

The point of speech of Minister of
Internal Affairs and Communications Taro Aso

1. Privatization of Japan Post as a major task of the Koizumi Cabinet

Privatization of Japan Post is regarded as the heart of the reforms in terms of implementing administrative and fiscal reforms and revitalizing the Japanese economy.

2. Purpose of Postal Privatization

- (1) To further improve user's convenience
- (2) To take measures to get personnel more motivated about their work
- (3) To advance the national interest by contributing to administrative and fiscal reforms and revitalization of the economy, as well as by paying taxes.

3. System Design of New Privatized Companies

System should be based on the Basic Policy on the Privatization of the Japan Post and should be well designed to ensure that new privatized companies get off to a good start and develop further.

Key Points of the Speech by Masaharu Ikuta, President of Japan Post

1. The Present Situation of Japan Post

- Becoming an excellent and financially sound public corporation.
- Cultivating areas with visible potential for growth and development

2. Basic Stance on the Issue of Privatization

- To be a good reforms from the perspective of the nationwide users, national government/Japan's economics and the employees of Japan Post.
- Early implementation of reforms will reduce the amount of stress overall and heighten the effectiveness of the reforms.
- Those duties that the private sector can perform better than the public sector should be shifted to the private sector.
- The institutional design should ensure that the following three visions can be better accomplished than they would be under the organizational structure of a public corporation:
 - Offering first-class, "open and straightforward" services to customers nationwide (standpoint of the people),
 - Securing a sound operational base (standpoint of the government/the national finance), and
 - Creating a work environment in which all employees find meaning in their work and envisage bright prospects for the future (standpoint of employees).
- The five basic principles in advancing privatization of the postal services which were adopted by the government's Council for Economic and Fiscal Policy must be honored.
- The institutional design should enable the privatized companies to develop through their own efforts amid market competition.
- Proper measures must be made to eliminate and respond to information system risks.

End

Hopes for Postal Privatization

Kakutaro Kitashiro
Chairman of Keizai Doyukai

- The huge government-operated financial system, which has already completed its role, has caused inefficient distribution of capital and hinders the revitalization of the Japanese economy.
- All postal operations are services that the private sector could provide. Private-sector management would enable more efficient operation. It is important that conditions for fair and free competition be secured because services will be improved through competition.

1. Postal Privatization Will Bring Great Benefits for the Japanese People

- Revitalize the Economy Overall
 - Funds that were funneled into the public sector will be redirected to the private sector.
 - Revitalization of the Japanese economy will be fostered with the efficient distribution of capital based on market principles.
- Prevent Invisible Public Burdens
 - There is an invisible burden on the people resulting from postal savings' exemption from taxes and deposit insurance.
 - Postal savings is thought to hold a considerable amount of bad loans with the deterioration of the management of special public corporations and other borrowers. As a result, there are concerns that there is a risk of the future burdens for the people when the bad assets are disposed.
- Improve Citizen Convenience by Utilizing the Nationwide Over-the-counter Network Assets
 - The diverse potential of the nationwide over-the-counter network assets should be utilized to offer various high-quality services people want amid competition with the private sector.

2. Achieving Postal Privatization Based on the Government's Basic Policy

We support the Basic Policy of the government and hope that postal privatization will

be achieved in line with it. We would like to request further the following in the upcoming drafting of the legislative bills.

- Make the Securing of an Equal Footing with the Private Sector a Prerequisite
 - Managerial freedom will be granted in line with the degree of progress made in achieving an equal footing with the private sector.
 - A neutral monitoring organization under the direct supervision of the prime minister should be established at an early stage.
- Need to Accelerate Reform
 - The postal savings and postal insurance companies should be fully private-owned and operated within five years.
 - Conditions of equal competition with the private sector and an environment for the managerial freedom of the new companies should be created immediately.
- Ensure Corporate Governance at the Privatized Companies from the Perspective of the People
 - A corporate governance framework using the “committees system” and including external independent directors who can represent the position of the people should be created at each of the privatized companies.

The Necessity for Postal Privatization

Naoki Tanaka
President

The 21st Century Public Policy Institute

1. To prepare for an aging society that must be an "investing society"

1-1 The advent of an age in which people work for 40 years and receive income from investment services for 30 years, and the dependence of public finance on fixed savings deposits designed in an age in which life expectancy was 50 years

- An aging society with a low birthrate in which it has become essential for all Japanese people to plan for the latter half of their lives dependent on income from pensions, etc., funded from small contributions made during their working lives.
- The essence of investment is to serve as an intertemporal link between the period in employment and the period of receiving income from investment services.
- It is essential to develop infrastructure to build a society where investment is rewarded.
- The succession of developments such as the acceptance of international accounting standards (introduction of asset impairment accounting), the revision of the Trust Law (expanding the scope of trusts and invigorating investment), the revision of the Commercial Code (fostering competition among corporate managers such as mergers, etc.), and the enactment of the Investment Services Law (clarifying the responsibilities of trustees) are consistent with the development of infrastructure for an "investing society."
- The removal of blanket deposit insurance in April 2005 is symbolic of the shift from the protection of financial institutions to the enhancement of the efficiency of governance through the markets.
- The dividing-up and privatization of postal services from April 2007 is also an expression of the determination to survive in an "investing society."

1-2 The necessity for redefining the independent and self-reliant national image and for redesigning various institutions

- Putting an end to the mechanism by which people's savings are diverted for broad public purposes through the special accounts for the postal savings and postal life insurance.
- The issuance of government bonds for individuals serves as a new channel for public finance through the medium of the market.
- The reduction of the balance sheets of government corporations backed by government guarantees and the molding of a self-reliant image for society.
- The basis of the national debt management policy should be thorough investor-relations activity by the issuer (the government) and the setting of the course for fiscal consolidation (the complete separation of postal savings and postal insurance accounts from the debt management policy).

- The thorough implementation of corporate governance with respect to privatized distribution and network companies and privatized financial institutions.
- The necessity for the socioeconomic building of a model for competition between private-sector companies.

2. To exhibit standards, to both a domestic and overseas audience, for the state of Japanese society in the 21st century

2-1 The mitigation of future risk for Japan through the reduction of the Japanese government's balance sheets, including off-book items

- The reduction of risk-taking capacity in an aging society and the preemptive response to this.
- The vitality of the Japanese capital markets and the significance of building a government sector that is not threatened by contingency risk.
- The creation of Japanese capital markets in which risk factors for both issuers and investors are minimized.
- The importance of improving convenience for the Japanese people as "investors."
- Shutting-off the bloating of debt caused by the granting of explicit government guarantees.
- Towards the combination of the issuance of bonds by institutions in the government's fiscal investment and loan program and essential government subsidies.

2-2 The emergence of a market economy in which the huge scale of national assets, second only to the United States, is of significance

- Increasing its attractiveness to companies establishing businesses in Japan.
- The creation of workplaces by new-type software industries through the enhancement of media that create yardsticks for evaluation and exchange evaluations.
- Japanese society that will have attained a presence that issuers and investors worldwide cannot ignore will form an essential part of global security.
- People overseas remain half in doubt with regard to the curtailment of government activity through the privatization of the postal services (implementation of the principle of "entrust to the private sector what the private sector can do"), and therefore the achievement of full privatization of the postal services will very likely come as a surprise.
- There is mounting interest overseas with regard to the advent of the new-model Japan and its ongoing reform.
- The invigoration of the Japanese economy to ensure that people and companies do actually "Visit Japan" and "Invest in Japan."

The Role of Postal Services Privatization in Structural Reform

Hugh Patrick

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I speak as an outsider, an American economist. I have been a student of the Japanese economy for more than 50 years. This conference appropriately focuses on the importance and nature of the privatization of Japan's postal system. I use my time to focus on the context within which postal privatization should be pursued.

First, while a private sector financial crisis has been avoided and the FSA has taken good, important actions to accelerate structural reform, the system remains weak. Financial reforms must persist for the next several years. In international comparison the megabanks have too little capital and are not internationally competitive; they still need to implement new business models and state-of-the-art information technologies. I doubt whether the creation of financial conglomerates alone will solve these problems. Strengthening regional and local banks, many of which still have high non-performing loans and inadequate capital, is essential because of the financial services they provide in rural areas, presumably in competition with the privatized postal system. The life insurance companies will not become healthy until the negative spread comes to an end, and that will happen only after the economy is in sufficiently good shape to enable the Bank of Japan to return to a normal interest rate policy. The recent FSA policy to

achieving the goal of Japan “moving toward a financial services nation” is ambitious and appropriate.

Second, the privatization of postal savings deposits and post office life insurance, especially given their huge size, is a key feature of financial system reform, and will have a major impact as we will be discussing today. The economic efficiency benefits of privatization in better allocation of resources are enormous, assuming the process establishes equal rules and treatment – a level playing field – and overcomes the potential problems of market power so as to achieve a truly competitive system. However, together with opportunities, privatization generates many different challenges, not only political difficulties in dealing with those vested interests benefitting from the present system, but also achieving other social objectives such as universal delivery of mail and other essential services. Of course the devil lies in the details. I worry that the policy implementers will support the policies in principle, but oppose them in practice.

Third, the inevitable adjustment costs of privatization will be reduced substantially if the economy is on a stable, good growth path with full employment. That is not the situation today, and I fear it will not be achieved soon. It is too optimistic to assume the current slowdown is temporary. The reality is that since 1991 Japan’s economic performance has been mediocre, well below what could have been achieved. Japan’s GDP and the standard of living could be as much as 20 percent higher than it is today. Perhaps an equally important cost over the long run is that too many young Japanese do not have a good full-time job that provides them with on-the-job training, so important for the development of their skills. On the positive side, private sector restructuring has now proceeded quite far, though more needs to be done. It now is time to focus on government institution restructuring, and it is appropriate that postal services are top priority.

Finally, I think the government is trying to do too much at once: end deflation; return to a self-sustained, full employment-based good growth path; privatize the postal services system; pursue fiscal consolidation; and carry out the restructuring of the financial system. There are inconsistencies between near-term macroeconomic policies and long-term growth and structural policies. Japan's biggest immediate priority should be to restore good, self-sustaining growth. For that further aggregate demand stimulus is key. The greatest structural priority should be the effective and efficient restructuring and privatization of the postal system. Fiscal consolidation – reducing the budget deficit and achieving a budget primary surplus – should be a long-term goal, considerably longer term than 2014, given Japan's macroeconomic circumstances. Certainly the government gross debt is very high, but the government also holds many financial assets, so its net debt is only half its gross debt. Japan does not face a fiscal crisis. Certainly taxes will have to be increased in due course, but they should not be increased until Japan achieves full employment and good growth, in my view not in fiscal 2005.