Ten years ago Carlos Menem won a surprising victory to serve a second term as president of Argentina. To win re-election Mr Menem not only had to have the constitution amended to permit him to run, but he had to convince the voters to extend his presidency in the face of record unemployment and a financial system that had nearly collapsed after a record deposit outflow in the wake of the tequila crisis.

Mr Menem won because voters concluded that his tough policies of fiscal responsibility and pro-market reforms were better than the alternative of state domination of the economy and printing money to pay the nation’s bills. His mandate was strong enough for him to avoid a second-round run-off. Yet everyone realised more reform was needed if Argentina was to succeed; the headline of a Financial Times article was “Argentina still on the operating table”.

A month ago, when Junichiro Koizumi, Japan’s prime minister, announced that he was dissolving the house of representatives, many observers thought his chances of winning were also poor. Yet on Sunday, not only did Mr Koizumi’s Liberal Democratic party win an outright parliamentary majority but he also succeeded in crushing many of the dissidents who had defied him over his insistence on privatising the postal savings system. Nevertheless, Japan is also still on the operating table.

Mr Koizumi managed to turn the election into a referendum on the future of Japan Post. Japan’s postal system not only provides mail service, but sells life insurance and offers banking services. In the 1800s and early 1900s (when populations were more rural and the post office was one of the institutions that was present everywhere), postal savings programmes were present in many countries (including the US). As people moved to cities the non-mail functions were gradually eliminated in most countries. In Japan, however, the opposite has occurred. With the turmoil in the banking industry over the last decade, deposits flowed to the safety of the postal savings system.

Mr Koizumi had proposed a bill that would break up these functions. Under his plan, over the course of 10 years the largest private bank in the world having deposits of roughly $2,000bn (GBP1,094bn) would have been created. A life insurance company with more assets than the combined assets of the four largest Japanese life insurance companies would also have been created. Thus, the bill would have eventually reshaped the competitive landscape in the Japanese financial system.

There is no good economic reason to have the post office in the lending business. Historically in Japan, the deposits that have been harvested through the postal system have been recycled to provide the financing that facilitated bureaucrats’ and politicians’ policy programmes. The unwillingness to relinquish control is why many entrenched LDP politicians had split with Mr Koizumi to oppose privatisation.

Mr Koizumi’s victory should pave the way for his privatisation plan to proceed. While these changes are clearly desirable, even when completed they will leave Japan a long way from regaining the competitiveness that has been squandered over the last decade.

Indeed, there is some cause for concern over whether Mr Koizumi will really follow through precisely because of the strategy he pursued to win election. By focusing on postal privatisation, he was able to isolate the most unrepentant anti-reform members of the LDP. The contrast with the old guard allowed him to campaign as a reformer. It also enabled him to avoid engaging in a serious discussion of other priorities with the Democratic Party of Japan, the leading opposition party.

As the DPJ pointed out, Japan needs to cut substantially its public spending and particularly to shrink spending on central government. At some point taxes will need to rise to restore budget balance. And Japan would
benefit from further reductions in agricultural subsidies, labour market reforms and rationalisation of land use restrictions. The election also offered another opportunity to discuss pension changes and the ways to deal with Japan's ageing society. While Mr Koizumi has shown tenacity in pushing for changes to the post office, he has shown little appetite for other reforms. The cynical interpretation is that he merely wanted to neuter his long-time foes in the LDP and consolidate control of the party but has little interest in making real reforms.

Japanese agricultural policies, while being especially egregious, are in many ways representative. Agriculture employs about 4 per cent of the workforce but two-thirds of Japan's core agricultural producers are now aged 60 or more (even though this age group accounts for only one-quarter of the total population). Japan's farms are small and inefficient, in spite of high levels of support; according to an August 2005 International Monetary Fund staff study, Japan's support for its farmers is the highest among large, developed countries. A study by World Bank staff estimates that the import barriers are equivalent to a 58 per cent uniform tariff on agricultural products (although actual policies are heavily skewed towards helping rice producers). Worse still, by insisting on lifting market prices, the method by which Japan mostly chooses to support its farmers, the policies are especially distorting because they pervert both production decisions and consumption choices.

These policies are typical in that they reallocate resources away from the young towards the elderly and benefit a relatively narrow part of population at the expense of a larger group. Abandoning them would create large short-run burdens for the farmers that would be offset by much larger medium- and longer-term gains for everyone once resources were more efficiently allocated. Given this constellation of effects, policy changes are intensely opposed and overturning them will require determination. A policy reversal would be much easier if the problems had been highlighted during the election, since this would allow a reformer to claim to be carrying out the will of the people.

The one clear message from this election is that the electorate is tired of the status quo. Based on the way he waged the campaign, there is little evidence to suggest that Mr Koizumi is prepared truly to embrace change and pursue substantive structural reforms.

We know the Argentine patient died when Mr Menem reverted to the usual policies after his re-election; eventually the debt that had piled up forced a wrenching policy adjustment. With the right structural reforms now, the story could end differently in Japan.

The writer is professor of economics and finance at University of Chicago Graduate School of Business and author, with Takeo Hoshi, of Corporate Financing and Governance in Japan (MIT Press, 2001)