



Abenomics Walks a Tightrope as Difficulties Lie Ahead

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Few prime ministers who have been elected from the Liberal Democratic Party (LDP) have won general elections two times in a row.

When speaking of prime ministers who demonstrated shrewdness in elections, some people may make mention of Koizumi Junichiro. However, although Koizumi won a landslide victory in the 2005 election following a dissolution of the Diet staged under the name of postal-services reform, his re-election at the previous poll in 2003 was much less convincing for the LDP, the result not something to boast about. Likewise in 1986, Prime Minister Nakasone Yasuhiro brought victory to the LDP — winning more than 300 seats for the only time ever in the era of the multi-seat constituency electoral system. Nakasone however experienced great difficulties in the previous, 1983 election as a result of the Lockheed scandal judgment of Tanaka Kakuei, earlier the same year.

Put another way, even such successful prime ministers as Nakasone and Koizumi could not produce a better record than “one win, no loss, and one draw,” which indicates that “winning in two successive general elections,” a result achieved by Prime Minister Abe, is a rare case. To find another example from the past, we have to go as far back as the era of Ikeda Hayato, when this writer was born.

Considering his latest sweeping victory, it is appropriate to conclude that Prime Minister Abe has acquired substantial political capital, notwithstanding the low voter turnout and lack of enthusiasm. If nothing else, Abe will, as a result, be re-elected in the LDP presidential race to be held in September this year.

Calling the dissolution the “Referendum on Abenomics” in person, Prime Minister Abe developed an electoral race focused on the economy as the main theme. “LDP Key Policies 2014,” the manifesto for the election, set forth six agendas in all, elaborating on the first three agendas: (1) economic revitalization and fiscal reform, (2) regional revitalization and facilitation of active participation by women, and (3) security and safety of life and educational reform. However, it gave only perfunctory explanations to the remaining parts, comprised of “diplomacy,” “political and administrative reform” and “constitutional revision.”



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The perceptions that the general public had of Prime Minister Abe were that of a politician who is “focused on policies for diplomacy and national security” and “not so interested in the economy.” However, issues about diplomacy and national security remained almost entirely “contained” throughout the electoral race. Immediately before the dissolution, Prime Minister Abe succeeded in having a Japan-China summit meeting, an issue that had remained unresolved. He rightly could have boasted about the achievement, saying “I have improved our relationship with China by meeting with Xi Jinping.” Instead, Prime Minister Abe spotlighted the message that “this is the only path that leads to economic recovery” as single issue.

Over the past twenty years, as a rule, what has secured a victory in U.S. presidential elections has been a policy of “It’s the economy, stupid.” It is wise to narrow down messages to a single line in electoral races. Furthermore, the greatest concern for most people is none other than the economy. Prime Minister Abe, who may have pretended to put the agendas of diplomacy and national security on the back burner, appears to have chosen the correct tactic by focusing on the economy.

On the other hand, seen from the perspective of voters, Abenomics has not necessarily provided any significant benefits for them. What people actually had in mind may have been: “We do not know if the policy has really succeeded. Even so, as there are no clear-cut alternatives proposed by opposition parties, let’s see how things will develop for the time being.”

Expectations for Abenomics have waned to a considerable degree compared with the beginning of 2013. People have learned that exports do not surge simply because of the continued depreciation of the yen. By the same token, a rise in stock prices does not necessarily revitalize the real economy quickly. Increased real estate prices in urban areas do not always lead to sales of vacant houses located in areas where the population is declining. In addition, the 3% consumption tax hike put heavier-than-expected burdens on family budgets, thereby discouraging household spending. I think that the postponement of the tax increase of “another 2%” was an unavoidable decision.

Having said that, the Japanese economy has achieved results in its own way for the past two years. Corporate earnings show record high levels, while the employment situation continues to improve. Changing from part-time work to full-time employment, in other words transitioning from non-permanent employees to permanent employees, is under way, albeit at a slow pace. As for the price stability goal, it appears to be difficult to meet the official target of “2% in two years” advocated by Bank of Japan Governor Kuroda Haruhiko, as crude oil prices have plummeted. Nevertheless, given that cheap oil prices are more favorable to the Japanese economy, we should consider the halt of the decline in prices as being good enough at this point in time.

Production needs to expand to a reasonable degree for subcontractors to share economic benefits. However, large corporations, which focus on profits, do not aim to achieve quantitative expansion despite the weak yen, which is why people are raising angry voices, saying, “There aren’t any benefits for small- and medium-sized companies that are suffering from the increased costs.”

For all that, if we go through the economic indices in detail, we find that exports have been in positive territory in terms of year-on-year growth since September 2014, exceeding an increase in



imports. Industrial production, while still at a low level, has also shown solid expansion since the inventory ratio peaked in August. The manufacturing business appears to be starting to improve at long last as well, although the situation is not encouraging enough to be welcomed as a “J-curve effect finally being generated.”

Economic policies to be implemented in 2015 are expected to accelerate such trends. I anticipate that the third Abe Cabinet will face a number difficult challenges from the beginning of the next year.

TPP negotiations: If a broad agreement is reached, the next process is drafting and ratifying a bill.

Restarting nuclear power plant operations: Possibilities are high that Sendai Nuclear Power Plant of Kyushu Electric Power will be re-commissioned in 2015. . There are Japanese people who remain strongly opposed to this. However, without restarting the facilities, the set of targets for reducing greenhouse gas emissions will not look persuasive enough externally. An international agreement on a post-2020 framework is expected to be concluded at COP21 to be held at the end of 2015.

Formulation of the budget: Given the upcoming nationwide local elections in April, it is desirable, if possible, that the budget pass the Diet this fiscal year (by the end of March).

Growth strategy: The third growth strategy must be complied with by June, in addition to the great task of revising the national security legislation that will start to be worked on after the establishment of the budget. Given that such tough issues as labor legislation and agricultural reform remain unresolved, this is the best time to leverage the political capital acquired from the victory in the general election.

Fiscal reform: A path to the goal of reaching fiscal soundness by fiscal 2020 is expected to be presented in the summer. It aims to bring the primary balance, in terms of the ratio to GDP, back into the black by fiscal 2020.

The last item will probably be the most challenging part of the agenda, because the targets are becoming difficult to be met, as a result of postponing the timeline for a consumption tax increase.

Originally, the consumption tax hike was supposed to be implemented as part of the “Comprehensive Reform of Social Security and Taxation.” Accordingly, the fiscal reform and restraint over an increase in social security expenses had to be discussed, while deciding whether to defer the timeline for a consumption tax increase. Nevertheless, agendas pertaining to such matters were treated as “untouchable” for the electoral race. In retrospect, I cannot help thinking that everybody turned their eyes away from what they did not want to address.

In any case, the Government can neither maintain the timeline for the tax increase nor move forward with the fiscal reduction while the Bank of Japan continues to purchase government bonds more aggressively than ever, under the concept of additional monetary easing. It is no wonder the credibility of Japan’s fiscal policy has eroded. It may not necessarily be wrong that some rating agencies have downgraded Japanese bonds, treating them as “below China and Korea.”



On the other hand, Abenomics had been thought to be effective for “three golden years” until the simultaneous elections for the House of Councilors and House of Representatives that would otherwise have been held in summer 2016. Put simply, it was a three-year plan.

However, Prime Minister Abe obtained a mandate for an additional four-year term as a result of the sudden dissolution of the Diet, which he implemented in the closing days of 2014. In 2018, which is four years from now, three events, (1) the next House of Representatives election (to be held before December), (2) the LDP presidential election (September), and (3) the expiration of BOJ Governor Kuroda’s tenure (April), will take place on the same timeline. This means that Abenomics was enhanced to a six-year plan all at once.

It will be possible somehow to speed up the growth strategy, while working to achieve economic recovery for the time being. Fiscal reform through aggressive cuts in expenditure may also depend on these efforts. That said, come 2017, the second consumption tax increase has to be implemented, when the first generation of the postwar baby boomers (those who were born in 1947) reach 70 years of age. The Japanese economy, with the country’s population aging steadily, will be faced with weakened potential power for growth. The more we procrastinate, the harder it will become to manage the economy.

Abenomics should perhaps have been implemented as a three-year plan. Considering it now, there is a long way to go before reaching the goal of 2018.

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