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It is an honor and a pleasure to appear before this committee to discuss the consequences of recent developments in Japanese politics for economic and foreign policy and for Japan's bilateral relationship with the United States. The focus for my remarks will be the September 11th Japanese parliamentary election, one of the most important elections in recent Japanese history.

The trigger for the election was the rejection by the Diet (Japan's parliament) of a government bill to privatize Japan's postal system. The bill only barely passed the lower house when nearly forty LDP members voted against it. It was defeated in the upper house when a large number of LDP members decided to vote against it. Prime Minister Koizumi immediately dissolved the lower house, saying that he wanted the public to indicate whether it supported his policy on the reform of the postal system or agreed with those who were opposed to it.

Prime Minister Koizumi's strategy was to frame the election as a referendum on postal system reform. He drove all of the LDP members who had voted against his bill in the lower house out of the party and ran new candidates against them, including several high profile women. The media quickly labeled these new candidates the "assassins," thus bringing a sense of high drama to the election and getting the public excited about it. The result was a nearly eight percentage spike upwards in the voting rate. Koizumi managed to portray the LDP, which for the previous four years had resisted much of his program, as the party of reform, and the Democratic Party (DPJ), which had been founded several years earlier to pursue a reform agenda, as a party opposed to change.

There is little evidence that the public knew what to make of the details of the postal reform bill. What attracted them was the courage of a prime minister who was willing to risk losing power rather than give up a policy that he believed was essential for Japan's economic revitalization. Koizumi convinced the voters that he had the conviction of his beliefs and would rather leave office than betray those beliefs.

His strategy succeeded brilliantly. A prime minister who until just a few weeks earlier looked as though his popularity was ebbing and whose ability to survive in office until the end of his term as LDP president in September 2006 was being publicly questioned now suddenly enjoyed a huge upswing in popularity. His party swept the election, increasing its representation in the 480 member lower house by 84 seats for a

total of 296 seats. Together with its coalition partner, the Komeito which won 31 seats, it controls two-thirds of the lower house seats. That means that it has the numbers to pass legislation defeated in the upper house.

The opposition DPJ suffered a humiliating defeat. It won only 113 seats, a loss of 64 seats. Of the 31 purged LDP incumbents, most of whom ran as independents, only 15 won. And they remain outside the party and isolated. With the adoption a decade ago of a predominantly single-member district system, small parties such as the once powerful Socialist Party (renamed the Social Democratic Party) and the Communist Party have fared poorly. Neither was able to break out of the single digits in terms of seats won.

Explaining the Results

The first point to stress is that this election was not won by the LDP. It was won by Prime Minister Koizumi; nearly 300 LDP candidates rode into office on his broad coattails. Koizumi is in a league of his own when it comes to political skill and media savvy. He has often said that he would destroy the LDP if it did not support reform but in fact he is not destroying it but saving it from itself.

Koizumi is often compared to Ronald Reagan and Margaret Thatcher because of his emphasis on shrinking the government's role in the economy, but the more apt comparison is to Tony Blair. Reagan and Thatcher succeeded in convincing the public to support positions long identified with their parties. Koizumi, like Blair, forced his own party to embrace policies they had long resisted and then got the public to support the party because of its new stance. Koizumi has not yet succeeded in creating a "New LDP" in the way Blair created New Labour. But he has created the possibility that it will do so.

The phenomenon of a "Koizumi boom" driving up public support for his party is not without precedent. A little more than a decade ago, there was a Hosokawa boom that propelled Morihiro Hosokawa into the prime minister's office. In the 1970s, the current Speaker of the Lower House Yohei Kono, who had split from the LDP to form the New Liberal Club, enjoyed a similar outpouring of public support. Every decade or so a politician appears who seems to capture the imagination of the Japanese public.

The difference this time is that the object of the boom was the prime minister rather than an opposition party leader and, most importantly, that it was the first such boom to occur in the context of Japan's predominantly single member district system. Such a system magnifies the effects of a leader boom, sweeping members of the leader's party to victory across the country.

The size of the LDP victory was unexpected, even to the party's leaders. In

Tokyo, for example, it won every single member district seat save one, and won so many seats in the proportional representation contest that it did not have enough candidates to fill all the seats it won, causing it to forfeit one seat to the Socialists.

Koizumi's appeal since he first was elected prime minister in 2001 is rooted in his innate optimism. Japanese politicians tend to warn about how bad things will get if people don't try hard to avoid calamity. When times are good, people may be responsive to a politician who warns that good times do not last forever. But when a country has been in the economic doldrums for more than a decade, the last thing the public wants to hear is a politician tell them how much worse things are likely to get unless they take power.

Koizumi's message was simple and straight-forward. Privatizing the postal system and reducing government interference with the operation of the marketplace will energize the Japanese economy. Make these changes, he told the voters, and things will get better.

The opposition DPJ took a more traditional Japanese approach. Its slogan was "we are not giving up on Japan," hardly a message to inspire hope, and it warned how terrible things would become unless something were done about fiscal deficits and pension reform. What it neglected to do was tell the public why the DPJ's coming to power would make life better.

Koizumi's great strength going into this election was that he was not afraid to lose. Koizumi was not confident that he would win the election when he decided to dissolve the house. What he knew was that if he did not call elections, he would spend his remaining months in office unable to accomplish anything the LDP party bosses opposed. He concluded that if he won the election he would gain new momentum, and if he lost, he would take the LDP down with him. LDP politicians who opposed him on postal reform and thought that he would accept some kind of compromise simply failed to take the full measure of the man.

They also failed to understand that Koizumi has total confidence in his instincts. He has limited patience for chewing over issues, which oftentimes turns out to be more of a weakness than a strength, and once he has made up his mind on a course of action he does not look back or waver. He also simply refuses to abide by the informal rules that have long constrained LDP leadership behavior. Consequently, he constantly caught other politicians by surprise and threw them on the defensive while delighting the public with his willingness to challenge the LDP from within.

Three other factors deserve mention as having contributed to Koizumi's victory in this election. One is the improvement in Japan's economic performance. Fears

about a crash of the country's financial system are now history. The banks have written off an enormous amount of bad loans and are now beginning to lend again. Corporate profits are setting new records, the stock market is up, exports have been driving growth and consumer and business confidence has improved. The sense that the worst is behind Japan and that the economy is on a path to sustained growth clearly provided a backdrop to this election that was favorable to Koizumi.

Another important factor was the ineptitude of the DPJ campaign. The DPJ made a strategic mistake by not putting forward an alternative to Koizumi's postal privatization bill. Party leaders assumed that there would not be an election before he left office and thus put more emphasis on maintaining harmony among the diverse interests represented in the party than broadcasting an appealing message to the public. The result was that Koizumi was able to portray the DPJ as being against change as much as were the LDP members who had opposed the legislation. The DPJ never got off the defensive and was unable to convince the voters that they should consider the election as anything other than a referendum on postal reform. They did everything possible to deserve the fate the election results bestowed on them.

Finally, and crucially, Koizumi's victory is not only changing Japan. Japan's changing made Koizumi's victory possible. The 1990s was not a so-called lost decade for Japan; it was a watershed decade in terms of changing values, expectations, attitudes and behavior. The political machine is collapsing, even in rural areas. Faith in the bureaucracy's ability to guide the economy disappeared with the bursting of the bubble economy. The idea that things will somehow be okay as long as people do not rock the boat is no longer accepted. Someone like Koizumi could become prime minister in the first decade of the 21st century only because of what had happened to Japanese society in the last decade of the 20th century.

Assessing the Consequences

The election results insure that postal system reform legislation will be passed by the Diet very quickly. Those LDP members who opposed it in the Upper House have lost no time to declare their readiness to support it when it is submitted again. Koizumi probably could get passed a stronger bill than the watered down one he submitted in August but he is going to submit exactly the same legislation as was defeated earlier.

Koizumi framed the election as a referendum on postal reform. He did not say what he would do after reform legislation was passed except to indicate in vague terms that he would pursue further economic reform. Therefore there is still a lot of

guesswork involved in forecasting what he will do after passing postal system reform legislation.

Some things seem clear. He will focus his attention on continuing to try to shrink government by dismantling government special agencies, especially the large number of government financial institutions. His goal is as much to reduce the power of the bureaucracy and to eliminate sinecures for retiring bureaucrats as to make the economy more responsive to market forces.

He will pursue further cutbacks on public works spending and look for other ways to cut costs.

He will not raise the consumption tax before his term in office expires next September.

He will push for a bipartisan consensus on pension and medical system reform but it is unlikely that agreement will be reached before his term expires.

He will try to push through legislation to turn more tax making authority over to local governments and reduce the power of the central government over localities, though here too the devil is in the details.

He has the opportunity, now that his party has scored such big successes in urban Japan, to champion the cause of agricultural reform. Japanese agriculture is characterized by elderly people farming inefficiently small plots protected by high tariff walls. There is a growing public discussion in Japan about the need for fundamental reform, but Prime Minister Koizumi has not yet given any indication that he plans to take on this very big issue..

Koizumi faces the political problem of moving the reform process forward so as to respond to the high expectations the public expressed in the election. Having won so big, he now has to figure out how not to disappoint the voters.

As far as the economy is concerned, what Koizumi does is probably not as important as the mood his victory has created. First of all, there is confidence in the investor community, and especially among foreign investors, that there will be no backtracking on the course of reform. Second, the Japanese public is generally upbeat about the Koizumi administration and the future of the economy. There is an expectation that things will get better and that in itself creates a virtuous cycle of positive expectations, conducive to consumers spending more and business investing more. The sharp rise in the stock market since the election is an indicator of this positive mood.

The longer term political consequences of the election are less certain but it is my considered view that this election, contrary to appearances, has moved Japan

further along the road to evolving a competitive two party dominated political party system..

It is very questionable how strong the LDP will be without Koizumi. What this election showed is that the great majority of Japanese voters do not identify strongly with any political party; they are floating voters who were attracted this time to Koizumi's party. It is hard to imagine that they will support the LDP in as large numbers as they did this time after Koizumi is gone. The LDP will lose seats in the next election. The question is how many.

The DPJ's massive defeat was good medicine for the party. If it had lost by a smaller margin, the pressure to rejuvenate the leadership, to reject the influence of public sector unions (which were responsible for the DPJ's opposition to privatization of the postal system), and to change its strategy would have been insufficient., But this election taught the DPJ important lessons. One is that it cannot expect to come to power simply by waiting for the LDP to lose it. It has to aggressively, pro-actively fight for the voters' support. The second is that election are one-time events. The DPJ has talked about building its support over a number of elections so that it would "hop, skip, and then jump" into power, but it hopped, skipped, and fell flat on its face. The result is that it now has a new and young leadership core that is trying to change the party so as to make it a real alternative to the LDP. One should not underestimate the ability of the political opposition in Japan to betray expectations that it will challenge the LDP for power, but I believe the coming years will be a period of intense and healthy political competition. What is particularly noteworthy is that the DPJ opposes the LDP on a number of important policy issues, both in domestic and foreign affairs, but that these two parties share essentially the same ideological space. There is a fundamental bipartisan consensus on basic foreign policy strategy, which is anchored in a close alliance with the United States, and on the need to reduce the role of the state in the economy and to make it more open.

There is a need to be cautious in interpreting the significance of this election. It was after all a one off event, unlikely ever to be repeated. It was turned into a referendum on a single issue, postal reform. That is not likely to happen again. Thirty-seven incumbent Diet members were purged from the LDP. LDP Diet members will think harder about going against party discipline the next time a controversial piece of legislation comes to the Diet. The LDP swept urban Japan because of the popularity of its leader. But the LDP has not been transformed, at least not yet, into an urban party.

What can be safely concluded about this election is, first, that politics cannot go

back to what they were like before Koizumi. He has irreversibly broken the old system. Factions will never again recover the role they formerly enjoyed in deciding who becomes prime minister and who joins his cabinet. Koizumi has made the cabinet the prime minister's cabinet, not the LDP's cabinet, and that is likely to continue. And the center of gravity for policy making has shifted from being centered in an LDP-bureaucracy alliance into the prime minister's office. These are fundamental and important changes that are likely to outlast Koizumi and that probably will be his biggest legacy.

Koizumi, however, has done more to destroy the old system than define the contours of the new one. That will be up to his successors. One political issue Japan now confronts is how to institutionalize a new system of checks and balances, something that is necessary to every democracy. In the past the LDP's factional system itself provided checks and balances and an ideological opposition also acted as a brake on the governing party. Koizumi has made the LDP a more unified party than ever before so the old factional system no longer works. The opposition has been humbled and weakened by the election results so its ability to act as a strong check on the ruling party is at least for now quite limited.

There are two sources of checks and balances operating at the current time. One is the Komeito, the LDP's coalition partner. The Komeito's support is crucial for the LDP both because it needs the Komeito's votes to get legislation through the Upper House and because the Komeito supporting religious organization, Soka Gakkai, is one of the few organizations capable of mobilizing large numbers of voters in support of LDP candidates, something that will become much more important in the post-Koizumi era.

The second source of constraint on the government is the stance adopted by Prime Minister Koizumi himself. Koizumi has been very careful to emphasize that the election gave him a mandate for one thing and one thing only: to pass postal system reform legislation and other related reform measures. Much to his credit, he has not claimed public support for anything else, whether in domestic or foreign policy. And he has insisted that he will resign when his term as LDP president ends in September 2006. This results in concentrating the energies of his administration on accomplishing the reform goals he has set out and making support for reform the key issue in choosing his successor. Koizumi is no doubt sincere about his intention to resign next September. Given his character, he would not remain longer simply to help the LDP win the next election for the Upper House in the summer of 2007. But if he becomes convinced as his term approaches its end that there is important unfinished business to attend to that only he can successfully resolve he may in the end change his mind. In

any event, between now and September 2006 we should expect to see Koizumi focus his attention on pushing forward his reform agenda.

Implications for the United States

Recent developments in domestic Japanese politics should be welcomed by the United States. They contribute directly to strengthening our bilateral relationship.

Koizumi's reelection means that there will be continuity in Japanese policy and the continued presence of a prime minister who is committed to sustaining a strong alliance with the United States and who enjoys a strong relationship of trust with President Bush.

The major opposition party, the DPJ, is on the same page as the LDP in terms of its belief in the central importance of a strong US alliance, creating a bipartisan consensus on the fundamental underpinnings of Japanese foreign policy.

The privatization of the postal system and the general thrust for reforms to further liberalize the economy will contribute to creating a stronger Japanese economy that will offer new and expanded opportunities for American business.

It is also important not to entertain excessive expectations (or apprehensions) about Japan's security policy. There is a cautious searching out for a somewhat expanded role for Japan in international political and security affairs, and that will continue. But radical changes are neither likely nor desirable. However, the constraints on Japanese foreign policy that derive from the public opinion in Japan and the difficulties of Japan's relations with its closest neighbors, China and Korea, remain strong.

In considering our security relations with Japan, it is important to understand that they do not occur in isolation. What happens in our relations with Japan impacts directly on our relations with China and with South Korea and other countries. The US needs to have a regional security strategy and to avoid thinking in purely bilateral terms.

In that context it is in American national interests to see Japan and China improve their political relationship. It is not in our interests for relations between these major powers to deteriorate further. Prime Minister Koizumi has stressed that he believes that it is important for Japan and China to have good relations and that he is looking for ways to improve them.

In that regard, however, a looming issue is whether Prime Minister Koizumi decides to visit the Yasukuni shrine again. Yasukuni is not simply a shrine to honor the young men who fought and died for their country. As a visit to the war museum at

the shrine makes all too obvious, Yasukuni is a shrine that honors the ideology and the policies of the government that sent these young men to the battlefields of Asia and the Pacific. It endorses the view that the attack on Pearl Harbor was a preemptive attack taken in self-defense and Japanese aggression in Asia was in fact a noble endeavor to liberate Asia from western imperialism and colonialism. Those convicted of Class A war crimes are enshrined at Yasukuni, but that is only a symbol, not the essence of the problem that has made Yasukuni an international controversy. A decision by Prime Minister Koizumi not to go to Yasukuni will not necessarily result in an improvement of Sino-Japanese relations. But it is a necessary condition for making improvement of those relations possible. It is in our national interest to encourage both Japan and to China to seek ways to improve their political relations.

In summary, Japan is a dynamic political democracy with an immensely popular leader who has contributed in a major way to make the United States-Japan relationship today stronger than it has ever been before. There is a great deal that the United States and Japan together can do to deal with pressing regional and global political, economic, environmental and social problems. It is important that US policymakers engage Japan in a close dialogue to pursue those opportunities.