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The Changing Nature of the "Iron Triangle" Phenomenon:

A Case Study of the "Iron Triangle" in the Postal Industry and Postal Reforms in Japan

Alena Rakhmanko*

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Lund University, Sweden

www.ace.lu.se

* Alena Rakhmanko was a student on the Masters Programme in Asian Studies, Centre for East and South-East Asian Studies, Lund University between 2009-2011. This is her Master thesis.

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Abstract

The "iron triangle" phenomenon, or nexus between politicians, bureaucrats and business, is an important element of the Japanese postwar political economy system, known as the "1955 system" or "Japan Inc." Although, originally created to facilitate high-speed economic growth by ensuring efficient cooperation between the government and business, over time it became associated with high-profile corruption and massive government spending on economically unnecessary projects that increased Japan's public debt. The "iron triangle" in the postal industry was particularly important because it was directly linked to the postal savings funds, the source of money that financed "iron triangles" in other sectors of the Japanese economy. Extensive reforms of the postal sector undertaken in Japan in 2001 have changed the mechanism of the postal "iron triangle" and created serious implications for its actors. The purpose of this study was to explore the process of transformation of the postal "iron triangle" relationships due to the influence of the postal reforms (FILP reform and privatization reform). It found that as a result of these reforms, the "iron triangle" relationships in the postal industry have weakened to a considerable degree. Particularly, two sides of the triangle became negatively affected by the postal privatization: politicians-postmasters and politicians-bureaucrats alliances. At the same time, the bureaucracy-business connection appears to remain resistant and viable. The study further explained the transformation process as a result of declining efficiency and effectiveness of the "iron triangle" as an organization. It discovered that the two sides of the postal "iron triangle" have weakened because all the three factors of their efficiency and effectiveness (well-balanced incentive structure; information and knowledge symmetry; and high degree of adaptability) were eliminated by the postal reforms. However, the third side of the postal "iron triangle" remained strong because all the three factors of its efficiency and effectiveness were not affected by the postal reforms.

Keywords:

Adaptability, *Amakudari*, Bureaucrats, Collusion, Corruption, Effectiveness, Efficiency, Fiscal Investment and Loan Program (FILP), Incentives, Iron Triangle, Japan, Japan Post, Knowledge, Organization, Politicians, Postal Savings, Postal Privatization, Postmasters.

Contents

1. Introduction 1
1.1. Background: Japan's "Lost Decade" and the "Iron Triangle" 1
1.2. Problem Formulation: The Transformation of the "Iron Triangle" Relationships 3
1.3. Research Purpose and Research Questions 4
1.4. Literature Review 5
1.5. Methodology 9
1.5.1. Research Strategy (Qualitative) and Design (Case Study). 9
1.5.2. Methods of Selection 10
1.5.3. Ethical Considerations 12
1.5.4. Validity and Reliability 13
1.5.5. Scope and Limitations of the Research 13
1.6. Disposition 14

2. The Nature of the postal "Iron Triangle" and the postal privatization 14
2.1. The Japanese Postal Sector Prior to the Privatization 14
2.2. Postal Savings and FILP System 15
2.3. Politicians-Postmasters Nexus 16
2.4. Bureaucracy-Politicians Alliance 18
2.5. Bureaucracy and Business Connections (via Postmasters) 19
2.6. Postal Privatization: Hashimoto's Initiative 20
2.7. Postal Privatization: Koizumi's Success 22
2.8. The Japanese Postal Service after the Privatization 23

3. Empirical Analysis: Japan's Postal reforms and Implications for the "Iron Triangle" 24
3.1. Reform of the FILP System: Cutting Off the "Iron Triangle" Money Flow 24
3.2. Depoliticization of the Postal Business: Postmasters' Declining Political Influence 27
3.3. The Bureaucracy: The Winners in the Privatization Battle? 31
3.4. The Politicians Defining the Future of the "Iron Triangle": Organized Rural Votes Vs. Independent Urban Votes 36

4. Empirical Findings 39

5. Theoretical Analysis: Incentives, Knowledge and Adaptability as the Main Attributes of the "Iron Triangle" Transformation 42

6. Conclusion 49

7. Appendix 1: Figures 51
7.1. Figure 1 51
7.2. Figure 2 51
7.3. Figure 3 52

8. Appendix 2: Interview guide 53
8.1. Nobuhiro Hiwatari (May 26, 2010) 53

8.2. Ko Mishima (June 14, 2010) 54
8.3. Koichi Nakano (July 1, 2010) 54

9. Appendix 3: interview transcriptions 56
9.1. Nobuhiro Hiwatari (May 26, 2010) 56
9.2. Ko Mishima (June 14, 2010) 65
9.3. Koichi Nakano (July 1, 2010) 72

10. Bibliography 81
Personal Communication: 88

1. Introduction

1.1. Background: Japan's "Lost Decade" and the "Iron Triangle"

After the burst of the bubble economy in 1989, Japan entered a new decade in a deep economic crisis. After almost 40 years of stable economic growth, Japan faced a dramatic collapse of both stock and land prices, massive bankruptcy of numerous financial institutions bounded by unrecoverable loans, a drastic increase in unemployment and a huge explosion in public debt (Pempel 1998: 2). Real GDP growth stayed at the level of 1% a year for over a decade. Nominal GDP growth was at an even lower level and in 2001 it was approximately the same as in 1995 (Callen and Ostry 2003: 1). The disastrous effects of the bubble burst and wretched economic performance made experts call the phenomenon of the 1990s Japan's "lost decade" and refer to Japan as the "sick man of the global capitalism" (McCormack 2002: 5). In order to pull the economy out of a deep crisis, the Japanese government introduced a number of fiscal stimulus packages that aggravated the public debt problem to an even greater extent. In Paul Krugman's *A Return of Depression Economics and the Crisis* of 2008, the author states that there "was nothing mysterious about the onset of Japan's slump in 1991: sooner or later the financial bubble was bound to burst… The question, however, is why Japan's policymakers… weren't able to get the economy moving again." His basic argument is that the government's efforts were "too little, too late" (Krugman 2008: 67–68).

The analysis of the literature on Japan's "lost decade" suggests that a crucial key to understanding Japan's desperate economic situation and an answer to Krugman's "too little, too late" lies in the unique combination of two important factors: the existence of a distinctive Japanese system of channeling postal savings funds through the Fiscal Investment and Loan Program (FILP) to development projects (Krugman 2008; Amyx, Takenaka and Toyoda 2005), and a corruptive alliance between Japanese politicians, ministerial bureaucrats and business circles, often referred to as the Japanese "iron triangle" (Black 2004; McCormack 2002; Sakakibara 2003; Rothacher 2006). Originally, the FILP program functioned to sponsor Japan's development measures. FILP accumulated deposits from the state-run postal savings and deposited them in the Trust Fund Bureau of the Ministry of Finance. The Trust Fund, in turn, invested them in Japanese Government Bonds (JGBs) or provided loans to the FILP-affiliated public corporations and government-owned financial institutions that used the FILP funds to finance development projects (public works, healthcare projects, etc.) (Kaneko and Metoki 2008: 236). However, over time the "iron triangle" actors realized that the FILP

system could be manipulated for personal gain and profit. Due to the state ownership of the postal savings system, its enormous size in terms of assets[1] and low transparency of the decision-making process on the allocation of the FILP funds[2], the system became highly corrupted and susceptible to political entanglements and pork barreling. Postal savings started to be channeled into expensive and economically unnecessary development projects, providing the politicians with electoral support and votes from the local residents and the bureaucrats – with lucrative post-retirement positions in the public corporations (Kawabata 2004: 109; Noble 2006: 109).

The profligacy and malfeasance of the "iron triangle" system were so deep that even a decade after the economic bubble burst, the Japanese economy showed no signs of recovery. The public blamed the government for its inability to deal effectively with the numerous problems facing Japan. However, none of Japan's prime ministers seemed to be willing to undertake any radical steps toward reforming the corrupt "iron triangle" which seemed to be the root of all Japan's misfortunes (Kawabata 2004: 117). Public despair led a charismatic LDP politician, Junichiro Koizumi, to become Japan's new Prime Minister in April 2001. Koizumi recognized Japanese postal savings and the FILP system as a symbol of the Japanese "iron triangle" disease and with the slogan "*structural reform with no sacred crows*" initiated the reforms of the postal service aiming at reducing government spending, eliminating pork-barrel patronage and corruption in the postal savings and FILP system, as well as increasing the efficiency and profitability of the postal industry (Carpenter 2008: 20; Maclachlan 2006: 7). The postal privatization issue was placed on the political agenda, marking the beginning of a fierce and long-lasting political battle, which exposed the stiff opposition of all the actors of the "iron triangle" (Imai 2009: 142; Noble 2006: 114; Vollmer 2009: 3; Kawabata 2004: 119). Although the privatization battle finally brought victory to Koizumi and the privatization legislation was passed by the Diet in 2005, the anti-privatization movement continued to expand, led by the coalition of the Democratic Party of Japan (DPJ) and *Kokuminshinto*, or People's New Party (PNP). Political entanglements and confrontation over the postal issue in particular revived after the 2009 general elections when the DPJ came to power and announced its plans to reverse the postal privatization process started in October 2007. However, until now the fate of the postal service has

[1] The Japanese postal savings system was the largest system in the world with 227 trillion yen in assets, twice as much as the assets of Mizuho Financial and Citigroup, the biggest financial groups in the world (Porges and Leong 2008: 385).
[2] FILP budget is separated from the General Account Budget and is decided by the agreement between the MOF bureaucrats and politicians (Amyx, Toyoda and Takenaka 2005: 27).

not yet been decided, and the future of the "iron triangle" in the postal industry is uncertain.

1.2. Problem Formulation: The Transformation of the "Iron Triangle" Relationships

Given the important implications of the "iron triangle" relationships and Japanese postal savings and the FILP system for Japanese economy and politics, as well as never-ending political confrontation over the vested interests described above, the "iron triangle" phenomenon still appears to be an essential element of the political and economic system in Japan. A thorough understanding of the nature of the "iron triangle" phenomenon promotes a deeper understanding of the nature of the Japanese political economy, particularly the social and political fabric underlying economic processes occurring in the country, the political institutions and actors forming the state structure, the economic aspects of the actors' behavior and the economic consequences of their political decisions, as well as the political underpinnings of their economic decisions.

The political economy system in Japan is not static; it is undergoing a profound transformation since the burst of the bubble economy and Japan's entry into the "lost decade." Rosenbluth and Thies describe it as a "transformation from a corrupt, managed economy to an economy shaped by a more open and scrappier political process" (2010: 1). Dramatic changes are occurring across all the spheres of the system in the following ways: a new political structure based on the new electoral rules established in 1994 shapes not only the domestic political landscape, but also changes the way the politicians regulate the economy (McCreedy 2004); extensive reforms of the financial and business sector introduce new principles that make Japanese financial and business systems more open, flexible and market-oriented (Rosenbluth and Thies 2010); and far-reaching administrative reforms bring changes to the public sector and reorganize the structure of the major government agencies (Kaneko 1999). The "iron triangle" relationships are not the exception in this process; being heavily influenced by the economic and political processes occurring in Japan, the "iron triangle" phenomenon is also undergoing gradual transformation. Thus, comprehensive analysis of the nature of the "iron triangle" transformation allows it to arrive at a more thorough and detailed understanding of the metamorphosis of Japanese political economy.

In order to acquire deeper understanding of the changes occurring within the "iron triangle," this study will explore the particular case of the "iron

triangle" relationships in the postal industry and their transformation as a result of the postal reforms. A case study of the postal "iron triangle" and postal reforms appears to be appropriate given the importance and relevance of both issues for contemporary Japanese politics and economy. Profligacy and malfeasance of the "iron triangle" relationships in the postal industry creates serious problems for the whole Japanese economy by controlling the postal savings and FILP system and allowing for the emergence and development of "iron triangles" in other sectors and industries (the funds obtained from the postal savings are channeled to finance construction, health care, agriculture project, etc.), whereas the FILP reform and privatization of the postal service fundamentally change the flow of funds within Japan and thus significantly affect the interests of the actors of the "iron triangle" in the postal industry and the "iron triangles" in other sectors of the economy. The author believes that this study will not only be an important contribution to the academic literature and scholarly research on the "iron triangle" problem, but it will also gain important insights into the state of contemporary Japanese political economy and its transformation in the twenty-first century. The author also hopes that this study will contribute to the practical improvement of the "iron triangle" problem by revealing the underlying logic of the phenomenon, explaining how and why the "iron triangle" transforms as a result of current challenges and thus helps the state to evaluate the existing situation and to adopt the strategies in order to deal with the problem in a more effective way.

1.3. Research Purpose and Research Questions

Research Purpose:

The purpose of this study is to explore and explain the process of transformation of the "iron triangle" phenomenon in the Japanese political economy. This will be done using a case study of the "iron triangle" relationships in the postal industry and how they are changing due to the influence of the postal reforms.

Research Question:

What are the implications of Japan's postal reforms for the postal "iron triangle"?

Sub-Questions:

1) How does the reform of the FILP system affect the flow of money within the "iron triangle"?
2) What are the implications of the postal privatization for the postmasters and their relationships with the politicians?

3) What are the implications of the postal privatization for the ministerial bureaucracy (the Ministry of Internal Affairs and Communications), their connections to the politicians and FILP-affiliated public corporations?
4) What are the implications of the postal privatization for the politicians (the former ruling Liberal-Democratic Party and the current Democratic Party government of Japan)?

1.4. Literature Review

Japanese and Western scholars, while discussing and evaluating the postwar political economy system in Japan, were particularly interested in the analysis of the interlinks between the politicians, government bureaucrats and interest groups and referred to it as the "ruling triad" or the "iron triangle" (Johnson 1995; Woodall 1996; Calder 1990; Zhao 1995; Curtis 1988; Rothacher 2006; Colignon and Usui 2001; Mishima 2007; Nakano 1998; Pempel 1998; Witt 2006; Carpenter 2008; Rosenbluth and Thies 2010, etc). The "iron triangle" phenomenon was recognized as the most important element of Japan's postwar political economy system, which was referred to as "the 1955 system" or "Japan Inc." (Carpenter 2008: 69; Amyx and Drysdale 2003: 1). This system was characterized by the continuous conservative rule of the Liberal-Democratic Party which came to power in 1955 and dominated domestic politics until 1993; the powerful influence of the bureaucracy on the policymaking process; the close cooperative relationship between the government and business; and Japanese success in the global market during the high growth period of the 1960s–1970s (Amyx and Drysdale 2003: 1). Originally, this system of the patron-client relationship within the "iron triangle" power structure facilitated the high-speed economic growth and generated a stable economic environment by ensuring a smooth and efficient process of communication and close cooperation between the government and business. However, over time the "iron triangle" actors realized that this informal system could be manipulated to bring personal gains and profits to its participants. It became associated with the large-scale high-profile corruption in Japan (such as illegal political contributions), unreasonable government protection of inefficient and declining industries at the expense of taxpayers (like the public works sector), huge public debt which accumulated because of massive government spending on economically unnecessary development projects, and low transparency of the policymaking process (Reed 1996: 402; McCormack 2002: 11). The dysfunctional nature and profligacy of Japan Inc. became exposed particularly after the burst of the

bubble economy when Japan had entered into the "lost decade" of economic stagnation, and systematic political machinations, illegal contributions, pay-offs, bid-rigging and inflated contract prices were revealed in a number of big financial and political scandals which attracted public and media attention (Reed 1996: 400).

This increased attention towards the problem of the "iron triangle" generated active academic discussion and contributed to the formation and development of a new academic trend – a study of the "iron triangle" phenomenon. The "iron triangle" scholars assert that from the mid 1950s to the early 1990s Japan was governed by a coalition of bureaucrats in powerful ministries (like the Ministry of Trade and Industry and the Ministry of Finance), the LDP politicians and heads of major business corporations (Mosk 2008: 240). They view the "iron triangle" mechanism as a system of mutual costs and benefits: the business groups provide the LDP politicians with monetary contributions and campaign support, and in return enjoy the protection of their interests by politicians in the Diet; the bureaucrats are responsible for the formulation of relevant policies and smooth day-to-day administration of the business area and in return receive post-retirement positions in the relevant business sector; the politicians do not interfere in the bureaucratic affairs and cooperate closely with the bureaucrats to produce the policies that will help the politicians to get elected (Hagström 2000: 10–12; Kawabata 2004: 102). The "iron triangle" is seen as a complex structure with different elements, levels and patterns. The "iron triangle" comprises different "iron triangles" in different sectors of the economy (construction, postal service, health care, manufacturing, finance, agriculture, transport, etc), on different levels (local and national, higher and lower spheres of the system), and with different patterns (bid-rigging practices, transfer of postal savings to FILP, etc.) (Hagström 2000: 5).

The study of the "iron triangle" itself is not a monolithic academic field; it is divided into various schools and approaches that view the "iron triangle" relationships from different perspectives. The most common division is based on the criticism or defense of the Japanese political economy system and the "iron triangle" power structure as its essential feature (Hagström 2005: 69). *Revisionists* argue that the Japanese political economy, with the dominant role of the state and elite bureaucrats, is unique and fundamentally different from other countries; they criticize Japan Inc. for its dysfunctional nature and malfeasance (Johnson 1989). *Apologists* defend the system by arguing that it is not different from any other country of the world, or by saying that this system can be justified by deep cultural underpinnings (Curtis 1995; Vogel

1979). Another classification of the academic works on the "iron triangle" problem is based on the disagreement between scholars on the question of which of the "iron triangle" actors is more dominant and who actually governs Japan (Hagström 2005: 69; Mosk 2008: 240). *Elitists* believe that the Japanese state is and should be governed by the elite and there is one dominant actor of the "iron triangle" who enjoys most of the power (Johnson 1995). Some *elitists* argue that it is the bureaucracy that rules Japan, others believe that it is the politicians who are in charge of the system, and the rest emphasize the importance of the business community. *Pluralists,* in their turn, argue in favor of the polycentric character of the Japanese political economy; they believe that there is no single group in Japan that controls the whole system and that the power in Japan Inc. is distributed among different actors who are interlinked and interdependent on each other (Curtis 1995; Zhao 1995; Calder 1990).

Empirically, the studies of the "iron triangle" phenomenon in Japan tend to approach the problem in different ways. The analysis of the literature shows that some of the academic works explore the problem of the "iron triangle" in the context of the overall analysis of the Japanese postwar political economy and its transformation (Sakakibara 2003; Carpenter 2008; Rothacher 2006; Lincoln 2001, etc.). An extensive group of studies introduces the problem of the "iron triangle" with regards to political corruption in Japan (Reed 1996; Blechinger 2000; Rothacher 2005; Johnston 2008; Mitchell 1996; Nyblade and Reed 2008, etc.). Another considerably large set of studies analyzes the phenomenon of the "iron triangle" in the construction industry in connection with public works projects and bid-rigging practice (McCormack 2002; Kingston 2005; Black 2004; Woodall 1996; etc.). There is also a collection of studies that examines the problem of the "iron triangle" with the focus on bureaucracy, *amakudari* practice (Colignon and Usui 2001; Choi 2007; Bowen 2003; Kawabata 2004; Wright 1999).

As for the academic research on the "iron triangle" in the postal industry and postal privatization reforms, the majority of these works are focused on: 1) the economic aspect of the postal reforms (Cargill 2002; Doi and Hoshi 2003; Cargill and Yoshino 2003; Kaneko and Metoki 2008; Vollmer 2009; Okina 2003; Porges and Leong 2008); 2) the leadership of prime ministers Hashimoto and Koizumi and their reforms of the postal sector (Hiwatari 2005; Mishima 1998; Mishima 2006; Mishima 2007; Weeks 2006; Wakugawa 2005; Tsuda 2006; Moffett 2004; Nakano 1998; Kawabata 2004); and 3) the role of the bureaucracy and bureaucratic reforms (Kawabata 2004; Nakano 1998; Mishima 1998;). Surprisingly, only a small group of

studies conducted by Patricia Maclachlan has addressed the problem of the "iron triangle" in the postal industry with regards to the postal privatization issue. Her works explore the history of the Japanese postal service and the role of the postmasters in the political struggle (2004); the legislative battle over the privatization reform during Koizumi's premiership (2006); the anti-privatization movement after 2005 (2009); and Koizumi's achievements in legal and electoral processes through the postal privatization prism (2009). However, although these works reveal the current situation around the postal reforms and postal "iron triangle," none of them attempt to analyze and explain the process of transformation of the "iron triangle" relationships in the postal industry and in the Japanese political economy in general. Academic studies on the "iron triangle" lack the dynamic side of the problem – how this phenomenon evolves/devolves in the light of current events.

Theoretically, the studies of the "iron triangle" phenomenon in Japan tend to approach the problem in three main ways. The analysis of the literature shows that the majority of academic works analyze the "iron triangle" from a social network approach which argues that the "iron triangle" relationships are facilitated by the existence of extensive informal network relations in Japanese society that "function beyond their legal boundaries to channel resource exchange" (Choi 2007: 930; Schmidt 2004; Rothacher 2005; Usui and Colignon 2001; Reed 1996; Carpenter 2008). Networks are important because they serve as a mechanism for the exchange of knowledge and information in Japanese society, communication and interaction between its members, and the transfer of resources, such as money, authority, knowledge and information (Choi 2007: 932). However, in Japan these informal networks facilitate "patron-client relations" and "political clientelism" when "clients offer bribes and patrons provide services beyond their legal boundaries" (Choi 2007: 933). The social network approach is similar to another approach in the study of the "iron triangle" – a socio-cultural approach, which attempts to explain the phenomenon of the "iron triangle" based on the distinctive cultural nature of Japanese society and the unique mentality of Japanese people. The academic works that analyze the "iron triangle" problem from a socio-cultural perspective argue that: 1) it is the group mentality and the culture of consensus (the "*dango* spirit"[3]) that facilitate the collusion in Japanese society between the bureaucrats, politicians and big business (Black 2004; Reed 1996; Ikeya and Ishikawa 2001); 2) it is the long-standing custom of gift-giving that blurs the line between corruption

[3] The "*dango* spirit" refers to the Japanese practice of making decisions based only on group consensus among the group that meets secretly ("back room deals") (Black 2004: 606).

and gift-giving and facilitates the collusion in the form of the "iron triangle" (Mitchell 1996; Miller 2008; Reed 1996); 3) it is the extraordinary power and prestige of the bureaucracy in Japanese society that makes it possible for the emergence of the "iron triangle" (Black 2004; Reed 1996; Johnson 1995; Woodall 1996). Both the social network and socio-cultural approach show the factors that contributed to the emergence and development of the "iron triangle" phenomenon in Japan and thus are helpful to explain the origin of this problem. However, none of these approaches can explain how the "iron triangle" relationships change in the course of time (do they evolve or devolve, in what way and for what reason). Similarly to the lack of empirical studies on the problem of the transformation of the "iron triangle," there are also no theoretical explanations of the process of transformation available. A small group of studies that provide theoretical analysis of the "iron triangle" phenomenon, are not concerned, however, with its development and transformation. Given the lack of both empirical and theoretical analysis of the "iron triangle" transformation, the research on the transformation of the postal "iron triangle" due to the effects of the postal privatization reforms appears to be relevant and significant.

1.5. Methodology

1.5.1. Research Strategy (Qualitative) and Design (Case Study).

The study was conducted using a qualitative research strategy and a case study design. The qualitative nature of the research derives from the overall purpose of the study, which is to explore the phenomenon of the "iron triangle" and arrive at a thorough and comprehensive understanding of the process of transformation that the "iron triangle" undergoes in contemporary Japanese political economy. The case study design enabled the author to analyze the "iron triangle" relationships in the postal industry as a specific illustration of a wider and more general problem of the "iron triangle" present in other spheres of the Japanese economy and politics. As described in the previous sections, the choice of the given case was dictated by the importance and relevance of the postal issue for Japan, as well as by the lack of academic research on the investigated problem.

1.5.2. Methods of Selection

Literature Review (Academic and Journalistic Sources)

One of the most important sources of information on the investigated problem was academic and journalistic literature both of Japanese and foreign authors, which included academic articles in different journals, various academic and discussion papers, books and separate chapters of the books, newspaper and magazine articles, websites with articles of different institutions and organizations. The literature review was used as an ongoing component of the research process and as a guide that allowed the author to evaluate the original data collected from the primary sources by comparing it to the data deriving from the existing literature (Bryman 2008: 99). The literature review also helped to shape the research process by contributing to the formulation of the research problem and development of the analytical framework appropriate for this particular study (Bryman 2008: 95).

Analysis of Official Documents

Another source of information used in this study was a set of official documents:

1) Official documents from the state (reports from the government agencies and ministries, such as the White Paper of the Ministry of Internal Affairs and Communications, the FILP Report of the Ministry of Finance, The Basic Policy on the Postal Privatization, etc.);
2) Official documents from private sources (annual reports of the Japan Post's private companies).
3) Analysis of the official documents provided the research with valuable authentic information, which helped to fill in the gaps in the analysis that were left after the literature review (Bryman 2008: 522).

Personal Communication (Interviews)

The main research method used in the study was personal communication through interviews. Semi-structured interviews were used to obtain a detailed, in-depth description of the investigated problem (Kvale and Brinkmann 2009: 3). It allowed the author to gain insights into what the interviewee saw as important and relevant, to get plentiful and detailed answers with the description of the interviewee's point of view – the problem of the "iron triangle" through the prism of the worldview of the interviewees, their "fresh" look and critical evaluation of the situation (Bryman 2008: 437). Through the

semi-structured interviews the author also tried to obtain a description of the different aspects of the investigated problem, its nuances and specific features. In general, the semi-structured interviews enabled the author to build a flexible research process and to find interesting themes that they were unaware of before the interviews (Kvale and Brinkmann 2009: 28).

The interview questions were designed and included in the interview guide[4] (Bryman 2008: 438). However, the interview process was flexible and not limited only to the questions included in the interview guide. The questions were open-ended and varied for different respondents based on their specific area of knowledge and experience because "standardized questions do not bring standardized answers, for the same question means different things to different people" (Kvale and Brinkmann 2009: 134). The interviewees had a great deal of freedom to frame the conversation to their own understanding of the investigated problem and bring up issues, problems and topics they considered important at any time during the interview procedure (Bryamn 2008: 438). The interviews with the respondents also contained "second questions" which were not outlined in the interview guide and which permitted the author to enrich the research with details and nuances (Kvale and Brinkmann 2009: 139).

Three interviews were conducted via telephone from May 26 to July 1, 2010 with Japanese scholars, political scientists and experts on the Japanese political economy representing different research areas:

Nobuhiro Hiwatari – Professor of Political Economy at the Institute of Social Sciences of the University of Tokyo (Japan). Mr. Hiwatari specializes in political economy/international political economy of advanced industrial democracies (including Japan and Asia Pacific).

Ko Mishima – Assistant Professor of Political Science at East Stroudsburg University in Pennsylvania (U.S.). Apart from academic experience, Mr. Mishima has worked in the government service (Japan's National Personnel Authority – *Jinjiin)* and in the Organization for Economic Cooperation and Development (OECD) in Paris. Mr. Mishima specializes in Japanese bureaucratic politics, political leadership and party politics.

Koichi Nakano – Associate Professor of Political Sciences at Sophia University in Tokyo (Japan). Mr. Nakano specializes in contemporary Japanese politics with a particular attention to the relationship between the politicians and bureaucrats, comparative politics of advanced industrial democracies and the political dynamics of Japanese nationalism.

[4] See the interview guide and interview protocol for each of the interview participants in the Appendix.

The interview participants were chosen to provide the author with different perspectives on the investigated problem. However, the study was not able to incorporate the opinions of the "iron triangle" actors in the postal industry (politicians, bureaucrats and postmasters) because of the sensitivity of the investigated problem[5] and inappropriate timing[6].

Despite the problems described above, the interviewees selected for the study provided the author with the information necessary for obtaining a thorough understanding of the investigated problem. As respected members of the Japanese and international academia elite, the interviewees possess a sound knowledge of the researched problem and thus should be valued as reliable and valid sources of data. The investigated problem was not regarded as a sensitive issue by the interviewees, which enabled them to express their opinions freely and to share their critical thoughts without constraints. All the interviewees were approachable and enthusiastic to talk about the investigated problem, which also contributed to the positive dynamics of the interview procedure and to a better understanding of the researched problem.

1.5.3. Ethical Considerations

This research was conducted in compliance with the main ethical principles of the qualitative research (Bryman 2008: 118; Kvale and Brinkmann 2009: 70). The morality of the interview inquiry was given particular attention. Prior to the interviews, all the respondents were informed about the research topic, overall purpose and some broad aspects of the research project (Kvale and Brinkmann 2009: 71). Informed consent was obtained from all the participants and was recorded to certify they: 1) participated in the interview voluntarily; 2) had a right to withdraw from the interview at any time; 3) were free to refuse to answer any of the questions or bring up their own questions and concerns (Bryamn 2008: 123). The interview participants were also notified and gave their consent that the interview materials would be used only for academic purposes and would be published as a part of the author's master thesis at Lund University (Kvale and Brinkmann 2009: 71). The recording procedures were also designed in compliance with ethical principles: the participants agreed that the conversation would be recorded using a digital recording device, transcribed and disclosed in the thesis. Finally, with regards to the issue of confidentiality, the investigated problem was not regarded as a

[5] The gatekeeper, a government official from the Cabinet Secretariat, using his personal connections approached a number of suitable interview candidates, but all of them expressed concern about discussing an awkward and sensitive issue.

[6] The interview times were inconvenient for many targeted respondents because they coincided with a number of important political events in Japan in 2010 – the change of Prime Minister, elections in the Upper House, etc.

sensitive issue and did not impose any personal risk or harm to the respondents; all the interviewees agreed that their identifiable information would be disclosed (names and academic background information to be published in the author's master thesis). The interviewees' consent was recorded (Kvale and Brinkmann 2009: 72).

1.5.4. Validity and Reliability

Validity of the qualitative research refers to the degree that the study investigates what it was intended to investigate and the extent to which the research findings reflect the examined phenomenon (Kvale and Brinkmann 2009: 246). In order to increase the degree of validity of this research and to ensure that it has resulted in valid knowledge, the author used the triangulation strategy – using more than one source of data and methods (Bryman 2008: 379). The study relied not only on the findings from the interviews, but also on the results of the thorough analysis of the academic literature and official documents. The conclusions derived from both sources of data appeared to be mutually complementary and consistent, which contributes to the validity of the research.

Reliability of the qualitative research entails the trustworthiness and consistency of the research findings (Kvale and Brinkmann 2009: 245). Since it is the researcher who analyzes and interprets the collected data, the reliability of the research findings involves a great deal of the researcher's responsibility. In order to avoid the reliability errors in the research, the author sought advice about the investigated problem with the interviewees (since all of them are prominent scholars and experts in the given field, their opinions are trusted and respected as reliable).

1.5.5. Scope and Limitations of the Research

The complex and controversial nature of the "iron triangle" phenomenon requires a continuous and capacious research process with an extensive fieldwork in Japan which would allow for collecting original materials in Japanese through authorized access to the public libraries and government organizations' databases. This study was constrained mainly in terms of the data collection: due to the inability to conduct fieldwork in Japan the author had limited access to primary sources of data, such as official documents and academic literature. The majority of these materials were available only in Japanese and only through authorized access or paid services. Another limitation of the research applies to personal communication. As described earlier in the Personal Communication (Interviews) section, the author encountered some difficulties with obtaining interviews with the actors of the

postal "iron triangle" because of the sensitivity of the investigated problem and inconvenient timing.

With regards to the scope of the research, this study was designed as a qualitative inquiry which does not attempt to build strong definite causal links and quantify the effects of the postal privatization on the postal "iron triangle." It undertook a comprehensive qualitative analysis with the purpose of gaining deeper understanding of the "iron triangle" phenomenon and its transformation. For this reason, the study does not focus on the postal privatization reforms and does not look into the postal issue from an economic perspective; it uses the postal privatization reforms to show the political struggle and power relations behind the economic process and how it changes the nature of the "iron triangle" phenomenon.

1.6. Disposition

The research is structured as follows:

Chapter 1 defines the problem area and poses research questions, as well as explains and justifies the chosen methodology.

Chapter 2 provides an overview of the postal savings and FILP system, explains the nature of the "iron triangle" relationships in the postal industry and outlines the postal privatization process.

Chapter 3 analyzes the implications of the postal privatization reforms for the postal "iron triangle" relationships.

Chapter 4 summarizes the main findings of the empirical analysis presented in the previous chapter.

Chapter 5 provides theoretical discussion of the investigated problem and theoretical explanation of the empirical findings.

Chapter 6 draws a conclusion based on the empirical and theoretical findings.

2. The Nature of the postal "Iron Triangle" and the postal privatization

2.1. The Japanese Postal Sector Prior to the Privatization

The modern Japanese postal service was established by the Meiji government in 1871. In 1875 the government started to provide postal savings services and in 1916 a postal insurance service (Kaneko and Metoki 2008: 235). Traditionally, the Japanese post office provided three types of services: mail

delivery, postal savings and postal insurance. Post offices in Japan were divided into three categories. The smallest category consisted of general post offices (*futsuu yuubinkyoku* – 普通郵便局) which provided all three types of postal services. The bigger category included simple post offices (*kan'i yuubinkyoku* – 簡易郵便局) which were designed as small postal windows (*madoguchi*), located in convenience stores, supermarkets and other shopping areas and provided basic postal services, such as the sale of stamps and postcards. The biggest category comprised special post offices (*tokutei yuubinkyoku* – 特定郵便局) run by the postmasters. Special post offices, in turn, were divided into the offices that perform home-delivery services (mail collection) and those that did not. Both types offered a full range of postal services, including postal savings and postal insurance (Maclachlan 2004: 284). In total, in the 2003 fiscal year there were 24,715 post offices in Japan (Ministry of Internal Affairs and Communications 2004: 46).

2.2. Postal Savings and FILP System

The Japanese postal savings system operated by the postal banks is the largest postal savings system in the world in terms of assets (Leong and Porges 2005: 1). Compared to private banks, the state-run postal bank enjoyed much higher popularity with Japanese citizens because, unlike private banks, the postal network expanded into the remote rural areas and its "branches were convenient, the staff oriented to serving individual customers, and accounts inexpensive and insured" (Noble 2006: 109). The postal bank also offered higher interest rates[7] than the private banks because the postal bank "was not required to pay for deposit insurance, hold reserves against deposits, maintain a capital requirement, or pay income taxes" (Cargill and Yoshino 2003: 76). The private banks, in turn, were viewed by Japanese citizens as inefficient, with lower interest rates and higher service charges. The common belief was also that private banks were less trustworthy and more susceptible to financial shocks and crises than the postal bank (Kaneko and Metoki 2008: 243). For this reason, the amount of postal savings deposits in Japan was exceptionally high and the postal savings system was enormous[8].

[7] The most popular postal savings product (*teigaku yokin*) offered deposits with a fixed interest rate for 10 years and allowed customers to withdraw funds without any penalties after six months (Noble 2006: 109).

[8] Thus, Universal Postal Union estimated that almost every Japanese citizen had a personal postal account; there are 118 million holders of postal savings accounts among 127 million people of the total population (Imai 2009: 139). In 1999, postal banks deposited 260 trillion yen, which was equal to $ 2.4 trillion and accounted for 37% of the total household deposit holdings – more than half of Japan's GDP (Imai 2009: 139).

Postal savings collected from Japanese citizens were compulsorily deposited in the Trust Fund Bureau of the Ministry of Finance (MOF). Then, through the Fiscal Investment and Loan Program (FILP)[9] these funds were further invested in government bonds (JGBs – 7%) or channeled to FILP-affiliated institutions in the form of loans[10] (93%): government-owned financial institutions (like the Development Bank of Japan) and public corporations (like the Japan Highway Corporation). Financial institutions lent FILP funds to the private sector to support business, and public corporations invested FILP funds in development projects, such as social infrastructure development – road and airport construction, etc. (Kaneko and Metoki 2008: 236). The FILP system was administered by the MOF, which also had the authority to define deposit interest rates to the Trust Fund. The FILP budget was separated from the General Account Budget and was often referred to as the "second budget." The FILP budget was not subject to legislation approval or to debate. FILP funds were allocated during a consultation process and by agreement between the MOF officials and the LDP politicians (Amyx, Takenaka and Toyoda 2005: 27).

Originally, FILP was established in 1951 by the Trust Fund Law to provide money for the national development projects in targeted policy areas, such as construction, machinery, shipbuilding, etc. However, over time the "iron triangle" actors realized that the FILP system could be easily manipulated and used to their own advantage. State ownership of the postal savings system, its enormous size in terms of assets and low transparency of the decision-making process in the allocation of the FILP funds led to the situation in which the system became corrupted and susceptible to pork-barrel politics. Postal savings started to be channeled into expensive and economically unnecessary development projects, bringing the politicians electoral support and votes from the local residents and gaining the bureaucrats lucrative post-retirement positions in the public corporations[11] (Kawabata 2004: 109; Noble 2006: 109).

2.3. Politicians-Postmasters Nexus

As mentioned above, Japanese postal savings and the FILP system has been widely criticized for serving the interests of the "iron triangle." Particularly,

[9] See Figure 1 in the Appendix.
[10] Government loans are used in other countries as well, but what distinguishes Japanese FILP from other countries is its size. In March 2001 (the end of the fiscal year 2000), FILP accumulated 418 trillion yen, which accounted for more than 80% of the country's GDP (Doi and Hoshi 2003: 37).
[11] For the visual representation of the "iron triangle" mechanism in the postal industry see Figure 2 in the Appendix.

academic literature focuses on the alliance of the LDP politicians and the postmasters (Calder 1990; Amyx, Takenaka and Toyoda 2005; Maclachlan 2004; Noble 2005; Kawabata 2008). According to the National Public Service Law 1948, special postmasters have the status of public servants and are prohibited from participating in any form of political activities (Maclachlan 2006: 3). Despite such restrictions, the postmasters managed to establish close relations with the politicians by participating in local politics as private individuals. The main aspect of this relationship – gathering votes for the politicians – derived from the postmasters' distinctive position in the local community and their personal authority (Maclachlan 2004: 282). Historically, this distinctive position was based on their high social status as "men of distinction" (*meibouka* - 名望家) – the postmasters were appointed ("commissioned") to their positions from the local nobles. With the dissolution of the system of social hierarchy in the twentieth century, however, the postmasters had to "earn" this position by personal contribution to the well being of the local community. One of the ways to do so, for example, was participation in voluntary activities, such as providing social services for the elderly (at-home mail and insurance delivery, savings collection, shopping needs) (Maclachlan 2004: 305). By doing so, the postmasters gained trust and respect from the local residents, and the latter often sought the postmasters' competent opinion on different matters, including political issues. Thus, "opinion leaders" were able to shape the local residents' political views and influence their voting decisions during elections (Maclachlan 2004: 308).

The postmasters could also influence the voting decisions of local residents through participation in *chounaikai* (町内会) – neighborhood associations (NHAs)[12]. The postmasters participated in NHAs as private citizens due to the political overtone of these organizations and were still able to use their personal authority to influence the voting decisions of NHAs' members (Maclachlan 2004: 307). Another controversial issue surrounding the postmasters' political activity was their participation in *koenkai* (後援会) – personal support groups of the LDP politicians which organize electoral activities in local residence areas[13]. Similarly to the neighborhood associations,

[12] Neighborhood associations (NHAs) – Japan's most widespread civil society groups which assist the local government in the process of information gathering and maintaining some public facilities (for example, maintaining the local park). The local government pays the NHAs for the public services they provide, but these services are cheap because they are organized not to gain profit but to strengthen the ties within local community and to maintain its well being (Pekkanen 2003: 130).

[13] Personal support groups in Japan served as the LDP political machines by gathering votes for a particular candidate. For this reason, the victory in local elections was mainly determined not by the competition and quality of the political campaign, but the intensity of personal connections to the

the postmasters could participate in *koenkai* only as private citizens. Again, with their distinctive position in the local community, the postmasters could encourage the locals to participate in *koenkai* activities and support a certain LDP candidate (Maclachlan 2004: 307).

In exchange for their electoral support, the postmasters enjoyed the representation of their interests in the Diet through a well-known system of *zoku*. "Postal tribe" (*yuuseizoku* – 郵政族) unites pro-postmaster LDP politicians who promote post-related policies, advantageous to the postmasters and other members of the "postal tribe" by pushing these policies in the Diet and negotiating with the bureaucrats on postal matters (Maclachlan 2004: 299). The existence of the *zoku* system and the "postal tribe" helped the postmasters to maintain their political power and protected the postmasters' interests from any threats (Maclachlan 2004: 298). For their electoral support the postmasters were also rewarded with financial assistance in organizing *koenkai* activities, as well as private occasions, such as marriages, funerals, local festivals, etc. Postmasters and their family members received private gifts and monetary presents from the local politicians, as well as assistance on different bureaucratic matters, such as entering a prestigious university or dealing with the tax office (Maclachlan 2004; Kawabata 2008).

2.4. Bureaucracy-Politicians Alliance

The central aspect of the LDP politicians-bureaucracy relationship was the *zoku*-system (Choi 2007; Rothacher 2006; Schmidt 2004; Kawabata 2008; Nakano 1998). *Zoku* refers to a group of politicians with "a considerable amount of influence in a particular area of government policy and enough seniority in the party to have influence on a continuing basis within the ministry responsible for that policy area" (Curtis 1988: 114). In other words, *zoku*-politicians possess expertise and knowledge in a particular policymaking area, such as the post service, health and welfare, construction, finance, agriculture, transport, etc. (Rothacher 2006: 405). If government policy contradicted the interests of the lobbying group *zoku*-politicians represented, they would try to influence the process of policymaking in order to change the policy in accordance with their constituency's preferences[14] (Choi 2007: 935).

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local voters. In exchange for their electoral support, *koenkai* members received financial assistance during weddings and funerals, gifts and monetary presents (Blechinger 2000: 3).

[14] It could be done within the LDP's Policy Research Affairs Council (PARC) – a special committee where *zoku*-politicians, who represent certain interest groups and "tribes" within the LDP, meet to formulate policies. The proposed legislation must be agreed on and approved by the PARC before a bill passes to the Diet. (Schmidt 2004: 79).

Zoku-politicians specializing on postal matters were organized into "postal tribes" within the LDP and had close connections with the Ministry of Posts and Telecommunications (MPT) [15]. The "postal tribe" was considered the second largest and the most powerful *zoku*-group in the Japanese Diet after the "construction tribe" (Calder 1990: 48). By promoting relevant policies in the Diet, postal *zoku*-politicians controlled the allocation of the FILP funds and used the public funds to finance their electoral campaigns. As some scholars put it, relying on the *zoku*-system means that "the institution of policy-based financing became integrated into the LDP's political machinery and became a device wielded to satisfy the party's particularistic electoral strategies" (Amyx, Takenaka and Toyoda 2005: 28).

The bureaucrats in the postal "iron triangle" were responsible for ensuring efficient management and supervision, which included the day-to-day operation of the postal activities, formulation of the FILP budget plans, securing the FILP budget allocation, and formulation of legislative bills which favor the postal "iron triangle" (Kawabata 2008: 102). Within the range of their activities, the MPT officials had access to exclusive information and used it to protect and expand privileges for the postal business. In exchange for control over the flow of FILP funds to government-affiliated corporations, the bureaucrats demanded that *zoku*-politicians influence policymaking decisions in the Diet and adopt legislation beneficial for the MPT (Kawabata 2008: 109).

2.5. Bureaucracy and Business Connections (via Postmasters)

In the relationships between the bureaucrats and business circles (FILP-affiliated public corporations), the postmasters served as an intermediary and were responsible for "collecting" post savings: using their personal authority in the local community they convinced the locals to save money in the postal bank. By doing so, the postmasters ensured the flow of money to the public corporations. The MPT bureaucrats, in their turn, controlled the operation of the postal services, had a direct jurisdiction over postal savings funds and could determine its interest rates. The MPT controlled the whole process of channeling the postal savings to the MOF's Trust Fund to finance development projects run by FILP agencies (Kawabata 2004: 27; Calder 1990: 32). As one scholar has pointed out, MPT used FILP as a "marvelously

[15] The Ministry of Posts and Telecommunications (MPT) was reorganized into the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT) in 2001, which in its turn was reorganized into the Ministry of Internal Affairs and Communications (MIC) in 2004. In the mid 1990s MPT was one of the biggest ministries in Japan with 306,729 employees in total, out of which 304,138 worked in postal services (Nakano 1998: 98).

flexible instrument for implementing a wide variety of policies at low cost and with minimal controversy and oversight" (Noble 2006: 109).

In return, the bureaucrats enjoyed lucrative post-retirement positions in FILP-affiliated public corporations, through a well-known system of *amakudari*, or "descending from heaven"[16] (Amyx, Takenaka and Toyoda 2005; Maclachlan 2004; Cargill 2002; Kawabata 2004: 26; Noble 2006: 108). Originally, *amakudari* was used by ministerial bureaucrats to increase the effectiveness of administrative guidance over the private and public sectors that sought bureaucrats' expertise, knowledge and exclusive access to information (Johnson 1995: 146–151; Calder 1989: 379). However, many scholars argue that *amakudari* practice became an important institutional mechanism for the Japanese "iron triangle" and facilitated administrative and political corruption (Colignon and Usui 2001: 866; Kawabata 2008: 102; Choi 2007: 933; Black 2004: 607).

The provision of retired MPT bureaucrats with executive and board positions has become a raison d'être for most FILP-sponsored post-related public corporations. As one scholar put it, FILP agencies rely "heavily, or virtually exclusively" on *amakudari* bureaucrats (Noble 2006: 121). Research on *amakudari* practice within the MPT bureaucracy carried out by Koichi Nakano in 1998 showed that postal organizations financed by FILP were extensively used by the ministerial bureaucrats as post-retirement landing spots. The majority of *amakudari* posts were provided by the Post Office Life Insurance Welfare Corporation and the Postal Savings Promotion Association, as well as the National Congress of Special Postmasters Associations and the Postal Workers Welfare Association (Nakano 1998: 112).

2.6. Postal Privatization: Hashimoto's Initiative

Ryutaro Hashimoto became Japan's Prime Minster in 1996 and placed administrative reform (*gyousei kaikaku* - 行政改革) at the top of his political agenda (Mishima 1998: 968). In the autumn of 1996 Hashimoto launched the Administrative Reform Council (ARC)[17] to facilitate discussion on

[16] The term *amakudari* originated in the prewar era when government officials and bureaucrats were seen as the servants of the emperor, who was considered the "god and embodiment of the Japanese nation," and thus performed "sacred work for the god and the nation." After retirement, bureaucrats "descended from heaven" and worked for their personal material interest (Colignon and Usui 2001: 866).

[17] The Administrative Reform Council (ARC) was established as a policy deliberation group to produce a plan of administrative reforms. The council included 12 non-government members (three businessmen, one from the labor union, six from academia, and two from the mass media) and was headed by Hashimoto (Mishima 1998: 970).

administrative reorganization. One of the aspects of Hashimoto's administrative reforms was reorganizing and reshuffling the central government, and the Ministry of Posts and Telecommunications was one of the government agencies subject to this restructuring. The ARC introduced a plan for the MPT to be divided into three agencies and a proposal for the postal privatization, which was incorporated in the 1997 Interim Report[18] (Amyx, Takenaka and Toyoda 2005: 34). In response, the MPT mobilized a powerful "postal family" within the LDP Diet clique to oppose the postal privatization and called for the special postmasters and labor unions to speak out against the government's initiative. The anti-privatization movement was enormous. Within two weeks, the ARC received 20,000 letters from alleged Japanese "citizens" (led by lobbying groups) who expressed their disagreement with the postal reforms. The heated debate on the postal issue flared up in the telecommunications section of the ARC, which gathered 120 LDP members of the Diet (Mishima 1998: 977). The MPT, supported by the LDP "postal tribe," suggested merging the MPT with other ministries but leaving its authority over telecommunications and postal services untouched, to avoid post office privatization in Japan (Kawabata 2008: 115). Facing strong opposition, the ARC lost its control over the process of policymaking, and Hashimoto had to make a number of compromises in order to maintain his leadership.

In November 1997 the ARC presented the Final Report in Administrative Reform which confirmed the "anti-reform" LDP members' suggestion for administrative reorganization, including the MPT's restructuring: its amalgamation with the Ministry of Home Affairs and the Management and Coordination Agency into the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT). Instead of the postal privatization, the report proposed the reorganization of the Postal Service Agency under the supervision of the MPHPT into a public corporation "Japan Post" in 2003. The report also contained a proposition for the reform of the FILP system, which would lessen the requirement for postal savings to be invested in government bonds. Adjusting the postal system to the market principles, the new legislation abolished the direct link between postal savings and the FILP system (Amyx, Takenaka and Toyoda 2005: 35). Following the report's statements, the Basic Law for the Reform of Ministries and Agencies

[18] The ARC Interim Report suggested strengthening the Prime Minister's policymaking capability by reinforcing the functions and expanding the authority of the Cabinet Office over the policymaking and increasing the number of political appointees to ministries; it proposed to decrease the number of government agencies and ministries by merging them (from 23 to 12 ministerial-level organizations); and it also included the privatization of government agencies and deregulation measures (Kawabata 2008: 114).

was submitted in February and enacted in June 1998. The bills on the reorganization of ministries and government agencies were passed by the House of Representatives in June 1998 and the House of Council in July 1998 (Kaneko 1999: 5). According with the new legislation, the MPHPT was established on January 1, 2001 with the Postal Service Agency under its supervision.

2.7. Postal Privatization: Koizumi's Success

Junichiro Koizumi became Japanese Prime Minister on April 1, 2001. Privatization of the postal service as a part of structural reforms embarked on by the new government became a central issue in the domestic policy agenda and a symbol of Koizumi's premiership (Hiwatari 2005: 24). As he declared, "Administrative and financial reform without postal privatization would be like trying to swim with one's hands and feet tied" (Koizumi 1999: 2). Koizumi recognized the postal system as a symbol of Japanese postwar malaise, with powerful vested interests within the LDP uniting the "postal family," political, bureaucratic and administrative corruption, and the government's inefficient allocation of public funds, etc. (Machlachlan 2006: 310). Under another political slogan "*structured reform with no sacred crows*," Koizumi undertook the postal privatization reforms to break the "iron triangle" system and increase the efficiency of the postal sector.

Koizumi's first step towards the postal reform was the submission of a package of four bills to the Diet. The package proposed the establishment of Japan Post as a public corporation under the supervision of the Ministry of Internal Affairs and Communications (MIC) from April 1, 2001. Postal savings no longer needed to be transferred to the MOF's Trust Fund Bureau; they were to be invested in the government's bonds (JGBs) or bonds issued by the FILP on capital markets. The package also authorized limited market competition for the private mail delivery sector. After a heated debate, the package was enacted in July 2002 (Porges and Leong 2006: 388; Cohen 2006: 30).

The next step undertaken by the Council on Economic and Fiscal Policy[19] (CEFP) was to prepare and issue the Interim Report in April 2004, which was the basis for future postal privatization legislation. At the same time, Koizumi shuffled his Cabinet and appointed reform-minded ministers in order to avoid pressure from the postal lobby (Maclachlan 2004: 12). The CEFP report was

[19] The Council on Economic and Fiscal Policy (CEFP) is a ministerial-level council attached to the Cabinet, and included 11 members and was chaired by Koizumi himself: five from key Cabinet members and five private sector members (Porges and Leong 2006: 388).

a serious blow for the postal *zoku*-politicians who represented the anti-privatization movement[20]. It proposed the division of Japan Post into four separate joint-stock companies in 2007 (post insurance, post savings, mail delivery and postal network operations), subject to the supervision of the government holding company, which was supposed to transfer its supervision gradually to the private sector through selling shares by 2017 (CEFP 2004: 6). Facing fierce confrontation from his own party members, Koizumi submitted the legislation bills to the Diet in 2002 without prior discussion and party approval within the Policy Affairs Research Council (PARC)[21]. In September 2004 the Cabinet adopted a Basic Policy on Privatization of Japan Post. However, the legislation battle continued until 2005 and many asserted that the legislation was doomed to failure without the LDP's support (Porges and Leong 2006: 388). Koizumi threatened to dissolve the House of Representatives because the defeat of the bills in both Diet chambers would be "a vote of no confidence" (Hiwatari 2005: 32).

In April 2005 the Cabinet submitted six legislative bills to the Diet. After a long, heated discussion the House of Council finally passed the controversial bill on July 5, 2005. However, on August 9 the Lower House defeated the bills by 125 to 108 votes, with 30 Diet members refusing to vote (Machlachlan 2004: 13). As promised, Koizumi responded to the failure by dissolving the Lower House of the Diet and urging the public to make a decision on postal privatization through a public referendum and by voting in general elections on September 11. Koizumi blocked the endorsement of the LDP Diet members who opposed privatization and replaced old LDP "rebels" with new "assassin" candidates. The battle over the postal privatization was concluded in September when the Lower House elections brought an unexpected landslide victory to the LDP – 296 out of 480 seats. During two weeks in October 2005, a package of six postal privatization bills was passed by both chambers of the Diet (Maclachlan 2004: 13).

2.8. The Japanese Postal Service after the Privatization

In accordance with the new legislation, Japan Post was privatized and became Japan Post Group on October 1, 2007. Japan Post Group comprises four

[20] The anti-privatization movement included the LDP's postal *zoku*-politicians, opposition parties, postal workers' unions, special postmasters and the MPT bureaucrats. The postmasters wanted to keep their positions and avoid the lay-offs; the bureaucrats wanted to secure post-retirement positions in public corporations; and the politicians wanted to keep the postal service as a state-run industry in order to maintain the flow of money though FILP to the public corporations (Maclachlan 2009: 3).

[21] According to the LDP policymaking rules, legislative bills should go through a preliminary preview in relevant committees within the PARC before their submission to the Diet so that politicians are able to deliberate and amend them before the bills are given to the Cabinet (Maclachlan 2009: 3).

companies under one holding company, Japan Post Holdings: 1) Japan Post Service; 2) Japan Post Network; 3) Japan Post Bank; and 4) Japan Post Insurance (Japan Post Group 2009: 2). The legislation established that during the "transition period" from October 1, 2007 to March 31, 2017 the government's share in the stakes of the holding company would be reduced from 100% to 33%; Japan Post Bank and Japan Post Insurance would be completely privatized and the government's share in their stakes would be reduced to zero. During the "full privatization" period from April 2017, the government's share in stakes of the Postal Service Corporation and the Post Office Corporation would also be reduced to zero, which would complete the privatization of all four postal companies (Cohen 2006: 2).

Currently, according to the 2009 Annual Report of Japan Post Group, Japan Post network covers 1,800 Japanese cities, towns and villages and numbers 24,176 post offices in service, with 20,246 directly operated post offices and 3,939 contracted post offices[22]. The overall financial performance of Japan Post appears to be solid with net ordinary income at ¥830.5 billion and net income after tax at ¥422.7 billion (Japan Post 2009: 8). The number of employees in Japan Post Group is estimated at: 3,332 (Japan Post Holdings); 112,726 (Japan Post Network); 95,631 (Japan Post Service); 11,675 (Japan Post Bank) and 5,770 (Japan Post Insurance) (Japan Post Group 2009: 98).

3. Empirical Analysis: Japan's Postal reforms and Implications for the "Iron Triangle"

3.1. Reform of the FILP System: Cutting Off the "Iron Triangle" Money Flow

The reform of the FILP system, like the postal privatization reform, was also introduced by Prime Minister Hashimoto in 1996 as a part of the financial reforms aimed at financial liberalization and deregulation. The FILP reform was overseen by the Fund Operation Council, which was established within the MOF to deliberate on the reform progress and was comprised of financial experts. In February 1997 the Council established an informal subcommittee to assist on the FILP matter, which in July 1997 issued the report that was included in the Final Report of the Administrative Reform Council in December 1997. The report proposed to cut the link between the postal

[22] 363 post offices are regarded as out of service (354 contracted post offices and nine directly managed post offices) as of March 31, 2009 (Japan Post Group 2009: 113).

savings and FILP by forcing FILP-affiliated agencies to issue their own bonds into the financial market. The reform was enacted in June 1998 and came into force in 2002 (Kaneko and Metoki 2008: 240; Noble 2006: 112).

FILP reforms were undertaken to make the FILP operation more efficient and consistent with market principles (FILP Report 2009). The main changes of the FILP system affected fund raising and fund operations, weakening the links between postal savings and the FILP, and separating their budgets[23]. Postal savings were no longer to be deposited to the Trust Fund (it was replaced by the Fiscal Loan Fund) and were to be directly invested into the financial market (mainly in Japanese government bonds). To finance their projects, FILP agencies were supposed to issue their own obligations without government guarantees. If it was not enough, the government could provide the agencies with the funds raised through government bonds. However, this opportunity was restricted only to the most important projects, vital for the Japanese economy. The agencies could also raise funds through the issuance of FILP bonds by the Fiscal Loan Fund (Kaneko and Metoki 2008: 240).

Three years after the official start of the new FILP program, the FILP subcommittee issued a report evaluating the effect of the FILP reforms, which revealed "remarkable progress" in the reform process. In general, after peaking in 1996 the FILP had declined by more than 58% by 2005. The allocation of FILP funds to the public corporations declined by 62% from 1995 to 2005. The FILP reform forced the majority of the FILP agencies to cut payments, reduce workforce and increase the number of new employees with specialized skills (Noble 2006: 115). Because FILP agencies are required to issue their own bonds, the share of funds raised by bond issuance increased from 5.7% in 2001 to 33.2% in 2006. The share of investments and loans based on the FILP system decreased from 37.5 trillion yen in 2000 to 15 trillion yen in 2006 (Kaneko and Metoki 2008: 241).

It is widely recognized that the reforms of the FILP system changed the role of the Japanese government's financial intermediation and, thus, had important implications for the flow of money within the "iron triangle" (Cargill and Yoshino 2003: 2). The FILP reform exposed public corporations to market monitoring by obliging them to raise funds directly from the financial market, and not from the postal savings funds (Doi and Hoshi 2003: 60). It disturbed the "iron triangle" system of channeling postal savings through the FILP to the local development projects – "automatic money supply" for pork-barrel politics (Sakai 2008). Thus, it made the Japanese financial system less susceptible to the "iron triangle" machinations. As

[23] See Figure 3 in the Appendix

pointed out by Nobuhiro Hiwatari in my interview with him, fiscal reconstruction and financial deregulation reforms, like the FILP reform, as well as the government's efforts to balance the budget, contributed to the weakening of the "iron triangle" system (Pers. Comm. Hiwatari 2010). Koichi Nakano, in turn, noted that the FILP reform and the postal privatization altogether affect the "iron triangle" system by "dealing a blow directly to the postal service 'iron triangle,' and also by dealing a blow to other 'iron triangles' by stopping the flow of the public money into inefficient projects" (Pers. Comm. Nakano 2010).

The FILP reforms also contributed to the weakening of the "iron triangle" relationships by enhancing the transparency of the decision-making process over the allocation of the FILP funds (Doi and Hoshi 2003: 59). Firstly, according to the FILP reform, the government had to calculate the policy cost[24] for each FILP-agency since 1999 and make the result available for the general public by publishing it officially. Secondly, based on the recommendation of the MOF's Fiscal System Council, special purpose companies in Japan (most of which were FILP agencies) were obliged since June 2001 to disclose their administrative cost statements by publishing relevant information (balance sheets and income statements) starting from the fiscal year 2000 (Doi and Hoshi 2003: 59). As argued by some scholars, the FILP should be viewed as more than a government program; it is a decision-making process about the formulation of the national budget (Cargill and Yoshino 2003: 9). For this reason, the disclosure of the financial information of the FILP agencies enhances the transparency of this decision-making process and makes it more difficult for the "iron triangle" to interfere in this process and use the public funds for private purposes. The disclosure of the financial information also allows ordinary Japanese citizens to monitor the allocation of the FILP funds and the utilization of the taxes by the government.

In order to enhance the transparency of the FILP system, the reforms also introduced a compulsory on-site monitoring of FILP-agencies and local governments. "In order to thoroughly verify financial soundness and necessity of FILP projects, there is a need for on-site confirmation, in addition to annual assessment of a FILP plan" (Fiscal System Council 2004). The on-site monitoring of FILP-agencies checks 1) whether the project is worth financing through FILP; 2) whether the funds are utilized properly, 3) whether the project is financially sound and subject to redemption, and so forth (FILP

[24] Policy cost is the value of the net transfers from the government to an agency, which shows the cost for the government (e.g. taxpayers, Japanese citizens) to maintain the operation of the FILP agencies (Doi and Hoshi 2003: 59).

Report 2009). These procedures seem to have important implications for the "iron triangle" because they make it more difficult for the local governments and FILP-agencies to utilize FILP funds for unnecessary and inefficient local development projects, financially unsustainable and potentially insolvent ventures, etc.

3.2. Depoliticization of the Postal Business: Postmasters' Declining Political Influence

The postmasters' political power has been gradually declining since the late 1980s. With the decline of the rural population, the rise of floating voters[25] among increasing urban populations and changes in the electoral system introduced by the political reforms in 1994, it became more difficult for the postmasters to mobilize voters in the rural areas than previously (Maclachlan 2009: 170). Thus, in my interview with Ko Mishima, he noted that the postmasters are losing their ability to gather votes because of the changing structure of Japanese society, which includes increasing urban populations and the declining power of rural communities based on personal networks. He also emphasized the importance of unaffiliated voters for Japanese politics and noted that if the tendency of unaffiliated voters versus postmasters continues, it might considerably weaken the political status of the postmasters in the future (Pers. Comm. Mishima 2010). In my interview with Nobuhiro Hiwatari, he remarked that although the old system of mobilizing votes by the postmasters for the LDP "has not really been totally renovated and still thrives…and a lot of district politicians are still counting on that…, the electoral power of the postmasters to mobilize votes has been quite exaggerated" (Pers. Comm. Hiwatari 2010). Mr. Hiwatari also mentioned that the majority of the Japanese electorate are becoming independent voters, which places a limit on the extent to which the postmasters can mobilize votes, especially in urban areas (Hiwatari May 2010).

The situation described above has particularly serious implications for the postmasters with regards to the postal privatization process that started in October 2007. The postmasters recognized the privatization movement as a threat to their employment status and political power because postal privatization would signify increased market competition which, in turn, would lead to the closure of many post offices in rural areas and would likely

[25] The term "floating voters" (unaffiliated, unorganized, independent) refers to voters with a lack of strong connection to a certain party (Krauss and Pekkanen 2010: 10). These voters vote for a certain party based on their own analysis of the media reports, the party's leadership and political platform, rather than from their strong long-term identification with the party through social connections and network mechanisms (Krauss and Pekkanen 2010: 10).

leave many postmasters without jobs (Maclachlan 2009: 10). Under the private ownership of the postal service, the postmasters would also lose their status as public employees (civil servants) and would be deprived of their wage premiums (Imai 2009: 143). In my interviews with Ko Mishima and Nobuhiro Hiwatari, both scholars referred to the postmasters as the major losers of postal privatization (Pers. Comm. Mishima 2010; Pers. Comm. Hiwatari 2010). Indeed, according to the Japan Post Annual Report, prior to the postal privatization process, in 2006 there were in total 24,574 post offices in Japan (1,294 ordinary post offices and 18,924 special post offices, and 4,356 postal agencies) (Japan Post Annual Report 2007: 101). After only one year of the operation of the privatized Japan Post, the number of post offices in service had decreased to 20,093 with 447 post offices out of service or temporarily closed (Japan Post Annual Report 2008: 150). As the major losers in the postal privatization reforms, suffering from numerous lay-offs and decreases in salaries, the postmasters started to lose the incentive to maintain close relationships with the LDP politicians. The postmasters began to view the LDP politicians as traitors who had betrayed their major political allies and they became less motivated to provide electoral support to the LDP politicians. As stated by Koichi Nakano in my interview with him, the postmasters became "upset" with the LDP politicians (Pers. Comm. Nakano 2010).

Due to the shrinkage of the postal network in rural areas, the new postal service was criticized for losing its reputation as the "community-oriented institution" with important social functions[26] carried out by the postmasters (Maclachlan 2009: 11). After the privatization of the postal service, the Universal Service Obligation was abolished; the postal insurance, postal savings and mail delivery services were separated and outsourced to different private companies (Kaneko and Metoki 2008: 245). Postal workers started to provide services only associated with the company they worked for, which made it difficult to provide any social services. For example, mail delivery workers could deliver only mail and could not collect postal savings from the elderly when visiting them at their homes, etc. (Maclachlan 2009: 11). As a result, the postal service started to lose its status of an "informal system of social welfare" and started to receive many complaints from customers in rural areas (Pers. Comm. Mishima 2010). Of course, such unequal distribution of the postal service in rural areas and inconvenience for the customers is certainly a negative side effect of the postal privatization. However, this

[26] Among such social services there were *himawari* services, such as delivering groceries and medicine, as well as post insurance and postal savings, straight to the homes of the local elderly and people with disabilities (Maclachlan 2009: 11).

problem can be looked at from a different angle. The growing dissatisfaction of the rural residents with the lack of informal social services provided by the postmasters in the new privatized postal system accelerated the decline of the postmasters' popularity. As a result, the informal link between the postmasters and the local residents weakened, as did the postmasters' ability to influence the political decisions of the locals and gather votes for the political party. If this tendency continues, it will gradually lead to the depoliticization of the postal industry, which will become more professional and less susceptible to political entanglements. In other words, with the postal privatization reforms the postmasters began to lose their political power and started to provide the LDP politicians with less information about the local community (its structure, needs, demands, political views, etc.), which made it more difficult for them to manipulate the local political atmosphere in favor of the LDP.

With the privatization of the postal service the postmasters lost the status of civil servants, which removed restrictions on their political activity and allowed them to participate openly in political campaigns. Seemingly, such situations could potentially lead to the expansion of the postmasters' activity in the political arena. As pointed out in the interview with Ko Mishima, the postmasters used a special strategy for survival in domestic politics – "changing the political party they are supporting" (Pers. Comm. Mishima 2010). Indeed, after the privatization bills were passed in 2005, the postmasters shifted their support from the LDP to the People's New Party (*Kokuminshinto* – PNP[27]) and the Democratic Party of Japan (DPJ), which advocated the reversal of the privatization process (Maclachlan 2009: 2). In 2008 a number of LDP members opposing privatization allied with the members of the DPJ and PNP in the Postal Services Study Group and composed a legislative draft to stop the postal privatization. Their effort did not bring success but it strengthened a newly established alliance that was also supported by *Taiju*, the association of retired postmasters (Maclachlan 2009: 16). Prior to general elections in August 2009, the DPJ-PNP alliance with the postmasters reactivated its efforts to bring the postal privatization to a halt and in its political campaign the DPJ publicly announced that it would undertake a "fundamental reform of postal privatization" (Maclachlan 2009: 17).

[27] Kokumin Shinto, or the People's New Party, was established by the LDP and the DPJ members that had opposed the postal privatization in 2005 soon after the privatization bills were passed by the Lower House. PNP teamed up with the DPJ in the general elections in 2009 against the postal privatization movement and made an agreement to reverse the process. The PNP's party platform is rather conservative and based on the break away from "structural reforms" initiated by Koizumi by proposing to increase government spending (fiscal stimulus policy), increase tax revenues, reverse the postal privatization and freeze the consumption tax increase (Hunter 2009).

Postmasters actively participated in the DPJ's electoral campaign, which was successful and led to the DPJ's victory in the general elections. Thus, despite a gradual decline in the postmasters' political power, their alliance with the opposition parties displayed the resilience of vested interests in the postal industry and resistance of the "iron triangle" relationships in Japan (Maclachlan 2009: 8). For this reason, it seems possible to conclude that the postal privatization, which aimed at depoliticizing the postal business and eliminating the postal "iron triangle," on the contrary, facilitated the expansion of the postal lobby by lifting the restrictions on the postmasters' political activity.

However, such conclusions seem to be premature when taking into account the recent events surrounding the postal issue. In October 2009 Japan's new Prime Minister Yukio Hatoyama announced the DPJ's intention to reverse the postal reforms and to stop the privatization process[28]. On April 30, 2010 the Cabinet approved a legislative bill that urged Japan Post Holdings, Japan Post Service and Japan Post Network to merge into a new holding company that would later include Japan Post Bank and Japan Post Insurance (Mainichi Daily 2010). On May 31, 2010 the Lower House passed the bill to reverse the privatization, which was to be enacted by the Upper House by the end of the parliamentary session in June (Nakamichi 2010). However, the political turmoil, which Japan experienced with the resignation of Prime Minister Yukio Hatoyama on June 2 and with the election of the new Prime Minister, Naoto Kan, on June 4, opened new dimensions in the postal privatization issue. The new prime minister abandoned the original agreement with the coalition partner, the PNP, to enact the legislation to reverse the postal privatization during the Diet session in June. Kan rejected the PNP's proposition to extend the parliamentary session and postponed the solution of the postal issue until the extraordinary parliamentary session to be held after the Upper House elections in July. In protest, the PNP's leader, Shizuka Kamei, resigned as the Postal Reform Minister on June 11 (the Mainichi Daily News 2010).

The analysis of the events described above shows that the unexpected decision of the new prime minister might be partly dictated by the DPJ's doubts about the declining political power of the postmasters who allied with the DPJ and PNP to reverse the privatization process. In the interview with Ko Mishima, he noted that although the DPJ knows that the postmasters still

[28] Hatoyama stated that the government would hold the controlling interest in the Japan Post Holdings Corporation (more than one third of the shares, which was enough to block any corporate decision) and it would increase the limit on postal savings, as well as the ceiling on postal insurance by June 2010[28] (Melloan 2010; Sano 2010).

have some influence in the rural areas, it recognizes that their political power and ability to gather votes is not the same as a decade ago. Moreover, the DPJ has recognized the growing importance of unaffiliated, independent voters, most of whom are reform-minded and calling for postal privatization. Thus, the DPJ has faced a difficult dilemma: to count on the postmasters and push through the reversal of the privatization, or to count on the independent voters and continue the privatization process. "Right now the DPJ is wondering whether they should really push through the denationalized agenda or not" (Pers. Comm. Mishima 2010). The elections of the Upper House will show who will be more politically influential – organized voters (the postmasters) or unaffiliated voters. Based on that, the DPJ will determine whether to continue the privatization process or to reverse it. Although the future of the postal privatization has not yet been decided, it is clear that the very fact that Prime Minister Kan refused to follow the PNP's calls for a quick reversal of the postal privatization in June shows the declining confidence of the DPJ in the political power of its coalition partner, the PNP, and in the political influence of the postmasters. It also shows that if the DPJ continues to appeal to the interests of independent urban voters and chooses to revive the privatization process, the link between the postmasters and politicians will weaken considerably, which in its turn will weaken the whole mechanism of the "iron triangle" in the postal industry.

3.3. The Bureaucracy: The Winners in the Privatization Battle?

Long before the postal privatization process reached its initial stage in 2007, Japanese bureaucracy was generally viewed by the public as "wasteful and stagnant" and was widely criticized for its administrative inefficiency and inability to cope with the economic problems facing the country in the 1990s (Kawabata 2004: 102). In fact, a number of serious scandals broke out in the 1990s involving bureaucrats, exposing high-profile corruption within the "iron triangle" (Kawabata 2004: 109). The most famous scandal surrounding the postal industry broke in 2001 soon after the Upper House elections when an LDP politician, Koso Kenji, and 12 more postal officials had to resign because of their involvement in illegal vote-gathering in favor of the LDP[29] (Maclachlan 2004: 302). Bureaucratic inertia, inefficiency and corruption

[29] In 1998-1999 Koso worked as the head of a regional postal bureau in Kinki region and became implicated in an illegal vote-gathering campaign in favor of the LDP, which involved local special postmasters and postal bureau's officials. High-rank postal bureaucrats participated in the illegal campaign to secure lucrative post-retirement positions in post-affiliated public corporations, and the postmasters transferred government funds to Koso's electoral campaign hoping that he would oppose the 2001 postal reforms in the Diet (Maclachlan 2004: 302).

have considerably weakened the bureaucrats' reputation among the public. Moreover, the bureaucracy became affected by the political changes in Japan (the electoral reform and defeat of the LDP in the Upper House in 1993), which, in turn, loosened the traditional ties between the bureaucrats and the LDP politicians (Mishima 1998: 983). In my interviews with Nobuhiro Hiwatari and Koichi Nakano, both scholars mentioned that the relationship between the bureaucrats and politicians was going through a substantial change, moving towards a much weaker alliance. Although the bureaucrats still played an important role in policymaking, they were no longer in full control of the process. Politicians were more eager to make political decisions by themselves and became "pretty much in control over the key policy decisions" (Pers. Comm. Nakano 2010). As pointed out by Nobuhiro Hiwatari, "politicians were calling some of the shots" (Pers. Comm. Hiwatari 2010).

The privatization of the postal service has strengthened the trends described above. The bureaucracy's control over the privatization process itself was not all-powerful. As pointed out by Maclachlan, "Koizumi's willingness to take drastic steps against bureaucrats who dared to defy the new policymaking procedures drove yet another nail into the coffin of bureaucratic initiative in the postal sphere" (Maclachlan 2009: 172). Indeed, the blueprint for the postal privatization was to be prepared by the Council on Economic and Fiscal Policy (CEFP), and not by the Ministry of Internal Affairs (MIC) bureaucrats (Mishima 2007: 744). The actual oversight of the privatization process was also given to two committees within the Cabinet Office, not to the MIC: the Headquarters for Promoting Postal Privatization (HPPP) and the Postal Privatization Commission (PPC)[30].

However, the MIC did not lose its say in the policymaking process. Thus, the analysis of the "Basic Policy on the Privatization of the Japan Post," as well as some secondary sources, shows that until the postal service is completely privatized in 2017, any decision on the privatization process and operation of the postal companies requires the MIC's approval. The PPC receives requests from Japan Post to enter into new business areas. Once such requests are approved, the PPC sends them to the MIC and makes some recommendations. The MIC evaluates the proposals, approves them and sends them to the Headquarters with its own recommendations and

[30] The first committee was a Cabinet-level committee that consisted of Cabinet members and was led by the Prime Minister Koizumi, and was responsible for debating privatization policy measures, preparing the submission and enactment of the bills. The second committee comprised from five non-government experts was led by the President of the 21st Century Public Policy Institute, Naoki Tanaka, and was responsible for tracking the privatization process and providing recommendations for change. Both committees will cease to exist on March 1, 2017 (Vollmer 2009: 13; Cohen 2006: 5).

comments. The Headquarters discusses the proposals and then they are sent back again to the MIC for its final approval (Cabinet Office 2004; Cohen 2006: 4; Porges and Leong 2006: 399). Thus, the MIC bureaucrats could still participate in the formulation of the privatization plan, oversee the privatization process, provide recommendations to other government bodies involved in this process and require its approval for major policy decisions. The bureaucratic control over the policymaking and privatization process was reduced to some extent, but not constrained meaningfully.

Surprisingly, MIC bureaucrats did not oppose the postal privatization reforms severely and did not block its implementation (Kawabata 2004: 29). On the contrary, the bureaucrats seemed to be willing to confirm to most of the legislation terms. As pointed out by some experts, it happened not because their political power and control over the policymaking had weakened, but because they simply saw the postal privatization process as an opportunity to gain personal benefits. Their decision to confirm the postal privatization plan was dictated purely by pragmatic considerations; recognizing the changing nature of the Japanese market, the postal bureaucrats realized that they would have better chances of survival in a privatized industry. Private sector meant higher post-retirement salaries and more prestigious amakudari positions (Mishima 2007: 744; Yamawaki 2005: 91; Machida 2005: 215). The postal bureaucrats also seemed to be less willing to maintain the alliance with the postmasters and post *zoku*-politicians, hoping to gain more independence in policymaking and benefit from the postal reforms (Mishima 2007: 745). As pointed out by Koichi Nakano in my interview with him, there would be "less oversight and less control by the politicians if it [postal industry] is the private sector," and therefore the bureaucrats would acquire more independence in its administration and supervision (Pers. Comm. Nakano 2010). Having recognized the potential benefits of the postal privatization reforms for themselves and being concerned with their own future rather than the future of the postmasters and LDP politicians, the bureaucrats were less willing to maintain the "iron triangle" alliance. Thus, it is possible to say that the postal "iron triangle" relationships were weakening and becoming less coordinated by the bureaucrats because their needs were met and they had less incentives to continue the battle; they "remained a bystander in the legislative battle," as pointed out by Ko Mishima (Mishima 2007: 745).

One would also think that after the privatization of the postal service the MIC bureaucrats would become less influential in terms of administration over the postal industry. As described by Patricia Maclachlan, the MIC "emerged from the postal privatization process with its influence significantly

diminished and its morale low" (Maclachlan 2009: 171). Of course, the content of the postal reforms allocated smaller administrative functions to the MIC in the postal savings and insurance sectors as it had before. If prior to the reforms the MIC controlled a special fund that oversaw the postal accounts and insurance policies (*Yucho/Kampo Seimei Hoken Kanri Kiko*), after the reforms its administrative power over these funds diminished (Maclachlan 2009: 171). The MIC's administration over the mail delivery sector has weakened as well. After the postal reforms of 2007, the parcel delivery business became subject to the jurisdiction of the freight business law and supervision of the Ministry of Land, Infrastructure and Transport, and not the MIC (Maruyama and Sano 2008: 364). The procedure for the postal rates regulation has also changed. If prior to the reforms a change in postal products rates required MIC's approval, after the reforms it required only notification to the MIC[31] (Maruyama and Sano 2008: 365).

However, if one takes into account the established transition period until the complete privatization of the postal industry in October 2017, the MIC's administrative power over the postal sector still appears to be substantial. From 2002 to 2007, the MIC closely supervised Japan Post and had veto power over the original articles of the statute of Japan Post Holdings, Japan Post Service and Japan Post Network companies. If Japan Post Holdings owns all shares of Japan Post Service and Japan Post Network, and the government is required to always hold one-third of shares of Japan Post Holdings, it is possible to conclude that the Postal Privatization Law actually ensures that the MIC continues to have veto power over these articles and any important corporate decisions (Campbell and Porges 2008: 378). Moreover, despite the changes in the MIC's administration over the mail delivery sector described earlier, the MIC's approval is still required for the rate changes in cases of third and fourth class mail products. The MIC has a right to approve the company's annual business plans, the transfer of important assets, changes in the articles of the incorporation of Japan Post companies, Japan Post Services' Management Guidelines and Regulations, allocation of its new subcontracts and its entry into new business areas. The MIC also has a right to force the Japan Post Service to send to the MIC its accounts and reports and to organize inspections. The MIC enjoys a similar regulatory power over the Japan Post Network (Campbell and Porges 2008: 378).

Thus, even after the postal reforms, the MIC remains of interest to those in postal business circles as its bureaucrats have access to exclusive policy

[31] There are some exceptions here: third class mail (like designated newspapers and magazines approved by the postal service) and fourth class mail (like designated educational materials). These items still required the MIC's approval for the rate changes (Maruyama and Sano 2008: 365).

information and can provide "bureaucratic consultation and compensation" because of their expertise in the postal sector (Nakano 1998: 96). Especially, taking into account changing market conditions, the unstable political situation in Japan and the continuing political battle over the postal issue, bureaucratic competence and knowledge can help the privatized postal companies, as well as other private operators in the postal industry, to secure a smooth regulatory process. As noted by Nobuhiro Hiwatari in my interview with him, it is a very "disturbing view that you can run the government without any kind of expertise;" bureaucrats' knowledge, expertise and technical advice are absolutely necessary for the implementation of successful policies (Pers. Comm. Hiwatari 2010). For this reason, without regard to the ownership of the postal industry, public or private, the MIC bureaucrats seem to continue to exercise administrative power and supervision over Japan Post and their alliance with the postal business circles seems to be maintained. Although, the bureaucrats' alliance with the postmasters and politicians is weakening, their re-alliance with the private postal business circles might create a favorable atmosphere for the restoration of the "iron triangle" system in the postal industry.

This conclusion regarding the alliance between the MIC bureaucracy and the postal business circles also makes sense if we take into consideration amakudari prospects for the bureaucrats after the privatization of the postal service. As Koichi Nakano said in his interview,

"[The] extent to which it [amakudari] continues to exist, the bureaucrats can get the post-retirement positions in the privatized sector if they maintain regulatory oversight over the privatized industry. Once the postal service is privatized, if the MIC retains some power over the regulation of the industry, then they will be able to keep or in fact expand amakudari positions in the company" (Pers. Comm. Nakano 2010).

Indeed, the MIC did retain a certain degree of administrative power over the privatized postal industry and the privatized postal sector appeared to be more attractive in terms of higher wages and job security. As pointed out by Ko Mishima in my interview with him, the MIC bureaucrats are not the ones who will suffer from the side effects of privatization. The losers are the postmasters and postal officials in the rural areas. The MIC bureaucrats, on the contrary, will benefit from the postal reforms because they might see a rise in their salaries (a private sector manager earns more money than a public sector manager). Thus, although the postal bureaucrats "may lose their political power… economically they will become the winners, not the losers" (Pers. Comm. Mishima 2010).

3.4. The Politicians Defining the Future of the "Iron Triangle": Organized Rural Votes Vs. Independent Urban Votes

The postal privatization reforms aimed at reducing government spending, pork-barrel patronage, corruption and thus "striking at the heart of the LDP's organized clientele groups and vested interests" (Hiwatari 2005: 31). It was not surprising that the reforms encountered severe opposition from the LDP *zoku*-politicians, postmasters and postal labor unions. The main concern of the LDP politicians was that the postal privatization would leave them without the electoral support of the postmasters and other postal workers. The symbol of the anti-privatization movement was a huge postal lobby group within the LDP – *Yusei Konwakai*, or Discussion Group, which attracted many anti-reform LDP politicians – the majority from the Hashimoto and Kamei factions. Both factions were at the heart of the LDP's interest-group electoral politics and were largely involved in corruption scandals (Hiwatari 2005: 31). As pointed out by Koichi Nakano in my interview with him, Koizumi's decision to privatize the postal service was "in a way fighting that postal tribe within his own party" – the group of postal *zoku*-politicians from rival factions who were "chief beneficiaries of the postmasters voting bloc" (Pers. Comm. Nakano 2010).

The rise of the anti-privatization movement in 2005 exposed the resilience of the "iron triangle" and political alliance of the LDP postal *zoku*-members with the postmasters and postal labor unions. At the same time, the political battle over the postal reform revealed the declining political power of the LDP *zoku*-politicians. First, Koizumi's strategy towards postal *zoku* was "high handed" and he never expressed any willingness to make any concessions on the issue of privatization. Secondly, he ignored the LDP's preliminary review procedure in PARC and let the CEFP's postal privatization plan be passed to the Diet without prior consultation with the postal *zoku*-politicians. Thirdly, Koizumi threatened the postal *zoku*-politicians with the dissolution of the Lower House if the privatization bill was not enacted by the Diet, and he did so after the Upper House defeated the bill in August 2005 (Mishima 2007: 745). As a result, in September 2005 the LDP won the general election, and in October 2005 the postal privatization legislation was finally passed by the Diet (Mishima 2007: 746). These events showed that the political clout of the LDP-*zoku* politicians was declining, which, in turn, revealed the beginning of the break-up of the "old-fashioned and well-entrenched system of administrative guidance that was a pillar of traditional Japan" (Sakai 2006: 2).

After the postal reform was passed in 2005, the postal *zoku*-politicians' concerns proved to be correct. The postal privatization, indeed, had a

significant impact on the changes in the LDP's electoral support base. Having passed the postal legislation, the LDP lost the electoral support of its main political ally and vote collector – the postmasters. The postmasters shifted their support to the opposition parties, the DPJ and PNP, which were also joined by the former LDP postal *zoku*-politicians who opposed the postal reforms. In my interviews with Koichi Nakano and Ko Mishima, both experts talked about the weakening of political alliance between the LDP politicians and the postmasters and the dissolution of the postal *zoku*-group as one of the main political consequences of the postal reforms. According to Mr. Nakano, the postmasters became "upset with the LDP" and turned "their political clout to support other parties" (Pers. Comm. Nakano 2010). For the LDP the loss of the postmasters' support was particularly bad regarding its traditional disregard of the independent urban voters. "Once it was revealed that it [the postmasters' voting bloc] was gone, the LDP realized that it has to pay a really high price for the loss of the urbanized votes" (Pers. Comm. Nakano 2010).

Regarding the impact of the postal privatization process on the politicians and their power relationships with other "iron triangle" actors, it is necessary to mention an important political event that changed the political landscape of Japan – the DPJ's entry into power in September 2009. The change of government signified a new era for Japanese politics and for the "iron triangle" relationships: "The shift in power brings a concomitant and irreversible shift in party-bureaucrat and party-interest group relations; the game is new" (Krauss and Pekkanen 2010: 14). In my interviews with Nobuhiro Hiwatari, Ko Mishima and Koichi Nakano, all the experts emphasized the historical significance of the 2009 elections for the Japanese political economy system and the "iron triangle." Mr. Hiwatari noted that with the change of government it is becoming more difficult for politicians to negotiate policies with the bureaucrats and interest groups in a closed-circled environment (Pers. Comm. Hiwatari 2010). Mr. Nakano remarked that after the change of government the politicians could not simply rely on the "iron triangle" for reelection; this strategy is not efficient anymore (Pers. Comm. Nakano 2010).

For the postal privatization reforms and the postal "iron triangle," the change of government was important in two ways: it revealed the end of the LDP's *zoku*-politics era and the declining significance of organized rural votes. Firstly, the main instrument of the *zoku*-politicians' influence over the policymaking process was *jizen shinsa* (慈善審査) – a preliminary review and discussion of the bills prior to their submission to the Diet in two LDP committees – the *Somukai* (General Council) and the *Seimu Chosakai,* or the Policy Affairs Research Council (PARC) (Mishima 2007: 729). Unlike the

LDP, the new ruling party, the DPJ, does not have such a review mechanism and extensive experience of the PARC policymaking apparatus. It is more a top-down party and the main role of its leaders is to gain consensus over policies (Krauss and Pekkannen 2010: 14). For this reason, as pointed out by Koichi Nakano in my interview with him, the DPJ is not influenced by *zoku*-politics has not yet developed the *zoku* phenomenon (Pers. Comm. Nakano 2010). Although the majority of the postal *zoku*-politicians joined the PNP and some joined the DPJ in 2005, they do not seem have any significant influence over the policymaking process within the current DPJ government because there is no clear mechanism of decision-making through which they can pursue their interests.

Secondly, in its electoral campaigns the LDP has traditionally come to rely on the organized voters, mainly in rural areas. The LDP parliamentarians established closed patron-client relationships with the rural voters and provided them with pork-barrel benefits in exchange for their votes. It was supported by powerful interest groups, like the postmasters, farmers and construction workers, who served as a vote-gathering machine of the LDP (Krauss and Pekkanen 2010: 7). When the DPJ took office in 2009 it looked rather much the same as the LDP in terms of its efforts to appeal to the local interests and, as pointed out by Nobuhiro Hiwatari in my interview with him, it used an "old LDP trick" of prioritizing the local interests over national ones, which means that "they are looking at the trees but not the forest, they have not really gotten the big picture" (Pers. Comm. Hiwatari 2010). The DPJ's political alliance with the PNP and the postmasters is a good example. The DPJ used the postal issue as a chance to weaken the LDP's grip on political power and to divide it into parts; it was a pragmatic political decision and strategic calculation. The DPJ never "bothered to create a coherent policy of what they are going to do with the postal services in the future" (Pers. Comm. Hiwatari 2010). By promoting the anti-privatization idea, the DPJ was in fact trying to appeal to the local interests and to get electoral support from the locals who suffered from the negative effects of the postal privatization in rural areas. As pointed out by Patricia Maclachlan,

"The ultimate irony is that in the past, the DPJ had been quick to attack the LDP for catering to special interest-groups; once Koizumi has distanced himself from the postal family and was pressing forward with comprehensive reform, the DPJ was all but immobilized by special interests" (Maclachlan 2009: 169).

However, after the DPJ took office in 2009, it started to realize that the importance of independent voters in urban districts had been underestimated. The attitude of the public towards politicians is gradually changing; people are becoming more critical and less tolerant to the mistakes of the politicians. It is

"one step towards holding politicians accountable, politicians trying to be more representative of the people, of the electorate, of the voters," and the role of independent voters is unprecedented in this process (Pers. Comm. Hiwatari 2010). The DPJ recognized that the number of this electorate is constantly increasing, and since most of them are reform-minded, in order to appeal to their interests the DPJ need to create policies that are attractive to them. For this reason, the postal privatization creates a dilemma for the DPJ: whether to rely on organized rural voters and reverse privatization, or to continue the privatization process and gain support from independent urban voters (Pers. Comm. Mishima 2010; Pers. Comm. Nakano 2010). This dilemma became particularly pronounced with the accession to power of a new Japanese Prime Minister Naoto Kan on June 4, 2010. As demonstrated in the analysis in the previous chapter on postmasters, Kan's decision to postpone the solution of the postal issue shows that the DPJ is hesitant about the electoral power of the organized rural votes and the political power of the PNP, which is trying to appeal to this very segment of the electorate. The situation around the postal privatization issue depends on the results of the Upper House elections, as well as the dynamics within the DPJ. There are a considerable number of party members, like current Secretary General Yukio Edano and the younger generation of the DPJ, who are actually in favor of postal privatization. They opposed former Secretary General Ichiro Ozawa's policy outlook, but their opinion was not prominent since Ozawa had a powerful influence over the DPJ's internal dynamics and he relied on the coalition with the PNP. The change of the DPJ's leader and Secretary General opens up new dimensions for the development of postal reform (Pers. Comm. Nakano 2010). As noted by Koichi Nakano,

"Depending on what happens after the announcement of the elections next weekend [July 10, 2010], more neo-liberal tribes within the DPJ may get or may lose more power, I think depending on that the actual outcome of the postal reform may become very, very different" (Pers. Comm. Nakano 2010).

4. Empirical Findings

Analysis of the politico-economic aspects of the FILP reforms and postal privatization reforms shows that these reforms created serious implications for the functioning of the postal "iron triangle." The reforms of the FILP system have cut off the automatic money supply for the "iron triangle" by: 1) exposing FILP agencies to market monitoring and forcing them to raise funds directly from the financial market, and not from the postal savings funds; and

2) enhancing transparency by introducing compulsory on-site monitoring of FILP agencies and local governments and disclosure of their financial information. By stopping the flow of money into inefficient projects, the FILP reform has dealt a blow not only to the postal "iron triangle" but also to other triangles in other industries dependent on FILP.

The postal privatization reforms have also contributed to the weakening of the "iron triangle" relationships in the postal industry to a considerable extent. Based on the analysis, the weakest and the most vulnerable part of the postal "iron triangle" appears to be the politicians-postmasters alliance. The postal privatization has left the postmasters as the main "losers" in the political battle over the postal issue. Not only have they begun to lose their secure jobs and premium wages, the postmasters have also started to lose their privileged position in the local communities. As the employees of a private company, the postmasters became unable to provide informal social services for the local elderly and people with disabilities, which led to growing dissatisfaction among the rural population with the postmasters and the new postal service. As a result, the link between the postmasters and the locals started to weaken, making it more difficult for the postmasters to influence their voting decisions and gather votes for a political party. At the same time, being "upset" with the postal policy, the postmasters broke their alliance with the LDP politicians and joined the DPJ-PNP alliance. For the LDP politicians, the loss of electoral support from their main political ally created serious problems, especially when taken into account with the LDP's traditional neglect of the urban independent voters. One would think that if postal privatization lifted restrictions on the postmasters' political activity and they joined the DPJ and PNP alliance and continued the political battle against the postal reforms, it would signify the resilience and persistence of the "iron triangle" and lead to its gradual revival in the postal industry. However, the events of summer 2010 show that the DPJ recognizes the declining political power of the postmasters and their coalition partner, the PNP, and is more likely to break this alliance and count on reform-minded independent voters. Thus, under the influence of the postal privatization reforms, the relationship between the postmasters and politicians (both the LDP and the DPJ) seems to be weakening, destabilizing the whole postal "iron triangle" mechanism.

On the contrary, the analysis showed that the strongest and the most persistent part of the postal "iron triangle" appears to be the bureaucrats-business alliance. Even after the postal privatization reforms, the MIC bureaucracy enjoys a great deal of policymaking and administrative power over the postal sector. Any decision on the operation of the postal companies

and their entry into new business areas requires MIC's approval, at least until the completion of the privatization in 2017. It also oversees the overall privatization process and has a right to provide recommendations to other government agencies involved in it. For this reason, even after the postal reforms, the MIC remains of interest to the postal business circles. Taking into account changing market conditions, the unstable political situation in Japan and the continuing political battle over the postal issue, bureaucratic competence and knowledge can help the privatized postal companies, as well as other private operators in the postal industry, to secure a smooth regulatory process and thus ensure the successful operation of the postal business. For this reason, the bureaucrats' *amakudari* prospects appear to be even much greater after the postal privatization reforms than before them. The analysis shows that the postal bureaucrats, who obtain post-retirement positions in the privatized postal sector, might expect a rise in their *amakudari*-salaries and although they might lose some political power, economically they will become the "winners." Thus, surprisingly, the postal privatization reforms seem to leave one side of the postal "iron triangle" – the business-bureaucracy alliance – viable and potentially developable.

Finally, regarding the alliance between the bureaucrats and politicians, the analysis shows that this part of the "iron triangle" is weakening under the influence of the postal privatization reforms. The bureaucrats recognized that the postal privatization could actually bring them benefits in terms of higher wages and better post-retirement positions and give them more independence from the politicians in the administration of the postal sector. Realizing the potential benefits of the privatization and concerned with their own future rather than the future of the postmasters and LDP politicians, the bureaucrats seem to be less willing to maintain the "iron triangle" alliance with them because their needs have been met and they have less incentive to continue the battle.

Based on the research findings presented above, the main idea of the empirical analysis can be formulated as follows:

Under the influence of the postal privatization reforms, the "iron triangle" relationships in the postal industry have weakened to a considerable degree. Two sides of the postal "iron triangle" have become particularly negatively affected by the postal reforms. These are 1) the politicians-postmasters and 2) the politicians-bureaucrats alliances. At the same time, the third side, the bureaucracy-business connections, appears to remain strong and viable. The transformation of the "iron triangle" in the postal industry can be viewed as a part of the overall

transformation of the "iron triangle" phenomenon in Japanese political economy, which is becoming healthier and more open.

5. Theoretical Analysis: Incentives, Knowledge and Adaptability as the Main Attributes of the "Iron Triangle" Transformation

In order to explain the process of transformation of the postal "iron triangle" as a result of the postal privatization described above, this thesis will analyze the phenomenon of the "iron triangle" from an organizational approach using the analytical framework suggested by Iris A. Hauswirth in the book "*Effective and Efficient Organizations? Government Export Promotion in Germany and the UK from an Organizational Economics Perspective*" (2006). This book explores the relationship between the organization of the export support services in the UK and Germany and their effectiveness and efficiency. Based on the organizational economics theory, the author develops a conceptual framework for the analysis of the effectiveness and efficiency of organizations and argues that: 1) organization matters for its effectiveness and efficiency; 2) one organization is more effective and efficient than the other one; and 3) restructuring organizations can affect their effectiveness and efficiency (Hauswirth 2006: 1). Adopting some of the concepts of the analytical framework suggested by Iris A. Hauswirth, this thesis will analyze the phenomenon of the "iron triangle" based on the following assumptions: 1) the "iron triangle" can be viewed and analyzed as an organization; 2) the "iron triangle" as an organization matters for its efficiency and effectiveness; 3) the degree of efficiency and effectiveness of the "iron triangle" as an organization changes under the influence of certain factors. Thus, the author assumes that the weakening of the "iron triangle" relationships in Japan can be explained by the deterioration of its efficiency and effectiveness as an organization, while the strengthening of the "iron triangle" relationships can be explained by the improvement of its efficiency and effectiveness as an organization.

Following the first assumption, each actor of the "iron triangle" acts on behalf of a certain group of individuals. The postmasters are the most politically unified group comprising of chiefs of the local post offices. The postal bureaucracy is a coalition of ministerial bureaucrats and officials working in the government agencies affiliated to the postal industry. The politicians are a group of political actors representing different political parties, such as the LDP and DPJ. The business circles unite the private business companies and agencies functioning in the postal sector. Since each

of the "iron triangle" actors is a collective unity of groups of individuals and takes collective actions on behalf of these individuals mainly through organizational means, this thesis argues that it is helpful to consider the "iron triangle" as an organization in a general theoretical way. The "iron triangle" as an organization can be viewed as a result of interaction and exchange between its actors with the influence and control negotiated and allocated between them.

The most important aspect of the "iron triangle" as an organization lies in its purpose. According to the experts on the theories of organizations and groups, one single purpose is the most important characteristic and attribute of any organization without regard to its type and size (Olson 1971: 5). Another important aspect of any organization is its furtherance of the interests of the organization's members (Olson 1971: 5). Indeed, the "iron triangle" as an organization pursues a purpose of sustaining the organizational structure that benefits the interests of the actors of the "iron triangle" (politicians, bureaucrats, postmasters and business circles). In other words, the main goal of the "iron triangle" as an organization is to maintain the mechanism which helps its members to pursue their own interests: for the politicians it means obtaining votes and electoral support, for the bureaucrats it means acquiring lucrative post-retirement positions, for the postmasters it means gaining financial benefits and political power, and for the business circles it means having access to valuable information. The purpose of the "iron triangle" as an organization is closely interlinked with the interests of its members. The aim of the "iron triangle" is achieved only when the interests of all the members are respected. As pointed out by a famous social psychologist, Leon Festinger, "the attraction of group membership is not so much in sheer belonging, but rather in attaining something by means of this membership" (Olson 1971: 6). Thus, it is possible to say that when all the actors of the "iron triangle" maintain their respective interests and the purpose of the "iron triangle" is accomplished, the "iron triangle" functions as an effective and efficient organization.

Following the second assumption, in general, effectiveness and efficiency are the terms that are often used to describe and analyze organizational behavior (Pfeffer and Salancik 2003: 33). The organization is efficient when its resources are used wisely and in a cost-effective way and the goals are achieved (Griffin and Moorhead 2009: 3). In other words, "efficiency asks how much is produced and at what cost, what is produced is not considered" (Pfeffer and Salancik 2003: 33). Thus, the output could be medicine and narcotic drugs, atomic bombs and automobiles, etc. The output can be valued by some and

not valued by others; it can be beneficial for some, and harmful for others. Efficiency is a positive quality, but it has nothing to do with the concepts of "good" and "bad." When we consider what is produced, we are concerned with the effectiveness of the organization. Effectiveness of the organization applies to the assessment of the organization's output by its actors and participants. The organization is effective when its decisions are right and accurate, and when these decisions are successfully implemented and realized (Griffin and Moorhead 2009: 3). In other words, effectiveness involves "how well the organization is meeting the needs and satisfying the criteria of the evaluator" (Pfeffer and Salancik 2003: 34). It is important to mention that the organizations can be effective and efficient, effective but not efficient, efficient but not effective, and neither effective nor efficient (Pfeffer and Salancik 2003: 34).

Applying the concepts of "efficiency" and "effectiveness" to the postal "iron triangle" and analyzing it from an organizational perspective, we get the image of "efficient" and "effective" "iron triangle" relationships in the postal sector prior to the postal privatization reforms – a highly corrupted structure with wasteful spending of the FILP budget and postal savings. Here the "efficiency" of the postal "iron triangle" as an organization has nothing to do with its nature or impact on the social and politico-economic life. Although the profligacy and malfeasance of the "iron triangle" deriving from political corruption and pork barreling were extremely harmful for Japanese society, economy and politics, they were beneficial and good for the "iron triangle" itself and its actors. The "effectiveness" of the postal "iron triangle" should also be considered from the perspective of its participants. Since their needs were met and their interests were pursued prior to the postal privatization reforms, the postal "iron triangle" as an organization was effective. Thus, the question is what were the main factors that made the postal "iron triangle" an "effective" and "efficient" organization prior to the postal reforms? Also, if the postal privatization reforms did affect the efficiency and effectiveness of the "iron triangle," in what way did this happen and how?

Following the third assumption, according to the main theories of organizations, there are three important attributes that make organizations effective and efficient: incentives, knowledge and adaptability. Some theories argue that it is a well-balanced incentive structure that is more important for effective and efficient functioning of the organization (property rights theory) (Hauswirth 2006: 35). Effective organizations provide all the actors with the incentives to perform their tasks so that the main goal of the organization is achieved (Hauswirth 2006: 52). In an efficient and effective organization all

the actors have incentives to do a certain action, which means, "the costs of designing and enforcing the structures that provide the right incentives are lower than the costs of the external effects they prevent" (Hauswirth 2006: 35). At the same time, inefficiency and ineffectiveness occur in the organizational structure when actors gain benefits individually, while producing a negative effect on other actors (Hauswirth 2006: 35). Some theories emphasize the importance of knowledge symmetry (agency theory) between the participants of the organization for its efficiency and effectiveness, and how much knowledge the actors have about the organization on the whole and themselves (Hauswirth 2006: 42). There is also a group of theories that focus on the high degree of adaptability and ability to respond to the changing conditions of the environment as the most important attributes of efficient and effective organizations (transaction cost theory) (Hauswirth 2006: 52). The central question here is to what extent these changing conditions influence the organizational structure and interdependence of the participants, how the relationships between the actors change under the influence of external conditions, and how well they can adapt to the changing environment without destroying its organizational structure based on rational and strategic decisions (Hauswirth 2006: 50).

One way or another, all these theories agree that incentives, knowledge and adaptability are interrelated and interdependent. The knowledge asymmetry influences actors' incentives, whereas incentives can influence actors' desire to obtain new knowledge. Adaptability reveals a dynamic aspect of the organizational structure and is affected by both incentives and knowledge. Knowledge is necessary to decide when to change organizational structures and actors have incentives to accept or to oppose the changes that contribute to the organizational goal (Hauswirth 2006: 53).

The analysis of the postal "iron triangle" from an organizational perspective, indeed, shows that all the three factors are closely interlinked with each other and only in the aggregate of all three factors is the "iron triangle" as an organization effective and efficient:

1) A well-balanced incentive structure was maintained on all the three sides of the postal "iron triangle" prior to the postal privatization reforms. In the politicians-postmasters relationship, the main motivational factor for the politicians was the electoral support and votes provided by the postmasters, whereas for the postmasters the main incentive was the financial assistance and other forms of patronage by the LDP politicians. In the politicians-bureaucrats relationship, the *zoku*-system motivated the politicians to promote

relevant postal policies in the Diet designed by the postal bureaucrats because these policies provided opportunities for pork barreling, whereas the bureaucrats were interested in this relationship because they viewed the politicians as an effective instrument to implement their lucrative postal policies. In the bureaucrats-business relationship, the most important motivational factor for the bureaucrats was the amakudari post-retirement positions, while the business circles were interested in this relationship because they viewed the bureaucrats as the main instrument of creating postal policies that could benefit their own interests.

2) Knowledge and information symmetry was maintained on all the three sides of the postal "iron triangle" prior to the postal privatization reforms. In the politicians-postmasters relationship, the politicians gained access to the information about their electorate via the postmasters who had exceptional power and authority within the local communities, whereas the postmasters were kept informed about the postal policies and FILP budget allocation. In the politicians-bureaucrats relationship, the information exchange was realized through the *zoku*-system in which the politicians got up-to-date information about FILP budget allocation and bureaucrats were kept abreast of the situation within the Diet. In the bureaucrats-business relationship, via the *amakudari* system, the business circles obtained access to the exclusive information about the postal market and postal policies.
3) A high degree of adaptability was maintained on all the three sides of the postal "iron triangle" prior to the postal privatization reforms. All the actors of the postal "iron triangle" were interdependent; the interests and goals of one actor could be pursued and achieved only if the interests and goals of another actor were equally pursued and achieved. For example, if the postmasters lost incentives to support the LDP politicians, the politicians would not get enough electoral support from the locals, which in turn would destroy their incentives to promote relevant postal policies in the Diet, etc. Thus, all the three actors had to be very flexible in order to maintain an effective and efficient "iron triangle" mechanism. They had to respond immediately to the changes in the surrounding environment so that these changes would not negatively affect the "iron triangle."

The next question is what happened to the efficiency and effectiveness of the postal "iron triangle" when the external pressure or factor emerged and changed the surrounding environment and the system itself? What happened to its incentive structure, knowledge symmetry and degree of adaptability? This thesis suggests that in order to explain how the "iron triangle" transforms as a result of the postal privatization reforms and why one of its sides becomes stronger, while others are weakening, it is necessary to look into what happens to the three attributes of the postal "iron triangle" effectiveness and efficiency (incentive structure, knowledge symmetry and degree of adaptability) on all its three sides (politicians-postmasters, bureaucracy-politicians and bureaucracy-business). The following conclusions are based on the analysis presented in Chapter 4 and empirical findings presented in Chapter 5:

1) First, under the influence of the postal privatization reforms, the incentive structure of the relationships on the two sides of the "iron triangle" (the postmasters-politicians and the politicians-bureaucrats) is being eroded, whereas on the third side (in the relationship between the bureaucrats and the business) it is being preserved and even strengthened. As described in Chapter 4, with the postal privatization reforms initiated in 2007, the postmasters turned out to be the main "losers" of the privatization process and suffered from lay-offs and salary cuts, which negatively affected their relationship with the LDP politicians and made them less willing to provide electoral support to the LDP. The politicians, in their turn, also became less interested in keeping close contacts with the postmasters because, with the rise of independent voters, the postmasters started to lose their ability to influence political decisions of the locals and gather votes for the LDP. At the same time, with the postal privatization reforms and the change of the political landscape, the *zoku*-system started to break up and the postal bureaucrats began to have much less control over the policymaking process via the postal *zoku* group in the Diet. The politicians, in their turn, became less motivated to keep close relationships with the postal bureaucrats because the latter lost their direct control over the postal savings fund and allocation of the FILP budget after the postal industry became subject to the market regulation. However, the relationship between the bureaucrats and business circles, on the contrary, seems to preserve a well-balanced incentive structure. The privatization reforms created opportunities for an increase in the postal bureaucrats' amakudari post-retirement

salaries, whereas the business circles were particularly interested in keeping close contact with the postal bureaucrats because of their knowledge and expertise in the postal affairs at the time of market uncertainty and political instability.

2) Second, due to the postal privatization reforms, knowledge symmetry in the information exchange between the actors of two sides of the "iron triangle" (the postmasters-politicians and the politicians-bureaucrats) is being misbalanced, whereas on the third side (in the relationship between the bureaucrats and the business) it is being preserved. As described in Chapter 4, as a result of the postal privatization reforms the postmasters started to lose their political power in the local community and began to have less influence on the electoral decisions of the locals. Thus, they started to provide less information about the local community (its structure, needs, demands, political views, etc.) to the politicians, which made it more difficult for the latter to manipulate the local political atmosphere in their favor. The knowledge symmetry between the politicians and the postmasters shifted and the information exchange between them became less equal and less mutually beneficial. Similarly, in the relationship between the politicians and the postal bureaucrats the knowledge symmetry also became negatively affected by the postal privatization reforms. Since the postal sector became subject to the market regulations and the postal bureaucrats lost their direct control over the postal savings and allocation of the FILP budget, they had less information to offer to the politicians and less knowledge to use in favor of the interests of the politicians. However, the postal privatization reforms did not misbalance the knowledge symmetry in the relationship between the bureaucrats and the business. The business circles still needed the bureaucrats' competence and knowledge about the postal sector to survive in the new market conditions, and the postal bureaucrats still had to keep close links with the business circles in order to be informed about the latest trends in the postal market.
3) Third, under the influence of the postal privatization reforms, the degree of adaptability, flexibility and ability to reach a consensus between the actors of the "iron triangle" on its two sides (the postmasters-politicians and the politicians-bureaucrats) is decreasing, while on the third side (in the bureaucrats-business

relationship) it remains the same and is even increasing. As presented in Chapter 4, with the initiation of the postal privatization reforms, both the postmasters and the LDP politicians had fewer incentives to maintain close links with each other and, having always been dependent on exchanges with a specific partner in a specific way, had difficulties adjusting to the new circumstances. The "lack of quick mutual consent [between the actors] about how to adjust to new situations led to maladaptation," and the actors had to change their organizational structure due to the changing environment (Hauswirth 2006: 45). Instead of working out a solution to the problem and keeping the postmasters-LDP politicians alliance, the postmasters shifted their political support to a different party, the PNP, which has changed the structure of the relationships within the postal "iron triangle." Similarly, the degree of adaptability to the new environment in the relationship between the politicians and the bureaucrats have decreased as well, and instead of attempting to reach a consensus on how to keep close interlinks with each other, the two actors chose to drift apart and not to keep the traditional *zoku*-system. On the contrary, the relationship between the postal bureaucrats and business circles has showed a considerably high degree of adaptability to the changing environment. The two parties successfully managed to adjust to the new situation in the postal market after the postal privatization reforms and used this situation to benefit their interests. The postal bureaucrats viewed the privatization reforms as an opportunity to increase their *amakudari* post-retirement salaries, whereas the business circles realized that the bureaucrats' competence and knowledge could help them to obtain better positions in the postal market at a time of overall uncertainty and complexity (before the privatization is fully accomplished).

6. Conclusion

The postal "iron triangle" is currently undergoing substantial changes. As a result of the postal privatization reforms, the "iron triangle" relationships in the postal industry have weakened to a considerable degree. Two sides of the postal "iron triangle" have become particularly negatively affected by the postal reforms. These are 1) the politicians-postmasters and 2) the politicians-

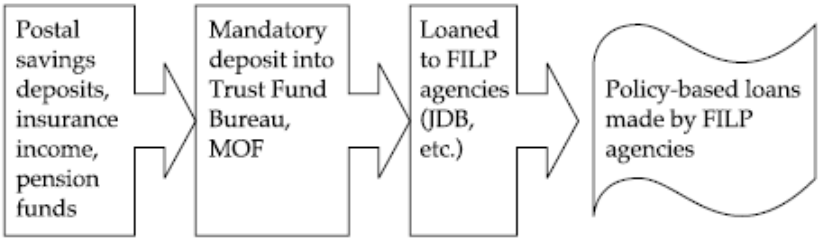
bureaucrats alliances. At the same time, the third side, the bureaucracy-business connections, appears to remain strong and viable.

The transformation of the postal "iron triangle" due to the influence of the postal reforms can be explained if the "iron triangle" is analyzed as an organization which is becoming less effective and less efficient. Two sides of the postal "iron triangle" (politicians-postmasters and politicians-bureaucracy relationships) are becoming less effective and efficient organizations because all the three factors of their efficiency and effectiveness (well-balanced incentive structure; information and knowledge symmetry; and high degree of adaptability) are being eliminated by the postal privatization reforms. However, the third side of the postal "iron triangle" (bureaucracy-business relationship) continues to function as an effective and efficient organization because all three factors of its efficiency and effectiveness are not affected by the postal privatization reforms. Thus, it is possible to conclude that in order to break up the "iron triangle" relationships in the postal industry completely it is necessary to design the postal reforms in a way which will destroy all the three factors of efficiency and effectiveness of the "iron triangle" (well-balanced incentive structure; information and knowledge symmetry; and high degree of adaptability) on all its sides. Unless all factors are eliminated, the "iron triangle" will continue to exist and may re-emerge in the future.

7. Appendix 1: Figures

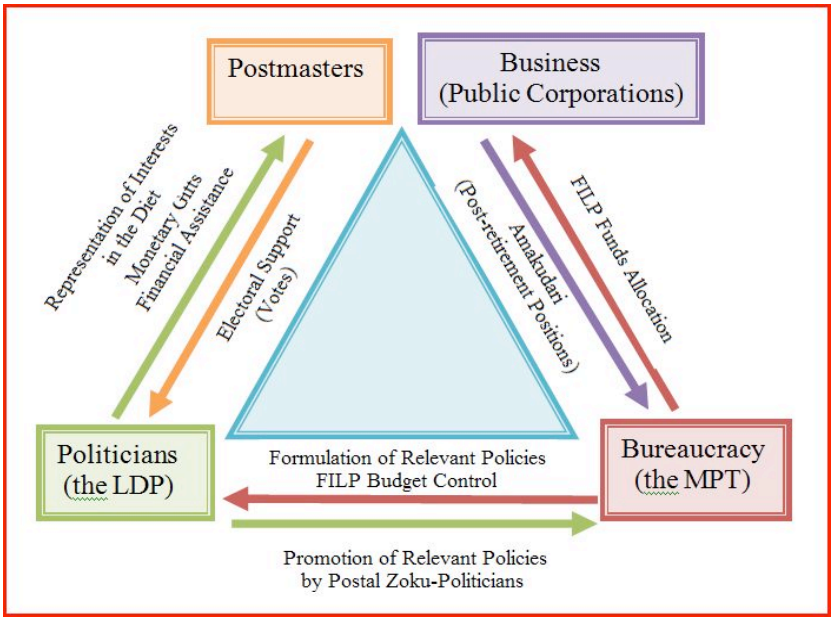
7.1. Figure 1

Figure 1. Basic Scheme of FILP Funding Prior to the 2001 Reforms

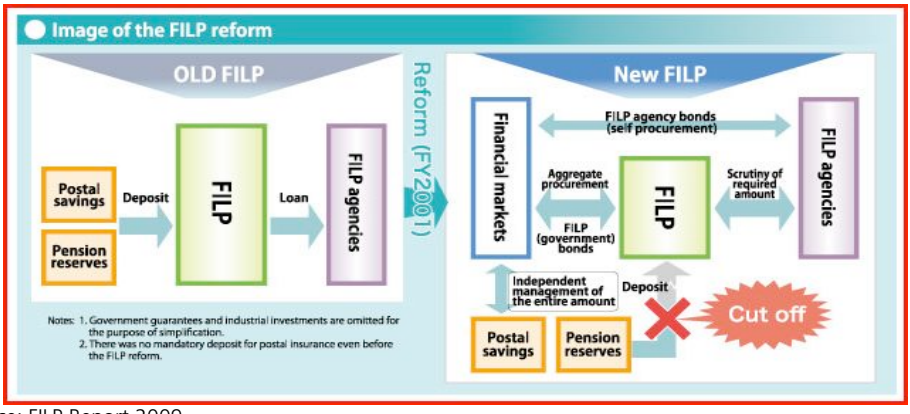


Source: Amyx, Takenaka and Toyoda 2005: 26

7.2. Figure 2



7.3. Figure 3



Source: FILP Report 2009

8. Appendix 2: Interview guide

8.1. Nobuhiro Hiwatari (May 26, 2010)

- First, could you tell me a little bit about yourself: your name, your occupation, what you are currently working on?
- My particular interest lies within the problem of the "iron triangle." In your opinion, is the phenomenon of the "iron triangle" still present in the Japanese political economy?
- Is the "iron triangle" now different from the "iron triangle" 20 or 30 years ago? What has changed since then? How does this phenomenon develop in time?
- Do you think that the postal privatization initiated by Prime Minister Koizumi in 2001 was a good idea? Why?
- After the privatization, within the new privatized postal system, what do you think happened to the actors of the "iron triangle"? What kind of strategies, do you think, did they use in order to survive and maintain old relationships?
- What actor is the most interesting to look at – politicians (the LDP or DPJ), bureaucracy, postmasters, post officials? Somebody else?
- In 2009 the new DPJ government took office under Prime Minister Yukio Hatoyama. The DPJ's official slogan was "the change of government" (政権交代). Do you think these election results really could bring change to Japan?
- Since the very beginning of the privatization reforms under Koizumi, the DPJ opposed the action. What is the role of the DPJ in the anti-privatization movement?
- Is the new DPJ government really trying to break up the "iron triangle" in Japan or, by reversing the postal privatization, is it trying to keep the old-guard politics system?
- The DPJ announced that they want to reform Japanese bureaucracy and stop the practice of amakudari. What about the appointment of Jiro Saito, who is 73 years old, to the position of Japan Post President? Don't you think this is a case of amakudari and shows the opposite?
- Will the issue of the postal privatization affect the upcoming elections to the House of Councils? Will the votes of 280,000 postal workers influence the results?

8.2. Ko Mishima (June 14, 2010)

- Before we start, could you please tell me a little bit about yourself: your name, your occupation, what you are currently working on?
- Do you think that the postal privatization started by Prime Minister Koizumi was in general a good idea? Why?
- Do you think that the postal privatization had a certain impact on the "iron triangle" relationships in Japan?
- What do you think about the reform of the Fiscal and Loan Investment Program (FILP) in Japan? How does it affect the flow of money within the "iron triangle"?
- What do you think will happen to the postmasters with the privatization of Japan Post? Will they lose their jobs or manage to keep their posts? Will they be able to keep their political influence?
- My next question is about zoku-politicians. If Japan Post is privatized, what will happen to these zoku-politicians? How will their strategy change?
- How do you think the postal privatization process could affect the ministerial bureaucracy (Ministry of Internal Affairs and Telecommunications)? What will happen to their amakudari post-retirement positions?
- When the new DP government took office in September 2009, Yukio Hatoyama announced the reversal of the postal privatization. Why do you think the DPJ opposed the privatization? What implications will the renationalization of Japan Post have for the "iron triangle"?
- With the resignation of Prime Minister Yukio Hatoyama, will there be any changes in the postal privatization policy? Does it mean that Japan is going back to the old system?

8.3. Koichi Nakano (July 1, 2010)

- Before we start, could you please tell me a little bit about yourself: your name, your occupation, what you are currently working on?
- In your opinion, is the phenomenon of the "iron triangle" still present in Japan?
- Is the "iron triangle" now different from the "iron triangle" 20 or 30 years ago? What has changed since then? Is it becoming weaker or stronger? How does this phenomenon develop in time?

- What are the main factors or reasons that make the "iron triangle" change (political, economic, etc.)?
- Do you think that the postal privatization initiated by Prime Minister Koizumi was in general a good idea? Why do you think so?
- Do you think that the postal privatization could have a certain impact on the "iron triangle" relationships in Japan? Can the postal privatization weaken these relationships?
- After the post office was privatized in 2007 what elements of the old system of the "iron triangle" relationships are still present in a new postal system?
- What do you think will happen to the postmasters with the privatization of Japan Post? Will they lose their jobs or manage to keep their posts? Will they be able to keep their political influence?
- My next question is about zoku-politicians. If Japan Post is privatized, what will happen to these zoku-politicians? How will their strategy change?
- How do you think the postal privatization process could affect the ministerial bureaucracy (Ministry of Internal Affairs and Telecommunications)?
- What will happen to their amakudari post-retirement positions in case the post office is privatized?
- When the new DP government took office in September 2009, Yukio Hatoyama announced the reversal of the postal privatization. If the post office is nationalized again, what implications will it have for the "iron triangle"? Does it mean that the old system will come back?
- The new prime minister Naoto Kan has broken the agreement with Kokuminshinto to extend the Diet session in June and reverse the postal privatization process, which caused the resignation of Shizuka Kamei. What do you think about these events?

9. Appendix 3: interview transcriptions

9.1. Nobuhiro Hiwatari (May 26, 2010)

A: Alena (the author)
NH: Nobuhiro Hiwatari (the interviewee)

A: OK, my first question is: Could you tell me a little bit about yourself? Like, your name, occupation, what you are currently working on?

NH: OK, my name is Nobuhiro Hiwatari; I am a professor at the Institute of Social Science at the University of Tokyo. I am a political scientist/economist. I am working on, eh, my major topic. What I am wrapping up right now is a comparison of OECD countries, how these countries institute structural reforms. And, eh, the idea here is that it's a kind of, eh, there is international volatility, eh, defect, eh, the government's implementation of structural reform and there is definitely international and domestic factors in carrying out various aspects of structural reform, eh, starting from deregulation to, like, eh, corporate tax cuts and then fiscal reconstruction and then (indecipherable), and things like that.

[This part of the interview transcription was omitted because it is irrelevant to the research topic]

A: My particular interest is about the "iron triangle" and relationships between bureaucracy, politicians, and business. So, my question is, in your opinion, is the phenomenon of the "iron triangle" still present in Japan, in Japanese political economy?

NH: Eh, it's difficult to make an assessment, but, eh, I think that it is weakening to a considerable amount. It's weakening in a sense that, well, the "iron triangle" is basically even in the United States, but the general idea is, in Japanese context, these really like, you know, the policy committees of the LDP, and certain government ministries, and then interest groups. And then, of course, you know, there is a wide variety of these kind of "iron triangles," but in (indecipherable), a second of all, it's very difficult now for interest groups just to have, to operate within a very closed environment, that they can just negotiate policies with bureaucracy and the governing party. So, that kind of closed-circled, you know, mode of policy making, I think, has weakened considerably, especially with the change of government.

A: So, it means that you believe that the "iron triangle" 30 years ago is not the same as it now, right, it's becoming weaker and weaker?

NH: Yes, it's not the same, right. The whole idea of the "iron triangle," of these kind of policy tribes, was really disseminated in the mid 1980s and now (indecipherable). And this idea was banking on the LDP dominance; it was the idea that people started to like; why the LDP is still so strong in a political arena. Two things happened and this was event number one, we had a stagnating economy, which compelled the government to reveal its policy-making process. And the second thing is that the LDP itself has lost support considerably. And I think that in that process, especially in the process of carrying out fiscal reconstruction, trying to balance the budget, and carrying out these structural reforms, deregulation, I think that the government was compelled to somewhat weaken the policymaking process that really thrived in the 1980s.

A: But, then, what about the postal privatization? When Koizumi initiated the reforms of the postal office in 2001, do you think that the privatization was actually a good idea?

NH: Do I think that it was a good idea? Oh, I didn't get your question. Oh, yes, it was a very good idea. Maybe I have some qualms about the actual way of speaking out the whole thing, but the general idea here is that, well, number one, well there are two things, number one – yes, you can't have a public bank basically supporting public debt. And that was one idea. The other thing is that you cannot have all these subsidies in the operation of postal services. It is a drag on the budget. So, I think it was a good idea. And then it was not a direct way of kind of cutting expenses; it was a way of trying to introduce fiscal discipline.

A: And, after these privatization reforms in 2007, in a new privatized postal system, what do you think has remained from the old system?

NH: Well, I think that Koizumi's attempt was to kind of undermine or destroy the kind of old system of mobilizing electoral support for the LDP. What I know is that, well, that kind of system dies hard, that it has not really been totally renovated, it still thrives, I think it has weakened considerably. And I think that – I don't have any hard evidence – but I think that kind of electoral power of these postmasters to mobilize votes is quite exaggerated. And that said, a lot of district politicians are still counting on that. (Indecipherable.) And of course, you know, that for a party new in power doing the opposite of Koizumi seems to be a sort of attractive agenda. And

there you have a kind of republic…republicazation. It's not really a word, but you know, renationalization of postal services and postal banks.

A: OK, although you say that the postmasters' power is a bit exaggerated, there are still those politicians who are interested in this kind of collusion; also bureaucracy, who is interested in post-retirement positions. So, even if it's becoming weaker why is it still present to some certain degree in Japanese politics? Why is it so difficult just to erase it?

NH: I think that especially in local areas that the postal service is, of course, the local bank and local postal service, the local insurance company, I think that a lot of focus is especially on rural areas, which means that probably more or less on old people. The population in the rural areas, I think, depends a lot on the services of the local postal office. And (indecipherable) that would be a limit, people still think, I am not sure how strong it is, but people think that the local postmasters have power. I think that it is true that, you know, the effects of the privatization have not really been felt in the rural areas, that as I said, the postal office still provides a lot of national and postal services to the locals and especially in scarcely populated rural areas.

A: And if we think about all actors which are involved in this kind of privatization process, who do you think is the most interesting actor to look at? For example, politicians, LDP, maybe DPJ, maybe other parties, maybe bureaucracy, maybe postmasters, maybe post officials? Who can provide us with better understanding of what's going on in Japan?

NH: Do you mean what's going on in Japan in general or maybe what's going on about in re…publicazation?

A: Well, I would say more like about politics in general, not particularly about the post office. Because the post office, we can use the post office as an example, you know.

NH: Right, yes. OK, well, I think that there has been no real change in that answer, in answering your question. I think it is the politicians and the bureaucracy, that's where you look into. I think that, you know, there is a quite good, it seems to be a quite clear extension in the current government and its handling of the bureaucracy (indecipherable), that they deeply depend on the bureaucrats (indecipherable). But it is also true that, of course, the politicians are calling some of the shots (indecipherable) anyway. So, there is no real difference, no real change in whom to watch at that point. Of course, you mentioned the LDP and the DPJ, of course, I suppose you have to look at the opposition parties of the current government – the Social Democrats

and Kamei's party. (Indecipherable.) Because the parties have the (indecipherable) role right now in policymaking, and probably an extended role in policymaking (indecipherable), that's a case.

A: In 2009 Japan experienced, according to the media, so to say, a "bloodless revolution" and the DPJ government took office.

NH: Oh, sorry, I didn't catch it, what revolution did you say?

A: "Bloodless revolution."

NH: Ah, "bloodless revolution," OK, OK. Go ahead, I am sorry.

A: No, it's fine. So, the DPJ's official slogan was the "change of government" (seiken koutai). Do you think that these elections could really bring any change to Japan?

NH: Do you mean the last September's elections?

A: Yes.

NH: Oh, yes, I do think so, that it has made some change to Japan. I think that the politicians, the relations between politicians as the (indecipherable) of the people have somewhat changed, I think. And I think that people are taking it more (indecipherable) the DPJ government, which is (indecipherable) a few good things and then screwed a lot of things up. I think people are starting to really look into what the party says, what politicians say, and going to have it (indecipherable) more accountable than they did before, like the LDP, you know, I suppose in LDP days people say (indecipherable) there is no other party that is electable. And then they try to make demands within the system. I think that now they are going to choose among politicians whom they really want to be present. And this is a slow process and you have not really gotten there, that kind of more or less, kind of (indecipherable) image of electing politicians and democratic politics. But I think it has made one step at least towards that, and of course, you know, in the process of doing that you have this (indecipherable) and everything is going on OK. But another lesson, I think, is that it is a step towards holding politicians accountable, politicians trying to be more representative of the people, of the electorate, of the voters.

A: But maybe anything about the Japanese economy? Could these elections really bring any change to Japan's economic situation?

NH: I think that, well, to the extent that what the government could do in the economy, which this is not only to prevent, this is not only potentate, it cannot do anything. But that's said limited role of what the government could do in the economy, my assessment is that, I think that the last election

and the change of the ruling parties actually hasn't created good policies. I think that parties, both parties, are very eager now to appeal to local interests, which means that they are looking at the trees but not the forest, they have not really gotten the big picture.

A: You mean both parties – the LDP and the DPJ?

NH: Both parties, I think, because of the electoral competition and because they are competing right now in getting support, and because the DPJ electoral strategy is quite alike Koizumi but is more like the traditional LDP. So, they are really trying to appeal to these local interests. And because of that, as I said, they should look at the short-term period; neither of the politicians comes up with a viable option to put the Japanese economy on a stable growth track. And that is quite worrying. I think that you can say the same thing about diplomacy and foreign policy as well, but it is still, I think, that both parties will have to figure out the DPJ hasn't/has lost or hasn't/has delayed its kind of policymaking process, has become defect, you know, it's not working anymore (indecipherable). The DPJ has established a good way of aggregating local interests with national interests. And I think that both parties are having that problem of making the democratic way, making policies. Not only the local interest, but also of course it would be aggregated in the way that makes sense for the national interests as well and for the country as a whole.

A: My next question was exactly what you have just told me. I was going ask you, if maybe the DPJ's new policies look like the kind of old-guard politics style of the old LDP?

NH: I think that, at least you know, I think that the DPJ is still in two minds in a sense that, and I think that, the same is the LDP, I think that the DPJ's electoral strategy, and although this is, looks very much like the older LDP. But the problem is that, although it's concentrating on the election and how to win the next election, but it has not really, (indecipherable) a shortcoming, but it has not really been able to channel that into what kind of policies the DPJ has to pursue, and the consequence of that (indecipherable) it has kind of made dual structure within the party (indecipherable) OK. The party is going to be involved in electoral politics and that's my domain and I am going to just look at only how to win next election, and I am not going to make any comments about what policies the government should carry out, and that's very, very unfortunate because, as I said, the whole core of the Democratic Party (indecipherable) how to make the local interests compatible with national interests. The role of the party itself is, you know, is to kind of

aggregate these local interests into a coherent national or party platform. And that kind of institutional set up has not really been established in the DPJ. And as a consequence of that it's kind of, you know, it's in a way that, right now, that the party is separating its electoral politics, will be a kind of national Japanese (indecipherable) government is actually quite unproductive. But on the other hand, the LDP, you know, really what Koizumi tries to do is that? I think that he tries to destroy the "iron triangle" or the old politics of the LDP, and he did succeed in weakening them, but he didn't really build something instead, you know, to build something to replace it, a kind of structure of the party. And that trouble has been (indecipherable) been gone, the current government, excuse me, the current leadership of the LPJ, (indecipherable) aim really how to figure out how to appeal to the local voters but still have no alternative policy, a clear message in terms of what it's going to do about the economy, what it's going to do about the foreign policy, all these big issues, you know.

A: Yes, I was wondering if we could look into the role of the DPJ in the anti-privatization movement, which is going on right now? As you know, since the very beginning of the privatization the DPJ opposed Koizumi's initiative, so the question is why did they do that, why were they opposing Koizumi's initiative? Were they just trying to weaken the political power of the LDP, or were they attacking Koizumi personally, or was there another reason, in your opinion?

NH: I think that if you go back to 2005, I think that the DPJ really opposed the privatization not because it was rational, you know, like a long-term choice thing, but that if we don't support it then we could weaken the relations between the LDP and the postal market. Well, they think that this issue is really dividing the LDP. And if we bank on that, that would probably, that the LDP would split, which it did actually. So, I think that was a very short-term calculation of it, and I am not sure how strongly folks within the DPJ are truly committed to the policy itself. So, I think that at least the leadership of the DPJ at that time five years ago (indecipherable) object opportunity of breaking the LDP's grip on power, and you have to understand that even currently people who are doing this anti-privatization movement is really Kamei, they are all older LDP people, so it's really kind of anti-Koizumi people who are really driving this, and most of the DPJ, as I understand, it's just sitting in the firing lines (indecipherable) or standing on the sidelines (indecipherable)

A: So, you don't think, as you said, there is some kind of long-term strategy for the DPJ to support the anti-privatization movement, they just used that

situation in order to compete with the older LDP? Did I understand you correctly?

NH: Right, right, exactly. Because if we go back to the year of 2005 the DPJ was making statements saying that let me (indecipherable) to limit the role of the postal banks, etc. So, on the one hand, they were saying things like, you know, quite opposite from what they are doing right now. And they are saying things, you know, that the LDP is not going far enough in limiting the role of the state bank. So, on the one hand, what they are saying, they were saying that as they have been of course in the opposition, as they are saying a lot of conflicting things against LDP policies, basically criticizing the government from various directions, which if you add them up (indecipherable) does not really (indecipherable). But yes, that's a question, yes, so it was a very short-term calculation that, OK, this is useful in (indecipherable) really speaking up the voice, really dividing up the LDP, we should take advantage of that, I think was issue. And they didn't have coherent alternatives, so the person (indecipherable) of issue itself is basically strategic or a tactical move to try to weaken the LDP's grip on power, I don't think that the DPJ ever bothered to really create a coherent (indecipherable) field of what they are going to do with the postal services in the future, which is (indecipherable) money, what they are going to do especially about these postal banks and insurance, which is, you know, a big financial drag on the economy, so (indecipherable) really went into that.

A: After the privatization of the postal office, when they appeared to be in a much weaker position, the postmaster and postal labor unions switched to support the DPJ. Why would they support the DPJ if they traditionally always supported the LDP? Why would they change?

NH: Well, that was of course because they were opposed, even in Koizumi's period, they were opposed to Koizumi's reforms, they were opposed to the privatization that would basically undermine their privileged positions. And that's why they chose to split the LDP because, you know, these postmasters and even some of the unions, the postal unions, could appeal to the folks within the LDP at that point, and try to sabotage Koizumi's reforms, but they probably missed that Koizumi succeeded in at least that point in carrying out these reforms. And the government and the DPJ of course lost and lost heavily in September 2005 elections, that basically, you know, they made the platform to roll back the privatization measures and therefore the postmasters strongly, well, not strongly, but they are now at the support of the DPJ. If you think about what happened in around 2005, all the postal masters had these

huge meetings in opposition to Koizumi's reforms. I can see that kind of mobilization in support of the current anti-privatization measures. So, I think there is, (indecipherable), it's good that Kamei is going to, you know, to put things back to the status quo ante. I am not sure how really enthusiastic they are or how strong they can really mobilize themselves. But of course, as I said, every party would want more votes (indecipherable).

A: And then the DPJ right now in 2009–2010 states that the reversal of the postal privatization could free a huge pool of deposits, you know, which can be used to support the private sector. I wanted to ask you, does the DPJ really want to help the private sector in the Japanese economy, or maybe there is another reason, you think, for them to announce this reversal of the privatization?

NH: I think that right now, you know, as I said, I don't think that the DPJ has a coherent policy. So, I think that folks like Kamei who are really driving this anti-privatization movement, I think they have not really got a good grasp of what this means for the economy. Kamei is always making statements, basically he is trying to check money, more and more money (indecipherable) to the public debt. So, on the one hand, you have these politicians who are really not applicable leaders, who are really not really very sensitive, so, what all this means to the economy, what this all means to the public economy. And on the other hand, I am sure there are folks in the DPJ who are getting nervous about what this means to the local economy, what this means to the local banks, private banks, what this means for the whole economy itself, but they really haven't figured out which way they want to go. As they say, you know, the guy with the loudest of voice gets the prize.

[This part of the interview transcription was omitted because it was irrelevant to the research topic.]

A: Do you think that maybe DPJ, as you said, they don't have really well carried out, well thought, really well-thought-out policies and they are just maybe busy with mobilizing forces in order to win the upcoming elections to the House of Council?

NH: Right, well, you know, as I said, (indecipherable) the strategies to basically (indecipherable) these organized votes. And that is a very old, old, old LDP trick. But as I said, a large number of Japanese electorate right now are quite independent voters, they are not really the organized voters. And there is a limit to the extent that the unions, the extent that the postmasters, the extent that these trade associations can mobilize votes. Maybe it works sometimes in region (indecipherable) groups or maybe it works sometimes in

rural areas, but it doesn't really work in urban areas. So, you can understand that of course although they are trying to, they are really counting on these organized votes, but with the unpopularity of the current government that is not enough, and that won't put them over the top, they won't increase their votes. And I suppose a lot of (indecipherable) voters would rather vote against the DPJ, I am not sure what party, there are a lot of small parties popping up around a lot of places, I am not sure what parties they are going to vote for but they won't go for the DPJ. So, you know, there are rumors right now that (indecipherable) that are made right now at this point, predicting DPJ's big defeat.

A: Well, I think I covered all the questions I wanted to ask, but maybe something about the practice of amakudari, because DPJ, at least they were talking that they will try to reform Japanese bureaucracy, and that they will try to stop this practice, but then I read in the news about the appointment of Jiro Saito in the position of Japan Post President. And they write that he is 73 years old, retired bureaucrat... So, I was wondering, this practice of amakudari is one of those visible parts of the iceberg, you know. What do you think about the future of amakudari?

NH: I think that the DPJ, again I don't think it has really created any strategies, I think that it basically has this notion that well, there are bureaucrats that are helping the LDP in the government, and what the bureaucrats want, the government and the general population are opposed to that and amakudari is just one symptom of it. It's a very disturbed view, as far as I am concerned, and it runs directly against what was once set in the 1980s – that the LDP was gaining power over the bureaucracy. And I think that there is an element of truth in that. And, anyway, there are a lot of symbols going on and a lot of things appointing, basically, in the DPJ, trying to (indecipherable) the LDP, and (indecipherable) amakudari. Of course, you know, that amakudari reform is one of (indecipherable) the LDP after Koizumi tried to carry out civil service reforms and restrict amakudari. And probably there is a problem of, you know, these bureaucrats going to these semi-public (indecipherable) organizations and then earning a lot of money, which runs against a lot of the sentiments of voters. Maybe that part really needs some kind of reform. On the other hand, number one, you can't really make policies and implement policies without (indecipherable) the heart of the bureaucracy itself, so it is totally a disturbing view that you can run the government without any kind of expertise. Another thing is that right now since they (indecipherable) the DPJ has stopped amakudari, it means that you

can have a lot of old bureaucrats, you know, still working in the ministries, which means that you won't be able to hire any new people. And that is also, that disposed the whole organization and it demoralizes the whole organization, and etc. So, I think of course, you know, OK, well, this is what (indecipherable) this is what's wrong with the LDP and I'm going change it, but they haven't, I think they haven't really sorted out, sorted through what was the problem or how the bureaucracy should be reformed. You know, basically, improve things, (indecipherable) what the LDP couldn't do or tried to do or could not do, instead of (indecipherable) all together. Then you should go to the area of bureaucracy, that means you are going to make policies without any policy expertise, which is the nature of the current government, its incorrect policies, foreign policies, is really like a bunch of (indecipherable) running around without really having technical advice (indecipherable).

[This part of the interview transcription was omitted because it is irrelevant to the research topic.]

9.2. Ko Mishima (June 14, 2010)

A: Alena (the author)
M: Ko Mishima (the interviewee)

A: Before we start, could you please tell me a little bit about yourself: your name, your occupation, what you are currently working on?

M: My name is Ko Mishima. My background is…Well, previously I worked for the Japanese government, about seven years, at the department named National Personal Authority, in Japanese *Jinjiin*. Then I came to the United States to do my project study. I got my doctorate from the John Hopkins University. And past three years I am teaching at East Stroudsburg University in Pennsylvania. I am Assistant Professor of Political Science.

[This part of the interview transcription was omitted because it is irrelevant to the research topic.]

A: So, my research is about the "iron triangle" in the postal industry: the relationship between bureaucrats, politicians and postmasters, as well as public corporations affiliated to FILP. Particularly, I am interested in the process of the postal privatization and its impact on the "iron triangle" relationships. Of course, things have just changed recently with the DPJ's reversal of the privatization, but I am trying to look into how it could potentially influence or already influences the "iron triangle." By doing this, I am trying to analyze

how Japan changes within the time (institutionally, politically, economically, etc,), (if it changes in general) and whether these changes really facilitate progress in Japan.

M: You need to separate between economic and political affairs. As a political scientist I have an opinion about the privatization, but I am not an economist and I am not good to make that assessment. OK, I can make an assessment of the postal privatization and its impact on the Japanese "iron triangle" more generally as of the status of the "iron triangle." Are you fine with that?

A: Aha, yes.

M: First of all, if you compared the situation now with the situation two decades ago, early 1990s or late 1980s, clearly, the power of the "iron triangles" in any field, in any sectors, has declined considerably, a lot. And a good thing, OK, a symbol of that is Koizumi's success of pushing through the privatization's legislation within the Diet. This reflects, OK, this declining power of the "iron triangle" (indecipherable) in Japanese political economy. Most importantly, OK, Japanese economy has been (indecipherable) behind stagnation in the past two decades. OK? It creates more difficulties for the government to continue to provide protectionist policy, programs, of which the "iron triangle" is based on. Also, you need to understand, OK, this is an economy aspect, an economic reason of the weakening of the "iron triangle." Also, there is a social reason, meaning the changing social structure of the Japanese society. The people are getting more urbanized, the population is shifting to other areas. Therefore, the power of the local community is declining. OK, the "iron triangle" used to be politically important, not only because of the political fund it could provide to the LDP, but also supporting power, meaning the ability to gather votes of the electorate. This ability of the "iron triangle" to mobilize votes is based on power of personal relationships among the common Japanese people, meaning that, OK, because you are a part of the closely interrelated personal relationships. If you are a member, OK, a chief of the post office, postmaster, you are probably a senior member of that local community, and that local community has a very dense personal network. And you use the personal network that postmasters can mobilize votes for the LDP. But the social structure of the Japanese society has changed after the modernization, and also the change of the (indecipherable). Because of this (indecipherable) postmasters lost the ability to mobilize votes for the LDP.

A: So, you are saying that the postmasters, that have been known as strong interest groups in Japanese politics, the power of these postmasters is declining?

M: Yes, considerably.

A: If we think about the postal privatization, and Japanese Post becomes a private company, what do you think will happen to those postmasters? What will they do, how will they survive?

M: Right now the DPJ is discussing about the reversal of the privatization, so you would like me to think, to project on the basis of the privatization to be continued, as the LDP planned, you mean?

A: Yes, that was my original plan because I started the research before the bill was passed about the reversal of the privatization.

M: Yes, definitely, the answer is that IF the privatization happens, the political power of the postmasters will decline substantially.

A: If they start losing their jobs and if their position will be not that strong, how do you think they will try to…what kind of strategies will they use to stay in politics?

M: That's the reason they changed, switched their political support from the LDP to Kokuminshinto. How to say – Nation's New Party, People's New Party?

A: People's New Party, right.

M: Yes, yes. They already switched, most of them are more willing to support the DPJ. The postmasters' strategy is changing the political party they are supporting.

A: So, even when they change, shift from one party to another, the concept will be the same, they will still try to influence the politics, they will try to stay as a political power, right?

M: Yes. But their power is constantly weaker than, let's say, 20 years ago because of their declined power to mobilize votes. They will continue to try to influence the policymaking, and to some extent they should be successful, but not much as before, as 20 years ago.

A: So, I just want to make sure that I understood you correctly. So, even if they shift to Kokuminshinto or any other party, their political influence will never be the same as it was 10 or 15 years ago?

M: No, it won't, no. That's the reason why right now, you know, the new prime minister can't decide if, not to push the postal reversal bill, not to go through this session to the Diet. Did you hear about that news?

A: Oh, one second, Mr. Mishima, just one second, could you please wait for a second? I need to check my recording machine. (After a pause.) OK, thank you so much. I just wanted to check my recording machine because sometimes there are problems, you know. Oh, sorry, what did you ask me before? Sorry!

M: Did you hear the most recent news about Prime Minister Kan's decision not to push through the denationalization legislation of the postal service? (Indecipherable.) The DPJ, they understand that the postmasters can still provide some amount of votes to them, but at the same time they understand that their political power is not the same as before. Therefore, right now, the DPJ, OK, is wondering whether they should really push through the denationalized agenda or not. If the DPJ speaks to (indecipherable) they can expect to gather more votes from the other (indecipherable). People (indecipherable) of the declining power of the postal masters, I think.

A: Japan's postal service before was widely spread into rural areas, and that's why it was competitive to the private companies. Postmasters, 20 years ago, for example, had really big influence in local rural areas, but right now, well, we cannot say right now, before when Japanese post was privatized, people started to complain about the lack of postal services in rural areas.

M: Yes. Because they closed many offices, particularly in rural areas, and that caused great inconvenience for the local people.

A: And don't you think that, could this customers' dissatisfaction with the lack of service lead to even further decline of the political influence of the postmasters?

M: That can happen, that can happen. That's a good point. That depends on Kan's strategy. Kan wants to get support more from unaffiliated voters who are generally (indecipherable) pro-reform of the privatization. Therefore, he emphasized this segment of voters, and if he succeeded in winning the upcoming Upper House elections, then the power of the postmasters will decline.

A: OK, my next question is about zoku-politicians who are members of the "postal family" in the Japanese Diet and promote policies that favor interests of the "iron triangle" in the postal industry. What's going on with these zoku-

politicians right now? With the Japanese post privatized, what happens to them: do they lose this base for promoting postal interests, or…?

M: First of all, OK, the pure members of zoku-politicians, I mean the core members of the postal group have already shifted to the People's New Party, so they have already left the LDP. (Indecipherable) are not the LDP members. I think people start (indecipherable) politicians. Although there are people who (indecipherable) go the traditional way, meaning those who are more willing to support traditional policy, also you have right now an inter-segment within the LDP, like (indecipherable), who are targeting (indecipherable) against zoku-policy. What happens to the zoku on the whole is, (indecipherable) the core members already left to People's New Party, and the remaining members of the party, I think the numbers are not so (indecipherable), they are already out of the government, so they have no control, no part in policymaking, so it is very difficult to say what they actually are doing right now.

A: OK, the next question, of course, could be about the bureaucracy. As I am talking about the postal triangle and postal privatization, I am interested in the bureaucracy of the Ministry of Internal Affairs and Telecommunications. So, if they lose the actual control over the allocation of the public budget and funds and the supervision of Japanese post, what do you think will become of these bureaucrats? Will they lose their power? What will happen to their amakudari post-retirement positions? If Japan Post is privatized…

M: Their (indecipherable). Once the postal service is privatized, the bureaucrats in Kasumigaseki are not those people who are going to lose their jobs. Those people who are going to lose jobs are, first, OK, postmasters of the local rural offices, and also postal workers working in those rural offices. So, even if the privatization happens, the bureaucrats we are talking about are not necessarily the losers. Once privatized, we can expect a major rise in the salary. OK, generally speaking, a private sector manager makes more money than a public sector manager, OK. Once privatized, we can expect a very high level of the financial sector managers, like managers, working for the private banks in Tokyo. So, yes, they may lose their political power, political status of the national civil servants, but economically they will become the winners, not the losers.

A: So, right now, after retirement they will end up in amakudari positions again, but in the private sector, not in the public sector. So, basically it means

that this practice will stay there; the only difference will be between the private and the public sector, right?

M: Yes, exactly…. [This part of the interview is not included in the transcription because it was not relevant to the problem discussed above].

A: OK, you are saying that according to the General Budget allocation figures, it shows that actually the road construction spending has been cut, right?

M: Yes, I mean, the public works on the whole have substantially decreased. Simply, because the Japanese government has no more money because the budget is, you know, in crisis. So, they cannot increase the total amount, the total budget amount, but at the same time the commitment to the social welfare spending remains the same as before and increasing, so they have to cut something else. And one target is clearly public works. This was the same for the LDP or the DPJ, to ensure that party is actually in place (indecipherable).

A: OK, just one second…OK, so, if the postal savings are privatized, if they belong to the private bank, not to the state one, do you think that there will still be the possibility for the "iron triangle" to use the postal savings to channel them into the development projects?

M: I don't think so, I don't think so. Once privatized, the manager of the postal service, I mean of the postal bank, needs to account for the market, so that they cannot waste the money as they did before, and my understanding is that what is actually happening right now is, they are shifting, OK, their investment more to the (indecipherable) like buying the bonds, the government bonds, rather than making the investments.

A: So, does it mean that actually the postal privatization policy can in the long run help Japan to fight against this kind of pork-barrel projects and political corruption? Do you think that it has a potential, good influence on fighting against these practices?

M: So, you are talking about the "iron triangle" and pork-barrel politics things in Japanese politics in general, you mean?

A: Yes, and particularly in the postal industry, as it's quite visible how they used the government, sorry, the public funds to allocate these funds for their own purposes.

M: OK, I would like to make two points. First, OK, in terms of economic efficiency, or to push the Japanese economy growth, it is definitely better to

privatize. The government, they have tons of money that they collect from the postal savings system and wasted that money, (indecipherable) on the Japanese economy. And the second point is that these pork-barrel projects the "iron triangle" is based on, these programs worked a sort of informal social welfare system, meaning that rich Tokyo's money is redistributed to the poor rural areas through these pork-barrel "iron triangle" based programs. In order to have a certain amount of equity or egalitarianism in the Japanese society, OK, yes, if we go ahead with the privatization, we need to introduce something which is equal to the social security function of the government.

A: And if it is still not introduced, and we destroy the system which already exists, then it means an even worse situation for Japan, right?

M: Yes, I mean, probably that can push up the growth, if the privatization happens, probably it pushes it up. But it makes the Japanese society more unequal in terms of income distribution because postal programs used to work as an informal system of the social welfare, of income redistribution.

A: Yes, then in the beginning when the Japanese post is privatized, it might have a very negative impact in the beginning, but in the very long run, after 15–20 years of the functioning of this new system, do you think, are you positive about the changes? What if it could actually introduce a better system for the Japanese society, in the long run?

M: As you understand, the Japanese political economy system as a whole right now is in crisis, and privatization is only a small part of this crisis, and the postal privatization cannot be the answer or solution to the entire problem. It is a small step; it is only a small step.

A: OK, but even as a small step, if it is combined with other well-thought-out relevant policies, it could bring…

M: Yes, yes, of course, I mean the substantial reforms are being conducted in different sectors of the Japanese political economy system, and they will have as a whole great policy impact on Japanese society. But the problem right now is whether such (indecipherable) reform will happen or not and the DPJ.

A: And, I think I didn't read the news, very recent news about what's going on in Japan, you said something on the changing policy on the postal privatization? Is the DPJ trying to change the policy again?

M: It's a possibility. As I said, they are very (indecipherable) about the denationalization of the postal service. If they want to gather more votes from the rural areas, or organized votes, they have to go ahead with this idea of denationalization. But, as you know, the DPJ traditionally (indecipherable) relies on pro-reform (indecipherable) other voters also, they would like to

keep their top on (indecipherable); they have to go ahead with the privatization idea, imposed by Koizumi. So they have a difficult choice at the moment. And probably the strategy of Kan at the moment is not to make any clear decision so that the DPJ can gather those votes from both segments of the Japanese electorate.

A: And in general, what is your assessment of the changes in Japan? Do you think that Japan is slowly, gradually progressing? Or, is it very difficult to change the system of old politics and maybe economy, that Japan still needs lots of time?

M: Yes, OK. First of all, the change of the ruling party is clearly a positive development. But it is a very small step in the long process. (Indecipherable.) It is only the beginning of the process, and my expectation is that we will see more political confusion in coming years in Japanese politics. Particularly, in this election, the LDP will be defeated, and then probably the process of the dissolution of the LDP will start, leading to the realignment or reorganization of the political party, including the DPJ once again. And probably it takes a few years to work out this process at least. Therefore, until this process of realignment and reorganization of the political party system will be completed, I don't think that political stability will (indecipherable) in Japan, serious policy will be made. (Indecipherable) I don't think it will happen until the political leadership will recover stability.

9.3. Koichi Nakano (July 1, 2010)

A: Alena (the author)
N: Koichi Nakano (the interviewee)

A: Could you please tell me a little bit about yourself: your name, your occupation, what you are currently working on?

N: Well, my name is Koichi Nakano and I am Associate Professor of Political Sciences of Sophia University in Tokyo. Well, I do, what you call, contemporary Japanese politics, issues to do with bureaucracy, issues to do with nationalism, and some other things, but that's basically who I am.

A: You have extensive academic experience in political sciences, and it has been done on Japan. So, what issues, topics, problems, do you think deserve particular attention in Japan right now?

N: Well, in Japan of course there are a lot of different things, but I think Japan is going through a lot of change, and there is also a possibility of change in Japan in terms of party politics, in terms of the way democracy works here,

in terms of the way the government conducts itself, how the policies are made, and particularly with the change of the government last September I think we have seen a lot of change going on. One of the traditional issues that have been central in the study of Japanese politics is the relationship between the politicians and the bureaucrats, and that is also going through a substantial change in Japan's political situation. So, that is also interesting I think.

A: If we are talking about the relationship between the politicians and the bureaucrats, what do you think is changing right now, what signs of change can you see in Japanese politics right now?

N: Well, I think, well, big changes of course that when the LDP was in government, initially in the early postwar period when the LDP was formed, there were lots of former bureaucrats who became politicians and, (indecipherable) there was a political vibe within the LDP, and the ministers and prime ministers. But after that, I think particularly after the 1970s, and even most of all from the 1980s, the LDP started to see an increase of so-called hereditary politicians, people who are children of politicians themselves, and who had previous experience in private politics before they entered the parliament. And I think with these people there has been some change, in particular between the politicians and the bureaucrats. The bureaucrats were not fully in control of the policymaking but they continued to play a big role in it, and on the side of the politicians, more recently with the DPJ defeating the LDP in elections last year, I think the DPJ is making much greater effort in imposing itself to ministers and prime ministers. So, the politicians right now are pretty much in control over the key policy decisions. Of course, when it comes to the details of it, the bureaucrats sometimes still play a large role, but there is a much greater willingness on the part of the politicians in the DPJ to actually to make political decisions themselves.

A: So, a little bit about my research. My research is about the "iron triangle" and it is a case study of the postal industry. Particularly, I am interested in the process of the postal privatization and its impact on the "iron triangle" relationships. And by doing this I am trying to look in general at how the "iron triangle" relationships change in time and in the light of current political events.

A: So, in your opinion, is the phenomenon of the "iron triangle" still present in Japanese politics?

N: Well, yes, I don't think it has gone completely. I think for a long time Japan has seen the growth of something like a dual economy, a lot of people mention that Japan has been marked by a dual economic system in the sense that upper sphere of the big business, and particularly exporting industries, Japan has another competitive set of companies, like Toyota, Sony and so on who do not rely on the government and who can make decisions on their own and compete globally. On the other hand, the lower sphere of the economy has been marked by inefficient sectors, such as the retail sector, such as agriculture and the construction industry also. In those inefficient sectors there were often industries cultivating ties with the bureaucrats, as well as with the LDP politicians, to cooperate with (indecipherable) and to get subsidies and contracts from the government. Of course, this is what you are referring to as the "iron triangle," and that is not completely gone. And I don't think it will be completely gone anytime soon. The reason why I say this I think is that because the inefficient part of the Japanese economy is still very much persistent, and particularly in the rural areas there is not much economic activity going on and there is not much innovation either. So, many people in declining industries would still depend on the government's subsidies and protection. (Indecipherable.)

A: Yes, I understand. But the "iron triangle," these kinds of relationships now and 20 or 30 years ago are different, right? Maybe you could tell me what has changed, some things that obviously have changed, you know?

N: Well, I think that by large, the relative way to (indecipherable) the economy has changed I think. There are fewer numbers of people who are covered by the "iron triangle" protection. And that is of course partly to do with the urbanization process; more people live in the cities and more people have white-collar jobs and who don't necessarily depend on the government protection for their livelihood. I think that in the sense of the share size I think the "iron triangle" is less significant, less important, even though they are persisting in the countryside, the population of the countryside itself is declining, and therefore, the (indecipherable) inside Japan is much less I think. And, you know, to put the same thing from a different angle, (indecipherable) for the politicians to be re-elected simply relying on the "iron triangle" is no longer efficient anymore as a strategy.

A: OK, then my questions go to the postal privatization itself. Do you think that the postal privatization, which was started by Prime Minister Koizumi, was a good idea? And why do you think so?

N: Well, I think that it was a controversial idea. It was a controversial idea for people who cared, for people who didn't care about it wasn't really such a big issue. Particularly, for people who live in the urban areas, many people didn't have much interest in the issue itself. But of course there were people who were very much interested in this issue in one way or another. People who are working in the financial sector of course want reform and want to see smaller postal savings in order to expand business. On the other hand, people who live in the countryside sometimes really worried that the privatization of the postal service would mean shutting down the local post offices, declining services by post. I think it presented serious issues for some people, but for a lot of people it was not the most important issue.

A: Do you think that the postal privatization could have a certain impact on these "iron triangle" relationships in Japan?

N: Yes, in the sense that…Sorry, could you hold on just one second?

A: Yes, no problem. [Mr. Nakano is on the phone to somebody else.]

N: Sorry. Yes, for the "iron triangle" in two ways at least, I think. One is to do with the direct implications for the postal service. As you know, the postal services basically comprise three different services in particular: postal services itself, postal savings, as well as insurance. In each case I think there was a substantial cliental body depending on it, and the postmasters, the association of the special postmasters, in the countryside delivered votes for the LDP for a long time period, they also continued to see the postal services protected from the private sector competition thanks to the political power that they were able to deliver. So, I think that the postal service itself was a case of the "iron triangle." But the significance of the postal service goes beyond that in the sense that the postal savings are in particular of course the largest bank in the world. And as such, it provided much of the funds for the so-called "second budget" of Japan – Fiscal Investment and Loan Plan. Of course, that second budget, the money that comes from the postal savings in particular, was of course used by the government for other "iron triangle" arenas, like public work projects, and so on. The postal privatization has a potential to affect that, in fact dealing a blow directly to the postal service "iron triangle," but also dealing a blow to other "iron triangles" by stopping the flow of the public money into those inefficient projects.

A: So, you think that with the privatization of the postal savings and with the reform of the FILP the allocation of the public budget will be more transparent and there will be less political corruption and machinations?

N: Yes, I mean at least to a certain extent. It depends. We really have to see of course at this moment the DPJ government intends to reverse some of the, perhaps much of the postal privatization reform initiated by Koizumi. But the original reform undertaken by Koizumi is actually (indecipherable) followed through. The consequences of that could be, you know what you just said.

A: Actually, I have some questions regarding the current situation but I will go back to them a little bit later, OK?
N: Sure.

A: My next question will be about the actors of the "iron triangle" and first of all about the postmasters. If Japanese post is privatized, what's going to happen with the postmasters? Apart from just losing jobs, you know? How can the postal privatization influence their position and their power?
N: Well, as you may know, so-called special postmasters are basically hereditary positions. Even though they get the status of public servants, in reality it is the family business that passes down to the successive generation of the postmasters. This has to do with the (indecipherable) the postal service was initially set up in the Meiji period in Japan, when the state was in a hurry to establish something that looked like a Western post system but without having enough money to set it up from scratch. And what they did, they commissioned local notables to become special postmasters. That basically allowed them to get the status of public servants in exchange for sometimes near volunteer work in working for the postal service. I guess, once the postal service is privatized, the special postmasters may see that the business climate that sustained their position in the local neighborhood may come under a severe challenge, not so much because of the external competition…Because if you go to the rural areas in Japan's countryside I don't think you will see many banks, so maybe parcel delivery services either. So, but it has more to do perhaps with declining public money support to sustain the local nation that is basically not possible.

A: And what about the postmasters' ability to gather votes for the former LDP and as well as some researchers who point out its ability to gather votes even for the new party – the DPJ? What do you think about the political aspect of the postmasters' activity?
N: Because many postmasters in the countryside are basically local notables they have personal considerable influence in the local community, and so they are old families in those villages. And as such their political views often matter

a great deal, and that's also why the LDP find the postmasters useful in order to gather votes in the countryside. If their position becomes threatened, I think some of them would perhaps lose their influence in the local neighborhood. But perhaps even more likely those local notables don't really depend just on their postmaster position in the local community, in fact they are maybe big landlords, they are maybe "old fathers," they may have other lines of business and maybe in their local community, and they may keep the political influence but they will be just upset with the LDP and so they may use their political clout to support other parties.

A: OK, they support other parties but the principle, the main idea remains the same – they can still influence the voting decisions of the local people and try to gather votes for a certain party? Or, you think, there are some changes in this process in Japan?

N: of course, the number of people that the local postmasters can actually mobilize when an election comes is on the decline, and that is of course partly a reflection of the depopulation that is happening in the countryside, where those kind of old-fashioned ways of mobilizing people's votes are predominant. And in that sense I think their power has been declining with or without the postal privatization over the years. But, you know, the countryside votes are still overrepresented in the Japanese electoral system, if you live in the countryside your vote is worth even more than if you live in urban areas, generally speaking. So, in that sense even though in terms of absolute numbers, the number of votes that the local postmasters can deliver has been on the decline over the past decade, they are still significant, particularly when people try to win the contest there are (indecipherable) that they have ignored.

A: So, what is your opinion about possible potential impact of the postal privatization on the postmasters and their relationships with politicians?

N: I think Koizumi took a gamble because even though the postmasters have been providing support for the LDP over the years, in particular the politicians from the rival factions of Koizumi's own faction who have been chief beneficiaries of the postmasters voting bloc, he was in a way fighting that postal tribe within his own party when he decided to privatize the postal service. This is not the only reason why he was committed to the cause of the postal privatization, but it was one of the reasons why he wanted to do that. It worked to an extent, his rival faction has become much weaker but it also weakened the local (indecipherable) for the LDP too. So, as long as he was a

leader and he stayed popular, the LDP was still able to win the elections, but once he was gone, then the LDP came to see that most of the voting blocs represented by the postmasters, it's not the only voting bloc, but one of the most significant voting blocs, once it was revealed that it was gone the LDP realized that it has to pay a really high price for the loss of the urbanized votes.

A: So, my next question will be about zoku-politicians and the zoku-system. If the Japanese post office is privatized what's going to happen to the zoku-policy system in the Diet? For example, if we talk about the postal zoku-family?

N: Well, first of all, I think that zoku were really to be found in the LDP before and not in other parties. With Koizumi reform many of them left the LDP, so you find many of them now in the so-called People's New Party, led by Kamei, well, used to be led by Kamei, I guess it is still led by Kamei, although he is no longer a minister but, anyway, that party and some of them of course are found in the DPJ too. The picture is a bit different in that within the DPJ, DPJ is not like the LDP, it is not exactly completely different, but it is very different; the DPJ is a party that is less influenced by zoku-politicians partly because it used to be an opposition party for so many years, it has not quite developed the zoku phenomenon yet. So, I think by large, the influence of the zoku is on the decline with the new DPJ government.

A: The next question is about the bureaucracy. With the privatization of the postal office, what will happen to the ministerial bureaucracy (for example, the MIC)? What is going to happen to their administrative and policymaking power?

N: What used to be the Ministry of Post and Telecommunications, and what you said a part of the Ministry of Internal Affairs and Communications, traditionally depends on the postal tribe in the jurisdiction of the political power, but since the 1980s to the late 1980s in particular, even when it was still MPT it started to develop an interest in the telecommunications side of the business, rather than the postal side, because the postal side, even though it is important in terms of the voting bloc and the "iron triangle" in that sense, telecommunications was an expanding industry. And so from the mid 1980s in particular the MPT started to focus more on the telecommunications in terms of policy jurisdiction and I think that trend is continuing. So in that sense the MIC depends only partly on the postal service for its political power, so it's probably less concerned about it. And my guess

is that if anything they are not so keen to manage the postal service over directly themselves either.

A: OK, so what's going to happen to amakudari post-retirement positions? If the postal service is privatized, do you think the bureaucracy will actually lose or they will be the winners in this process?

N: Well, that is an interesting way of…I think it also depends on who gets the regulatory power over the liberalized postal market. Bureaucrats may hope to keep amakudari positions if they control the regulative power of the privatized industry, at least for a certain time period. Generally speaking, of course, the amakudari itself is being challenged by the politicians and by the public opinion, and it's getting harder and harder for the bureaucrats to perpetuate amakudari practice. But to the extent to which it continues to exist, the bureaucrats can get the post-retirement positions in the privatized sector if they maintain regulatory oversight of the privatized industry. Once the postal service is privatized, if the MIC retains some power over the regulation of the industry, then they will be able to keep in fact or expand amakudari positions in the company.

A: If this sector becomes private, not public, do you think that their amakudari post-retirement wages will be even higher than in the public sector?

N: It's conceivable because there is less oversight and less control by the politicians or by the Parliament if it is the private sector. What private companies decide to do, it's their private affair. So, in that sense political control over the amakudari private sector will be weaker.

A: So, in fact there is a pressure from the government to change amakudari practice, but it is still present in Japanese politics and it is quite difficult to be eradicated, right?

N: Yes, yes.

A: OK, so now we are going back to the current events. When the DPJ government took office in September 2009 Yukio Hatoyama announced the reversal of the postal privatization. And later in May this year the Japanese Lower House passed the bill to reverse the postal privatization. What do you think could happen if the postal office is nationalized again? What implications will it have for the country?

N: I think that the plan by Kamei was to make it a public corporation once again and then also to make sure that there is going to be employment provided by the publicized or nationalized postal service. I think he was thinking of that as a test case to reverse the neo-liberal trend of economic policy in Japan in the last decade or so. So, the impact of that could be exemplary and it could also change a lot of things, I think but in the end it very much depends on the way which designs the details. I don't think it is going to become what it used to be exactly, it may become nationalized again, but I think rarely people expect it to be fully nationalized in the sense of being determined completely by the MIC.

A: So, you think that even if the postal service is nationalized again it doesn't mean that the old system, like the pure "iron triangle" relationships will come back? What's your opinion about the future of the "iron triangle"?

N: I think that's an interesting question because one of the reasons why the DPJ is trying to do this is because it is allied with the People's New Party, and many people actually in the DPJ do not want the reversal of Koizumi's reform on the postal privatization. So, particularly people like Edano, who now became the party general after Ozawa stepped down, many of the younger generation of the DPJ, who have been supporting Ozawa have a completely different policy outlook. And so, they used to be quiet as long as Hatoyama was prime minister and he relied on Ozawa and the coalition with the People's New Party to stay in office. Depending on what happens after the announcement of the elections next weekend, more neo-liberal tribes within the DPJ may get or may lose more power, I think depending on that the actual outcome of the postal reform may become very, very different.

A: Yes, of course, you know, the new Prime Minister Naoto Kan has broken the agreement with the PNP to extend the Diet session in June and to reverse the postal privatization process until the end of the Diet session, which caused the resignation of Shizuka Kamei. What do you think about these events?

N: Well, I think Kan is trying to find the balance, he is very much aware that the direction his government is going to take really depends on the electoral outcome next weekend, and depending on that it could be of course back to the PNP and continuing the postal reform in their preference, or it could be ditching the PNP and shifting the coalition to the people who are of rather different policy convictions. I think both possibilities are real, and I think it depends on the exact number of seats gained by the DPJ.

[This part of the interview transcription was omitted because it is irrelevant to the research topic.]

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Personal Communication:

Hiwatari, Nobuhiro (Professor of Political Economy at the Institute of Social Sciences of the University of Tokyo, Japan), Recorded Interview, May 26, 2010.

Mishima, Ko (Assistant Professor of Political Science at East Stroudsburg University in Pennsylvania, the U.S.), Recorded Interview, June 14, 2010.

Nakano, Koichi (Associate Professor of Political Sciences at Sophia University in Tokyo, Japan), Recorded Interview, July 1, 2010.