears about a crash of the country’s financial system were less severe. The banks had written off an enormous amount of bad loans and were assuming their lending activities again, with an upward swing in corporate profits and the stock market, exports driving growth, and consumer and business confidence improving. The sense that the worst is behind Japan and that the economy is on a path to sustained growth clearly provided a backdrop for an election that was favorable to Koizumi.
Another important factor was the ineptitude of the DPJ campaign\(^{19}\). The DPJ made a strategic mistake by not putting forward an alternative to Koizumi's postal privatization bill. Party leaders assumed that there would not be an election before he left office and thus put more emphasis on maintaining harmony among the diverse interests represented in the party than broadcasting an appealing message to the public. Koizumi thus was able to portray the DPJ as being against change as much as those in the LDP were. The DPJ never got off the defensive and was unable to convince the voters that they should consider the election as anything other than a referendum on postal reform. They did everything possible to deserve the fate the election results bestowed on them.

More broadly, the Liberal Democratic Party (LDP) had been undergoing a series of changes that benefitted the prime minister. As evidenced by the returns of July's upper house election, the LDP was losing support from a number of organizations that were important components of the party's post-1955 vote-gathering machine. Foremost among those organizations has been the association of retired postmasters, or Taijū, which at one time mobilized close to half a million votes behind the LDP in upper house ballots. Taijū reportedly delivered roughly half that number in July and then went on to announce that it was reconsidering its decades-old affiliation with the party. Also significant was the retirement or resignation of several key politicians who had openly opposed Koizumi's reform agenda.

Finally and perhaps most crucially, Koizumi won because Japan was changing, not vice versa. The 1990s was a so-called lost decade for Japan; it was a watershed decade in terms of changing values, expectations, attitudes, and behavior. The political machine was collapsing, even in rural areas. Faith in the bureaucracy's ability to guide the economy disappeared with the bursting of the bubble economy. The idea was that things will somehow be okay as long the DPJ made a strategic mistake by not putting forward

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\(^{19}\) The opposition Democratic Party of Japan (DPJ), which advocated a change of government during campaign, suffered a devastating loss, winning only 113 seats against 175 seats it held going into the election.
an alternative to Koizumi’s postal privatization bill. As people do not rock the boat is no longer accepted. Someone like Koizumi could become Prime Minister in the first decade of the twenty-first century only because of what had happened to Japanese society in the last decade of the twentieth century. The election results ensured that postal system reform legislation was passed by the overwhelming majority marking its biggest electoral win in history.

The effects of Koizumi’s electoral ploy on the LDP’s ties to the commissioned postmasters were profound at least over the short term. It appeared that many postmasters decided to take their chances with the LDP on the assumption that Koizumi was simply a passing phenomenon, but for all intents and purposes, Zentoku or the commissioned postmasters had ceased to be a loyal LDP supporter during the 2005 campaign. Taiju, an association of about 100,000 retired postmasters and active postmasters’ spouses that has functioned as an electoral arm of the LDP, viewed Koizumi’s attack on the LDP’s “forces of resistance” as a betrayal of their long-standing exchange relationship with the party.

Like Zentoku, it vowed to back the rebels in constituencies where they were running either as independents or members of the hastily-formed Nihon Shintō; where there were no rebels running, Taiju chapters were given the freedom to back whomever they preferred. For the first time in its history, Taiju and Zentoku, for that matter failed to speak with a single voice in an election. On October 11, the Lower House passed the postal privatization bills by a 200-vote margin; the Upper House followed suit three days later with 34 votes to spare. The bills were passed unchanged, save for one small point:

20 In general, the LDP roughly held its own in rural areas, retaking about half the seats held by rebels, but holding steady or even falling slightly against other parties. On the other hand, in urban areas the LDP had a devastating victory, reducing the DPJ from twelve single member constituencies to one in Tokyo, from nine to two in Osaka and from eight to zero in Kanagawa. The so-called ‘assassin’ candidates recruited by the LDP to stand against the disendorsed party rebels met with mixed success. Although 20 were elected, only 9 of these managed to defeat rebels in single-seat constituencies, with the remaining 11 elected by proportional representation. 5 ‘assassins’ failed to be elected. Another casualty was the prominent independent candidate Takafumi Horie who was defeated by the LDP rebel Shizuka Kamei, now representing the People’s New Party.
in response to the delays caused by the election, the start date for the privatization process had been bumped up from April to October 2007.

6.6 Implications of the September 11 elections

The September 11 elections and in turn Koizumi’s actions had far-reaching impact on the future of Japanese politics. True to the prime minister’s character, each of these factors is the result of a brash political style that is unsettling for a nation accustomed to more subtle forms of political leadership (Kabashima and Sugawara, 2005). Yet as heavy-handed as Koizumi has been, his actions were likely to be the bitter pill Japan needs to dispel the political inertia that has alienated voters and hampered progress on a range of economic reforms and foreign policy initiatives.

One immediate implication was the demise of the old-guard wing of the Liberal Democratic Party, including members of the Hashimoto faction that has resisted the prime minister’s reform proposals. Using his power as party president, Koizumi cut off old-guard politicians who opposed his reforms and endorsed alternative candidates (so-called assassins) in the September elections. The demise of the old guard forever changed the face of the LDP from a party of older generation politicians to a somewhat younger and more progressive party of reform-minded leaders.

A corollary result of the old guard’s demise was the final destruction of the faction-based political system in Japan. Koizumi had already undermined the influence of factionalism by ignoring conventional Japanese political practices in the makeup of his previous cabinets. However, the imminent demise of the Hashimoto faction in effect severed the political lineage that linked LDP powerbrokers to factional patriarchs like former Prime Minister Kakuei Tanaka. The Diet’s decision-making process was made more transparent as backroom deals between factions become obsolete.

A third implication of Koizumi’s actions was his extraordinary ability to put the DPJ on the defensive. By refusing to compromise on the postal privatization measures, Koizumi
cast himself as a champion of reform while the DPJ was made to look increasingly like an obstructionist party. The DPJ seemed even more fickle since its position on postal privatization flip-flopped from supporting the reform to rejecting it in knee-jerk opposition to Koizumi. The results of the Sept. 11 elections showed that Koizumi managed to simultaneously banish the old guard in his party and marginalize the only viable opposition party running against him.

Perhaps most importantly, Koizumi had orchestrated the first election in Japan that is focused almost entirely on a single policy debate in the form of postal privatization. The election in essence, was a referendum on privatization, with enormous political stakes for all concerned. Again to his credit, the prime minister emphasized that his fate and that of his party rested on the electorate’s decision on postal reform. Although a convenient excuse for avoiding further controversy, Koizumi took the uncharacteristic step of canceling his visit to Yasukuni Shrine so as not to distract from his main campaign issue. A precedent was set for future Japanese elections to focus more squarely on clear policy choices rather than pro forma political campaigns.

It is easy to exaggerate how far these implications will carry or whether they will lead to a profoundly different Japan. At the very least, they represent the most dramatic domestic political developments since the LDP first lost power in 1993. The question was whether the Japanese public will embrace this rupture of the status quo or whether it would demand a return to a more familiar and cautious political process.

6.7 Reasons for Political Opposition to Postal Privatization

When one looks at these developments it would be appropriate know the reasons as to why do the politicians in various countries oppose the postal privatization.

First of all, it might be the case that politicians simply chose their stances based on their ideologies or policy preferences. Consistent with this non-Downsian view, previous empirical studies find that privatization tends to occur under conservative governments
that represent the interests of general taxpayer and favor small government (Lopez-de-Silanes, Shleifer, and Vishny 1997; Bortolotti, Fantini, and Siniscalco 2003; Clarke and Cull 2002; Li and Xu 2002). As demonstrated in these prior works, postal privatization in Japan might have been influenced by ideologies.

Secondly, politicians' stance on postal privatization might be influenced by self-interested pressure groups (Olson 1971; Stigler 1971; Peltzman 1976; Grossman and Helpman 2004). In this "private interest view", a politician who is captured by pressure groups that stand to lose from privatization is more likely to oppose postal privatization than a similar politician who is not politically tied to such groups or a politician who is politically tied to pressure groups who will gain from privatization. In the case of Japan, postal privatization means that the postmasters and postal workers would lose their status as public employees and that some of them would lose their jobs and/or wage premiums under the new (private) ownership. In particular, those postmasters and workers at special post offices might face a greater risk of layoff simply because these small post offices are engaged mainly in deposit collection, which was to be privatized. Moreover, many postmasters were not trained managers of banks and insurance companies, and more importantly, were often politically appointed or inherited their positions from their parents and relatives (Amyx, Takenaka, and Toyoda, 2005; Maclachlan 2004). Hence, postmasters and workers employed by so-called special post offices were often identified as the major losers of a postal privatization.

Third, Shleifer and Vishny (1994) point out how political patronage tends to tip the cost-benefit calculus of privatization decisions because government ownership provides politicians with a low-cost-means of delivering economic rents to their supporters. Since Japan’s postal saving system is the main source of funds for the FILP, which provides preferential soft loans to some borrowers, the potential influence of these borrowers needs to be considered. In addition, if the FILP’s borrowers are on the losing end of postal saving privatization, bankers might be the major beneficiaries because reform might lead to a great deal of fund reallocation from the public sector (postal saving system and the FILP) to private banks. Therefore, the politicians whose electoral districts
are heavily dependent on the flow of these government loans relative to private loans are more likely to oppose postal privatization (Dinc and Gupta, 2008).

Fourth and last, party affiliation affects politician disposition toward privatization. Because Koizumi had been a long-time and fervent advocate of postal privatization, failure to achieve his goal would damage the credibility of his cabinet and, ultimately, his party, the LDP, and its coalition partner, New Komeito. To the extent that the members of these ruling parties relied upon the electoral popularity of Koizumi and that these parties could effectively discipline those members opposed postal privatization, those politicians supported postal privatization.

6.8 Assessing the Significance of Postal Privatization

The postal privatization saga appeared to transform Japanese politics on many fronts: the institutional norms of the legislative process; the triangular relations among conservative politicians, bureaucrats, and the commissioned postmasters; and even the manner in which elections are conducted. This section summarizes some of those changes in an effort to understand not only Koizumi’s impact on them, but also the extent to which we can expect them to endure.

6.8.1 The Liberal Democratic Party

The postal privatization process both reflected and contributed to changes within the Liberal Democratic Party. Needless to say, the LDP had changed significantly even before Koizumi assumed the presidency, the role of factions and their effects on political leadership being one of the more salient cases in point. In the past, career advancement for LDP politicians was heavily dependent on obtaining seniority in the factions; as a result, cabinet members tended to have fairly short tenures and were therefore not in a position to exercise significant leadership over their ministries. Factions were already on the wane by 2001, thanks largely to the 1994 abolition of the multi-member district
system which had encouraged factional longevity by obliging LDP candidates to run against one another in Lower House elections.

The nature of Koizumi's ascension to the presidency underscored and further strengthened many of these changes. The introduction of a primary system for selecting the party president, for instance, increased the power of local LDP chapters and the party rank-and-file relative to that of the factions, thereby making the party more broadly attentive to the wishes of Japan's expanding followers of urban floating voters. These developments put Koizumi who from the start was disinclined to follow the party's rule book in an even stronger position to transcend what remained of factional alignments, shuffling his cabinet without consulting faction leaders, appealing to the public for support, inventing new cabinet portfolios to allow the likes of Takenaka who until 2004 lacked a seat in the Diet to assume the leadership over his pet projects, and conducting election campaigns on issues of policy rather than personal factional affiliations.

There was perhaps no better proof of Koizumi's leadership skills and the institutional changes that facilitated them than the willingness of LDP members of the Postal Family to support him during his reelection for the party presidency in 2003 despite their intense dislike of his postal privatization plan. For example, Aoki Mikio,21 the leader of the LDP caucus in the Upper House and a leading member of the Hashimoto faction's anti-postal privatization camp, backed Koizumi in the presidential race for no other reason than Koizumi was better positioned than his contenders to lead the party to electoral victory.

6.8.2 The Democratic Party of Japan

Koizumi's ability to transcend factional alignments and exercise broad political leadership simply widened the longstanding fissures within the Democratic Party of

21 Mikio Aoki, born June 8, 1934 in present-day Izumo, Shimane is a Japanese politician. He was Chief Cabinet Secretary in the cabinet of Yoshiro Mori, also served as Secretary-General of the LDP in the House of Councillors. He studied at Waseda University but did not graduate. He served as acting Prime Minister of Japan following Keizo Obuchi's coma in 2000.
Japan (DPJ), reducing the party to a minor player within the legislative process. In the past, many DPJ members had come out in favor of postal reform; indeed, Japan’s largest opposition party was reputed to be far more supportive of postal privatization than the LDP, as evidenced by its predominance in a study group organized in 1999 on the issue. Once the privatization process was launched in earnest in 2003, however, the DPJ’s stance on postal privatization was nothing short of confused. During the summer of 2005, DPJ Diet members boycotted many of the Q&A sessions during Diet committee deliberations on the privatization bills; when they did participate, they focused not on the substance of postal privatization but rather on unrelated rumors meant to discredit Koizumi and Takenaka. In a marked departure from parliamentary custom, moreover, the party failed to put forward a counterproposal for postal privatization until after the September 2005 election, when the opportunity to make a difference in the discussion had long since passed. The party did, however, produce an eleventh-hour statement on postal reform in its 2005 election manifesto that proposed retaining Japan Post but reducing the size of the postal savings system, but the statement was widely criticized for being financially unfeasible, not to mention too little too late.

The DPJ’s failure to produce a viable counterproposal on postal privatization was in part a reflection of Koizumi’s and Takenaka’s leadership skills. Put simply, the two men had put the DPJ between a rock and a hard place: opposing postal privatization outright would be the kiss of death for a party that was established on the promise of reform, but being fussy on the specifics of the Takenaka plan would expose the fact that the party had lost the initiative not to mention any resemblance of control over the legislative agenda to Koizumi and Takenaka. The party’s fortunes plummeted even further during the 2005 election campaign, when Koizumi narrowed the voters’ choices down to supporting or opposing privatization.

DPJ inertia on postal privatization also reflected its composition as a loose alliance of factions. While some, like the party’s former LDP members, were bullish on privatization, others, including supporters of Zentei, the country’s largest postal workers union, were opposed to the idea. Okada Katsuya, the party leader during the summer and
early fall of 2005, tried in vain to strike a balance between these diverse groups. If he came out in favor of privatization, party members of a socialist persuasion balked; if his proposals fell short of Koizumi’s recommendations, his reform-minded colleagues complained that he was not going far enough; if he tried to exceed Koizumi’s privatization plan by proposing the outright abolition of the postal savings and insurance systems, he was in trouble with the party’s Zentei supporters, who were determined to maintain employment levels within the postal system. In short, Okada’s efforts to find a “third way” on postal reform failed because of dissention within the party’s rank-and-file, as well as the constraints imposed on him by Takenaka and Koizumi. The ultimate irony was that in the past, the DPJ had attacked the LDP for its cozy ties with interest groups; now that Koizumi had distanced himself from the Postal Family and was pressing forward with comprehensive reform, the party was all but immobilized by special interests.

6.8.3 The Postmasters and their Relationship with the LDP

Since Tanaka Kakuei’s brief stint as minister of Posts and Telecommunications during the mid- to late 1950s, the commissioned postmasters have functioned as an essential component in the LDP’s electoral machine. In blatant disregard of the 1948 National Public Service Law (Kokka kōmuin hō), the postmasters have been systematically engaged in numerous electoral functions that have been collectively dubbed the “fourth service,” after mail delivery, postal savings, and postal insurance. The postmasters, along with their wives and retired colleagues, constituted one of if not the largest cohorts of LDP party members, and routinely recruited local residents to join the party and individual kōenkai. At the height of their influence, the postmasters were said to

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22 The administrative research bureau, in collaboration with the cabinet legislation bureau, prepared a memorandum on “Opinions on the Draft National Public-Service Law.” The memorandum, dated 24 June 1947, acknowledged the need for a “fundamental reform of our country’s bureaucratic system” so as to enable “national public servants” to become the “servants of the people in a true sense,” noted that the draft was designed to fill that need. The purpose of this Act is to establish basic standards (including adequate measures to protect the welfare and interest of officials) which shall be applicable to all officials who are national public servants and by providing that officials shall be so selected and guided through democratic means as to achieve maximum efficiency in the performance of public duties, guarantee citizens democratic and efficient performance of those duties.
mobilize nearly one million votes behind the LDP, especially in Upper House elections. These functions were carried out through the auspices of Zentoku, a national association with local and regional chapters that asserts the postmasters' interests in both the bureaucracy and the LDP while transmitting electoral directives to the grass-roots level. Because of the almost complete leadership and organizational overlap between Zentoku and Tokusuiren, national associations of postmasters administered by the MIC to facilitate communications between the national government and the postmasters on matters concerning the postal services, postal bureaucrats have also been embroiled in these electoral functions. According to analysts on the postal beat during the 1990s, it was not unusual for bureaucrats to advise the postmasters on whom to support during elections; not surprisingly, most of the ministry's preferred candidates were retired national or regional postal officials.

In the past, the LDP rewarded the postmasters' loyalty with protection from Zentei, which had clamored for the abolition of the commissioned postal system until the early 1980s, as well as policies to preserve the customs and institutions of the state-run postal system. The postmasters' electoral activities, in other words, held some sway over the policy directions of the party. But by the mid-1980s, the postmasters began to lose ground. Population decline in rural areas and the rise of the floating voter made it increasingly difficult to mobilize the vote, as did changes to the electoral system. More worryingly for the postmasters, a postal-reform movement was steadily gaining ground within the party, threatening the postmasters' influence over the party. Meanwhile, the media had become increasingly critical of the commissioned post offices, particularly in the aftermath of the August 2001 Upper House election.

Koizumi's electoral strategies precipitated a further decline in the postmasters' electoral influence. As noted above, his refusal to grant the LDP's official endorsement to candidates who had voted against the postal privatization bills in July 2005 drove a wedge in the postmasters' loyalties, forcing them to choose between voting for pro-reform LDP candidates or for the rebels. These split loyalties persist today.
6.8.4 The Bureaucracy

Well before the postal privatization process had moved into its final stages, it was clear that the bureaucracy’s role in the overall policy process was in transition. As Muramatsu notes, while in the past politicians may have held sway over the bureaucracy in a kind of principal-agent relationship, surveys reveal that bureaucrats were losing confidence in the LDP and becoming more and more willing to defy political leadership and policymaking principles. At the same time, however, the bureaucracy was steadily losing what remained of its reputation for administrative excellence. Both trends were apparent during the privatization process. The now-marginalized MIC tried on numerous occasions to reassert its authority over the policy process by pressuring members of the Postal Privatization Preparation Office and, more dramatically, fielding alternative legislation that had been drafted in collaboration with the LDP’s postal tribe and that reflected the interests of the Postal Family. That Koizumi ultimately prevailed in this incident marks a significant victory for his new style of top-down, executive leadership, a leadership style that received a stamp of approval during the 2005 election.

6.9 Applying the Staging and Sequencing Approach to Postal Privatization

Privatisation refers to the economic reform process of transferring enterprises from the public ownership to private ownership. The key issue in privatisation is no longer whether to privatise or not, but how to implement privatisation. This is in view of the interests that privatisation has generated across the world in the past two decades from microeconomic perspective, privatisation is expected to lead to productive efficiency which in turn increases competition among firms, lowers product prices, and ultimately improves consumer welfare. Despite these and other promises, privatising governments have not suddenly transferred all public enterprises to the private sector. The issue of privatisation implementation arises from the fact that implementation has faced with various constraints and complexities associated with the conflicting goals of the program and the goals of enterprises, the surrounding institution, economic, and socio-political
factors, which privatising governments must take into consideration. Thus, the choice of an appropriate implementation strategy is central to the privatisation implementation debate.

Two key issues are at the centre of the implementation debate. The first relates to whether privatisation of public firms should proceed totally, in which case the public firm is fully privatized, leaving other reforms such as restructuring to the new owners. The second relates to whether privatisation should be implemented gradually, in which case the government only restructures initially, and privatisation is carried out in stages (staging of privatisation) and firms are selected for full privatisation based on some criteria such as firm size and existing performance (sequencing of privatisation). Privatising governments, especially in developing countries have generally followed staging and sequencing approach.

6.9.1 The Basic Policy on Postal Privatization: Staging and Sequencing

Like the September 2004 proposal, Koizumi’s postal privatization bills called for activity in three periods: a preparation period through March 31, 2007, a transition period from April 1, 2007 through March 31, 2017, and the period from April 1, 2017 onward. On September 16, Koizumi’s team announced that his resubmitted legislation will be revised to postpone the target date for privatization to October 1, 2007, retain the ten-year transition period, and incorporate changes agreed to in earlier Diet deliberations; they stated that there will be no other substantive changes. The legislation provides for establishment of a new government company, the Japan Postal Services Corporation (JPSC), to be set up within six months of enactment. The legislation also establishes a Cabinet-level Postal Privatization Headquarters, advised by a five-person Postal Privatization Commission (PPC), both of which will cease to exist on October 1, 2017. The Prime Minister and MIC Minister, through the Headquarters, are to develop a succession plan, and JPSC is to produce an implementation plan subject to approval by the Prime Minister and MIC with input from the Commission. The succession plan will resolve key issues such as how the assets, liabilities and employees of Japan Post will be
divided between the successor companies. The legislation authorizes Japan Post to enter or invest in international freight transportation and related domestic delivery services before 2007, if approved by MIC after receiving the views of the PPC. The bills call for MIC to consider potential damage to the interests of competing private sector businesses, when it decides whether to permit Japan Post to enter or invest in competitive areas.

On October 1, 2007, Japan Post was dissolved and its functions inherited by new companies established for four business areas: government-chartered companies for postal delivery and the postal network (counter services), and private companies carrying on the postal bank and postal life insurance businesses. JPSC will initially hold all the stock in these four companies. In addition, a government corporation will be established to hold pre-privatization savings and insurance accounts of Japan Post. Present Japan Post employees will become employees of JPSC or one of the new companies. The four companies will be taxable, but will receive special tax benefits. The postal bank and insurance companies will pay into depositor or policyholder security funds, and the government will not guarantee bank accounts and insurance policies opened after October 1, 2007. During the period between October 1, 2007, and September 30, 2017, JPSC will be required to progressively sell off all of the shares in the postal bank and the postal life insurance business, and the government will sell almost 2/3 of JPSC’s shares. The Minister of Finance has stated that the proceeds will be used to reduce Japan’s national debt. The four companies will be able to expand into new areas with the approval of the Prime Minister and/or MIC. The postal bank and postal life insurance company will be privately held, and subject to the same regulation as private banks and insurance companies. Both the Postal Privatization Headquarters and the PPC will cease to exist on October 1, 2017. JPSC will continue in operation as a holding company for the postal delivery and postal network companies.
Privatization process for Japan Post:

**Japan Post**
- Mail
- Postal life insurance
- Postal Savings

Oct. 1

**Japan Post Holdings Co.**
- Japan Post Service Co.
- Japan Post Bank Co.
- Japan Post Network Co.
- Japan Post Insurance Co.

* Holding company set up
* Four new entities created
* Government owns 100% of holding company
* Holding company owns 100% of all four companies

Fiscal 2010
* Japan Post Bank Co. and Japan Post Insurance Co. expected to go public

Oct. 1, 2017

**Japan Post Holdings Co.**
- Japan Post Bank Co.
- Japan Post Service Co.
- Japan Post Network Co.
- Japan Post Insurance Co.

* Japan Post Bank Co. and Japan Post Insurance Co. spin off, become completely privatized
* Government reduces ownership of holding company to about 33%
* Holding company retains 100% share of remaining two companies

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**Figure 31: Basic Plan for Postal Privatization**

Source: MIC

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6.10 Changing Nature of Interest Group Politics

Japanese general election in 2005 was an exciting drama, in which Prime Minister Koizumi successfully won a big victory over politicians and interest groups opposing postal service privatization. Many observers attribute this victory to Koizumi’s personal character, such as boldness and stubbornness (Yomiuri shinbun, 2004). His “top down” leadership style stands out among postwar Japanese political leaders. Some emphasize his unique character, which makes him known as a maverick. However, it is not sufficient to focus on his personal character to make sense of his new leadership style. We should be attentive to the structural conditions, which allow his leadership style to be successful.

Many political scientists argue that Koizumi’s new leadership style symbolically demonstrates structural change in Japanese politics (Otake, 2003). Power of factions within the governing Liberal Democratic Party, “policy tribe” (politicians specializing in some policy arena), and interest groups all seem to become weakened. “How” and “why” are important research questions for political scientists studying Japanese politics.

Some political scientists try to answer this question by focusing on institutional changes, especially election system reform (Tatebayashi, 2004, Machidori, 2005). Theoretically speaking, parliamentary cabinet system, which Japan adopts, tends to create a strong executive power. Because prime minister is elected by legislative majority, the executive branch and the legislative branch are occupied by one political force (Shugart and Carey, 1992). This is the reason why prime minister can exert strong governing power. They however argue that Japanese executive power has been seriously circumvented by factional politics, in which party bosses within the governing party harshly compete with each other to become prime minister by organizing their own informal factions (habatsu) (Hayao, 1993). What is worse for Japanese prime minister, factional politics in Japan had its micro-foundation at the electoral district level (Ramseyer and Rosenbluth, 1993).

23 person who does not conform to the norm; independent thinker
Japanese election system of the lower house used to be the medium-sized election district with a single non-transferable vote (SNTV) principle. Under this system, usually 3 to 6 members were elected within the same district. This has several important implications. Firstly, the governing party, as long as it wants to maintain the governing position, had to have plural candidates. And these candidates had to compete with each other to get elected, even if they belong to the same governing party. These candidates usually join different factions to be supported by them. Thus factional competition at the national level has its micro-foundation at the local level, which made it very difficult for prime minister to maintain party discipline. Thus factional politics was fairly constraining to prime minister. Secondly, under this election system, it was sufficient for each candidate to win a small portion of voters within the district, in order to be elected. Therefore, it was a rational strategy to target several special interest groups rather than general electorate. This is one reason why the special interest group could have strong political voice in Japanese politics. As explained in the beginning of this chapter, these special interest groups effectively cooperated with politicians and bureaucrats, forming various “iron triangles”.

But the election system changed in 1996, introducing single member district system with proportional system. This reform allegedly contributed to reduction of power of factions and special interest groups (Cox, Rosenbluth, and Thies, 1999). This was a new opportunity for Prime Minister to exert stronger top down leadership, which is what Prime Minister Koizumi did. Furthermore, the administrative reform in 2001 established the new Cabinet Office above the ministries and increased the staffs for prime minister. This reform also facilitates the prime minister leadership.

Political actors, including prime minister, strategically adapted to these new institutions so much so that prime minister can now exert stronger influence than before. And this concentration of power in the hands of the top executive naturally reduces the power of special interest groups. This interpretation seems to be persuasive, but we think a deeper structural change has been going on in Japan. Japan’s policymaking strategy changed dramatically in 2001 after Prime Minister Koizumi took the helm of the long-ruling
Liberal Democratic Party. Following a series of bland and short-lived prime ministers, Koizumi’s infusion of fresh energy into a tired and opaque party.

All this confirms that politics matters greatly for the Japanese economy. It is political support from the top that can create a climate for economic growth that taps Japan’s full potential. The need to address the crisis is unlikely to disappear in the coming months and it is understandable that this has made the decisions facing the country very difficult. But Japanese political leaders need to recognize that an effective response requires competent administration with robust political support.

Global attention will hopefully shift from short-term crisis management to the longer-term issue of fighting recession and bringing about economic recovery. The need for fiscal stimulus is now in the spotlight for good reason. But the purpose of fiscal stimulus should be seen as preventing the recession from spiraling downward, and no more than that. Japan’s experiences in the post-bubble days of the 1990s show that fiscal stimulus alone cannot achieve sustained economic recovery. What Japan needs are long-term solutions. For this, Japan must go back to the economics textbooks and restart the structural reform process to encourage the entry of new businesses, investment and competition, while sustaining a stable macro-economic environment through thoughtful fiscal and monetary policies.

Therefore, the political decisions taken in Japan to hand over the responsibility of ruling Japan in the hands of DPJ is crucial for the economy in coming years, as it emerges from the financial crisis. The DPJ to stand up firmly to vested interests, and to open up the government bureaucracy to make it more transparent and accountable to the people, as these were the main reasons for the fall of the 1955 system and change in Japanese politics.

The political dynamics surrounding liberalization and reform of the postal savings system differ significantly today from political dynamics surrounding this issue in earlier periods. Japan’s banking industry organization once spoke in a unified (albeit ineffective) voice for all banks in seeking the privatization or dismantlement of postal savings.
Today, however, interests across the banking sector are more diverse. While virtually all banks seek reform of the current system, particular forms of privatization present opportunities to some private actors and threats to others. Indeed, until more details of the privatization process are worked out, it is unclear who will “win” and who will “lose” as a result of the reforms. Many private regional banks may face heightened competitive pressures as a result of privatization. At the same time, there is a serious concern that the Bank of Japan may be called upon to purchase large amounts of Japanese government bonds if the privatization of postal savings and insurance triggers a crisis in the government bond market.

The privatization of postal savings represents both a threat to some actors and an opportunity to others. How the process plays out hereafter, in particular, decisions made in the 2005 ordinary Diet session regarding the government’s legislative proposals for privatization will have a major long-term impact on the functioning of Japan’s financial system. Japan Post’s old-fashioned and ingrained management structure, which is based on cozy relationships between Japan Post and related businesses, presents a major challenge in the privatization process. In what is known as the hereditary system, local Japan Post branch managers have benefited from guaranteed employment by taking over such responsibilities from their parents and grandparents and maintaining long-established client relationships over generations. Privatization would dictate that this arrangement be broken but that cannot happen overnight.

The privatization process will be painful in rural and depopulated areas where operations were not profitable. Politicians opposed to reform, especially in the People’s New Party and the Democratic Party of Japan, discussed a bill to abolish the postal privatization plan after the ruling Liberal Democratic Party was defeated in the Upper House election last July. However, they ended up amending the existing bill to prohibit the sale of Japan Post Bank and Japan Post Insurance shares to the public. This was to protect these two affiliate companies from takeovers by foreign financial institutions or American private equity funds. Most Japanese politicians understood the limitations of a policy against the privatization process.
Postal overhaul under Hatoyama led DPJ

The new government elected in August 2009, led by Prime Minister Yukio Hatoyama, promotes itself as favoring the weak and opposes “economic liberalism.” As a symbol of the change of policies, it decided to reverse the postal privatization, the most visible symbol of the Koizumi government’s reforms. The government de facto renationalized Japan Post and Once again, a huge state-owned enterprise has been created in Japan.

The reversal itself wasn’t a surprise. Initially the DPJ did not have a majority in the Upper House of Parliament; it had formed a coalition with two small parties, the People’s National Party and the Social Democratic Party of Japan, both who were hostile to postal privatization. Prime Minister Hatoyama appointed Shizuka Kamei as minister for Postal Services. Mr. Kamei was the poster-boy of the antireform movement during the Koizumi years.

But even taking into consideration the political bias of the new government, the contents of the cabinet decision on postal reform reversal were more extreme than expected.

First, the Postal Savings Bank, the largest depository institution in the world, will be exempted from provisions of the Banking Act, to allow the bank to give special service to rural areas and other areas suffering from economic decline. The new measures mean that there will no longer be uniform regulation of banks in Japan. This unlevel playing field will give the Postal Bank an unfair advantage over private-sector competitors and distort resource allocation. It also threatens to turn the Postal Bank into a captive for absorbing huge fiscal deficits, without the market discipline that stems from borrowing in open markets.

Second, the new measures call for the Postal Bank to give “special consideration” to small businesses, in effect forcing the postal system’s lending operations to extend credit on a noncommercial basis. This is a de facto revival of the Fiscal Investment and Loan Program, which in the past was used as a backdoor way for fiscal bureaucrats and...
legislators to fund pet projects with little to no oversight. This is a major reversal of the Koizumi reforms, which sought to end such pork.

Third, the government has decided to freeze the public offering of Japan Post shares. The DPJ promised to do this in their election campaign earlier this year. This is a major reversal, given that the Koizumi government had planned to divest all of the shares of the Postal Savings Bank and the Postal Life Insurance Company—the financial arms of the postal system, within 10 years, and two-thirds of the shares of the Japan Postal Delivery System within 10 years.

These three reversals imply that the government will effectively return the postal system to the status of a state-owned enterprise and use it for political patronage (Dinc and Gupta, 2008). Without doubt, these measures will raise the long-term burden on the taxpayer. Even today, the cost to post letters in Japan is double that of the United States. Such inefficiencies show precisely why it was necessary to raise postal efficiency and make the financial parts of the post office independent, and thus to raise its enterprise value.

More broadly, competition in all areas that the post-office services, postal services, banking and insurance would have revitalized the Japanese economy as a whole. However, the government’s new measures will turn the clock back 10 years. While it may look like the government is trying to help the weak, in fact the people of Japan will bear enormous costs, both directly and indirectly, because inefficiencies will block the best use of the very scarce resources of an aging economy. The aged and the weak will suffer most from this resource waste.

The reversal also clarifies another key problem of the new administration: opaque cabinet decision-making. Japan Post has a huge impact on Japan’s economy and society. The Koizumi government produced its policy on postal reform after a year of open deliberation, with full disclosure of meeting minutes. Mr. Hatoyama’s government, by contrast, made these far-reaching decisions in a short span of time, with no clarity of
either process or reasoning. The appointment of the new president, Jiro Saito, was not only opaque, but flew in the face of DPJ election promise to end the appointment of former bureaucrats to public enterprises.

Policy decisions in any new government will inevitably be somewhat confused. However, the decision to reverse postal privatization shows just how inadequate the cabinet's internal controls really are and how little attention is being paid to economic reform. Japan already suffered one "lost decade." The reversal of postal reform puts Japan on track to lose yet another.