

Ideologies, Vested Interest Groups, and Postal Saving Privatization in Japan*

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Abstract

The privatization of Japan's postal saving system, the world's largest financial institution, has been a politically charged issue since it first started being debated in the late 1980s. Analyzing the pre-election survey of the House of Representatives candidates in 2003 and also the voting patterns of Liberal Democratic Party (LDP) members on a set of postal privatization bills in 2005, this paper examines why some politicians fiercely opposed (or supported) privatization. The econometric results show that politicians' dispositions toward privatization were mainly shaped by the private interests of local postmasters and postal workers as well as their fundamental ideologies on the size and role of government.

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1. Introduction

As the privatization of government-owned enterprises has gained popularity around the world over the last two decades, researchers have used these experiences to examine whether the discipline of private ownership has led to any economic gains. These empirical studies generally find that privatization produced positive economic outcomes in many different dimensions.¹ Most notably, privatization led to a hardening of budget constraints, improvement in the economic and financial performance of privatized firms, and even some reduction in bribery and corruption (Gupta, 2005; La Porta and Lopez-de-Silanes, 1999; and Megginson, Nash, and van Randenborgh, 1994; Claessens and Djankov, 2002; Clarke and Xu, 2004). Such improvement in efficiency has also been translated into measurable economic gains for consumers (Galiani, Gertler, and Schargrodsky, 2005; Li and Xu, 2004). Furthermore, some studies find that privatization has unintended positive effects on financial market development, which has been increasingly recognized as a critical factor for economic growth (Bortolotti, de Jong, Nicodano, and Schindele, 2007; Boutchkova and Megginson, 2000; Perotti and van Oijen, 2001; Levine, 1997).

Given these multiple benefits of privatization, one might think that the speed of privatization would have accelerated during recent years. The existing data, however, suggest exactly the opposite. Kikeri and Kolo (2006) find that privatization activities in developing countries dropped off in the late 1990s and that government ownership remains prevalent. Bortolotti and Faccio (2004) perform detailed analyses of the control structure of “privatized” firms and find that governments remained the ultimate

¹ See Megginson and Netter (2001), World Bank (1996), Chong and Lopez-de-Silanes (2005), and Clarke, Cull, and Shirley (2005) for a review of the literature.

controlling shareholders in about two thirds of these firms and that governments continued to provide them with a large amount of subsidies. Yusuf, Nebeshima, and Perkins (2006) perform in-depth case studies of China's privatization experience and show that although the Chinese government has privatized a great number of small state-owned enterprises, it has been quite hesitant to privatize or reform both large overstuffed state-owned enterprises in the industrial sector and state-owned banks which provide soft loans to such enterprises.

In light of the ubiquitous positive evidence of privatization, the persistence of government ownership and/or the reluctance of governments to give up the control rights raises an important question. Why are politicians hesitant to privatize government-owned firms? Are politicians acting on their ideologies, their own private interests, the private interests of politically influential pressure groups, or public interests when they oppose privatization?

In this paper, I use the privatization of Japan's postal saving system, the world's largest financial institution, as a case study to shed some light on this political economy question. More specifically, I use the 2003 pre-election survey of all candidates for the House of Representatives and data on the politico-economic characteristics of all prefectures in Japan to investigate the incentives behind politicians' inclination to support or oppose postal saving privatization. This survey reveals an enormous heterogeneity in politicians' stance on privatization not only across parties, but also *within* the ruling and opposition parties, thus provides a unique opportunity to look into the political and economic forces opposing postal privatization during the period when the issue was intensely debated in public. Supplementing the survey data collected in 2003, I also use

the eventual votes of the ruling Liberal Democratic Party (LDP) members on a set of 2005 postal privatization bills for robustness checks. Specifically, since “talk is cheap” and the survey data might contain large errors, I examine whether politicians’ actual votes on privatization also reflected the same politico-economic factors that determined their survey responses two years earlier.

This paper is directly related to a recent and active body of empirical literature that investigates whether political incentives affect privatization decisions in other countries and in cross-country contexts (e.g. Lopez-de-Silanes, Shleifer, and Vishny, 1997; Clarke and Cull, 2002, 2005; Li and Xu, 2002; Bortolotti, Fantini, and Siniscalco, 2003; Bortolotti and Pinotti, 2006; Dinc and Gupta, 2006).² This paper complements these earlier works by looking deeper into the black box through using unique and disaggregated data on individual politicians. An additional advantage of using disaggregated politician-level data is that it allows me to control for a larger set of potentially important and yet omitted factors in the prior studies (e.g. individual politicians’ ideologies on the size and role of government).

This paper is also relevant to a large literature on political economy of financial market regulation and development (e.g. Dehejia and Lleras-Muney, forthcoming; Pagano and Volpin, 2005; Rajan and Zingales, 2003; Economides, Hubbard, and Palia,

² Bortolotti, Fantini, and Siniscalco (2003) find that privatization typically takes place in wealthy democracies, encumbered by high public debt, but endowed with deep and liquid stock markets. Bortolotti and Pinotti (2006) find that privatization is likely in majoritarian political systems. Dinc and Gupta (2006) find that the ruling party in India makes the strategic choice not to privatize in the areas where it faces intense political competition from the opposition party. Lopez-de-Silanes, Shleifer, and Vishny (1997) use county-level data from the United States and find that local governments with weaker public unions and tighter budget constraints are likely to privatize the provision of public goods and services. Clarke and Cull (2002, 2005) find that in Argentina, local employment conditions matter to bank privatization as well as budget constraints and the job security of bank employees. Li and Xu (2002) show that telecom privatization is more likely in a democratic country with strong pro-reform interest groups.

1996; Krozner and Strahan, 1999). This literature shows that financial regulations often do financial development more harm than good as they are often politically motivated to serve special interest groups. The present paper attempts to re-examine whether self-interested pressure groups are an important force in the context of a government's decision to privatize a large government-owned financial institution and to de-politicize the allocation of scarce capital.

The empirical findings of this paper are largely consistent with the private interest view (Olson, 1971; Stigler, 1971; Peltzman, 1976; Becker, 1983). This paper finds that politicians elected from areas with a higher concentration of politically powerful "special post offices", whose main function is not to deliver mails but to collect postal savings, were more likely to oppose postal privatization. This statistical correlation is present in both the survey data and the data recording votes cast in the Diet, and is robust even when controlling for politicians' ideologies on the size and role of government as well as for a host of socio-economic characteristics (e.g. income and population density) and the personal characteristics of the politicians in my sample. These empirical results suggest that interest groups played an important role in shaping politicians' propensity to oppose postal privatization. I also find politicians' ideologies on the ideal size and role of government to be closely related to their stance on privatization. More specifically, politicians with a strong preference for a large interventionist government had a tendency to oppose postal privatization.

The rest of the paper is organized as follows. Section 2 briefly describes the economic problems that have confronted Japan's postal saving system. Section 3 describes efforts towards postal privatization, which started in the 1980s and are planned

to continue until 2017. Section 4 discusses my hypothesis. Section 5 describes the data and empirical strategy used. Section 6 presents the results based on the survey data. Section 7 presents the results based on the data on politicians' eventual votes on a set of privatization bills, followed by concluding remarks in Section 8.

2. Postal Saving System in Japan

As with the postal saving system of other countries,³ government ownership of the postal saving system in Japan has traditionally been regarded as an economically efficient and socially desirable institution; i.e. it takes advantage of the existing mail collection and delivery facilities to provide financial services to the un-banked or under-banked rural population at low cost (Rosenbluth, 1989; Patrick, 1967).⁴ Although the postal saving system of the late 19th century might have fit this description because the financial market was underdeveloped in Japan at that time, a brief look at the operation and size of Japan's postal saving and insurance system as it exists today does not support this positive view.

There are 24,629 post offices nationwide. Most (18,935) of them are so-called "special post offices" that are managed by special postmasters, hire only one or two employees per office, and engage little in delivery services. The primary task of these small postal units is instead the collection of postal saving deposits. The postal system offers extensive depository services both in the cities and rural areas of Japan and

³ The first nation to offer postal saving was the United Kingdom (1861), followed by New Zealand (1867), Canada (1868), Belgium (1870), Japan (1875), Italy (1876), France (1881), the Netherlands (1881), Austria (1883), Sweden (1884), Finland (1887), Greece (1902), the United States (1910), Spain (1916), Ireland (1923), Germany (1939), Norway (1950), and Denmark (1991). Japan's postal saving system was modeled after the British system (Kuwayama, 2000).

⁴ This positive view of a postal saving system hinges on the assumption that private sectors indeed fail to mobilize rural saving, and that politicians and the managers of a postal saving system have the incentive and information to behave in a manner that corrects such market failure (Shleifer, 1998).

competes directly with private banks for loanable funds, instead of supplementing them where private banks fail to provide these services (Kuwayama, 2000; Cargill and Yoshino, 2003). In particular, the expansion of post offices both in cities and rural areas that started in 1960 led to enormous shifts of funds away from the private banking sector into the postal saving system to such an extent that Japan's postal saving system is now the largest financial institution in the world.⁵ Thus, the notion that the postal saving and insurance system exists to serve an under-banked population is difficult to reconcile with the sheer size of Japan's postal saving system.

Moreover, according to the data available at the Universal Postal Union,⁶ virtually every Japanese resident has his or her own postal saving account: there are a total of 118 million postal saving accounts for a population of 127 million.⁷ The fact that virtually every Japanese resident has a postal savings account is consistent with the notion that postal saving is widely accessible and financially attractive even for those individuals who have easy access to privately provided financial services. In particular, time deposits offered by post offices are particularly attractive because they offer competitive interest rates and, more importantly, a put option that allows depositors to withdraw their funds before maturity without any penalty for early withdrawal.⁸

⁵ The sheer size of Japan's postal saving and insurance system is astonishing. It collects as much as 25% of total deposits and sells 30% of all life insurance, totaling 330 trillion yen, 65 percent of Japanese GDP and 15 percent of total financial assets. See Cargill and Yoshino (2003).

⁶ The data are available at <http://www.upu.int/index.html>.

⁷ Although many European countries have a similar postal saving system, the number of accounts per capita is much smaller (e.g. 35 percent in France, 26 percent in Italy, 25 percent in Sweden).

⁸ In addition, the postal saving system traditionally enjoyed other competitive advantages vis-à-vis private financial institutions. First, they are not required to pay any company tax. Second, they enjoy full protection of deposits and insurance policies without paying any insurance premium. Third, they have extensive branch networks and are able to cross-sell postal delivery, banking services, and insurance unlike their private competitors. Fourth and last, they do not face as stringent prudential regulation and supervision and regulation as private banks; e.g. private banks need to meet the standards and face inspection by an independent governmental body, The Financial Service Agency, whereas inspections of

One way for the postal system to avoid directly competing for funds with private banks is to limit the amount of postal deposits per individual or household. The Japanese government does do this, but the limit is high, 10 million yen (approximately \$100,000). To make matters worse, this statutory limit is not rigorously enforced, and it has been alleged that wealthy savers illegally hold multiple accounts, thereby exceeding the limit (Rosenbluth, 1989).⁹

The problems created by the postal saving system are not limited to the extent of aggressive government intervention in the collection of funds from households. The second and perhaps more important issue is the outlet of these funds. Although the pool of funds collected via postal saving and insurance is managed by an independent public corporation, Japan Post, which can invest its funds as it sees fit, it in reality is the major source of funding for a government-directed loan program called the Fiscal Investment and Loan Program (FILP). The FILP takes these funds and channels them to government-affiliated corporations and other preferred borrowers (e.g. mortgage borrowers, small firms, and underdeveloped areas), and it has been widely believed that the FILP funds wasteful projects and unviable borrowers for political purposes, even though the FILP is intended to enhance “social goals” (Doi and Hoshi, 2003; Imai, 2006).

3. Movement toward Postal Privatization

The Japanese government began considering the privatization of the postal saving system in the 1980s under the leadership of Prime Minister Yasuhiro Nakasone, a

post offices are conducted by bureaucrats in the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT) that controls the post offices

⁹ A large number of postal saving accounts might be partly explained by the illegal holding of multiple accounts.

conservative contemporary of Margaret Thatcher and Ronald Regan, when Nakasone and the Japanese government undertook large scale administrative reform in the face of a rising budget deficit.¹⁰ Although the Nakasone administration successfully completed the privatization of three large public corporations, Japan National Railway (JNR), Nippon Telegraph and Telephone (NTT), and Japan Tobacco (JT), it decided not to privatize the postal system.¹¹ Since then, no administration has seriously considered privatization of the postal system for a decade.

A turning point came in September 1997 when the Administrative Reform Council, headed by the Prime Minister Ryutaro Hashimoto, issued an interim report which recommended the privatization of the financial business part of the postal system.¹² This recommendation, however, faced fierce resistance from both the opposition and his fellow LDP members. Reflecting such enormous political opposition, the final report that was published in November 1997 included a written commitment that “postal services will never be privatized”.

The final report, however, included three policy recommendations that were designed to reduce the government's involvement in postal services operation. First, it called for a shift in the management of the postal system from the Ministry of Post and Telecommunication to an independent corporation, Japan Post. Second, it recommended that Japan Post should have complete autonomy over the manner in which it invests postal saving and insurance funds: in other words Japan Post has no obligation to fund

¹⁰ Recent cross-country evidence shows that fiscal imbalances tend to motivate governments' efforts toward privatization (e.g. Bortolotti and Fantini, 2003). Japan's privatization experience indeed fits this pattern.

¹¹ These three formally public corporations, however, were only partially privatized. The Japanese government remains the majority owner of these “privatized” firms as of today.

¹² Specifically, the report recommended the immediate privatization of postal insurance in 2001 and preparation for the eventual privatization of postal saving.

the FILP. Third, the government agencies that had traditionally relied on the FILP loans would need to issue their own securities to finance their projects. Hence, these recommendations were principally aimed at cutting off the flow of postal saving funds to seemingly wasteful government agencies and introducing some elements of market discipline into the operation of those agencies. The flow of funds from postal saving and insurance to the MOF and other public entities, however, did not significantly change even after the creation of Japan Post and the FILP reform (Doi and Hoshi, 2003).

The second important change occurred in 2001 when Koizumi Junichiro, a long-time advocate for postal privatization, became Prime Minister by winning by a landslide in the LDP presidential primary.¹³ Koizumi was a popular reformer as the survey continued to show approval ratings above 70%.¹⁴ As soon as he took office, Koizumi assembled pro-reformers and set up an advisory panel, which immediately demanded the disclosure of unrealized profits and losses of the postal system and sent bills to the Diet that would actually implement the reform measures spelled out in the aforementioned report.¹⁵

The actual implementation of postal privatization was slow, however, as Koizumi struggled to reach a compromise with the opposition group that argued that postal privatization would violate the written statement in the 1997 report that the postal system was not to be privatized. Nonetheless, in September 2004, three years after becoming the prime minister, Koizumi announced the specifics of postal privatization.

¹³ Koizumi ran for the LDP presidency in 1995 and 1999, but he gained little support in both attempts, losing decisively to Ryutaro Hashimoto and then Keizo Obuchi

¹⁴ In addition to postal privatization, he advocated for fiscal discipline and banking sector reform.

¹⁵ See "Reform for Japan's Post Office." *Economist*, June 21, 2001.

The 2004 proposal for postal privatization called for dividing the postal system into four units (over-the-counter service, mail delivery, postal saving, and insurance). The government-owned holding company was to retain ownership of the first two units while completely divesting itself of postal saving and insurance units by 2017. The point of contention in the proposal was its adherence to the full privatization of postal saving and insurance, and the opposing LDP members maintained that the holding company must keep some ownership of the postal saving and insurance units.

The government made several important compromises in an attempt to obtain enough support for passage by the Diet. In particular, the final bills made it possible for the government to regain some ownership of the postal saving and insurance units. More specifically, the holding company was allowed to buy back some shares, and the over-the-counter unit and the mail delivery unit were also allowed to buy the financial unit's share to form a group through cross-shareholding. By 2005, when the cabinet was ready to submit the privatization bills to the Diet, the contents of the bills had been substantially watered down.¹⁶

Despite many compromises, the privatization bills still encountered fierce opposition from anti-reformers within the LDP as well as the opposition parties in the Diet. The major opposition party, the Democratic Party of Japan (DPJ), protested against the government-sponsored bills by boycotting Diet sessions in May 2005.¹⁷ Moreover, although the LDP and its coalition partner, New Komeito, enjoyed a majority in both the House of Representatives and the House of Councillors, some of the senior LDP anti-reformers openly criticized the bills by organizing a series of protest meetings with other

¹⁶ Another important concession made by Koizumi is the promise of universal financial services during the transition period (2007-2017).

¹⁷ This boycott, which was also accompanied by the Social Democratic Party (SDP), lasted 10 days.

sympathetic LDP members.¹⁸ In particular, the anti-privatization faction of the LDP fiercely opposed the centerpiece of the bills that separated postal saving and insurance from mail and over-the-counter services. The anti-reformers believed that “if we can only prevent the three businesses from being divided, we can turn the privatized firm back into a public corporation under the next administration.”¹⁹

Since the government refused to compromise on this issue, it was expected that many LDP lawmakers in both the House of Representatives and the House of Councillors would vote against the bills. To force these anti-privatization members to vote for the bills, Koizumi threatened to dissolve the House of Representatives, call a snap election, and expel those LDP lawmakers who voted against the party if the bills were voted down. Although these threats effectively shifted some LDP members’ votes in favor of the bills, the others still voted against the bills. In the House of Representatives, the bills only passed with a marginal majority with 233 affirmative votes against 228 negative votes because all the opposition parties voted against the bills and, more importantly, 45 of the 250 LDP members failed to vote for the bills.²⁰ The House of Councillors actually voted down the privatization bills by 17 votes as 30 of the 114 LDP members did not vote for the bills.²¹ In response, Prime Minister Koizumi dissolved the House of Representatives

¹⁸ These meetings, which typically attracted more than 100 LDP lawmakers, were organized by Tamisuke Watanuki, a former speaker of the House of Representatives and a symbolic leader of anti-privatization group of the LDP. Incidentally, his oldest son, Katsusuke Watanuki, is the president of Tonami Transportation Corporation, which is one of the major contractors of Japan Post for parcel deliveries (see <http://www.japanpost.jp/top/disclosure/e2003/yubin/2/5-4.html>).

¹⁹ Yomiuri Shinbun, 9/2/2004. “Koizumi faces difficulties in winning round LDP”

²⁰ Of the 51 LDP members who did not vote for the bills, 14 abstained while 31 voted against the bills.

²¹ In the House of Counsellors, 22 LDP members voted against the bills while 8 abstained.

(lower house), called a snap election, and decided not to support those “rebels” in the upcoming election for the House of Representatives.²²

The subsequent election for the House of Representatives was essentially a referendum on postal privatization, and the LDP ended up winning a landslide victory by winning votes from urban districts that traditionally voted for the DPJ.²³ After the landslide victory, the House of Representatives quickly approved the privatization bills again on October 11. In the House of Councillors, all but two LDP members who had previously voted against the privatization bills changed their votes to support the bills, which resulted in the Diet’s final approval of the bills on October 14, 2005.

4. Hypotheses

Why did some politicians oppose postal saving privatization in Japan? Several hypotheses can be advanced. First of all, it might be the case that politicians simply chose their stance based on their ideology or policy preference. Recent theoretical and empirical literature on public choice has shown that politicians’ inability to credibly commit to a moderate policy gives rise to a large role for politicians’ ideologies or policy preferences in shaping policy outcomes (e.g. Alesina, 1988; Osborne and Slivinski, 1996; Besley and Coate, 1997, Poole and Rosenthal, 1997; Levitt, 1996; Pande, 2003, Chattopadhyay and Duflo, 2004; Lee, Moretti, and Butler, 2004; Rodríguez, 2006). Consistent with this non-Downsian view, previous empirical studies find that privatization tends to occur under conservative governments that represent general taxpayers and favor small government

²² In Japan, the House of Representatives, but not the House of Councillors, can be dissolved at any time by the Emperor on the advice of the Prime Minister.

²³ The LDP won a solid majority, 296 out of 480 seats, in this election. Combined with 31 seats won by New Komeito, the ruling coalition won more than two-thirds of the seats in the House of Representatives.

(e.g. Lopez-de-Silanes, Shleifer, and Vishny, 1997; Bortolotti, Fantini, and Siniscalco, 2003; Clarke and Cull, 2002; Li and Xu, 2002). Hence, it can be hypothesized that politicians who believe in a limited role for government in the economy are more likely to support postal privatization, since Japan's postal system is a large public corporation which fiscally conservative politicians might consider to be the main source of a wasteful loan program.

Secondly, aside from political ideology, politicians' stance on postal privatization might be influenced by self-interested pressure groups (Olson, 1971, Stigler, 1971, Peltzman, 1976, and Becker, 1983). In this "private interest view", a politician who is captured by pressure groups that stand to lose from privatization is more likely to oppose postal privatization as compared to a similar politician who is not politically tied to such groups or a politician who is politically tied to pressure groups who will gain from privatization.

In the case of Japan, postal privatization means that the postmasters and postal workers would lose their status as public employees and that some of them would lose their jobs and/or wage premium under the new (private) ownership. In particular, those postmasters and workers at special post offices might face a greater risk of layoff simply because these small post offices are mainly engaged in deposit collection, which was to be privatized. Moreover, many current postmasters are not trained managers of banks and insurance companies, and more importantly, are often politically appointed or even inherited their positions from their parents and relatives (Amyx, Takenaka, and Toyoda, 2005). Hence, postmasters and workers of so-called special post offices were often pointed out as the major losers of a postal privatization. I hypothesize that the politicians

whose electoral districts have a large number of post offices (particularly special post offices) are therefore more likely to oppose privatization.

Third, Shleifer and Vishny (1994) point out how political patronage tends to tip the cost-benefit calculus of privatization decisions because government ownership provides politicians with a low-cost-means to deliver economic rents to their supporters. Since Japan's postal saving system is the main source of funds for the FILP, which provides preferential soft loans to some borrowers, the potential influence of these borrowers needs to be considered in my empirical analysis. In addition, if the FILP borrowers are on the losing end of postal saving privatization, bankers might be the major beneficiaries because postal privatization might lead to a great deal of fund reallocation from public sector (postal saving system and the FILP) to private banks. I hypothesize that the politicians whose electoral districts are heavily dependent on the flow of these government loans relative to private loans might be more likely to oppose postal privatization.

Fourth and last, party affiliation might affect politicians' disposition toward privatization. Because Koizumi had been a long-time and fervent advocate of postal privatization, failure to achieve his goal would damage the credibility of his cabinet and, ultimately his party, the LDP, and its coalition partner, New Komeito. To the extent that the members of these ruling parties relied upon the popularity of Koizumi in elections and that these parties could effectively discipline those members who are against postal privatization, these politicians might be more inclined to support postal privatization. More specifically, I expect that members of the LDP and its coalition partner, New Komeito, are more likely to support postal privatization.

5. Data and Empirical Methodology

5.1. Politicians' Disposition toward Postal Privatization

The analysis of this paper is based upon the pre-election survey of all House of Representatives candidates in 2003. This survey, called *Asahi-Todai Elite Survey (ATES)*, was conducted jointly by the Asahi Newspaper Company and Tokyo University under the guidance of Ikuo Kabashima, Professor of Law at Tokyo University. The survey questionnaires were handed to all 1159 candidates for the House of Representatives on September 24, 46 days before the election.²⁴ The overall response rate was high, 95 percent of all candidates and 95 percent of all election winners responding.

The survey posed a number of questions regarding the widely debated issues during the election, such as Japan's military support for the United States in the Iraq War, fiscal policy, and public pension reform. The question that is directly relevant to this paper is: *Do you agree that the postal system should be privatized?* In response to this question, the candidates were given five possible choices: (1) *Yes, I agree*, (2) *If I must choose my position, I agree*, (3) *I cannot choose*, (4) *If I must choose my position, I disagree*, (5) *No, I disagree*.²⁵ I call this attitudinal indicator *Anti-privatization* and use it as my dependent variable that is to be explained by the personal characteristics of candidates and the characteristics of the prefecture that they are from. Since this survey response is a polychotomous-dependent variable with a natural order that increases with

²⁴ There are 480 members elected for the House of Representatives. This election featured several issues other than postal privatization such as the continuing recession, public pension system reform, the role of Japan in the Iraq War, and Japan's relationship with North Korea.

²⁵ The response rate for this particular question was also high, 93 percent of all candidates and 90 percent of all election winners.

the degree of resistance to postal privatization, an ordered probit regression is used, instead of simple linear regression.

Panel A of Figure 1 shows the break-down of candidates' attitudes toward the issue of postal privatization.²⁶ With the exception of the Japanese Communist Party (JCP) and the Social Democratic Party (SDP) that were firmly united in opposition to postal privatization, this issue seems to have divided every political party in Japan. In particular, both the LDP and the DPJ, the two largest parties in Japan, were equally fragmented even though the final votes in 2005 for the most part followed their respective party lines. More specifically, 23 percent of the DPJ candidates actually expressed their support for postal privatization while 30 percent of the LDP candidates opposed it. Such party fragmentation can be seen even when I restrict my sample to those candidates who ended up winning the 2003 election (Panel B); i.e. 26 percent of DPJ members of the House of Representatives supported postal privatization, whereas 29 percent of LDP members of the House of Representatives opposed it. Hence, the survey results suggest enormous heterogeneity in politicians' dispositions toward postal privatization both across and within parties as of 2003.

5.2. Determinants of Politicians' Attitudes toward Privatization

The principal goal of this paper is to examine whether the private interests of pressure groups had any effects on the attitudes of Japan's politicians toward postal privatization, *ceteris paribus*. For this purpose, I construct two datasets: (1) a prefecture-level dataset containing politico-economic characteristics of each prefecture from which

²⁶ Of 1104 candidates who agreed to answer the survey questionnaires, 27 of them chose not to provide answers for the question about postal privatization.

each candidate in the survey data ran for election and (2) a politician-level dataset containing the personal characteristics of those candidates. I match these two datasets with the survey data to empirically relate the dispositions of politicians toward postal privatization to their personal characteristics and the politico-economic characteristics of the prefectures they represent.

My main hypothesis is that the private interests of pressure groups entered the cost-benefit calculation of politicians when they chose their positions on postal privatization. In particular, the roles of four pressure groups are considered in this paper: (1) postmasters, (2) postal workers, (3) preferred borrowers of government loans, and (4) private banks. Prefecture-level variables are used to measure these political factors since more disaggregated district-level data are not available. To measure the influence of postmasters and postal workers, I use the total number of post offices per 1,000 inhabitants.²⁷ In addition to the total number of post offices, I use the number of special post offices per 1,000 inhabitants. The number of post offices and special post offices are from *Statistics of Japan Post*.²⁸ The data on population are from the *Regional Database* that is compiled and made available by the Development Bank of Japan.²⁹

To proxy for the relative influence of the preferred borrowers of government loan programs and private banks, I use the share of government loans in total loans.³⁰ The data on government loans share are available at prefecture level and derived from the *Monthly Reports on Financial and Economic Statistics*, published by the Bank of Japan. If private

²⁷ More disaggregated data on post offices' employment would be useful to pin down exactly which interest group (postmasters or postal workers) is more influential. Unfortunately, I was not able to locate such data.

²⁸ The following website provides the data:
<http://www.zaimu.japanpost.jp/tokei/eng2003.html>.

²⁹ The following website provides the data:
<http://www.dbj.go.jp/japanese/download/database/data/no01.html>.

³⁰ The following website provides the data:
<http://www.dbj.go.jp/japanese/download/database/data/no06.html>

banks and the recipients of government loans were influential pressure groups that had important effects on politicians' stances on postal privatization, I expect that politicians who come from prefectures with more government loans relative to private loans are more likely to oppose postal privatization.

Politicians' ideologies are difficult to quantify, and yet it is important to control for them, especially because their ideologies might be correlated from the key political and economic characteristics of their prefectures that affect their attitudes toward privatization. Such correlations can arise in various ways. For instance, if a politician is elected from an area that is heavily dependent on government loans and other financial assistance, then she might over time form an ideology favoring large interventionist government. Alternatively, those areas that are heavily dependent on government loans and other financial assistance might have a tendency to elect politicians that prefer large and interventionist government to begin with. Hence, in order to assess the direct and independent effects of political forces from private interest groups on politicians' attitudes toward privatization, I need a variable that captures politicians' ideologies as precisely as possible and then must include it in a set of explanatory variables.

To capture politicians' ideologies, I again use the *Asahi-Todai Elite Survey (ATES)*, which contains a question about the size and role of government in society. The question is phrased as follows: *Do you agree that the government should be smaller even if it means a reduction in the quality of government services such as social welfare?* In response to this question, candidates were given five possible choices just as in the case of the question about postal privatization: (1) *Yes, I agree*, (2) *If I must choose my position, I agree*, (3) *I cannot choose*, (4) *If I must choose my position, I disagree*, (5) *No*,

I disagree.³¹ I call this attitudinal indicator *Large government*, which increases with a politician's preference for a large interventionist government. I expect that those politicians who prefer a smaller government are more inclined to support postal privatization.

To capture the effects of party affiliation and discipline, I use dummy variables associated with the different political parties in Japan. More specifically, using a group of independent (unaffiliated) candidates as a base group, I construct six dummy variables for the five medium-to-large political parties, (1) the Liberal Democratic Party (LDP), (2) the Democratic Party of Japan (DPJ), (3) New Komeito, (4) the Japanese Communist Party (JCP), (5) the Social Democratic Party (SDP), and for other small parties.

Information about party affiliations is taken from the *Asahi-Todai Elite Survey (ATES)* as well. I expect that the candidates affiliated with the ruling coalition (i.e. the LDP and New Komeito) are more likely to support postal privatization than independent candidates. I also expect that those in opposition parties (i.e. the DPJ, the JCP, the SDP, and other parties) are more likely to oppose it than independents.

In addition to these key independent variables, I include a host of politician-level and prefecture-level control variables that might be related to politicians' proclivity to oppose postal privatization. For politician-level variables, I include the number of past election victories and dummy variables for incumbent candidates and returning candidates to account for the possibility that postal privatization might be an issue that affected old entrenched incumbents and relatively new candidates differently. The number of past election victories and indicator variables for incumbent and returning

³¹ The response rate for this particular question was also high, with 93 percent of all candidates and 90 percent of all election winners responding.

candidates are taken from Asahi Shinbun's CD-ROM (*Sousenkyo no Subete 2003*). For prefecture-level variables, I use two socio-economic variables, population density and per capita income to capture the unobserved differences between urban and rural politicians. These variables also account for the possibility that politicians who represent rural and relatively poor constituents might oppose privatization because of the fear that privatization might lead to a loss of universal mail delivery and collection services for their constituents even though those non-financial services of the postal system would remain under government ownership, and were promised to be universally provided even after privatization of the postal saving system. Population density is computed from population data in the *Regional Database* and geographical data in the *Japan Statistical Yearbook*. Per capita income is from the *Regional Database*.

As I combine these politician-level data and prefecture-level data together, some politicians drop out of my sample for two reasons. First, in order to be in the sample, political candidates must have provided responses to both the question about postal privatization, which is used as the dependent variable in an ordered probit model, and the question about government's size and role in society, which is used to control for political ideologies. Out of 1159 respondents, 1053 (90%) of them responded to both questions.³² Second, Japan's electoral system is a mixed single-member district/proportional representation system. In this system, each voter casts two votes, a vote for a candidate in the local district and another vote for a party, which has selected a list of candidates. Those candidates who are only on the party lists inevitably drop out of the sample because they cannot be matched up with prefecture-level data. Since 104 of

³² The individual response rates for the question about postal privatization and about government's size are 93% and 92%, respectively.

the above 1053 candidates ran for the House of Representatives only from the party list, they drop out of the sample, and thus the final sample consists of 949 candidates (82 percent of all candidates).

Tables 1 and 2 show the summary statistics and correlation coefficients of all variables used in my regression model. 81 percent of the candidates in my sample are affiliated with the LDP, the DPJ, or the JCP (Table 1),³³ and 39 percent of them are incumbents or returning candidates (Table 1). The correlations between politicians' disposition toward postal privatization and the key political and economic factors are largely in accordance with my priors (Table 2). Anti-privatization politicians tend to prefer large government. Politicians in the ruling coalition (i.e. the LDP and New Komeito) tend to support postal privatization while those in the opposition parties (e.g. the JCP and the SDP) tend to oppose it. A surprising observation here is the negative and significant correlation between *DPJ* and *Anti-privatization*, suggesting that DPJ candidates are more inclined to support postal privatization, even though the DPJ is the major opposition party. This correlation is however consistent with the party fragmentation seen in Figure 1. The politicians who ran for the House of Representatives in prefectures with many post offices and special post offices per capita tend to oppose postal privatization, as expected. Moreover, those politicians who came from prefectures that are heavily dependent on government loans relative to private loans also tend to oppose postal privatization. The characteristics of prefectures are found to be correlated in the expected fashions. High-income prefectures tend to be more densely populated and

³³ It must be remembered that most of the JCP candidates ended up losing in the elections (see Figures 1 and 2). In a robustness check, I drop the JCP candidates because of the concern that the JCP candidates might have done an entirely different cost-benefit calculus on the issue of postal privatization as compared to the others.

have fewer post offices per capita, and also tend to be less dependent on government loans than low-income ones.

5.3. Empirical Model

We model a politician's survey response as a function of ideology, political party, other politician specific variables, politico-economic variables that capture pressure groups' interests, and other prefecture-level control variables. Formally, the specification takes the following form:

$$\begin{aligned}
 \text{Anti-Privatization}_{i,l} = & \beta_0 + \beta_1 \text{Large Government}_{i,l} + \beta_3 \text{Post Offices}_l \\
 & + \beta_4 \text{Government Loans}_l + \beta_5 \text{Party}_{i,l} + \beta_6 \text{Election Victory}_{i,l} \\
 & + \beta_7 \text{Incumbent Candidate}_{i,l} + \beta_8 \text{Returning Candidate}_{i,l} + \beta_9 \text{Pop. Density}_l \\
 & + \beta_{10} \text{Per Capita Income}_l + \varepsilon_{i,l}
 \end{aligned}$$

The i and l subscripts indicate politician and prefecture, respectively, and ε represents a random error term. Note that the dependent variable, *Anti-Privatization*, is a polychotomous variable with a natural order (1, 2, 3, 4, 5) that increases as a politician becomes more resistant to the idea of privatization. Since the variable merely represents a ranking, I cannot assume that the difference between a 5 and a 4 is the same as that between a 3 and a 4. Therefore, a linear regression model is not appropriate. The appropriate one is instead an ordered probit model. To use the notation of Wooldridge (2002), the ordered probit model is written as:

$y^* = x\beta + \varepsilon$, $\varepsilon \sim Normal(0, 1)$, and

Anti-Privatization = 1 if $y^* \leq \alpha_1$

Anti-Privatization = 2 if $\alpha_1 < y^* \leq \alpha_2$

Anti-Privatization = 3 if $\alpha_2 < y^* \leq \alpha_3$

Anti-Privatization = 4 if $\alpha_3 < y^* \leq \alpha_4$

Anti-Privatization = 5 if $y^* > \alpha_5$

where y^* is a latent variable measuring the intensity of a politician's opposition to privatization, and $\alpha_1 - \alpha_5$ are threshold parameters that determine the value of *Anti-Privatization* chosen by a politician, given y^* .

The coefficient estimates are obtained through standard maximum likelihood estimation with standard errors adjusted for possible correlation across politicians who were from the same prefecture. In a robustness check, I impose the assumption that error terms are independent and estimate the same model with simple heteroskedasticity-robust standard errors. I also use ordered logit and simple Ordinary Least Squares (OLS) to see if the results drastically change.

Note that since the model is non-linear, the estimated coefficient β_k cannot be interpreted as the marginal effects of a unit increase in x_k on the observed dependent variable, *Anti-Privatization*. Instead, since I am interested in $p_j(x\beta)$, the probability that *Anti-Privatization* takes on a particular value j , I compute the effect of a change in x on such probability using the following formula:

$$\partial p_0(x\beta) / \partial x_k = -\beta_k \phi(\alpha_1 - x\beta), \quad \partial p_5(x\beta) / \partial x_k = \beta_k \phi(\alpha_5 - x\beta)$$

$$\partial p_j(x\beta) / \partial x_k = \beta_k [\phi(\alpha_{j-1} - x\beta) - \phi(\alpha_j - x\beta)], 0 < j < 5$$

where ϕ is the standard normal density function. I report the coefficients on variables, and in addition, interpret the results by calculating these marginal effects.

6. Empirical Results

6.1. Determinants of Politicians' Dispositions toward Postal Saving Privatization

Table 3 reports the results of an ordered probit model using the entire sample of political candidates for the 2003 House of Representatives election. In all specifications, dummy variables for party affiliations (*LDP*, *DPJ*, *Komeito*, *JCP*, *SDP*, and *Other party*) are included. The coefficients on these dummy variables suggest that the members of the large opposition parties, the DPJ, the JCP, and the SDP, tend to oppose postal saving privatization more intensely than independent candidates do. Somewhat surprisingly, *LDP* has a positive and insignificant coefficient, suggesting that LDP candidates did not show strong support for postal saving privatization in a consistent fashion (relative to the independents).

Consistent with my priors, *Anti-privatization* is positively correlated with *Large government*, and this correlation is statistically significant (column 1). This suggests that a politician's attitude toward postal saving privatization is partly a reflection of her underlying ideology on the size and role of government in society; i.e. politicians with a stronger preference for large interventionist government tend to oppose postal saving privatization more intensely. *Anti-privatization* is also positively correlated with *Post office*, *Special post office*, and *Government loans/total loans* (columns 2, 3, and 4), suggesting that politicians were more likely to oppose postal saving privatization when their prefectures contained more post offices and more special post offices per 1,000

inhabitants and/or when their prefectures were more dependent on government loans. These results are consistent with the private interest view that pressure groups exert influence on politicians' stance on postal privatization.

When *Large government* and each of these proxies for pressure groups, *Post office*, *Special post office*, and *Government loans/total loans*, are included at the same time, the coefficients on these pressure group proxies tend to decline (columns 5, 6, and 7). These results indicate that a part of the correlation between politicians' attitudes toward postal privatization and pressure groups' size is driven by politicians' ideologies. In other words, the prefectures with a large number of post offices and special post offices and the prefectures dependent on government loans tended to have candidates that were more likely to favor large interventionist government. The coefficients on *Post office*, *Special post office*, and *Government loans/total loans*, however, remain statistically significant. One fragile result is the coefficient on *government loans/total loans*. Once both *Large government* and *Post offices* or *Special post offices* are simultaneously controlled for, the coefficient on government loans become small and insignificant (columns 8 and 9).

The coefficients on *Large government*, *Post offices* and *Special post offices*, however, are robust to the inclusion of other socio-economic characteristics (i.e. *Per capita income* and *Population density*) and personal characteristics of politicians themselves (i.e. *Past election victory*, *Returning candidate*, and *Incumbent candidate*) (columns 10 and 11). These results suggest that politicians' ideology and pressure groups exert influence on politicians' disposition toward postal saving privatization. Moreover, the effects of ideologies and pressure groups are economically important. The coefficient

estimates of probit models reported in columns 10 and 11 imply that as *Large government* increases by 1 standard deviation (1.22) from the mean (3.78), the probability of a politician strongly opposing postal privatization (i.e. *Anti-privatization* = 5) will increase by 0.08. Similarly, the marginal effects of a 1 standard deviation increase in *Post office* and *Special post office* on the probability of a politician strongly opposing postal privatization are 0.11 and 0.09, respectively.³⁴ The results also show some evidence that politicians tend to oppose privatization more intensely when their prefectures are poorer (column 11).

6.2. Robustness Check

First of all, I check to see how my results change if I use heteroskedasticity-robust standard errors instead of clustered standard errors, an ordered logit model, and a simple linear regression model instead of an ordered probit model. I obtain qualitatively similar results with these changes (Table A1).

Second, some candidates in the sample might face an entirely different cost-benefit calculus as they have virtually no chance of winning an election. These candidates might be ideologues and take extreme positions regardless of local pressure groups. In particular, the JCP put up over 300 candidates, but only 10 of them ended up being elected (Figure 1). In order to check whether these ideologically-driven candidates are also driving the main results, I estimate the same ordered probit model with a sub-sample excluding the JCP and other sub-sample excluding election losers. The results based on these two sub-samples (columns 1 - 4, Table 4) suggest that the statistical correlation between politicians' attitudes toward privatization on the one hand, and their ideologies

³⁴ Figure A1 graphically illustrates the marginal effects of *Large government*, *Post office*, and *Special post office* on the probability of *Anti-privatization*.

and the proxies for postal interests groups on the other, is present both among the non-JCP candidates and the winning candidates.

Third, since the LDP was the largest party in a position to actually materialize the postal privatization, I check to examine whether the basic results hold true within the ruling coalition (i.e. the LDP and Komeito) and the LDP by itself. The results based on these smaller sub-samples are qualitatively similar to the basic results (column 5 – 8, Table 4), suggesting that politicians in the ruling parties are influenced by pressure groups and their own ideologies.

7. Voting on Postal Saving Privatization Bills

The basic results presented above are based on politicians' responses to survey questionnaires. There might be two potential criticisms with respect to the exclusive reliance on such data. First, these responses might not represent politicians' true attitudes since "talk is cheap." Since politicians do not face any real costs of giving "wrong answers" that do not necessarily maximize their welfare (e.g. chance of winning elections), their response might contain a large component of errors. If the errors are simply random and/or constant across politicians, then the coefficient estimates might not be necessarily inconsistent. However, there is no guarantee that these errors are orthogonal to the key variables that capture politicians' ideologies and the private interests of pressure groups. In particular, on the eve of an election, politicians might be inclined to take on a position that caters to pressure groups which have the ability to shift a sizable number of votes in their favor. In this case, my empirical results surely overstate the importance of pressure groups in determining politicians' attitude toward postal

saving privatization. On the other hand, it might be the case that politicians might have mindlessly followed their ideologies when filling out survey questionnaires, in which case the role of ideology is overstated in the empirical results.

In this section, I use data on the eventual voting patterns of the LDP members on a set of privatization bills to check the robustness of my earlier results. To briefly preview the results, I find that the actual votes in 2005 strongly reflected the politicians' responses to questioners in 2003 and that votes are strongly correlated with ideologies and with the private interests of post offices (particularly special post offices) just as found in the pre-election survey data.

As described in Section 3, the only party whose members did not vote in accordance with their party line was the LDP. That is, every politician except for those who were members of the LDP saw the cost of voting against her own party completely outweigh the benefit of such action.³⁵ Because the data-generating processes of voting behavior are completely different between non-LDP members and the LDP members, it is inappropriate to pool them together.³⁶ Thus, I only focus on the variation of votes amongst the LDP lawmakers. Moreover, to make a consistent comparison with the earlier results, I restrict my sample to those LDP members who ran in the 2003 election as LDP candidates, responded to the survey questions in 2003, and cast their votes on the privatization in 2005. These are the politicians who are included in the sample that generated the results reported in columns 7 and 8 of Table 4 *minus* 6 LDP lawmakers

³⁵ It can be conjectured that members of the opposition parties (particularly, the DPJ) wanted to seize the opportunity to break up the LDP by voting against the postal privatization bills even though some of its members favored it in principle. Komeito, a coalition partner of the LDP, might not want to see a breakup of the LDP, and accordingly voted for the privatization bills.

³⁶ Statistically, when I pool them together and estimate the same probit model, the dummy variables for party affiliations perfectly explain more than half of all observations, which makes the standard errors unreliable.

who resigned from the House of Representatives between 2003 and 2005 or did not vote on the bills.³⁷

Table 5 displays how the LDP members' votes in 2005 are correlated with their survey responses in 2003. The actual votes are much more skewed toward supporting postal privatization than the survey responses, which are almost symmetrically distributed. The threat of punitive action by the party and the compromise and watering-down of the bills might have induced some party members to vote in favor of the bills despite their initial resistance. Note, however, that there is a strong positive correlation between *Anti-privatization* and *Privatization Vote*. That is, politicians who expressed their opposition to postal privatization in 2003 were more likely to vote against the postal privatization bills in 2005.

Table 6 reports the results of an ordered probit model relating *Privatization Vote* on the postal privatization bills to the same politico-economic factors that are used to explain *Anti-privatization*. These results are qualitatively similar to the results reported in Tables 3 and 4. The coefficient on *Large government* is positive and statistically significant in a consistent fashion across different specifications, supporting the notion that LDP members with an ideological inclination towards large interventionist government were more likely to vote against the bills. The coefficients on *Special Post office* are also positive and significant, suggesting that postal interests influenced LDP politicians' votes on the bills. The only change is that the coefficient on *Post office* is no longer significant.

³⁷ Hiroshi Kondo and Masanori Arai lost their seats after being indicted in January 2004 of vote-buying. Kazuyoshi Nakanishi lost his seat after being indicted in March 2005 of sexual assault. Yohei Kono, having been chosen as the House speaker, did not vote. Toshitsugu Saito could not vote because of traveling. Sadanori Yamanaka died of pneumonia in February 2004.

These effects are again economically important. A back-of-the-envelope calculation based on the results reported in columns 11 of Table 6 shows that, in response to a 1 standard deviation increase in *Large government*, the probability of voting for the postal privatization bills falls by 0.06 while the probability of voting against the bills rises by 0.05. Similarly, when *Special post office* rises by 1 standard deviation, the probability of voting for the bills fall by 0.04 while that of voting against the bills rises by 0.03. These marginal effects are large in light of the fact that only a small proportion (about 10%) of LDP lawmakers risked punitive actions and voted against the bills.³⁸

I perform some robustness checks to see how these results survive. First, one LDP member, Toshitsugu Saito, could not vote on the bills because he was traveling. I treat this observation as missing, assuming that his absence is not strategically motivated (i.e. no sample selection bias). When I put him in the group of the LDP members who abstained, the coefficient on *Large government* increases while the coefficient on *Special post office* decreases slightly. Both of these coefficients, however, remain statistically significant (columns 1 and 2, Table A2).³⁹ Second, I add the LDP members who ran in the 2003 election as LDP candidates but failed to give a response to the question about postal privatization in the pre-election survey. The inclusion of these 7 LDP lawmakers in the sample did not qualitatively change the results (columns 3 and 4, Table A2). Third, I add the 2 LDP members who gained their seats after the 2003 election.⁴⁰ The results

³⁸ Figure A2 graphically illustrates these marginal effects of *Large government* and *Special post office* on the probability of *Privatization vote*.

³⁹ When I put him in the group who voted for the bills, as the majority of the LDP members did, the coefficient on *Large government* falls while that on *Special post office* increases. When I put him in the group who voted against the bills, the coefficient on *Large government* rises while that on *Special post office* falls. These changes, however, are slight and the results are qualitatively the same.

⁴⁰ These two LDP lawmakers are: Takehide Kimura who replaced Hiroshi Kondo (LDP) who lost his seat because of vote-buying and Taku Yamasaki who replaced Junichiro Koga (DPJ) who lost his seat because of overplaying his academic career.

again remain qualitatively the same (columns 5 and 6, Table A2). Finally, I include those LDP members who ran in the 2003 election as members of the Conservative Party or as independents but later became LDP members. Using this sample, the coefficient on *Special post office* is still positive but loses statistical significance. Perhaps these politicians' votes were guided by the need to show more loyalty to the new party which they had just joined even when postal interest groups put political pressure on them, or perhaps they were not as closely tied to the postal workers' union or postmaster's union as other LDP members were.

7. Conclusion

Even though the world has seen a wave of privatization over the last three decades, government-owned enterprises remain prevalent in developing countries (Kikeri and Kolo, 2006), and politicians are quite reluctant to completely privatize government-owned enterprises and give up their control rights to private investors (Bortolotti and Faccio, 2004). This paper examines political incentives for privatization by taking an in-depth look at the minds of Japan's politicians as they contemplated their optimal stance on the privatization of Japan's postal saving system, the world's largest financial institution.

The econometric results show that politicians with an inclination for large interventionist government had a tendency to oppose postal privatization before the 2003 election, and were also more likely to vote against the privatization bills in 2005. In addition, postal interest groups seem to have played an important role in influencing their local politicians into opposing postal privatization, as the empirical results show a robust

positive correlation between politicians' resistance to postal privatization and the prevalence of post offices and special post offices whose workers and postmasters were anticipated to be adversely affected by the planned privatization. These results indicate that both ideologically-driven politicians and self-interested pressure groups might be the major obstacle to privatization.

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Table 1: Summary Statistics of Variables

<i>Variable</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
Anti-privatization	3.72	1.35	1.00	5.00
Large government	3.78	1.22	1.00	5.00
LDP	0.25	0.43	0.00	1.00
DPJ	0.26	0.44	0.00	1.00
Komeito	0.01	0.10	0.00	1.00
JCP	0.31	0.46	0.00	1.00
SDP	0.06	0.24	0.00	1.00
Other parties	0.02	0.15	0.00	1.00
Past election victory	1.24	2.26	0.00	16.00
Incumbent candidate	0.33	0.47	0.00	1.00
Returning candidate	0.06	0.24	0.00	1.00
Post office (per 1000 inhabitants)	0.20	0.09	0.09	0.50
Special post office (per 1000 inhabitants)	0.15	0.05	0.08	0.33
Government loans/total loans	0.23	0.06	0.11	0.41
Population density (per km ²)	1521.38	1859.34	72.30	5587.36
Per capita income (million yen)	2.94	0.53	2.04	4.27

Anti-privatization is the response to the question: *Do you agree that the postal system should be privatized?* Large government is the response to the question: *Do you agree that the government should be smaller even if it means a reduction in the quality of government services such as social welfare?* Possible answers to these questions are (1) *Yes, I agree*, (2) *If I must choose my position, I agree*, (3) *I cannot choose*, (4) *If I must choose my position, I disagree*, (5) *No, I disagree*. LDP, DPJ, Komei, JCP, SDP, and Other parties are dummy variables associated with the members of the Liberal Democratic Party (LDP), the Democratic Party of Japan (DPJ), New Komeito, the Japanese Communist Party, the Social Democratic Party, and other small parties, respectively (the base group is independent politicians). Past election victory is the number of past elections won. Incumbent candidate is a dummy variable for incumbents. Returning candidate is a dummy variable for returning candidates who have held a seat in the House of Representatives in the past. Post office is the number of post offices per 1,000 inhabitants. Special post office is the number of special post offices per 1,000 inhabitants. Government loans/total loans is the share of government loans out of total loans. Population density is population per km². Per capita income is total prefecture income divided by population in million yen.

Table 2: Correlation Coefficients of Variables

<i>Variable</i>	<i>Anti-priv.</i>	<i>Large gov.</i>	<i>LDP</i>	<i>DPJ</i>	<i>Komeito</i>	<i>JCP</i>	<i>SDP</i>	<i>Other parties</i>	<i>Election Victory</i>	<i>Incumbent</i>	<i>Returning</i>
<i>Anti-privatization</i>	1										
<i>Large government</i>	.58*	1									
<i>LDP</i>	-.34*	-.41*	1								
<i>DPJ</i>	-.21*	-.20*	-.3*	1							
<i>Komeito</i>	-.12*	-.02	-.06	-.06	1						
<i>JCP</i>	.63*	.63*	-.39*	-.40*	-.07*	1					
<i>SDP</i>	.18*	.20*	-.15*	-.15*	-.03	-.17*	1				
<i>Other parties</i>	-.15*	-.07*	-.09*	-.09*	-.02	-.11*	-.04	1			
<i>Past election victory</i>	-.27*	-.28*	.38*	.04	.09*	-.35*	-.08*	.10*	1		
<i>Incumbent candidate</i>	-.30*	-.29*	.37*	.14*	.15*	-.43*	-.02	.09*	.61*	1	
<i>Returning candidate</i>	-.13*	-.17*	.18*	-.03	-.03	-.16*	-.01	.02	.19*	-.18*	1
<i>Post office</i>	.20*	.09*	.01	-.04	-.08*	.04	.07*	-.05	.05	-.04	.02
<i>Special post office</i>	.19*	.09*	.01	-.03	-.07*	.04	.06	-.05	.05	-.05	.03
<i>Government loans/total loans</i>	.14*	.07*	.01	-.04	-.04	.02	.07*	-.09*	0.00	-.06	.02
<i>Population density</i>	-.17*	-.09*	-.02	.01	.09*	-.04	-.05	.09*	-.01	.05	.01
<i>Per capita income</i>	-.17*	-.08*	.00	.04	.01	.02	-.08*	-.11*	-.00	.05	.02

<i>Variable</i>	<i>Post office</i>	<i>Special post</i>	<i>Gov. loans</i>	<i>Pop. density</i>	<i>Per capita income</i>
<i>Post office</i>	1				
<i>Special post office</i>	.97*	1			
<i>Government loans/total loans</i>	.59*	.55*	1		
<i>Population density</i>	-.65*	-.62*	-.73*	1	
<i>Per capita income</i>	-.60*	-.56*	-.80*	.79*	1

* statistically significant at 5 percent.

Table 3: Determinants of Politicians' Dispositions toward Postal Saving Privatization (Ordered Probit)

	<i>Dependent variable: Anti-privatization</i>										
	<i>(1 = support privatization, 2 = weakly support privatization, 3 = neutral, 4 = weakly oppose privatization, 5 = oppose privatization)</i>										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<i>Large government</i>	0.166*** (0.046)				0.166*** (0.048)	0.169*** (0.047)	0.175*** (0.049)	0.165*** (0.048)	0.168*** (0.048)	0.162*** (0.049)	0.163*** (0.048)
<i>Post office</i>		3.644*** (0.487)			3.411*** (0.474)			3.201*** (0.769)		3.177*** (0.777)	
<i>Special post office</i>			5.847*** (0.911)			5.469*** (0.886)			4.840*** (1.266)		4.743*** (1.308)
<i>Government loans/total loans</i>				3.033*** (0.730)			2.899*** (0.675)	0.458 (1.047)	0.876 (0.952)	-0.439 (1.264)	-0.320 (1.277)
<i>Per capita income</i>										-0.208 (0.134)	-0.242* (0.137)
<i>Population density</i>										0.021 (0.042)	0.017 (0.041)
<i>Past election victory</i>										-0.017 (0.018)	-0.014 (0.019)
<i>Incumbent candidate</i>										0.053 (0.115)	0.052 (0.116)
<i>Returning candidate</i>										0.009 (0.155)	0.000 (0.156)
<i>LDP</i>	0.163 (0.160)	0.167 (0.161)	0.154 (0.164)	0.188 (0.151)	0.168 (0.164)	0.159 (0.167)	0.198 (0.156)	0.172 (0.160)	0.168 (0.162)	0.185 (0.155)	0.175 (0.156)
<i>DPJ</i>	0.404** (0.192)	0.473** (0.186)	0.458** (0.188)	0.477*** (0.175)	0.410** (0.198)	0.398** (0.200)	0.424** (0.188)	0.415** (0.194)	0.410** (0.195)	0.419** (0.191)	0.410** (0.191)
<i>Komeito</i>	-0.739*** (0.187)	-0.272 (0.311)	-0.310 (0.314)	-0.401 (0.283)	-0.381 (0.315)	-0.415 (0.318)	-0.493* (0.294)	-0.379 (0.315)	-0.407 (0.316)	-0.425 (0.364)	-0.463 (0.361)
<i>JCP</i>	3.403*** (0.249)	3.801*** (0.202)	3.777*** (0.202)	3.734*** (0.180)	3.482*** (0.260)	3.458*** (0.259)	3.418*** (0.249)	3.486*** (0.258)	3.469*** (0.257)	3.498*** (0.266)	3.482*** (0.264)
<i>SDP</i>	1.746*** (0.268)	1.980*** (0.245)	1.981*** (0.247)	1.985*** (0.235)	1.733*** (0.274)	1.732*** (0.275)	1.745*** (0.270)	1.737*** (0.272)	1.739*** (0.273)	1.730*** (0.272)	1.730*** (0.272)
<i>Other parties</i>	-0.340 (0.213)	-0.157 (0.251)	-0.176 (0.251)	-0.115 (0.235)	-0.264 (0.249)	-0.280 (0.248)	-0.215 (0.231)	-0.249 (0.249)	-0.248 (0.250)	-0.219 (0.264)	-0.220 (0.265)
<i>Observations</i>	1053	970	970	970	949	949	949	949	949	949	949
<i>Pseudo-R²</i>	0.2932	0.2977	0.2957	0.2864	0.3062	0.3045	0.2968	0.3063	0.3049	0.3073	0.3061

Clustered standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 4: Determinants of Politicians' Dispositions toward Postal Saving Privatization (Sub-sample Results)

	<i>Dependent variable: Anti-privatization</i>							
	<i>(1 = support privatization, 2 = weakly support privatization, 3 = neutral, 4 = weakly oppose privatization, 5 = oppose privatization)</i>							
	Drop JCP members		Only elected politicians		Only ruling coalition		Only LDP politicians	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Large government</i>	0.163*** (0.050)	0.165*** (0.049)	0.154*** (0.055)	0.153*** (0.055)	0.238** (0.095)	0.234* (2.46)	0.265*** (0.093)	0.260** (0.094)
<i>Post office</i>	3.110*** (0.764)		3.889*** (0.936)		4.270*** (1.245)		4.231*** (1.266)	
<i>Special post office</i>		4.640*** (1.280)		5.299*** (1.594)		5.165* (2.49)		5.074* (2.077)
<i>Government loans/total loans</i>	-0.366 (1.274)	-0.247 (1.289)	0.522 (1.625)	0.653 (1.682)	-2.731 (1.977)	-2.743 (1.36)	-3.090 (2.025)	-3.104 (2.077)
<i>Per capita income</i>	-0.229* (0.130)	-0.263* (0.134)	-0.179 (0.215)	-0.228 (0.218)	-0.268 (0.258)	-0.342 (1.22)	-0.366 (0.266)	-0.444 (0.280)
<i>Population density</i>	0.024 (0.041)	0.020 (0.040)	0.025 (0.071)	0.015 (0.068)	-0.039 (0.071)	-0.060 (0.87)	-0.020 (0.081)	-0.042 (0.078)
<i>Past election victory</i>	-0.017 (0.018)	-0.014 (0.019)	-0.004 (0.023)	0.000 (0.024)	0.009 (0.028)	0.017 (0.58)	0.013 (0.027)	0.021 (0.029)
<i>Incumbent candidate</i>	0.051 (0.116)	0.050 (0.116)	0.235 (0.171)	0.235 (0.171)	0.065 (0.327)	0.049 (0.15)	0.050 (0.333)	0.034 (0.333)
<i>Returning candidate</i>	0.007 (0.156)	-0.001 (0.156)	0.256 (0.186)	0.238 (0.186)	0.016 (0.283)	-0.007 (0.02)	0.009 (0.289)	-0.014 (0.292)
<i>LDP</i>	0.189 (0.155)	0.179 (0.156)	0.035 (0.554)	-0.032 (0.563)				
<i>DPJ</i>	0.422** (0.192)	0.413** (0.191)	0.337 (0.541)	0.268 (0.549)				
<i>Komeito</i>	-0.428 (0.364)	-0.466 (0.361)	-0.678 (0.710)	-0.787 (0.706)	-0.686 (0.427)	-0.732 (1.77)		
<i>JCP</i>			9.459*** (0.578)	8.997*** (0.578)				
<i>SDP</i>	1.727*** (0.273)	1.727*** (0.273)	0.989 (0.795)	0.894 (0.785)				
<i>Other parties</i>	-0.211 (0.267)	-0.211 (0.268)	-1.684** (0.789)	-1.698** (0.785)				
<i>Observations</i>	655	655	370	370	182	182	173	173
<i>Pseudo-R²</i>	0.0992	0.0978	0.0877	0.0835	0.0670	0.0595	0.0629	0.0552

Clustered standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 5: Correlation between LDP Members' Attitudes toward Postal Saving Privatization in 2003 and Their Votes on Postal Saving Privatization Bills in 2005

<i>Anti-privatization (2003)</i>	<i>Privatization vote (2005)</i>			Total
	1	2	3	
1	22 (1.00)	0 (0.00)	0 (0.00)	22
2	52 (0.98)	0 (0.00)	1 (0.02)	53
3	50 (0.82)	4 (0.07)	7 (0.11)	61
4	23 (0.64)	5 (0.14)	8 (0.22)	36
5	13 (0.62)	1 (0.05)	7 (0.33)	21
Total	160	10	23	193

Anti-privatization (2003) is the LDP member's response to the question in 2003: *Do you agree that the postal system should be privatized.* Possible answers to these questions are (1) *Yes, I agree*, (2) *If I must choose my position, I agree*, (3) *I cannot choose*, (4) *If I must choose my position, I disagree*, (5) *No, I disagree.* *Privatization vote (2005)* is their actual votes on postal privatization bills in 2005, (1) yes, (2) abstain, (3) no. Conditional probability of an actual vote given a response to the survey question is given in parentheses.

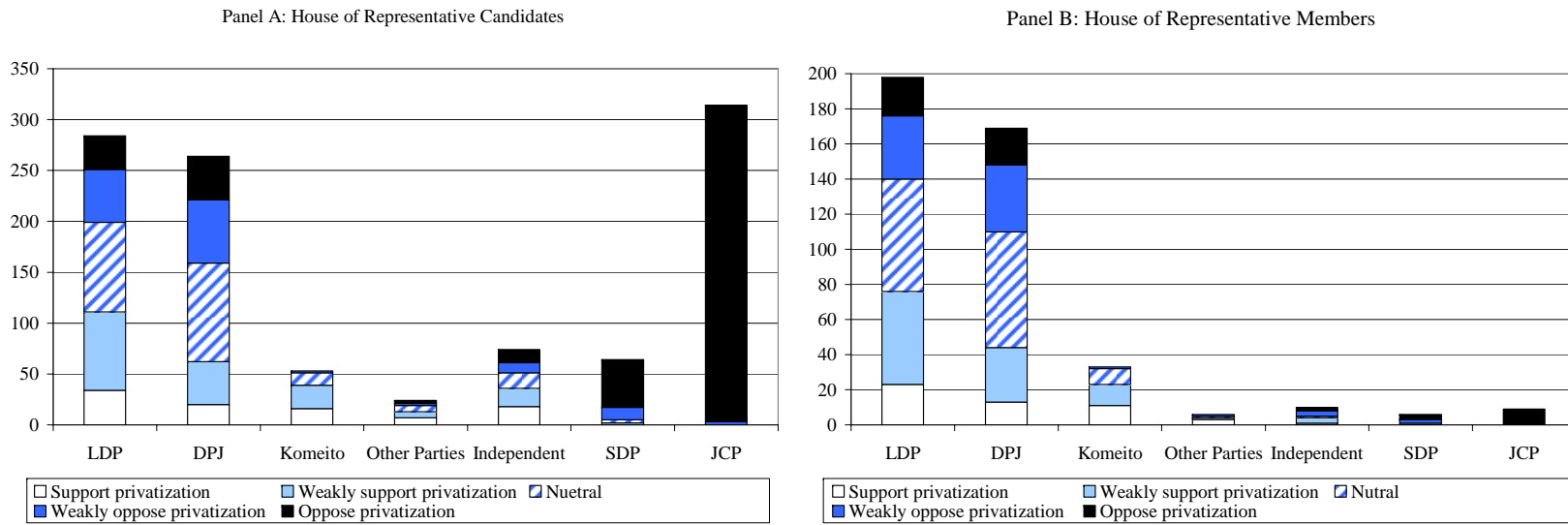
Table 6: Determinants of LDP Members' Votes on Postal Saving Privatization Bills (Ordered Probit)

	<i>Dependent variable: Privatization Vote (1 = yes, 2 = absent, 3 = no)</i>										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<i>Large government</i>	0.298** (0.132)				0.333** (0.146)	0.332** (0.147)	0.330** (0.147)	0.331** (0.144)	0.329** (0.145)	0.342** (0.144)	0.341** (0.145)
<i>Post office</i>		2.918** (1.151)			2.716** (1.158)			2.609** (1.286)		2.175 (1.565)	
<i>Special post office</i>			5.004*** (1.789)			4.692*** (1.811)			4.502** (1.998)		3.862* (2.286)
<i>Government loans/total loans</i>				2.689* (1.558)			1.988 (1.490)	0.288 (1.626)	0.325 (1.620)	0.962 (3.022)	0.879 (3.018)
<i>Per capita income</i>										0.613 (0.402)	0.583 (0.385)
<i>Population density</i>										-0.184 (0.126)	-0.178 (0.125)
<i>Past election victory</i>										0.029 (0.047)	0.031 (0.047)
<i>Incumbent candidate</i>										0.220 (0.514)	0.217 (0.514)
<i>Returning candidate</i>										-0.275 (0.636)	-0.305 (0.640)
<i>Observations</i>	187	170	170	170	167	167	167	167	167	167	167

Clustered standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Figure 1: Politicians' Attitudes toward Postal Privatization in 2003



Appendix

Table A1: Determinants of Politicians' Dispositions toward Postal Saving Privatization (Independent Errors, Ordered Logit, and OLS)

	<i>Dependent variable: Anti-privatization</i> (1 = support privatization, 2 = weakly support privatization, 3 = neutral, 4 = weakly oppose privatization, 5 = oppose privatization)					
	Ordered probit (heteroskedasticity-robust SE)		Ordered logit (clustered SE)		OLS (clustered SE)	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Large government</i>	0.162*** (0.049)	0.163*** (0.049)	0.298*** (0.086)	0.302*** (0.085)	0.166*** (0.047)	0.166*** (0.047)
<i>Post office</i>	3.177*** (0.682)		5.345*** (1.350)		2.039*** (0.498)	
<i>Special post office</i>		4.743*** (1.085)		7.818*** (2.307)		3.069*** (0.873)
<i>Government loans/total loans</i>	-0.439 (1.113)	-0.320 (1.113)	-0.398 (2.200)	-0.186 (2.241)	-0.268 (0.850)	-0.204 (0.863)
<i>Per capita income</i>	-0.208 (0.149)	-0.242 (0.149)	-0.363 (0.238)	-0.424* (0.244)	-0.153 (0.095)	-0.179* (0.097)
<i>Population density</i>	0.021 (0.039)	0.017 (0.039)	0.032 (0.076)	0.024 (0.073)	0.010 (0.031)	0.008 (0.030)
<i>Past election victory</i>	-0.017 (0.022)	-0.014 (0.022)	-0.040 (0.032)	-0.036 (0.033)	-0.009 (0.019)	-0.008 (0.020)
<i>Incumbent candidate</i>	0.053 (0.118)	0.052 (0.118)	0.100 (0.193)	0.106 (0.194)	0.052 (0.116)	0.050 (0.116)
<i>Returning candidate</i>	0.009 (0.172)	0.000 (0.172)	0.063 (0.276)	0.054 (0.281)	0.004 (0.152)	-0.001 (0.153)
<i>LDP</i>	0.185 (0.182)	0.175 (0.182)	0.366 (0.309)	0.348 (0.308)	0.162 (0.165)	0.157 (0.166)
<i>DPJ</i>	0.419** (0.180)	0.410** (0.180)	0.778** (0.369)	0.765** (0.367)	0.423** (0.204)	0.419** (0.205)
<i>Komeito</i>	-0.425 (0.361)	-0.463 (0.361)	-0.505 (0.665)	-0.578 (0.658)	-0.551 (0.341)	-0.574* (0.339)
<i>JCP</i>	3.498*** (0.294)	3.482*** (0.295)	6.584*** (0.605)	6.558*** (0.602)	1.898*** (0.192)	1.895*** (0.193)
<i>SDP</i>	1.730*** (0.256)	1.730*** (0.254)	3.015*** (0.503)	2.998*** (0.502)	1.512*** (0.207)	1.517*** (0.209)
<i>Other parties</i>	-0.219 (0.340)	-0.220 (0.339)	-0.413 (0.487)	-0.408 (0.481)	-0.285 (0.258)	-0.286 (0.260)
<i>Observations</i>	949	949	949	949	949	949
<i>Pseudo-R² (or R² for OLS)</i>	0.3073	0.3061	0.3081	0.3069	0.5355	0.5342

Clustered standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table A2: Determinants of LDP Members' Votes on Postal Saving Privatization Bills (Robustness Checks)

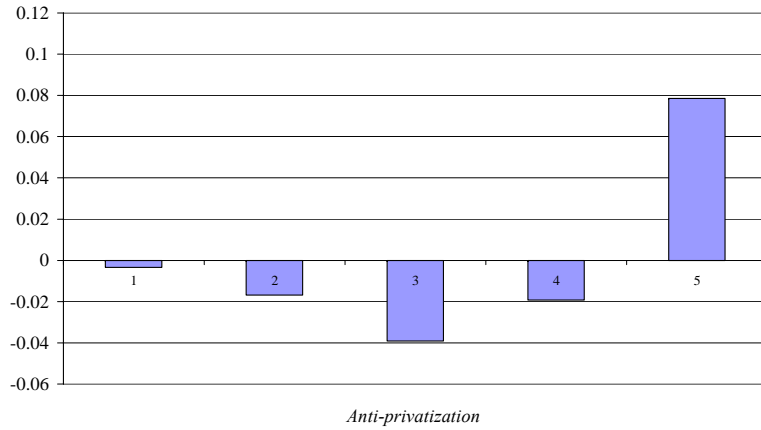
	<i>Dependent variable: Privatization Vote (1 = yes, 2 = abstain, 3 = no)</i>							
	Include a politician who was absent in the Diet session as if he voted "abstain" (i.e. <i>Privatization Vote = 2</i>)		Include politicians who did not respond to privatization question in the 2003 survey		Include politicians who lost in the 2003 elections but subsequently won open seats.		Include politicians who joined the LDP after the 2003 election.	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Large government	0.354** (0.142)	0.354** (0.142)	0.342** (0.146)	0.338** (0.146)	0.351** (0.147)	0.347** (0.147)	0.311** (0.147)	0.303** (0.148)
Post offices	2.104 (1.558)		2.280 (1.508)		2.403* (1.460)		2.218 (1.524)	
Special post offices		3.691* (2.257)		4.007* (2.144)		4.189** (2.085)		2.852 (2.266)
Government loans/total loans	0.832 (3.004)	0.737 (3.004)	0.045 (2.875)	0.000 (2.863)	0.051 (2.885)	0.008 (2.874)	1.784 (2.882)	1.818 (2.913)
Per capita income	0.634 (0.408)	0.608 (0.391)	0.501 (0.375)	0.469 (0.357)	0.507 (0.368)	0.473 (0.351)	0.555 (0.386)	0.496 (0.368)
Population density	-0.196 (0.124)	-0.191 (0.123)	-0.178 (0.117)	-0.171 (0.115)	-0.176 (0.117)	-0.169 (0.116)	-0.165 (0.114)	-0.170 (0.112)
Past election victory	0.031 (0.047)	0.033 (0.047)	0.046 (0.046)	0.048 (0.046)	0.044 (0.045)	0.046 (0.045)	0.024 (0.038)	0.026 (0.037)
Incumbent candidate	0.222 (0.518)	0.220 (0.517)	0.179 (0.502)	0.176 (0.501)	0.179 (0.503)	0.176 (0.502)	-0.274 (0.386)	-0.285 (0.387)
Returning candidate	-0.276 (0.641)	-0.305 (0.645)	-0.326 (0.626)	-0.359 (0.631)	-0.320 (0.627)	-0.354 (0.632)	-0.836 (0.538)	-0.858 (0.537)
Observations	168	168	174	174	176	176	188	188

Clustered standard errors in parentheses

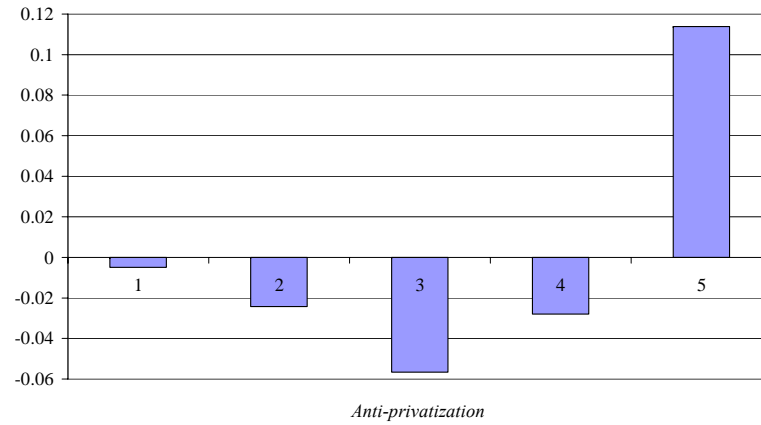
* significant at 10%; ** significant at 5%; *** significant at 1%

Figure A1: Marginal Effects on Probability of *Anti-privatization*

Panel A: Change in Probability of *Anti-privatization* , Given One Standard Deviation Increase in *Large government*



Panel B: Change in Probability of *Anti-privatization* , Given One Standard Deviation Increase in *Post Offices*



Panel C: Change in Probability of *Anti-privatization* , Given One Standard Deviation Increase in *Special Post Offices*

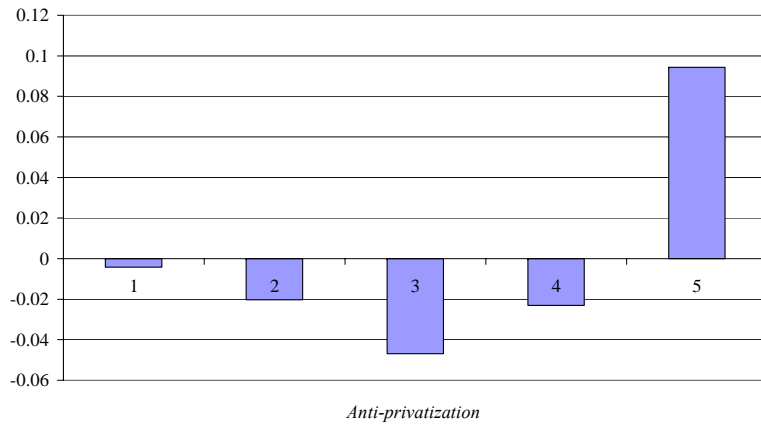
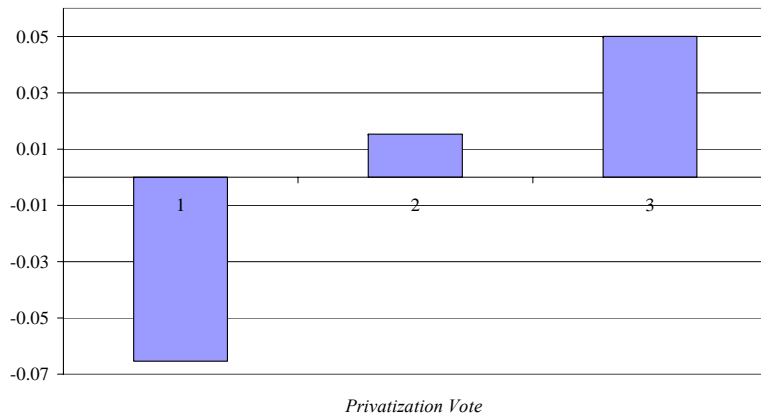


Figure A2: Marginal Effects on Probability of Privatization Vote

Panel A: Change in Probability of *Privatization Vote*, Given One Standard Deviation Increase in *Large government*



Panel B: Change in Probability of *Privatization Vote*, Given One Standard Deviation Increase in *Special post office*

