Japanese Voters Give Koizumi Broad Mandate

Landslide Vote Backs Call To Overhaul Government For a Declining Population

By Sebastian Moffett

TOKYO—Japanese voters gave Prime Minister Junichiro Koizumi a broad mandate to overhaul and shrink the government of the world’s second-largest economy in preparation for an era of declining population.

Mr. Koizumi and his Liberal Democratic Party made a surprisingly strong showing as they won a landslide victory yesterday in the country’s most significant election in recent memory. The prime minister on Aug. 8 dissolved parliament and called the election after the Diet’s upper house rejected his plan to privatize the enormous post-office network, which manages $3 trillion in household savings and life-insurance deposits.

The result showed broad public support for privatization and for the rest of Mr. Koizumi’s overhaul program. The Japanese also liked the gamble Mr. Koizumi took in asking for their opinion on the issue, judging from the comments of many voters interviewed. It was an unprecedented step in a country where government used to be conducted behind closed doors.

Mr. Koizumi’s extraordinary appeal to the public came against a background of deep structural problems. The declining size of Japan’s work force—owing in part to a low birthrate—threatens to hobble economic growth. Next year, 20% of Japan’s population will be past the age of 60, placing growing demands on the national pension and health-care systems.

How Japan copes with these challenges will provide lessons for other industrialized nations that confront similar problems. In Germany, for example, Chancellor Gerhard Schröder next week faces an election he called after he ran into trouble enacting measures to revive that country’s large economy.

The stakes are particularly high for Japan, as it tries to maintain its status in a fast-growing region. China’s economy is expanding more than four times as fast as Japan’s, and is widely forecast to overtake Japan’s in size in about two decades. Other neighboring economies, like South Korea, achieve consistently higher growth.

A healthy Japan is important to the U.S. as a market for American exports and because Tokyo has proved to be Washington’s most reliable geopolitical ally in the region since World War II.

Japan has been getting over deep-seated economic problems that started after the collapse in the early 1990s of a stock and property bubble left banks with trillions of yen of bad loans on their books. The bad loans jammed up the financial system, putting more drag on growth and triggering economy-shrinking price declines known as deflation.

In Sunday’s election, the LDP won 296 of the 480 seats in the parliament’s lower house, up from 249 seats before parliament was dissolved. Combined with an additional 31 seats that LDP partner New Komeito Party won, the ruling coalition gained a majority of more than two-thirds of the seats—enough to override votes in the upper house, which is the chamber that rejected the postal-privatization bills.

The main opposition group, the Democratic Party of Japan, won just 113 seats, down from 175 in the last parliament.

Mr. Koizumi won the election by becoming torchbearer for a small-government retooling of Japan. He thinks that, with its population forecast to decline after 2006 or 2007, Japan needs fewer government organizations and should divert the nation’s finances from public-spending projects into more-efficient private...
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sector businesses.

The public post-office corporation, Japan Post, has about 270,000 public employees. It manages one-quarter of the nation's household savings in the form of savings and life-insurance deposits. Much of this enormous pile of money has been funneled into public spending.

Now Mr. Koizumi appears set to revive his postal-privatization bills and to carry out other measures, such as overhauling the national health-care system, which Japan needs to cope with its fast-aging society. "The people overturned the opposing voices in parliament, more than I expected," Mr. Koizumi said in an interview on NHK, the public broadcaster.

The election result could be positive for Japan's economy if it makes consumers more positive about their personal prospects, said Paul Sheard, chief economist in Tokyo for Lehman Brothers. "It could make the Japanese feel a bit more confident in the future," he said.

Versions of Mr. Koizumi's prescription have been around since Japan's asset bubble burst in the early 1990s, jamming the brakes on growth. Some economists and politicians have long advocated changes like reducing central-government-funded spending on rural roads and bridges, and opening the Japanese economy to more trade and foreign direct investment. Mr. Koizumi's predecessors had gone some way with deregulation, in particular of the financial sector in the late 1990s.

Landslide

Seats held by the ruling Liberal Democratic Party and its chief rival and ally in the Japanese parliament's lower house before and after yesterday's election.

<table>
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<th>Party</th>
<th>Before</th>
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<tr>
<td>Liberal Democratic Party</td>
<td>296</td>
<td>175</td>
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<tr>
<td>Democratic Party of Japan</td>
<td>113</td>
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<tr>
<td>New Komeito Party</td>
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*The LDP rules in a coalition with the New Komeito Party.

Source: Asahi Broadcasting Corp.

But they balked at divisive overhauls. Many administrations during Japan's slow-growth 1990s tried to get out of recession through public-spending packages. Mr. Koizumi's 2002 plan to clean up banks' bad loans, which were jamming up the country's financial system, was fiercely opposed by LDP lawmakers who feared banks would have to foreclose on small-business borrowers. Japan's struggling countryside opposes postal privatization because local economies are propped up by public spending, often funded by post-office deposits.

The election showed that Mr. Koizumi's relentless campaigning for structural change has converted a large percentage of Japanese to his way of thinking. Wary of Japan's huge outstanding national debt, he has slashed public spending during his four years. But despite that, the economy has recovered, growing about 2% in both 2003 and 2004, and headed for similar expansion this year.

Masayuki Yaguchi, a 63-year-old owner of a sake store in western Tokyo, voted LDP because he approves of Japan's steady turnaround during Mr. Koizumi's tenure, when many private companies have produced record profits. He also likes the idea of postal privatization because of Japan's success in privatizing its national railroad and telephone companies: Service improved, he says, and these corporations now contribute taxes on their profits to the national coffers.

"We need to have a smaller government," Mr. Yaguchi says. "The population is about to start shrinking."

Mr. Koizumi delivered his message skillfully, putting the opposition in the shade. During the monthlong election campaign, he upended Japan's traditional values of consensus and harmony. First, he refused to endorse LDP candidates the 37 lower-house lawmakers who had voted against privatizing the post office. Then, he sent hand-picked candidates dubbed "assassins" to run against the ostracized incumbents. Many of the high-profile assassins succeeded in knocking down the rebel lawmakers.

The prime minister now has to see how much he can get done in his remaining year in office. Current LDP rules mean he has to resign as leader next year.

The first entry on his agenda is reviving the post-office bills, and analysts think he has a good chance of passing these in the next few months. He also wants to overhaul health care and semigovernmental financial institutions.

—Ginny Parker Woods contributed to this article.