Urban Renewal
As Japan Votes, Aid to Countryside Hangs in Balance
Mr. Koizumi Aims to Remove Crutches for Rural Areas; An Airport With 4 Flights
Hiwa’s Elderly Ponder Future

By Sebastian Moffett and Ginny Parker Woods

Hiwa, Japan—In elections this Sunday, Prime Minister Junichiro Koizumi is betting he can win a mandate to engineer a shift no other Japanese leader has ever dared. His goal: To cut off the decades-long tradition of propping up Japan’s declining countryside, and channel resources into the nation’s successful cities and industries instead.

To achieve that vision, Mr. Koizumi plans to dismantle one of the countryside’s biggest crutches, the huge and unusual post office, which in addition to selling stamps also acts as a bank and insurer. It is a vast network of 26,000 offices with 280,000 public employees, plus $3 trillion in savings and life-insurance deposits. The deposits are typically funneled into public-spending projects that have boosted rural economies.

That system has long been a boon to remote villages like Hiwa in the mountains of western Japan. Hiwa’s 600 residents are mainly elderly and get around on electric wheelchairs. Its only industry is rice farming.

Hiwa has benefited from many public-works projects partly financed through the post office, such as a new tunnel and a smooth road partly connecting the village to a neighboring town—even though there’s hardly any traffic. When the weather is bad, the local postmaster helps residents by withdrawing their cash from the post-office bank and delivering it to their doors.

“It would be tough if the post office went away,” says 88-year-old Shizue Miura, who walked 20 minutes to the post office recently to withdraw money. Without the branch, Ms. Miura says she would have to travel more than six miles to the next village to get her money from a different branch.

Mr. Koizumi says bitter medicine is the only way for Japan to survive. The country’s central government stoked rural economies for more than three decades with road and bridge projects, trying to haul up the countryside to city levels of prosperity. But the attempt to invigorate the rural economies failed. The spending added to snowballing national debt, which is now 163% of gross domestic product, the highest level among major industrialized nations. In the U.S., national debt is 66% of GDP, according to the Organization for Economic Cooperation and Development.

So Mr. Koizumi is withdrawing support for villages like Hiwa. Since taking office in 2001, he has promoted a small-

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The bills were rejected largely because of the workings of parliamentary politics. The main opposition Democratic Party of Japan voted against the bills because they favor a different form of post-office privatization. In a crucial swing vote, some rebel lawmakers from Mr. Koizumi’s ruling Liberal Democratic Party also opposed the bills.

Postal privatization has since gained public support because Mr. Koizumi’s risky and dramatic decision to call an election over the issue appealed to voters. According to the most recent poll by the daily newspaper Sankei Shimbun, 38% of respondents supported Mr. Koizumi and the LDP, compared with just 29% for the opposition Democratic Party. If his party and a coalition fail to win a majority of seats, Mr. Koizumi says he will resign, clouding the future of his plan.

All of this leaves provinces like Shimane on edge. The prefecture thrived under Japan’s old system. With its local industries—silver mining and charcoal—long dead, Shimane received a steady flow of public-works projects from the central government, some of which were financed by savings in the post-office bank. The prefecture has two airports, even though it is sparsely populated. Public investment is 15.7% of the prefecture’s gross domestic product, compared with 2.1% for Tokyo. According to the San-in Economics and Management Institute, a research center affiliated with Shimane’s biggest bank.

But these projects failed to spark momentum. One airport has just four flights a day. A 50-acre industrial estate set up near Hanwa in 1997 attracted one company. The estate is now being converted into a prison complex. Five years ago, a city government built a $60 million bridge to a nearby island with 324 inhabitants. It said it planned to build a fish breeding center there, but the facility hasn’t materialized.

Since Mr. Koizumi took office, the value of public works in Shimane has been cut sharply. In 2004, the spending fell to $988 million, down 32% from $1.5 billion in 2002. It is set to halve again by 2008.

While reducing subsidies to the region, Mr. Koizumi has lowered corporate taxes and boosted tax breaks for technology investments. In response, more than 760 large Japanese manufacturers surveyed by the nation’s Ministry of Economy, Trade and Industry recently said they plan to increase domestic capital investment by 21% in the fiscal year through March 2006 over the previous year. Foreign firms such as Pfizer Inc. and Cisco Systems Inc. are also increasing their investment in Japan. Mr. Koizumi has "crafted a lot of policies that benefit companies," says Yoshiharu Obata, an official at the Keidanren, Japan’s largest business organization.

As Shimane struggles, Tokyo is thriv-
ing. Tokyo’s land prices began rising this year for the first time in 13 years, while Shimane’s continued to fall. Tokyo’s population has grown to 12.2 million, up 5.2% from 11.6 million in 1997. Shimane’s population has fallen 20% to 749,000, down from a 1955 peak of 929,000. A quarter of its residents are over 60, making Shimane Japan’s oldest prefecture.

The migration to cities will likely increase as Japan’s population declines and ages, says Hiroyuki Tada, general manager of the Space and Environment Institute, a research institute at Mitu Fudosan Co., one of the country’s largest real-estate developers. He says the elderly will relocate to urban areas where medical care is concentrated. Younger people are also moving to cities to find jobs.

That trend is apparent to Shimane resident Toshimitsu Fukushima. The 70-year-old worked for telephone company Nippon Telegraph & Telephone Corp. in Shimane’s biggest city, Matsumie, where he met his wife nearly half a century ago. He maintained wireless equipment and she worked in the telephone exchange. “Fifty years ago there were more jobs,” he says. “Now there is no need for those kinds of jobs.”

All three of Mr. Fukushima’s children have moved to the Tokyo area. His son, Masao, 41, works for a big shipping company and says in an interview that he plans to spend his working life in the city. He envies high-school friends who stayed in Shimane for their spacious homes with yards, while he lives in a small apartment in central Tokyo. But, he says, “I couldn’t return home to Shimane if I wanted to—there’s hardly any work there.”

Shimane voters are split over Mr. Koizumi’s plans. In the past, they always delivered an LDP representative to the national parliament in Tokyo. But this time, postal reform has complicated matters.

Mr. Koizumi is refusing to let the rebel LDP politicians who voted against the postal bills to stand as party candidates. One of those is Shimane politician Hisao Kamei, 65, who is now running as a candidate for a small, newly formed party in the western part of the prefecture, which includes Hiwa.

Mr. Kamei’s posters call him the “Friend of the Common People.” He doesn’t like Mr. Koizumi’s administration, which he says has widened the gaps between the city and country, large and small business, and the rich and poor. “You have to have public infrastructure that allows people everywhere—in the cities and the country—to have the same quality of life,” he says. “Otherwise, the countryside is just going to become harder and harder to live in.”

Mr. Kamei’s opponent, the official LDP candidate, is Watara Takeshita, half-brother of a former prime minister. Mr. Takeshita supports postal privatization.

One voner, Kazuharu Shimogaki, is president of a construction company in central Shimane, and did well out of Japan’s old system. At its peak in 1995, his company, Shimogaki Construction Co., generated $5.5 million of revenue from publicly funded civil-engineering projects.

Today, such work brings in just a tenth of that amount. Mr. Shimogaki has branched out into businesses like growing blueberries, which are popular among Japan’s elderly after reports several years ago that the fruit may be good for eyes.

Mr. Shimogaki accepts the days of big public works projects are over, and thinks it’s time to move on and develop new businesses rather than cling to the past. So he has decided to vote for Mr. Takeshita as a way of backing Mr. Koizumi. “Japan has come to a turning point,” he says.

In Hiwa, many residents aren’t as confident. Mr. Koizumi’s postal bills provoked some protests in the local post office network. But because a privatized organization would have to try to make a profit, village locals assume those funds wouldn’t last. Eventually, many believe, branches such as Hiwa Post Office would disappear.

Hiwa Postmaster Chikashi Teramoto, the local postmaster for the past 16 years, won’t say which way he plans to vote. But the 46-year-old admits to being concerned about the future of the shrinking village. The automated teller machine at the local agricultural cooperative, the only one in the village besides the one at the post office, is scheduled to shut down next year. After that, without the post office, villagers would have to travel through a 1.5-mile tunnel to the next village to withdraw their pension money.

What would happen if a wheelchair battery went dead in the tunnel?” Mr. Teramoto wonders.

On a recent outing, Mr. Teramoto surveyed Hiwa. An elderly couple struggled to gather the first rice of their harvest from a paddy field. He pointed to a building that looks inhabitable. "That’s an empty house," he said. "They’ve gone to Osaka," the biggest city in western Japan. Further along the road, he pointed again: "They’ve gone to Hiroshima."