



FIVE YEARS OF KOIZUMI

a speech by
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The first time I ever heard the name Junichiro Koizumi I was living in England. That was 2001, about one year before I eventually arrived in Japan.

Foreign media were carrying reports about a strange Japanese politician quite unlike anything they had seen before.

He looked funny, with wavy hair.

It was reported that he wore white gloves while he conducted his election campaign, as if this, too, were odd. (I only later found out that nearly all politicians wear white gloves when they campaign. Even some taxi drivers do.)

Koizumi talked funny too. He used pithy quotes that were easily understood by ordinary Japanese people.

The ladies liked him. Sometimes even young women would swoon at his feet, as though he were a pop star.

The foreign press picked up on this image of a pop-star politician. They reported that Koizumi was a devotee of Elvis Presley, a man whose birthday he shares.

At around the time he became prime minister, he made an album in which he sang Elvis Presley songs.

He may end his prime ministership in the same way, singing a duet with George Bush at Graceland, Elvis Presley's former home. I am hoping to cover that event, and I have already ordered a set of ear plugs for the occasion.

This, anyway, was the image of a Japanese politician supposedly quite different from what had come before.

From a foreign perspective, the 1990s saw a succession of grey prime ministers shuffle in and out of the Kantei. Even fairly well informed foreigners would struggle to name a single one of them.

But there was something else about Koizumi, besides his pop star appeal and status as maverick and outsider. (By the way, I never understood how he developed that outsider reputation, given that both his father and grandfather were prominent LDP politicians.

That in a sense is another sign of his political astuteness.)

That something was his economic agenda.

Koizumi, we were told, was a politician who stood for reform.

Now reform is a strange word. It can mean more or less anything you want it to mean. In this case, Koizumi's stance was summed up in his phrase "no growth without reform" and "structural reform without sanctuary".

Some excited commentators in the west, including one or two less wise heads in my own newspaper, interpreted this to mean that Koizumi was about to unleash a series of market reforms to shake Japan from its 1990s torpor.

He was going to cut budgets, privatise national entities, allow bad companies to fail, allow bad banks to collapse and generally shake the whole system up.

This was the Koizumi hype. But what of the reality?

Now, as Koizumi prepares to step down in September, having become the third-longest serving Japanese prime minister since the war, we are in a better position to judge exactly who Koizumi was.

What was Junichiro Koizumi? What did he stand for? What were his reforms? Will his influence on Japan be lasting? Was he a good prime minister?

Before I try to avoid these questions – sorry I mean answer these questions - I would like to make a few disclaimers.

First, and I say this without any false modesty, I am sure that almost everyone in this room has a far deeper knowledge of the facts and the background than I do. What knowledge I possess has been gleaned through living in Japan for four years, speaking imperfect Japanese, doing the best I can to put Koizumi in some sort of broader historical and global context.

Much of what I say might strike you as ill-informed. My short answer to you is that it might well be just that. All I can honestly offer you are the impressions of a foreign journalist working in Japan. If I say anything of interest it is more likely to be because I bring a slightly different perspective on events.

With that said, I would like to turn first to Koizumi's so-called economic reforms.

ECONOMY

The first thing I would say is that Koizumi has been, in my opinion, less of an economic reformer and much more of a political reformer.

I will discuss later the ways in which it seems to me he has shaken up Japan's political landscape.

But in terms of specific reforms that have led to Japan's economic recovery, frankly I can detect very few – if any at all.

Koizumi will certainly take credit for this recovery, which looks like becoming the longest in the post war period. That's what politicians do.

But has he or his administration really done that much to bring this recovery about? Apart from the fact that he hasn't made any terrible policy blunders, I don't really think so.

In my opinion, the main factors behind Japan's economic recovery have been:

- 1) First and foremost; time.

It is time that has given Japanese companies long enough to readjust to the new conditions of post-bubble Japan.

For much of the early 1990s, many people in Japan thought that the stock market and real estate crash was a temporary aberration. They spent many years waiting for things to get back to normal.

It was only in 1997, when a recovery petered out and banks started failing that it really dawned on business leaders that the world had changed forever.

That is when corporate restructuring started. Companies began to slim down, merge, use contract labour, reduce costs and send some manufacturing to cheaper locations abroad. They did this slowly and often unnoticed by western observers, some of whom were clamouring for more drastic and dramatic solutions.

But it meant that, when global conditions improved, Japan was in a much better position to profit from the upturn. Thus sectors like steel, almost written off as useless in the 1990s,

had returned to a very competitive state by 2002. When demand from China came, Japanese companies were perfectly placed to take advantage.

They began to make profits, to hire workers, to pay more tax. Slowly but surely Japan's downward economic spiral turned upwards.

The underlying reason was that over several years companies had had time to grind out a solution to the bubble overhang.

Koizumi is a remarkable politician. But even he cannot take credit for the passage of time.

2) The second factor has been the global environment.

From 2002, this has been extremely benign. Koizumi said "no growth without reform". But what he should have said was "no growth without China".

The first two to three years of the recovery was led by exports. Only relatively recently has this fed through into the domestic economy, as companies increase their capital expenditure and hire more.

Now wage earners, more secure in their jobs and perhaps marginally better paid, are beginning to spend more. But the initial push came from abroad.

Obviously neither of these factors – time and the global economy - has much to do with Koizumi.

And to the extent that so-called reforms played a role in these changes, they were Hashimoto's not Koizumi's.

Seemingly boring changes to accounting practices, such as mark-to-market accounting and consolidated accounting, played an important role in concentrating the minds of companies. No longer could they pretend that the buildings they bought in the 1980s were worth huge amounts of money. No longer could they hide losses in subsidiary companies. As a result, many were galvanized to make the kind of changes I talked about earlier.

In this sense, if we are looking for an economic reformer, it is probably Hashimoto, not Koizumi who should be awarded that particular prize.

Did Koizumi's economic platform really not contribute at all?

I and another colleague on the Financial Times have argued that Koizumi's main contribution to Japan's economic recovery has been NOT to do what he said he was going to do.

He said, for example, he would cut the issuance of bonds to Y30 trillion. To have done so during recession and deflation could have had a negative, possibly a disastrous, impact. Instead, he failed to meet his goal and bond issuance rose to Y36 trillion. The BoJ was also printing money hand over fist while, simultaneously, Japan was buying huge amounts of dollar assets.

Far from being fiscally conservative, the early years of the Koizumi administration were better characterised as fiscally profligate. That may well have helped Japan's cause. It certainly didn't hinder it.

Only subsequently, once the economy was on a firmer footing, did the process of fiscal consolidation begin.

People say Mr Koizumi's appointment of Heizo Takenaka as financial services minister had a huge impact. They also describe this appointment as testament to Koizumi's reform credentials.

There is a modicum of truth in this. Cleaning up the banks certainly had an important psychological effect. It was a signal to investors that Japan was on the mend. Yet throughout the critical period of Japan's latest recovery, bank lending has continued to shrink.

Banks thus played no part in stimulating the economy or in helping to make the Bank of Japan's monetary policy more effective through credit creation. The biggest contribution Japan's banks made was not to go bust.

At the time, Takenaka caused a lot of resentment with his famous statement that "no one was too big to fail". This was taken to mean that the government was prepared to allow big companies and even big banks to collapse.

Takenaka did indeed get tough with the banks. This was a good thing in that he persuaded them to clean up their non-performing loans more quickly. But the single most important action Takenaka took was probably the bailout of Resona bank using taxpayers' money.

This showed investors, particularly foreign ones, that the government was not going to

allow a systemic crisis to take hold.

When push came to shove, the government would dip into taxpayers' pockets to bail out the banking system.

After the Resona bailout, the stock market immediately rallied. This was a big turning point. It may have even been the decisive turning point in Japan's recent fortunes. Yet it had little to do with reform. Certainly it was not reform as that word was being defined at the time.

If reform meant letting the market take hold, the Resona bailout could better be defined as anti-reform.

Yet it was pragmatic. It was sensible. And it did the trick.

I could go on. The point is that I am not convinced that any particular Koizumi reform can be credited with having had a decisively important impact in Japan's recovery.

KOIZUMI AS POLITICAL REFORMER

So, if Koizumi is not the economic reformer he was made out to be, is he a reformer at all? Does he deserve to be remembered?

I would argue that yes, he is and he does. But it is in the realm of political reform that his influence has been most important.

Koizumi came to power threatening to reform the LDP or smash it. Instead he saved it. In doing so, he has probably changed decisively what might be defined as Japan's political economy.

Koizumi has broken the power of the factions, or at least reduced it significantly.

He has increased the executive power of the cabinet office.

Perhaps most crucially, he has changed the support base of the LDP. Now, instead of relying heavily on the voters from the countryside it now depends on people from the big cities as well.

That means the party will for many years to come have to court metropolitan voters by ditching some of its traditional policies aimed at rural constituencies.

Naturally some of these trends have long in the making. Like many leaders, Koizumi is as much an expression of transformations that were already quietly taking place as an independent agent of change.

Some of these changes date as far back as Takeo Fukuda, whose style of politics was almost diametrically opposed to that of Kakuei Tanaka. I once interviewed Soichiro Tawara, the media commentator, who convinced me that much of Mr Koizumi's so-called reformist agenda was actually just the acting out of the old Tanaka-Fukuda feud.

From the 1960s, as Japan got rich, the LDP developed a political and economic modus operandi. While not exactly democratic or transparent, it served Japan pretty well during its phase of miraculous growth. Perfected under Tanaka, it involved spreading the wealth created in the big cities to the poorest corners of rural Japan.

As you all know, Tanaka was legendary for bringing his home-town jobs and riches in the form of public works schemes. Roads, bridges and a bullet train all came to Niigata - and regions like it throughout Japan. A grateful public responded by keeping the LDP in power. So long as GDP kept rising, everyone was happy.

The system came under strain in the 1990s: the bubble had burst and the money dried up. An attempt to keep it going was the start of Japan's huge public debt, now about 150 per cent of GDP.

Economically, most of Japan's business and political elite have come to the conclusion that the old, state-led model is untenable. In last September's election, the public vote on postal privatisation was an acknowledgement of just that.

Mr Koizumi is from Yokosuka. That makes him a metropolitan leader. He stands out because almost all his predecessors came from inaka, the countryside. By breaking bonds with the old support groups, such as farmers, the doctors' association and the construction industry, Koizumi has sought (successfully) to appeal to the unaffiliated voters who predominate in Japan's cities.

Until recently, these voters tended to favour the DPJ. But temporarily at least Koizumi has stolen them.

Post Office privatisation was the perfect vehicle for Mr Koizumi's overhaul of money politics. The eventual aim is to remove from the public sector the ¥ 350 trillion of savings that the LDP has used as its piggy-bank.

This goal fits the prime minister's conviction that government should be small and the private sector able to compete.

Prof Gerald Curtis, an American scholar of Japan, says Mr Koizumi's political skill has been to recognise a long-term shift in public opinion and to give it voice. "Japan has changed so much since the 1990s, because the political machine has been collapsing," he told me. "The changes are societal, and Koizumi has been riding them."

FOREIGN POLICY

I want to touch briefly upon Koizumi's foreign and diplomatic policy.

Here his record is more mixed and he has been as much a prisoner of events as the shaper of his own political destiny.

In some areas, of course, there has been genuine change.

Koizumi has pushed the concept of turning Japan into "a normal country". That idea is not new. It dates back to Prime Minister Nakasone and before.

But in sending troops to Iraq, in actively promoting discussions on constitutional change, in signing Japan up for joint missile defence with the US, Koizumi has advanced this cause.

There are legitimate arguments on both sides as to whether this is the right course for Japan to take. But Koizumi has been a fairly eloquent advocate of the proposition that Japan deserves to be normal nation again.

He has sometimes shown strong leadership in this regard. Sending troops to Iraq – something I personally have big doubts about – undoubtedly took political courage.

But on the subject of Asian diplomacy, particularly in relation to China, I think Koizumi has mishandled the situation.

There are legitimate reasons to stand up to Chinese bullying. China's government can clearly not resist playing the anti-Japanese card time and time again for its own domestic purposes.

But going to Yasukuni does not seem to me the best way of making the point. If Koizumi

wanted to draw a line in the sand, he should have picked another issue.

In the area of Asian relations, whoever follows Koizumi will thus have to repair the Koizumi legacy rather than build upon it.

GESTURE

Turning back to domestic policy, some people argue that some of the changes Koizumi wrought are not as real as they seem.

For example, there is already a backlash against the unequal society that Koizumi's policies have supposedly created.

In the same way there is a backlash against some of the proponents of capitalism that Koizumi indirectly championed, including Takafumi Horie and Yoshiaki Murakami. Thus, even in the political field, much of what Koizumi has stood for is easily reversible, say some.

In that sense, some people criticise Koizumi for being little more than a showman. Of course, to a large extent, Koizumi is just that. He is a modern politician who, for better or worse, has ditched the old ways of consensus decision-making. Instead he goes over the heads of the party and the bureaucracy and appeals directly to the public through the media.

I once wrote an article in which I argued that that Koizumi's showmanship – I called it “the art of gesture” – was important in itself. He uses gesture as a policy-making tool. In the article, I compared Koizumi to the celebrated moments in Kabuki drama, known as mie.

I explained, for the benefit of a foreign audience, how heavily made-up actors roll their eyes and strike a glowering pose. For many in the audience, as you know, these gestures are considered the highlight of the Kabuki drama.

Japanese voters last September were a little bit like a Kabuki audience, enraptured with Koizumi the actor.

Indeed, the prime minister's acting skills cannot be in question.

His central message in last September's campaign was that the LDP, a party that has monopolised power for half a century, is an agent for change.

That is like branding cigarettes an agent for good health.

You could thus go so far as to argue that, far from being a force for change, Mr Koizumi has given the LDP a new lease of life. In that sense he has been a force for preserving the political status quo.

One oft-quoted example to "prove" that Mr Koizumi is an empty shell is what some see as his ill-fated attempt to privatise debt-ridden road corporations. In typical style, the prime minister organised a show - a televised commission that brought to light the lavish, often wasteful expenditure made by these opaque organisations.

In the end, most observers judged the "privatisation" of the corporations itself to be a fudge, even a sham. But their objection missed one crucial point. In organising the show, Koizumi shone a light onto a previously dark area of Japanese financing. He began a debate.

Japan's public has now been persuaded that the old money politics, through which the LDP channelled funds to supporters via public works, is no longer legitimate.

Some critics compare what they describe as Mr Koizumi's lack of substance to that of Ronald Reagan, former US president, another politician sometimes accused of being a mere showman. But few would deny that Reagan's simply articulated ideas about the nature of free markets and liberty had a fundamental influence on the US and beyond. In some ways his policies directly contributed to the collapse of the former Soviet Union.

We may not like some of the changes either Koizumi or Reagan brought about. But we cannot deny that they used their charisma to help mould the world around them.

Koizumi's performance is probably too patchy to deserve a standing ovation. But as a great admirer of Kabuki myself, I must conclude that - at the very least - he surely merits at least polite applause.

David Pilling has been watching Koizumi politics since January 2002 as the Tokyo Bureau Chief of the Financial Times.