

# Postal plan no cure for spiraling debt, critic says

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Prime Minister Junichiro Koizumi's plan to privatize the giant postal system will not resolve Japan's ballooning fiscal debt, which is hampering plans to create a smaller government, according to outspoken critic Yasuyo Yamazaki.

The public debt grows when the government builds public works because it uses the post



office to buy the government bonds needed to finance them. Many of the projects, including numerous dams and bridges, have been criticized as unnecessary.

Koizumi's stated purpose for privatizing the postal system is to reduce government spending. There are more people working for the post office than for the Self-Defense Forces, economists say.

But the main purpose of Koizumi's contentious reform, Yamazaki said, should be to reduce public works ordered by government-affiliated bodies that are indirectly funded by the postal system. Koizumi's plan doesn't do that, said the 46-year-old former Goldman Sachs and Co. executive who currently heads an economic policy think tank.

Although it often goes unnoticed, much of the postal system's money, mostly people's savings, is channeled into public works projects through an exclusive type of bond

known as "zaito" bonds issued by the government.

In 2001, zaito, which is also known as the Fiscal Investment and Loan Program — a tool directly used to finance public works — went through what critics describe as a cosmetic change. FILP is now indirectly financed partly through the issuance of zaito bonds.

"The government says postal privatization will pump money into the private sector from the public sector, but it is totally incorrect," Yamazaki said in a recent interview.

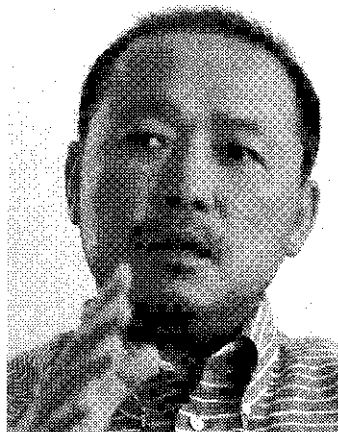
"The system to suck up money from the private sector and pump it into the public sector (through the postal savings system) has rather expanded, and is expected to expand further in the future," he said.

More than half of zaito bonds are bought up by the government-run postal savings and insurance systems, which is easy to do because it's the world's largest bank. This is the biggest factor in the government's huge fiscal deficit, Yamazaki said.

The government has stated it is trying to reduce the deficit, although Koizumi's vow to cap fresh bond issues was broken some time ago.

Yamazaki and Hiroyuki Arai, an Upper House opponent of the postal reforms who recently left the Liberal Democratic Party to join New Party Nippon, in July published their book "Damasare-run! Yusei Mineika" ("Don't be Cheated by Postal Privatization").

Privatizing the postal system is Koizumi's priority, and he has turned the upcoming Lower House election into a



Yasuyo Yamazaki

plebiscite on the issue.

Advocates of postal reform say the priority should be to get the privatization bills through the Diet, a process that will eventually bring out more details of how they work.

The government is estimated to have issued ¥41.3 trillion worth of bonds in fiscal 2004, in addition to ordinary government bonds worth ¥36.6 trillion, according to the Finance Ministry.

Rather than issuing the zaito bonds, the government-affiliated bodies that carry out the public works projects need to issue their own bonds and get their own credit ratings so rating agencies can monitor their financial health, Yamazaki said.

Their own bonds are called "zaito kikan" bonds, which, unlike zaito bonds, are usually bought by investors on the market, rather than by the government. But the amount they issue doesn't come anywhere near that of zaito bonds.

"The postal privatization bills submitted by the LDP (and its coalition partner New

Komeito to the latest Diet session) are defective because they didn't mention a word about the zaito bond problem," Yamazaki said. "The bills should be overhauled again."

He said the Democratic Party of Japan also hasn't mentioned the growing use of zaito bonds to finance the growth in public services — which can also include public works — being offered by semi-governmental bodies. The DPJ only pledges to slash public works.

It would be easier for the DPJ to address the problem, however, because its lawmakers are less involved in the triangle of vested interests the LDP has nurtured with government bureaucrats and businesses over public works, Yamazaki said.

Japan Highway Public Corp. tops the list of government-affiliated entities that have been tainted by public works scandals.

The DPJ picked Yamazaki to be the land, infrastructure and transportation minister in its "Shadow Cabinet" during the general election in November 2003. Back then, Yamazaki's call for toll-free highways drew public attention.

Yamazaki said no party can privatize the postal system completely, because the postal delivery services need government support to provide uniform, same-price service nationwide.

As for postal savings and insurance, however, what is needed is to shrink them down and make them pay taxes and other fees to fund a safety net as the commercial banks and insurers do, he said.