



Special report/Is it “time to sell” in Japan? – Shedding light on what happened Full Details of the Second Stage of Abenomics

Editorial team, *Weekly Toyo Keizai*

Yamamoto Kozo, a member of the House of Representatives, of the Liberal Democratic Party, has been involved with the drafting of Abenomics initiatives, advocating, if nothing else, large-scale monetary easing since before the second Abe Shinzo administration was formed. Yamamoto, who is also the chairman of the “group that makes Abenomics a success,” a Diet member caucus, was reportedly surprised and could not keep himself from displaying anger when he heard the announcement of the second stage of Abenomics on September 24.

The content of the second stage caught him by surprise like a thunderbolt, as he did not recognize any term such as “financial measures” in the list of policies. The Nagatacho sources consider that a significant change has taken place in the part of the brain of the Abe administration that drives financial measures.

People who had advocated reflation were excluded from the drafting work

Seko Hiroshige, a Deputy Chief Cabinet Secretary and one of the Prime Minister’s aides, has the following to say about what was happening:

“In terms of the sources of policies, there is no change in the basic process according to which the Prime Minister exchanges opinions on policies with the Executive Secretaries and makes final decisions. That said, we focused on arenas other than monetary policies in the new Abenomics, although we had received ideas regarding this matter from Honda Etsuro and Hamada Koichi, Special Advisors to the Cabinet, when compiling the previous Abenomics.”

Below are the points of the second stage

1	Financial measures (formerly the first arrow), while included in the second stage, were put on the back burner.
2	Working on the revision of laws to spread new technologies such as artificial intelligence (AI) and self-driving cars.
3	Reluctant to expand special nursing homes for the elderly that require the securing of funds.
4	The achievement of “No one forced to leave their jobs to undertake nursing care” depends mainly on reforming the way of working in companies.
5	Putting efforts into childcare support by requesting that companies bear some burdens for the “fund that supports the future of children” and employment insurance.



Honda is one of Yamamoto’s close associates. They maintain a friendly relationship through activities such as invitations to lectures at workshops held by the “group that makes Abenomics a success.” This means that people who support reflation, such as Honda and Yamamoto, appear to have been kept out of the drafting work of the second stage of Abenomics.

This situation may be attributed, most importantly, to declining expectations among the cabinet staff in respect of the effects of monetary easing measures advocated by people in favor of reflation. The new phase of monetary easing launched by the Bank of Japan certainly created a flow from a weak yen to increased revenues of large companies to high share prices. However, it has not yet developed into the positive cycle thereafter in which a full-scale wage hike will lead to increased consumer spending.

On the contrary, small- and medium-sized companies and people with low incomes reduced their spending as they were severely affected by the negative effects of the increased prices of imports. It was mostly large companies and high-income earners that took advantage of increased revenues and high share prices. Given such criticism from the public, the Abe administration that took on the greatest challenge of winning the upper house election the following summer had no choice but to make corrective adjustments.

As a matter of fact, some people in the cabinet circle have voiced concerns, noting, “Things will be different if the yen appreciates sharply due to an increase in the China risk. Otherwise, we feel most comfortable with the current level of exchange rates. We do not wish to see further monetary easing.” Seko says, “Measures of the first Abenomics, such as large-scale monetary easing, are also included in the second stage.” Even so, it is obvious that the cabinet has reduced its priority.

Making stronger requests to economic circles benefited by the fruit

Included in the second stage, instead, were the new second arrow (childcare support) and the new third arrow (social security including nursing). (Please see the table below.)

Shooting the new third arrow building on the fruits of Abenomics.	
First arrow	Robust economy that gives rise to hope.
Second arrow	Dream-weaving childcare support.
Third arrow	Social security that provides reassurance.

Sato Katsunobu, a former Deputy Chief Cabinet Secretary and someone who is known as a policy expert, assumed the position of the newly installed Minister in Charge of Promoting Dynamic Engagement of All Citizens, playing the role of a control center in this arena. He will launch the



National Council for Promoting the Dynamic Engagement of All Citizens by the end of October, and compile emergency measures by the end of November and the Plan to Realize the Dynamic Engagement of All Citizens by next summer, respectively, thereby submitting proposals for the revision of systems to the Diet.

The details of the policy menu are yet to be formulated. However, piecing together the information obtained from the cabinet or Kasumigaseki sources, we expect that the following programs will be implemented. In terms of childcare support, measures that will be included in the policy menu are initiatives that have already been examined in meetings held by the Ministry of Health, Labour and Welfare, such as the enhancement of childcare allowances for single-parent families, support for childhood learning and the creation of places for habitation. Their financial resources will be generated mainly by leveraging employment insurance programs and various funds. The government will consider requesting that business owners increase their contributions to support childcare through employment insurance programs in exchange for the reduction of employment insurance premiums that will be effective from fiscal 2016. It will also actively solicit companies to make contributions to the “fund that supports the future of children.”

The new third arrow set out the policy of reducing to zero the number of people leaving their jobs to undertake nursing care, which is expected to reach around 100,000 per year. There was a report that the expansion of special nursing homes for the elderly would also be included initially. However, the effort has apparently lost momentum. To add the expansion plan would entail payment out of the National Treasury. The Abe administration does not have any plans to offset such payment because Prime Minister Abe is very cautious about raising the consumption tax to more than 10%.

The main alternative initiative in the nursing arena is the “reform of work patterns” that requires no funding. The Ministry of Health, Labour and Welfare has already been considering revisions to a system whereby people take leave to undertake nursing care through an initiative that allows people to take leave on a pro rata basis. In addition to such efforts, the Abe administration intends to encourage companies to establish a work-hour program in which people can work while engaging in nursing care.

“Dialogues between the government and private sectors,” in which representatives of industrial organizations hold discussions with the Prime Minister and/or cabinet ministers in charge of economic matters, commenced in October to facilitate the expansion of capital spending by companies. The dialog will also include discussions on the reform of work patterns to keep people from leaving their jobs to undertake nursing care. So far, the Abe administration has leveraged its conventional political tactics of requesting wage hikes and employment expansion through discussions between the government and the labor and business communities in return for benefits such as increased revenues and high share prices received by large companies on the back of a weak yen. What the second stage leads to will be a scenario in which the government will request cooperation in terms of the increase of investments, support for childcare and measures to keep people from leaving their jobs to undertake nursing care, while business communities will request the implementation of policies required for those initiatives, such as deregulation.

The Ministry of Economy, Trade and Industry, which played the role of the brain on a par with people in favor of reflation in the previous Abenomics, continues to be the main force behind the second stage. The main force is the Industrial Revitalization Division of the Industrial Policy Bureau of the Ministry of Economy, Trade and Industry. The Division established the new industrial



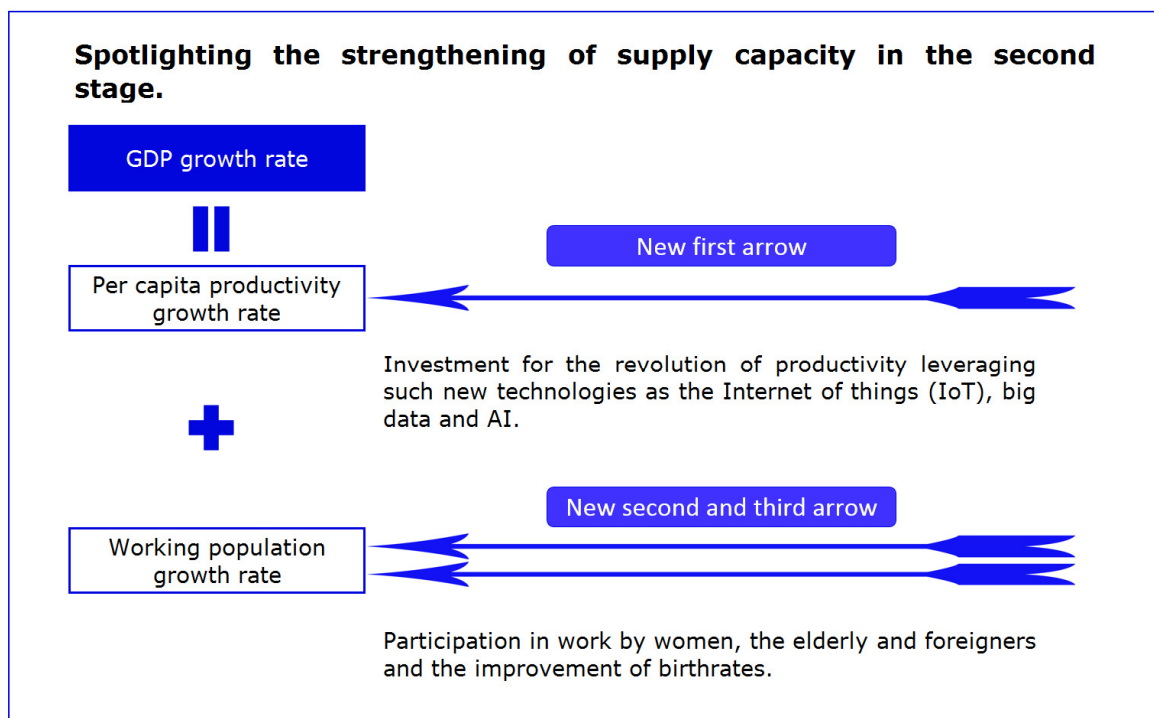
structure working group this August and has since been moving forward with concrete measures for shooting the first arrow (robust economy = investment for the revolution of productivity).

Concretely speaking, the group will discuss industrial revolution and added-value strategies based on new technologies, such as the Internet of things (IoT), big data and artificial intelligence. Through dialogues between the government and private sectors, the group will gather requests from economic circles pertaining to deregulation and the revision of related systems. The group's eagerness is so strong that it is even looking at the possibility of revising the Road Traffic Law entirely to help achieve fully automatic driving vehicles.

“By sharing our outlook with companies, we wish to create an environment in which companies make investments more easily,” says Inoue Hiro, Director of the Industrial Revitalization Division. The Ministry positions growth strategies through deregulation, which was the previous third arrow, as the challenge that remains unimplemented.

Aiming to improve supply capacity and change the policy that resulted in the preferential treatment of the strong

The nominal gross domestic product (GDP) of 600 trillion yen is featured by the strong economy in the new first arrow. However, it is a mere rephrasing of the GDP growth ratio of 3% that the Abe administration had been targeting initially. GDP will reach 600 trillion yen by around 2020 if the economy continues to grow at the rate of 3%.



As mentioned in the diagram above, the GDP growth rate can be understood as the addition of the “Per capita productivity growth rate” and the “Working population growth rate.” If investments



for the revolution of productivity are considered as the former, and childcare support (increase in the number of women participating in work) and no people leaving their jobs to undertake nursing care (increase in the number of middle-aged people and seniors participating in work) are considered as the latter, then it will be clear that the second stage aims for the revolution of supply capacity. In addition, the second stage may be characterized by the simultaneous reflection of an intention to avoid the criticism that “Abenomics is a policy focused on large companies and affluent people.”

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