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## Koizumi's "Small Government" and Japan Post's Privatization: Political Reform without Substance

### *Strategic Insights*, Volume IV, Issue 11 (November 2005)

by [Izumi Wakugawa](#)

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### Introduction

In April 2005, the Koizumi cabinet submitted a bill to the Japanese Diet which generated great debate within the Japanese government and public alike. The bill called for the privatization of Japan Post, which is the main body of the Japanese postal service. In July 2005, the House of Representatives passed a bill by five votes in favor of the privatization of Japan Post. In August, the House of Councilors courageously voted down the bill by seventeen votes, regardless of an admonition by Mr. Koizumi of a possible call for dissolution of the Diet.<sup>[1]</sup> As a result, Prime Minister Koizumi dissolved the House of Representatives and called for re-election over the contentious issue of the privatization of Japan Post.

Subsequently, on September 11, 2005, Japanese nationals re-elected Prime Minister Koizumi to another term in office. His victory was largely due to his personality as a political leader. He is direct and very coherent with his words, two characteristics that appeal to Japanese voters. Hence, in this particular election his obstinacy on the privatization of Japan Post is *the* issue that led to his success.<sup>[2]</sup>

Although Mr. Koizumi personally believes that the privatization of Japan Post is an essential part of the central government reform he has been pursuing since the beginning of his term,<sup>[3]</sup> there are currently many other pressing policy issues in Japan that need to be discussed. The aging society and decreasing birth rate should be priorities on the cabinet's agenda, as these are primary concerns of the people. An opinion poll conducted by *Jiji Press LTD* shows that the most pressing issues that need resolution and improvement are social security system reform—including action on pension plans—and Medicare. 68.8 percent of the public identified these issues as their priority.<sup>[4]</sup> The issue of Japan Post privatization ranked twelfth out of sixteen issues, and was identified by only 6.7 percent of people as the number one priority. Regardless of public opinion, however, Mr. Koizumi insisted that the privatization of Japan Post be his political mission, and the September election was entirely centered around this contentious issue.

In this article, I seek to highlight the issues surrounding the September re-election of Mr. Koizumi. I highlight both what has openly been discussed—Prime Minister Koizumi's argument on privatization—as well as what has not been openly discussed—the missing piece from the privatization debate. I seek to show that despite making the issues surrounding Japan Post the base of his political platform, Mr. Koizumi neglected to discuss the potential risks and downsides to the privatization of Japan Post.

## **Koizumi's "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 hopes to achieve a "small government" to cut government expenditures in this financially difficult time for Japan. Mr. Koizumi strongly believes 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 buttresses his overall emphasis on small government.

In his election campaign, Mr. Koizumi reiterated that privatizing Japan Post would be the best way to cut down on the number of government employees. Mr. Koizumi simply looks at the number of workers in different government agencies to make his argument that Japan Post has a large number of employees, and—therefore—in order to achieve a smaller government, Japan needs to cut the number of postal employees. The entire police force in Japan today accounts for about 250,000 people, while the Self Defense Force personnel number around 240,000. The Ministry of Foreign Affairs consists of 6,000 staff. In contrast, Japan Post is supported by about 380,000 workers.<sup>[5]</sup>

It is obvious that Mr. Koizumi ignores the fact that Japan Post workers are not paid with taxpayer money. Since its current organizational establishment as a public corporation on April 1, 2003, Japan Post's corporate law states that Japan Post must adopt a self-supporting accounting system which allows it to be financially independent of the government.<sup>[6]</sup> Since 2003, Japan Post has succeeded in not only being financially independent but has also been able to generate surplus revenue. The purpose of privatization for any government office is to transfer governmental duties to the private sector to decrease governmental expenditures. However, if these 380,000 people are not part of the government payroll, then why does Mr. Koizumi insist that eliminating them is the best solution?

One of the answers is the economic stagnation that Japan has been suffering from and has been struggling to overcome. Mr. Koizumi deems 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. Mr. Koizumi argues 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. However, some critics point out that if there are no domestic industries or infrastructures into which that money can be wisely invested, then the benefit of the investment will not be maximized domestically. Also, an additional risk is the chance that the money will be invested overseas rather than within Japan.<sup>[7]</sup>

In his campaign, Mr. Koizumi successfully avoided questions raised by the Japan Democratic Party (JDP) and other critics on the issues mentioned above. Why do we need the privatization when Japan Post went through a major reform two years ago, and now it is generating substantial revenues? What does the privatization do for the Japanese people? How will Mr. Koizumi achieve the transaction? Substantial explanations to these important questions were owed but never given.

## **The Missing Piece in the Privatization Debate**

On September 22, 1985, the Plaza Agreement was signed by the United States and Japan. In the course of negotiations, the United States demanded a policy change from Japan—specifically, less exports and more domestic consumption. That meant that Japan had to seek additional revenue to spend on domestic industries. The obvious target for the Japanese government was the postal saving plan, which was established in the 8th Meiji period (1875),<sup>[8]</sup> and today is called Yu-cho, and Postal Life Insurance, called Kampo. The assets collected were typically used for public works and infrastructure development projects.

Today Yu-cho is a major source of funds for the government and public agencies. It accounts for 90 percent of local bonds, Fiscal Investment and Loan Program (FILP) Agency Bonds, and national bond funding. As of June 2005, the total number of national bonds issued and national debt associated with Yu-cho amounted to 796 trillion yen.<sup>[9]</sup> At the end of August 2005, 55.8 percent of Yu-cho financial resources, which equal 116 trillion yen, were spent on the purchase of national bonds while 4.4 percent (9.3 trillion yen) were spent on local bonds.<sup>[10]</sup>

Government bonds which cannot be redeemed are refinanced as refinancing bonds. By 2008, it is projected that refinancing bonds will be worth up to 134 trillion yen (over \$1 trillion USD). That is three times more than the estimated government tax revenue in 2008. In addition to the refinancing bonds, other bonds—such as government bonds, local bonds and FILP Agency bonds—will be issued as scheduled. The total value of all Japanese bonds may be worth up to 200 trillion yen by 2008,<sup>[11]</sup> while the estimated revenue of Japan Post will decrease by 210 to 230 trillion yen over the next ten years.<sup>[12]</sup> This causes serious concern over whether all the bonds can be digested. If the redemption of 200 trillion yen (a little less than \$2 trillion USD) is not possible, then a slump may not be avoidable. Now that Prime Minister Koizumi has been given permission to go ahead and implement postal privatization, the plan is to complete the privatization by April of 2007. If Yu-cho is privatized in 2007, and the possible slump occurs in 2008, the Japanese government technically will not be responsible for a probable loss. This implies that Japanese nationals as investors may have to incur the loss themselves.

Mr. Koizumi repeatedly sermonized that “reform” almost always brings about “pain.” Yet he fell short in explaining to the public what sort of pain the privatization will bring about, and how to cure the pain. Having substantial arguments and being able to logically explain what and how specific policies will benefit and/or hurt the public demonstrates the scale of a politician, and should be valued more than a politician being resolute in his/her personal agenda.

The essential issue regarding the assets of Yu-cho is how the government will utilize them—not the number of Japan Post workers or the huge assets of Yu-cho. An important first step in tackling the economic problems Japan faces today is to decrease the government’s financial deficit and the waste of Yu-cho assets on unnecessary public works and infrastructure building. Holding the Ministry of Finance, which has the decision-making authority, accountable for the use of Yu-cho assets would be a step in the right direction. Without solving such structural fundamental problems, promoting the privatization of Japan Post is a mere delusion.

## Conclusion

Prime Minister Koizumi’s suggested reforms of the privatization of Japan Post lack a substantial foundation. Despite this, Japanese voters re-elected him and voted for the privatization. This election demonstrated the immaturity of Japanese voters and their ignorance in casting votes for rhetoric rather than substance. The result was very surprising, especially in light of public polls that showed the Japanese people cared more for real issues. The same opinion poll mentioned earlier by *Jiji Press* revealed that 80 percent of voters felt that Mr. Koizumi owed them a clear explanation of the merit of Japan Post privatization.<sup>[13]</sup> However, when Mr. Koizumi insisted that this election was about Japan Post reform, a majority of people simply voted for it. If the election focused instead on Mr. Koizumi’s controversial visits to the Yasukuni shrine or the role that

Japan's Self Defense Forces are playing in Iraq, Mr. Koizumi's chances of ousting anti-reformers from parliament would have been much less likely. Clearly, he chose his issue carefully and prevailed.

Mr. Koizumi ends his term in the fall of 2006. He openly states that he has no intention of extending his term. The final job of implementing Japan Post privatization will be the next leader's job. Mr. Koizumi is paving the way for the next Prime Minister so that the reform he has started will be easily accomplished by his successor. Mr. Koizumi's attempt to implement "small government" is noble. However, real reform is not about pushing through one's personal beliefs and agenda. It should come from the masses that desire change and demand reform. Given the immaturity of Japanese voters and the lack of strong political leadership,<sup>[14]</sup> real reform in Japan may not happen for quite some time.

## About the Author

Izumi Wakugawa is a native of Okinawa, Japan. She currently works at the National Security Affairs Department, Naval Postgraduate School, in Monterey, California. She obtained her Bachelor of Arts in Politics at the University of California at Santa Cruz. She has a Master's Degree in International Policy Studies with a Certificate in Nuclear Nonproliferation Studies from the Monterey Institute of International Studies.

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## References

1. In the House of Councilors, the 'Yea' vote counted for 108 while the 'Nay' vote counted for 125. Among members who voted against the bill, twenty-two of them belong to the Liberal Democratic Party (LDP), Mr. Koizumi's own party. The major reason why some members of Diet voted against the bill was because they sensed the bill could do harm to the rural areas the way it was written. They also felt that more discussion on the issue would be beneficial.
2. Mr. Koizumi set Japan Post privatization as a political goal over twenty years ago. For a timeline summary of Prime Minister Koizumi and Japan Post privatization, [Asahi Shimbun](#) has a great chart.
3. For the reform campaign promoted by Mr. Koizumi, please see the official website of the Cabinet, [Prime Minister of Japan and his Cabinet](#).
4. "[Yubinkyoku no Mineika ni Kansuru Yoronchousa ni Tsuite](#)," *Jiji Tsushin (Jiji Press LTD)* opinion poll on Japan Post Privatization conducted in February 2005, published on March 21, 2005.
5. "[Souten wo Ou: Yusei Kasumu Kan kara Min](#)," *Asahi Shimbun*, September 6, 2005.
6. [Postal Services in Japan 2004](#), *The Japan Post Annual Report*. The report provides an overall summary of its economic outlook.

7. Naoki Tanaka, "[Yusei Mineika wa Ichirizuka](#)," *Weekly Toyo Keizai* (Tokyo: Toyo Keizai Shimpo-sha, January 29, 2005). Available on The 21st Century Public Policy Institute homepage.

8. The history and evolution of Japan Post since the 4th Meiji period (1871) can be found at: <http://www.japanpost.jp/top/profile/japanese/7.html>.

9. [Japan Ministry of Finance](#) homepage: At the end of March 2005, the National Bond and Debt amounted to 781 trillion yen. In three months, it increased by 17 trillion yen.

10. [Japan Post](#) homepage: [www.yu-cho.japanpost.jp/index.htm](http://www.yu-cho.japanpost.jp/index.htm).

11. To better understand this figure, it is useful to note that Japan's entire annual GDP is approximately 4 trillion USD, while the United States' annual GDP is approximately 10.4 trillion USD, and Germany's annual GDP is approximately 2 trillion USD. (*The Economist's* "World in Figures 2005.")

12. Testimony by [Mr. Ikuta, the president of Japan Post](#) on the Diet floor, July 20, 2005 in regards to Japan Post privatization.

13. [Jiji Tsushin](#) (Jiji Press LTD), cited September 12, 2005.

14. By "mature political leadership," the author means that a politician that governs a country based on a clear sense of policy priorities and good grasp of real views of the masses.