

Economic Development of Japan



No.14 The Bubble Burst and Recession

Topics for Discussion

- ❑ What were the cause(s) of Japan's asset bubble in the late 1980s? What were the reason(s) for its collapse?
- ❑ Review fiscal and monetary policies to cope with the post-bubble recession. Were they successful?
- ❑ Evaluate Abenomics implemented during 2013-2020. What were positive achievements? What were remaining issues and disappointments?
- ❑ Has the Japanese economy lost dynamism after the bubble burst? Does it have a long-term structural problem? What problem(s)?
- ❑ What was the impact of the COVID-19 pandemic on Japan's long-term growth trend?

The Collapse of the Bubble Economy

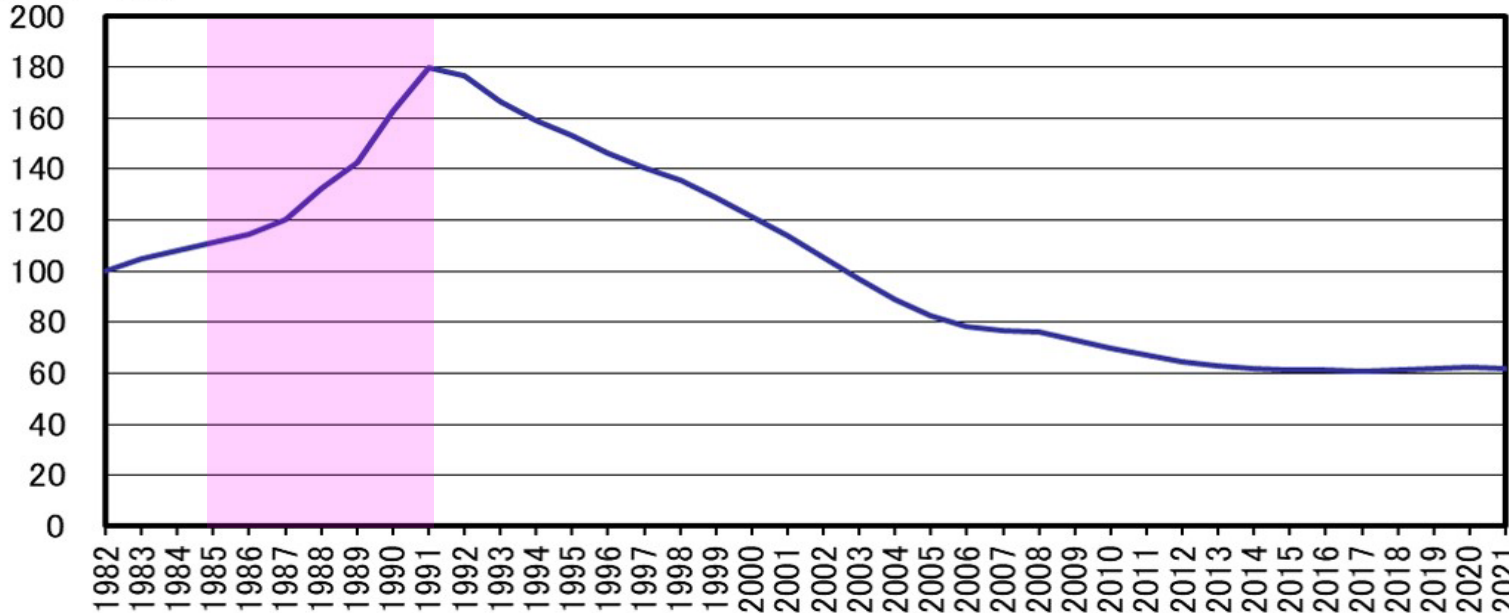
- ❑ The asset bubble of the late 1980s was unique to Japan. It was generated by financial deregulation which led to risky lending by banks (structural cause) and the Bank of Japan's easy monetary policy (monetary accommodation).
- ❑ After the asset bubble collapsed in 1990-91, Japan entered a long period of economic stagnation. Growth came down to near zero and prices had a downward trend. Consumer and investor psychology remained weak.
- ❑ Banks and nonbanks which had lent heavily to property projects were saddled with bad debt. It took a decade to clean up this balance sheet problem. Bankruptcies of large financial institutions and a credit crunch occurred in 1997-98. Public money was injected to recapitalize and restructure troubled banks. This ended the financial panic but the economy remained weak.
- ❑ Despite repeated fiscal stimuli, sustained recovery did not materialize while outstanding public debt rose steadily to over 200 percent of GDP. On the monetary side, the Bank of Japan has long adopted quantitative expansion and zero—even negative—interest rate policy but failed to revive demand.
- ❑ From 2013 to 2020, Abenomics reinforced fiscal and monetary stimuli coupled with many growth strategies under various names. This succeeded in staging short-term improvements but long-term robust growth did not emerge.

Stock and Land Markets Rise, Then Fall



Nikkei Stock
Average 225

(1982 = 100)



Urban land
price index

Source: Japan Real
Estate Institute

Rising Bubble: Causes & Consequences

The stock market and property prices rose sharply in the late 1980s.

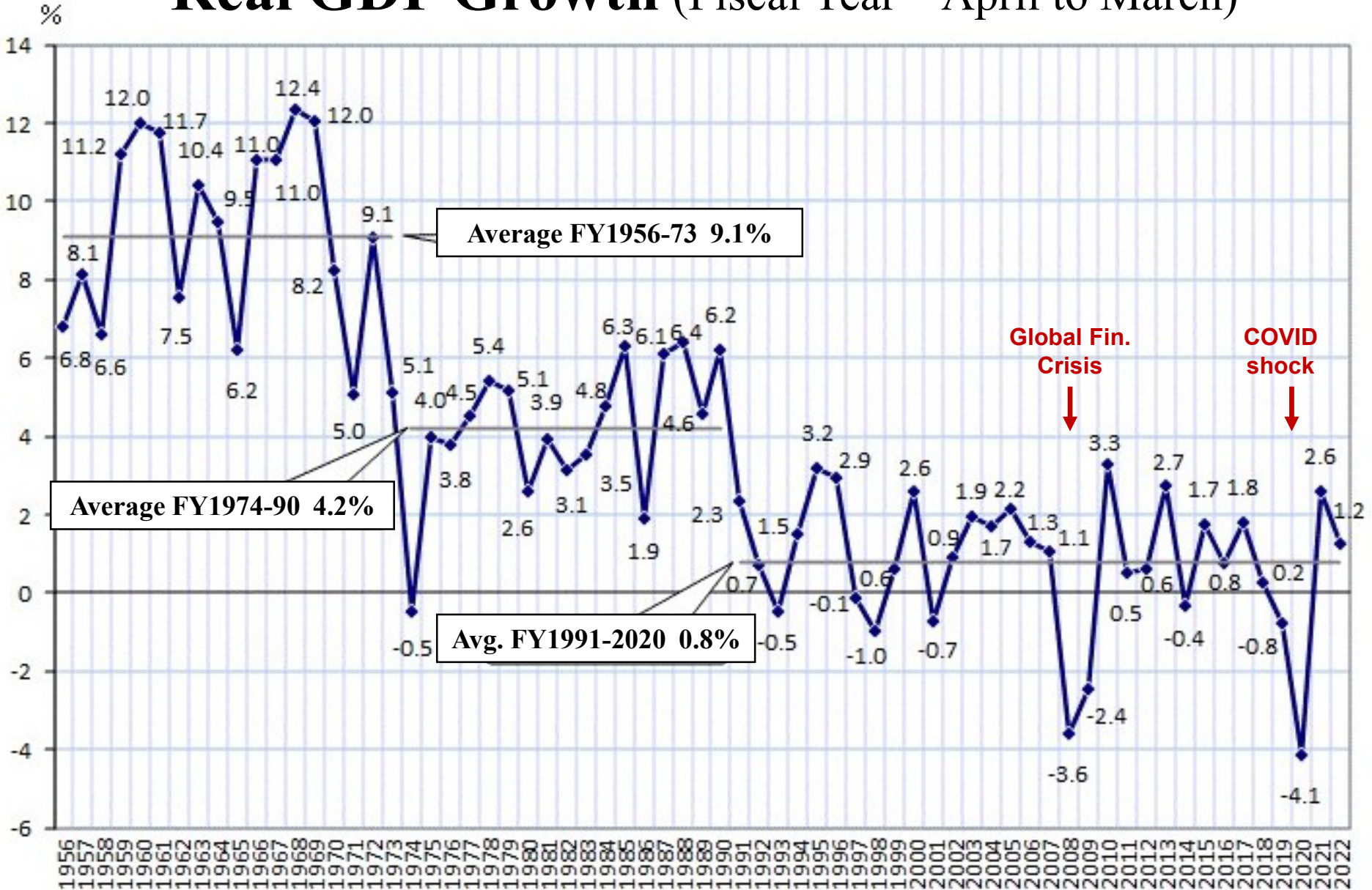
Causes

- ❑ **Structural**—financial deregulation and commercial banks' loss of large corporate borrowers in the early 1980s prompted banks to over-lend to new, riskier borrowers (small businesses and real estate developers) without proper risk analysis.
- ❑ **Monetary**—as the yen rose sharply in 1985-86, the Bank of Japan injected ample liquidity to counter its negative effect and ease *endaka fukyo* (high-yen caused recession). This sustained domestic asset bubbles while goods price inflation remained low.

Consequences

Excess investment in properties, over-expansion of production capacity and lavish consumption; a surge in outward FDI (factory construction by Japanese firms) in Southeast Asia, especially Thailand, Malaysia, Indonesia and the Philippines.

Real GDP Growth (Fiscal Year – April to March)



Source: The System of National Accounts website, Cabinet Office.

Japan's Lost Decade (or Lost Three Decades)

Why did Japan's recession last so long since the early 1990s? Many reasons have been cited—some are short-term causes but others are long-term and structural.

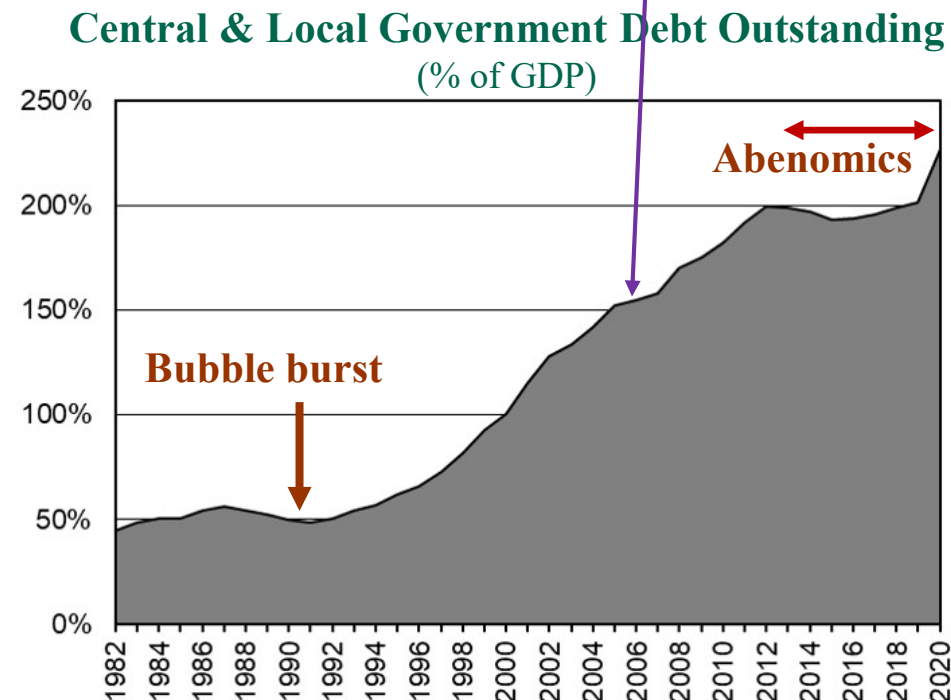
- ❑ Long adjustment is inevitable after a large asset bubble.
- ❑ The non-performing loan problem at financial institutions, which was resolved only after a decade due to late policy response.
- ❑ Japan's economic system is obsolete and no longer competitive. (*)
- ❑ Aging population and associated problems of slow demand, labor shortage and social welfare cost deter strong recovery. (*)
- ❑ Snowballing fiscal debt increases future risk and damps business mindset. (*)
- ❑ A general lack of confidence in future, policy and politics lowers spending. (*)
- ❑ The rise of China and other emerging economies has reduced Japan's relative competitiveness. (*)

(Asterisked causes are still present.)

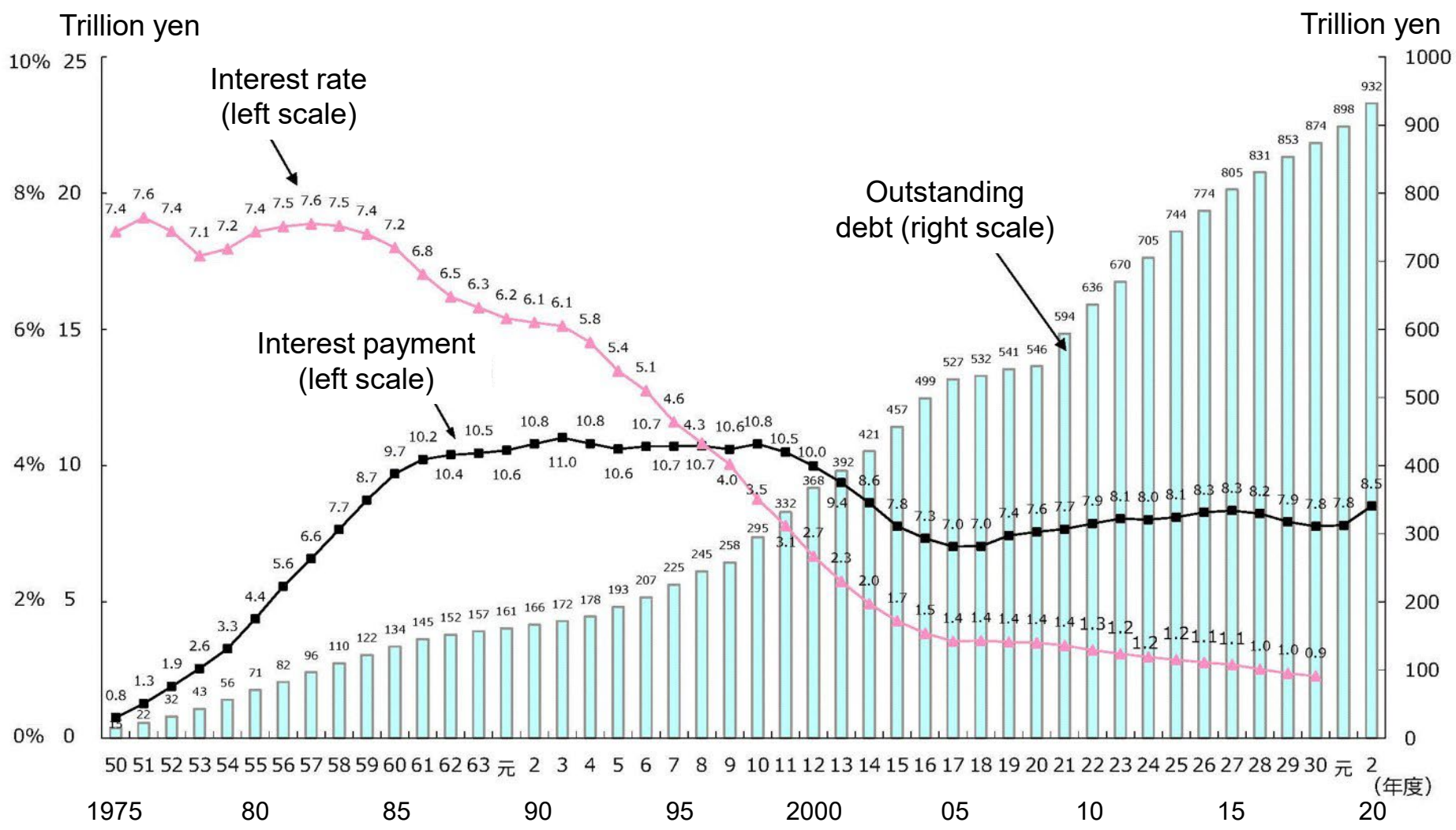
It is probable that the lackluster economy is the result of a combination of some or all of these reasons. But more fundamentally, it is the lack of political leadership to clearly identify challenges, propose concrete and feasible solutions, convince citizens and execute proposed actions.

Fiscal Policy: Ineffective or More Is Needed?

- ❑ Since the 1990s, large fiscal spending has been tried repeatedly to stimulate the economy. But there was no strong and sustained recovery while the public debt stock skyrocketed.
- ❑ Seeing this, some argued for even bigger stimuli; others warned that continued fiscal activism would only worsen the future debt crisis.
- ❑ PM Koizumi (2001-06) set limits on fiscal spending (infrastructure, welfare) but produced only a temporary slowdown of debt growth.
- ❑ PM Aso (2008-09), Democratic governments (2009-12) and second Abe Government (2012-) returned to big spending.
- ❑ Abenomics' initial success augmented tax revenue.
- ❑ Consumption tax increase to 10% was delayed due to short-term political concerns:
5% → 8% (2014) → 10% (2019)



Central Government Public Debt



Source: Ministry of Finance website (accessed on July 1, 2021).

Policy Issues for the Bank of Japan

1. Coping with non-performing loans – taking 10 years

- *Jusen* problem: failure of nonbanks specializing in real estate loans (1995-96)
- Bankruptcies of Yamaichi Securities, Hokkaido Takushoku Bank, Long-Term Credit Bank and Nippon Credit Bank, leading to credit crunch and mini bank runs (1997-98)
- Bank recapitalization: public money was injected; creation of the Financial Services Agency (1998-2000, in steps)

2. Monetary stimuli for recovery – so far unsuccessful

- Injecting liquidity by buying up such unconventional assets as corporate and bank bonds, Exchange Traded Fund (ETF), Real Estate Investment Trust (REIT), etc.
However, the monetary transmission mechanism is broken; failure to expand business loans, production or investment (see next page).
- Zero interest rate policy (Feb.1999-Aug.2000; Mar.2001-Jul.2006; Dec.2008-); negative interest rate policy (Jan.2016-).
- In April 2013, Abenomics introduced “New Dimension of Monetary Expansion” and an inflation target (2% within 2 years). without success. Inflation rose in 2022-23 but for the wrong reason.

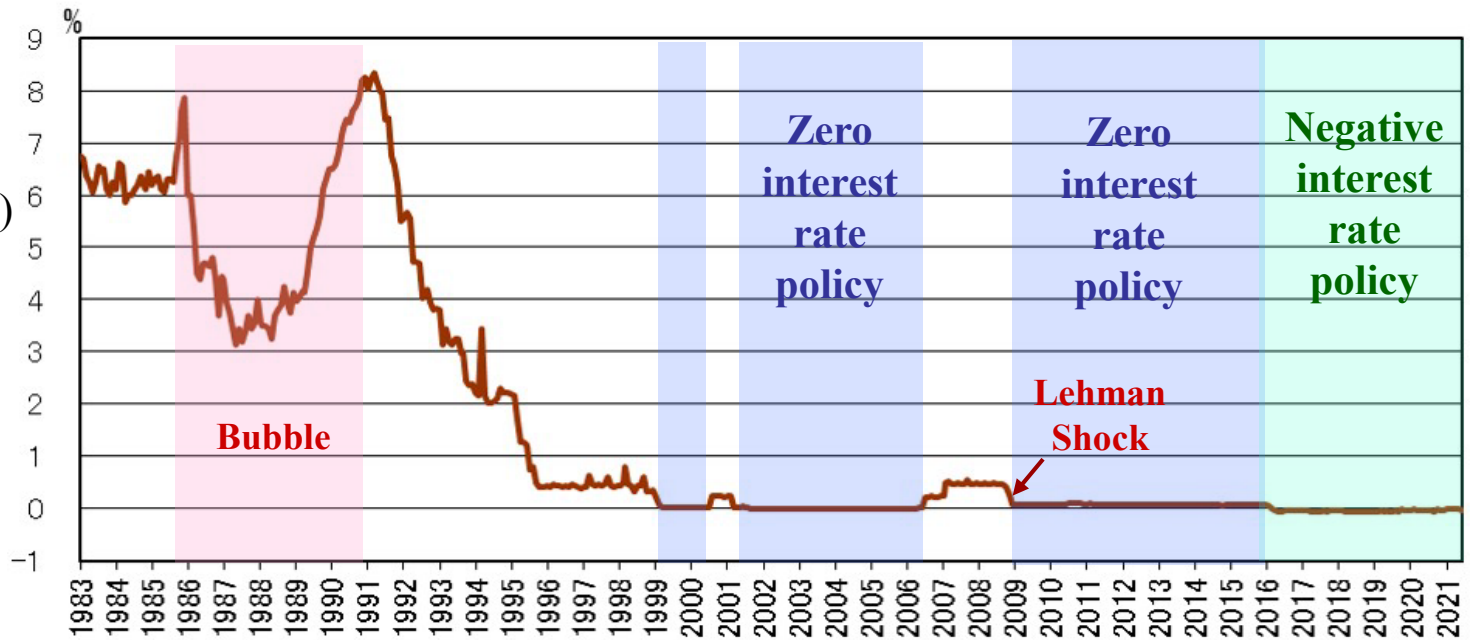
Why does the Bank of Japan Fail to Stimulate Production and Investment?

- Under strong political pressure to do everything possible, the Bank of Japan has adopted the zero or even negative interest rate policy and quantitative easing. But these have failed to boost output or investment because the monetary transmission mechanism is broken.

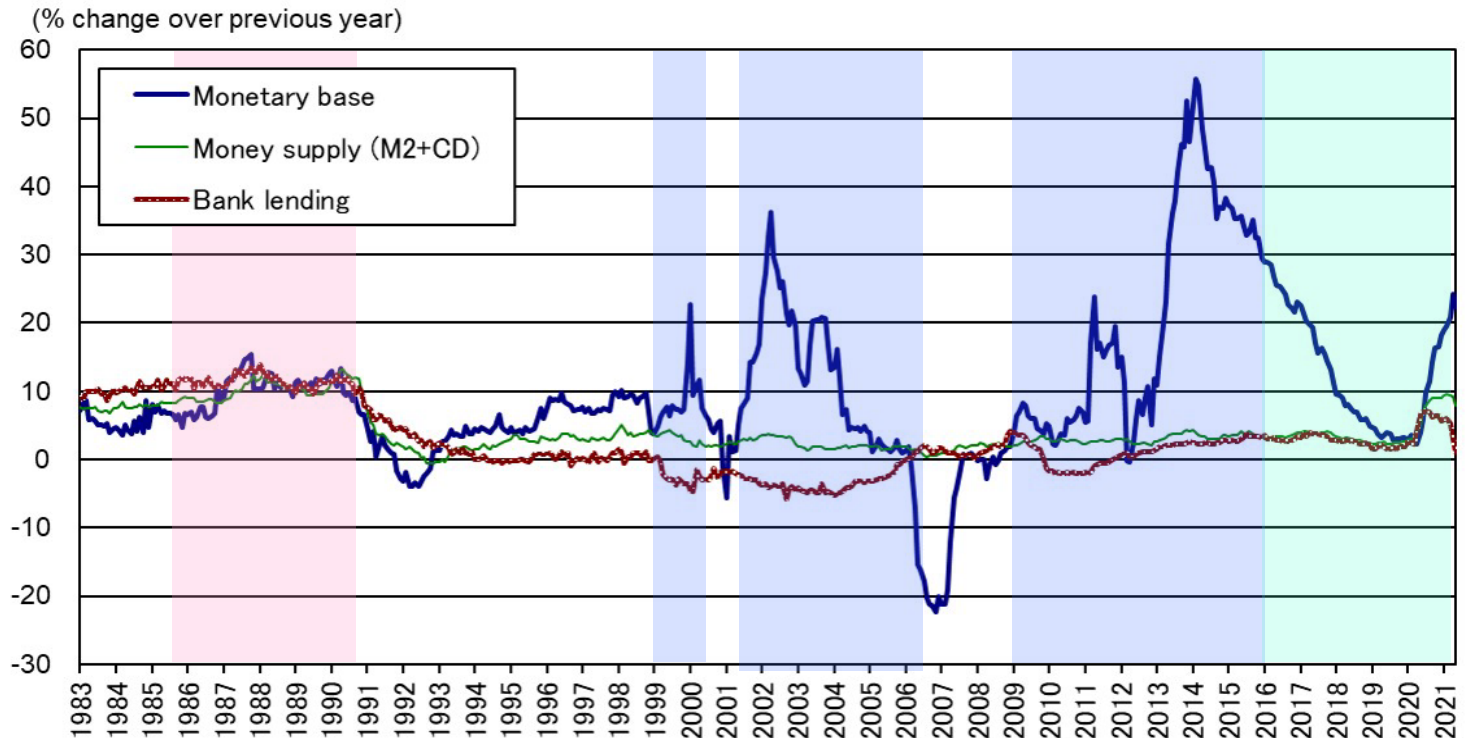
Monetary Base → Money Supply → Commercial bank lending to industry
X

- BOJ injected increasingly large amounts of liquidity (monetary base) to the banking system through open market purchases of conventional as well as unconventional assets. But money supply and commercial bank loans to industry remained stagnant or even declined. Under normal conditions, these variables should move together.
- Possible reasons include: (i) low credit demand due to recession; (ii) corporate effort to reduce bank debt; (iii) commercial banks' effort to reduce (risky) loans and raise capital adequacy ratios; and (iv) unlimited cash demand under zero or negative interest rates which entails no penalty (forgone interest) for holding cash. Liquidity is absorbed as excess reserves of commercial banks at BOJ. It does not generate larger deposits or lending at commercial banks.

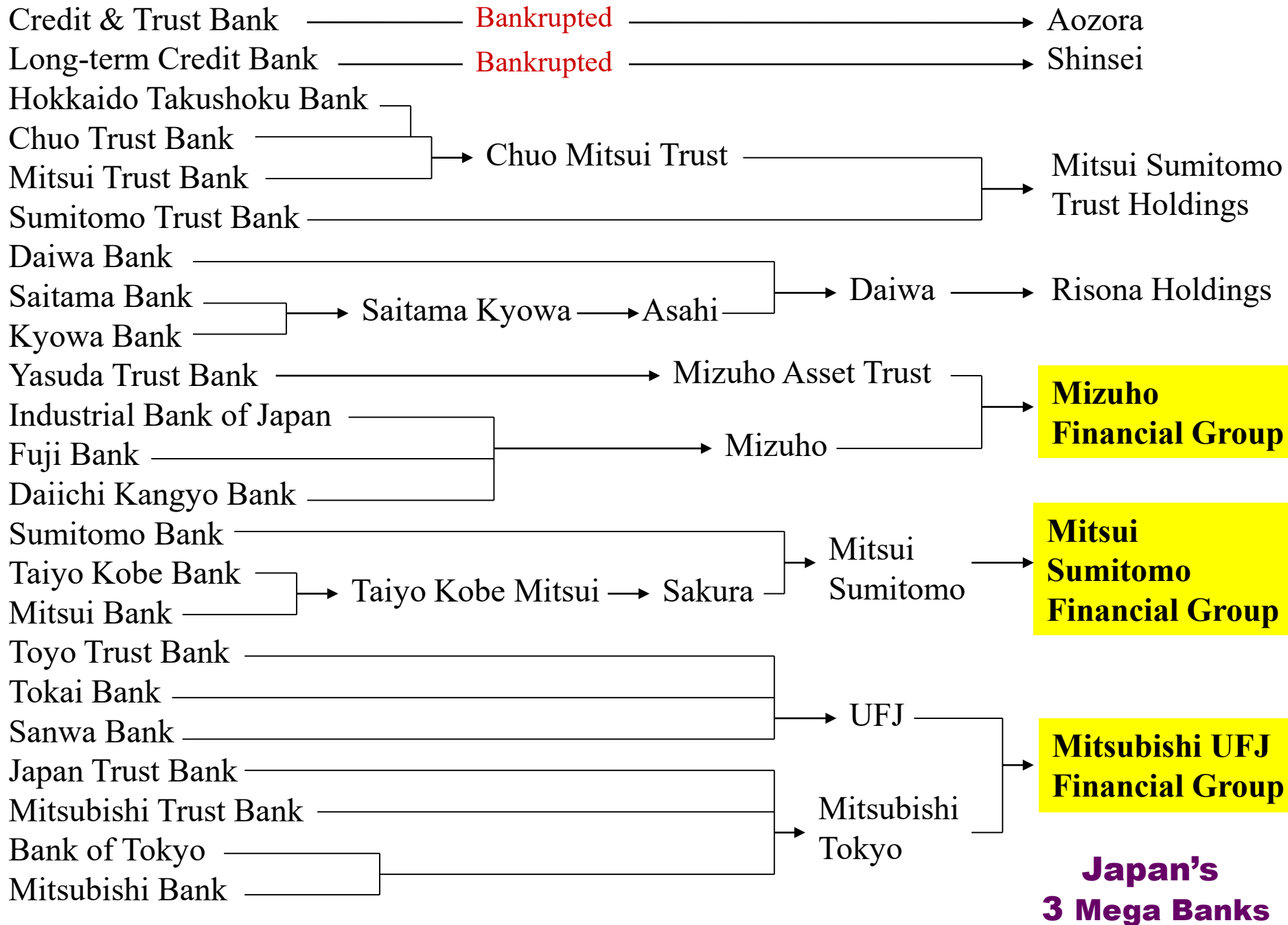
Call rate (interbank short-term interest rate)



Money & bank lending



Excess reserves are built up at commercial banks during zero to negative interest rate periods



Earthquake and Nuclear Disaster in 2011—Economic Impact



- ❑ Estimated stock damage from the Great East Japan Earthquake in 2011 was 16.9 trillion yen or 3.6% of GDP (cf. in 1995, Kobe earthquake's damage was 9.9 trillion yen or 1.9% of GDP.)
- ❑ The earthquake recovery budget was 32 trillion yen (over 10 years, about 6.2% of GDP. This does not include costs related to nuclear disaster (cf. the total recovery budget of the Kobe earthquake (1995) was 16.3 trillion yen or 3.1% of GDP).
- ❑ There was a debate over funding choices: tax increase, asset sales/debt issue or spending cuts. But Japan's fiscal problem is mainly caused by social welfare explosion and not by the earthquake.
- ❑ The handling of the reconstruction plan, radiation problem, power shortage and future energy policy by the then Democratic Party government was random and inconsistent.
- ❑ From the macroeconomic perspective, growth impact of an earthquake is almost neutral: short-term supply disruption is offset by medium-term private and public investment for recovery and reconstruction. This is so even though there is great human suffering.

Japanese Politics in the 21st Century



Koizumi
2001-2006



Liberal Democratic Party
(LDP) 1955-1993, 1996-
2009



Democratic Party of
Japan (DPJ) 2009-2012



Abe No.2 2012-2020

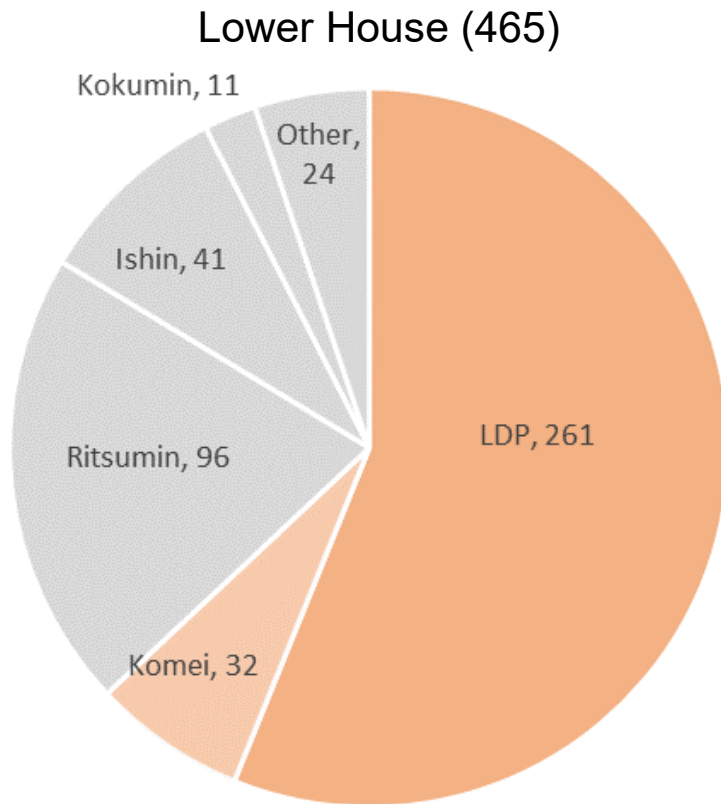
LDP 2012-



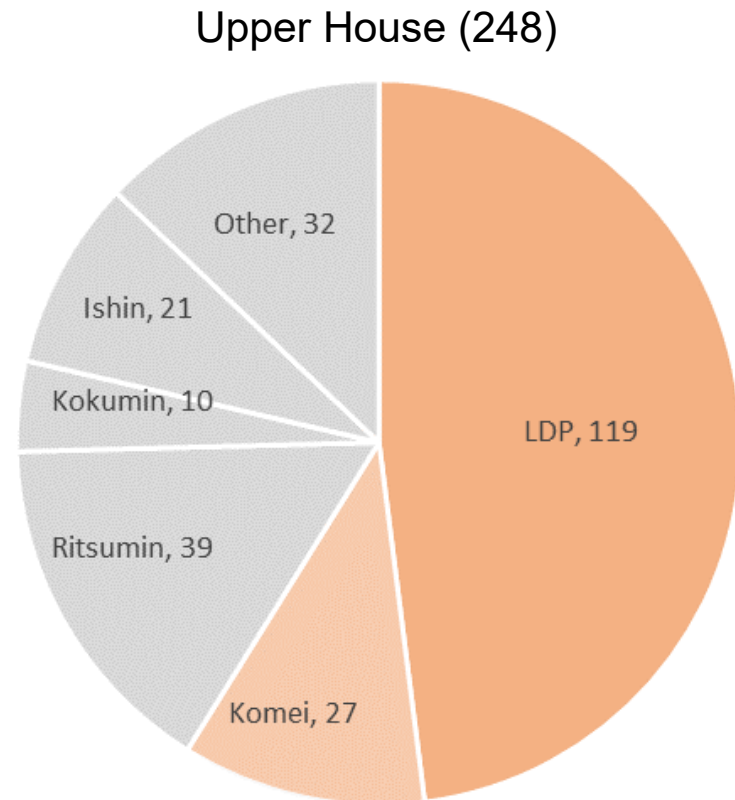
- ❑ Between Koizumi and Abe no.2, there were 6 weak prime ministers in 6 years (including Abe no.1).
- ❑ Abe in his second term (2012-2020) emerged as a powerful and active PM both domestically and internationally.
- ❑ There was a hope of transition from “1955 Regime” (LDP dominance) to two-party competition. But this was not realized due to DPJ’s failure. LDP’s rule continues because opposition parties remain too weak to challenge LDP.
- ❑ LDP, in coalition with Komeito Party, has the majority in both houses and can pass any law after formally debating them.

Dominance of LDP-Komei Coalition

Ruling party coalition has majority in both Houses due to weak and fragmented opposition parties (which often merge, split and change names); LDP-Komei coalition can pass any law after debating it formally and superficially in the parliament.



Situation after October 2021 election. The term of the House of Representatives is four years.



Situation after July 2022 election. The term of the House of Councillors is six years with half elected every three years.

Abe Ikkyo (Dominance), 2012-2020



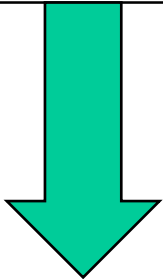
PM Abe

LDP (ruling party): ignored



Kantei (PM Office)

Chief Cabinet Secretary Suga & appointed PM advisors
(seconded from ministries)



- **Policy orders**
- **Budget allocation**
- **Authority to appoint high ministerial officials**

MOF

METI

MOFA

...

...

Ministries

Subjugated as mere implementer,
no longer policy initiator

PM Abe changed policy style from ministerial bottom-up to Kantei top-down. Power to appoint key ministerial officials was a new and powerful tool.

Top-down policy making works if PM and Kantei advisors are wise and pragmatic. In reality, they seemed to lack experience and knowledge. Their policies were hastily made without sufficient preparation or consultation.

PM Abe's Domestic Policy Initiatives

- ❑ Abenomics (revitalizing the Japanese economy)
- ❑ Mobilizing women in labor market
- ❑ Reversing *shoshika* (shortage of children)
- ❑ Revitalizing rural economies
- ❑ Supporting SMEs (including investment abroad)
- ❑ Supporting irregular and part-time workers to achieve higher income, better working conditions and transition to regular workers
- ❑ Work-life balance—less overtime, elimination of *karoshi* (death or suicide due to overwork)
- ❑ Importing more foreign labor to overcome labor shortage
- ❑ Digital transformation (inherited by Suga)
- ❑ Coping with COVID-19 (inherited by Suga)
- ❑ Tokyo Olympics and Paralympics 2020 (inherited by Suga)

Hasty and Ineffective Policies

However, policies were drafted hastily without necessary research and preparation, and without deep consultation with key stakeholders. As a result, implementation is haphazard and ineffective. Examples:

- ❑ **My Number Card** (citizen's electronic ID card) was introduced suddenly in 2016 without sufficient explanation or deliberation. Local governments were unprepared, there was little time to produce cards, and people were not convinced of its advantages.
- ❑ **Immigration control law** was revised in 2019 to receive more foreign workers to ameliorate labor shortage, but without sufficient preparation. That created confusion in Vietnam, the largest source of unskilled labor to Japan. Details were not specified in the law but only gradually decided as problems arose.
- ❑ **Covid-19 vaccination** was slow because government did not assist domestic pharmaceuticals to produce vaccines, arrange imports, or solve medical service bottlenecks during the first year (2020). Shortage of vaccines, the gap between busy and idle hospitals and clinics, and the problem of unattended serious patients emerged.



Three Arrows of Abenomics

On June 14, 2013, Prime Minister Abe issued a message upon the formulation of “Japan Revitalization Strategy.”



1. Aggressive monetary policy (“New Dimension”)

- PM Abe appointed BOJ Governor Kuroda Haruhiko (Mar. 2013)
- Dispel deflation mindset—inflation target of 2 percent within 2 years
- Monetary easing with new asset purchases (REIT, etc.), doubling monetary base and BOJ’s government bond holding within 2 years
- Correction of high yen (done)

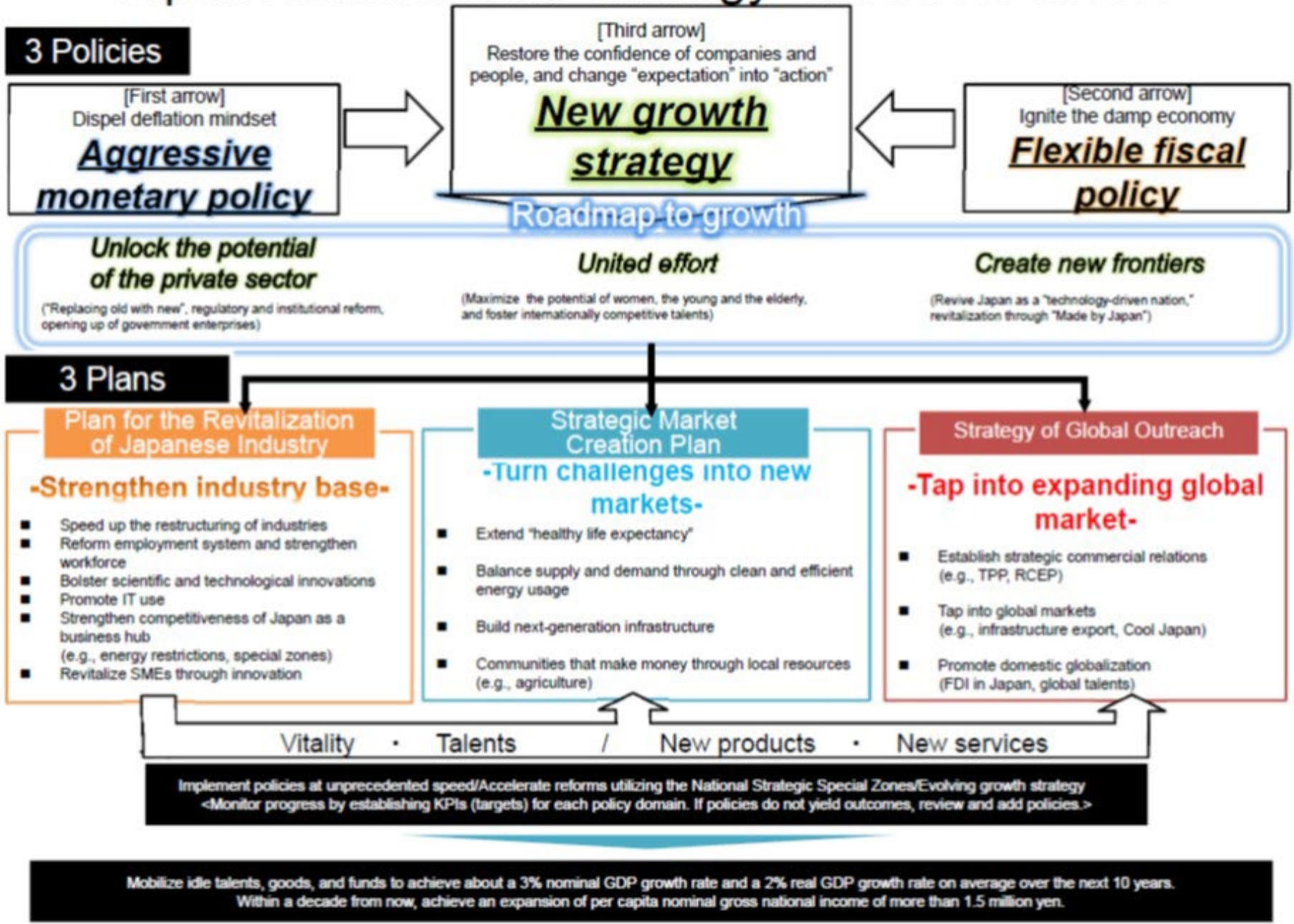
2. Flexible (active) fiscal policy

- Revive economy first, consolidate budget later
- Increase infrastructure investment

3. New growth strategy (cabinet decision in June 2013; after this, a new cabinet decision is issued every June to expand or revise the strategy)

- Japanese Economy Revitalization Headquarters formed; under it, Industrial Competitiveness Conference
- Three roadmaps and three plans (12 pillars, 37 items, 56 sub-items) proposed in 2013; revisions and additions every subsequent year.

Japan Revitalization Strategy -JAPAN is BACK-



Plan for the Revitalization of Japanese Industry 1 (major policies)

① Speed up the restructuring of industries (accelerating structural reform program)

Target: 10% increase in capital investment over the next three years and a return of private investment to pre-Global Financial Crisis levels (approx. 70 trillion yen annually [FY 2012: approx. 63 trillion yen])
Raise current 5% business startup and closure ratio 10% range on par with the US and UK

■ Stimulate business investment

- Develop support measures, such as bold tax breaks and measures to speed up the replacement of old equipment/facilities, and new systems that utilize lease arrangements in order to stimulate investment in leading-edge facilities.

■ Accelerate business restructuring and reorganization

- Strengthen corporate governance. (e.g. amendment of Companies Act [promoting the installation of external directors])
- Develop support measures, such as tax breaks and financial support, for companies that restructure their business.
- Formulate guidelines and encourage restructuring in fields with excessive supply.

■ Promote investment in business ventures

- Measures to promote investment in business ventures.
- Consider fund raising framework such as crowd funding.
- Improve the personal guarantee system, which currently inhibits business startups.

■ Build an environment that encourages entrepreneurialism

- Create a system that assures legality of businesses in "gray zones".
- Create a special arrangement measure for Corporate Field Tests to allow testing of new products and technology.

■ Enact the Industry Competitiveness Enhancement Bill (provisional name)

② Reinforce human resource capabilities and reform the employment system

Target: Decrease long-term unemployment (unemployed for more than 6 months) by 20% over the next five years and raise employment turnover to 9% (2011: 7.4%)
Boost the employment rate of women aged 25 – 44 to 73% by 2020 (currently 68%)
Get at least 10 universities to rank in the world's top 100 (currently 2) within the next five years

■ Shift from a policy of employment stability to labor fluidity

- Boldly shift budgetary resources from Employment Adjustment Fund, which are designed to sustain employment, to labor movement facilitation fund to support the job transfer and are designed for skill development.

■ University reforms (the next three years are designated as period for accelerated reform)

- Human resource and payment reform including the introduction of annual salaries and combined earnings with external revenue. University governance reform.
- Expand the strategic and priority allocation of "operating support funds."

■ Strengthen development of human resource cultivating capabilities for global operation activities

- Provide English education at an earlier stage of elementary school.
- Create a Super Global High School (provisional name)
- Provide opportunities to study abroad for all students who have the desire and talent.
- Utilize TOEFL or other relevant tests in the National Public Service exam and university entrance exams.

■ Utilize highly skilled overseas personnel

- Revise the current accreditation criteria and preference of the points-based preferential immigration treatment for highly skilled foreign professionals in order to provide permission for stay to the professionals.

■ Strengthen the social function of private employment and recruitment agencies

- Provide private employment and recruitment agencies with employment offers information from the Public Employment Security Office "Hello Work" and status to handle job creation grant.

■ Support the success of women in the workplace

- Support companies that provide opportunities to improve the skills of staff on maternity leave and employees who have recently returned to work.
- Support re-employment, i.e. re-education programs and internships for homemakers.

■ Accelerate the zero childcare waiting list project

- Arrange childcare for additional about 200,000 children in over the next two years and aim for the elimination of "childcare waiting lists" by securing childcare arrangements for another about 400,000 children by 2017.
- Provide funding to small-scale childcare services, non-registered childcare facilities and employer-provided childcare services.

■ Support the success of youth in the workplace

- Support voluntary efforts to undertake education and training program that will lead to the acquisition of qualifications or licences and encourages re-training and re-education after graduation.

Plan for the Revitalization of Japanese Industry 2 (major policies)

③ Scientific and Technological Innovations

Target: Number one global innovator on the Global Competitiveness Report within the next five years

■ Strengthen the Council for Science and Technology Policy's functions as headquarter

- Complete legal reform, and strengthen the Council for Science and Technology Policy's functions as headquarter in order to eliminate silo structure within the Government and deploy policy resources with priority into strategic fields.

■ Launch a new innovative R&D Program

- Create a program that boldly drives research projects that will reform the economy, society and industry.

■ Establish the Strategic Innovation Program (provisional name)

- Establish the Strategic Innovation Program, under which resources are provided for a number of years with priority to cross-ministry R&D projects, based on the Strategic Market Creation Plan roadmap.

④ Become the world's leading IT society

Target: World's highest level of public data disclosure, (with a dataset totaling over 10,000) by the end of FY 2015

■ Regulatory and institutional reform to expand utilization of IT

- For promoting the utilization of big-data and open-data, establish the rules for utilizing big-data which include personal information, while taking into consideration the balance between data usage and privacy protection, and formulate the institutional reform policy, which will outlook new legal measures.
- Formulate the "Intensive Action Plan for Regulatory and Institutional Reform to Expand Utilization of IT" (provisional name)

■ Promote private sector access to public data and develop innovative electronic administrative services

- Actively and promptly disclose public data in a machine-readable way, which include geospatial information and statistics in spurring the creation of new businesses. Develop "My Portal (provisional name)" which is to be introduced following the introduction of an identification numbering system and commence the provision of services.

⑤ Strengthen Japan's international competitiveness as a business hub

Target: Japan to rank in the top 3 among OECD member countries in the Ease of Doing Business ranking (currently 15)

Tokyo to rank in the top 3 on the Global Power City Index (currently 4)

■ Expanded utilization of PPP and PFI

- Swiftly expand concession agreements with private sector to public facilities managed by the national Government such as airports.
- Make the most of the Agency for the Promotion of the Private Finance Initiative and encourage the infusion of private investment with the national fund.
- Promote methods that allow investment in maintaining infrastructure by utilizing private funds through the utilization of profitable facilities and updating together with private urban development.

■ Develop National Strategic Special Zones

- Develop, from a national strategy perspective, National Strategic Special Zones under the leadership of the Prime Minister in order to implement bold regulatory reforms. Establish a Special Zone Advisory Council led by the Prime Minister and a Special Zone Promotion Headquarters led by the Minister responsible for special zones, with governors or mayors and private business operators in order to advance the project from the top down.

■ Overcome environmental and energy restrictions

- Introduce low cost and highly efficient thermal power (coal and LNG) while taking into account environmental considerations, based on the specification of criteria and acceleration of environmental assessments.
- Carry out the Electricity System Reform.
- When nuclear power plants meet the new requirements formulated by Nuclear Regulation Authority, respect the assessment and proceed with their restart.
- Reduce procurement costs for LNG, e.g., through importing lower priced LNG from shale gas.

Strategic Market Creation Plan (major policies)

① Increase the nation's healthy life expectancy

Target: Expand the market scale of the health promotion, preventive care, living assistance industries to 10 trillion yen by 2020 (currently 4 trillion yen)
Expand the market scale of the pharmaceutical, medical device and regenerative medicine-related industries to 16 trillion yen (currently 12 trillion yen)

■ Establish a Japanese version of the National Institutes of Health (NIH) that would have a "control tower" function for research and development in the medical sector.

- Establish a Japanese version of the National Institutes of Health (NIH), which will be responsible for the integrated research management of the medical field, connecting research and clinical applications, and developing a structure where high quality clinical research and trials can be conducted.

■ Online distribution of non-prescription drugs

- Approve the internet sales of non-prescription drugs under the appropriate rules while securing the safety of consumers.
- However, items designated as powerful drugs and items that have newly become available as non-prescription one will be examined from a medical and pharmaceutical perspective, and after reaching a conclusion by autumn 2013, the necessary measures will be taken.

■ Develop an industry to increase healthy life expectancy

- Take legal measures to eliminate regulatory gray zones concerning medical and

■ Accelerate assessment procedures for advanced medical treatment

- Implement the Advanced Medical Highway Initiative, which is designed to accelerate and streamline the specialized assessment of advanced medical treatment by external institutions and significantly broaden the coverage of advanced medical one in public health insurance system.

■ Encourage the acceleration of ICT use in medical and care service information

- Ask all health insurance societies to create, implement and evaluate the Data Health Plan (tentative title), which is designed to promote the health of their members.

② Realize clean and economical energy demand and supply

Target: Capture domestic and international energy technology sales of approximately 26 trillion yen by 2020 (currently 8 trillion yen)

■ Carry out the Electricity System Reform

- Drive the full retail choice, full liberalization of power generation and legal unbundling, and encourage entry of diverse groups and the integration and cooperation of various business sectors (electricity, gas, telecommunication, etc.) through the Electricity System Reform in order to create new businesses.
- Change service area divisions currently serviced by the nine power companies, establish the Organization for Nationwide Coordination of Transmission Operators, and develop dispersed power systems that center on renewable energy and storage cells.

③ Build regional communities that use their unique local resources to appeal to the world

Target: 30 million foreign visitors to Japan by 2030 (8.37 million in 2012)

Formulate a strategy to double the income of farmers and of farming communities as a whole over the next ten years within the context of advancing a transition to "the sixth industry"(collaboration of primary, secondary and tertiary industries).

■ Relax visa requirements

- Relax visa requirements for tourists from ASEAN countries to Japan, which are expected to increase greatly in the future.

■ Develop "the sixth industry"

- Develop "the sixth industry" through the full-fledged utilization of the the Agriculture, Forestry and Fisheries Fund for Innovation, Value-chain and Expansion Japan (A-FIVE).

■ Encourage the export of Japanese agricultural, forestry, and fishery products, and food produce

- Formulate export strategies on specific countries as well as products.

■ Increase the competitiveness of skilled and diverse responsible entities through initiatives such as the conservation of farmland

- Establish a farmland re-distribution scheme where prefectural intermediary institutions that manage farmland borrow the majority of land within the region and lease it in consideration of consolidation for skilled and diverse responsible entities such as corporate farmers, agricultural companies, and so on. Proactively encourage corporate entrance into agriculture while utilizing intermediary institutions that manage farmland.
- After verifying the circumstances of corporate entry into agriculture, explore the further liberalization of corporate entry through farmland acquisition by easing requirements for the establishment of an agricultural production corporation.

Strategy of Global Outreach (major policies)

① Promote economic partnership

Target: Trading FTA ratio of 70% by 2018 (currently 19%)

- Advance economic partnership negotiations including TPP, RCEP, Japan-China-ROK FTA and Japan-EU EPA. Accelerate initiatives designed to conclude investment agreements and expand tax treaty networks.

② Infrastructure export

Target: Infrastructure exports of approximately 30 trillion yen by 2020 (currently 10 trillion yen in orders have been received)

- Prime Minister and ministers to make at least ten sales visits each year to foreign nations.
- Utilize the JBIC Loan Facility Enhancing Global Business Development, strengthen local currency-denominated financing support through JBIC and NEXI, and enhance trade and investment insurance.

③ Support for small and medium-sized enterprises

Target: By 2020, double the export amount of SMEs compared to 2010 levels.

- Provide one-stop support by strengthening cooperation with public support providers such as JETRO, and establish one-stop overseas consultation offices that can provide consultation services for legal, labor, intellectual property and other issues that are encountered overseas.

④ Promote “Cool Japan”

Target: Three-fold increase by 2018 of overseas sales of Japanese broadcasting content (currently 6.3 billion)

- Under the leadership of the Japan Brand Fund (tentative) and the secretariat of the Project for Localization & Promotion of Japanese Visual Media (J-LOP), secure a distribution network in overseas local markets.
- Establish an agency that will serve as a one stop contact point for administering procedures for managing rights in a unified way (strengthening the functions of the audiovisual Rights management association [aRma]) and promote agreements on rights contracting management that includes broadcasting overseas in order to facilitate swift marketing of Japanese content overseas.

Initial Supporters of Abenomics (2013)

Joseph Stiglitz—“Depreciating the yen to end deflation is the right policy. Just as I recommended 10 years ago.”

Paul Krugman—“I evaluate Abenomics highly; no other country could do this policy mix.”

Christine Lagarde (IMF Managing Director)—“Inflation target of 2% is desirable as long as central bank independence is secured.”

Ben Bernanke (Fed Chairman)—“I support it as a policy to end deflation.”

Prof. Heizo Takenaka (Keio Univ.)— “Abenomics is 100% right.”

Prof. Koichi Hamada (Abe’s advisor)— “Don’t worry about recent stock market drops—they are just corrections of excess optimism. The real economy is improving.”

Prof. Takatoshi Ito (GRIPS/Columbia Univ.)— “BOJ economists think QE [quantitative easing] is ineffective. But many researchers and officials support QE as a tool to change inflation expectation.”

Initial Critiques of Abenomics (2013)

George Soros (investment guru)—“Japan’s monetary policy is bold but very risky; it may trigger a collapsing yen.”

Kunio Okina (Kyoto Univ.)— “If deflation mind is dispelled but fiscal discipline is not secured, monetization of fiscal deficit will generate a serious dilemma between financial stability and price stability.”

Kazuo Ueda (Tokyo Univ.)—“Monetary expansion increased interest rate and yen volatility. If long-term interest rates rise, expected positive impact on the real economy will not happen.”

Ryutaro Kono (BNP Paribas)— “The monetary transmission mechanism is broken. Under such circumstances, monetary easing may destabilize asset prices, raise long-term interest rates, and put BOJ in a macro policy dilemma.”

Nikkei (Japan Economic Journal) **commentary**—“The growth strategy lists only easy measures; bold reforms in such key areas as medical service, agriculture, corporate tax rates, and so on, are not clarified.”

The Growth Arrow of Abenomics

Expanding and Revising Every Year without Achieving Results?

The cabinet approves a growth package every June with new catchy phrases. However, it is difficult to produce real-sector results quickly. Targets seem too many and too random without proper execution or monitoring. The annually revised Growth Arrow has become a shifting wish list and a guideline for ministries to receive additional budget allocation.

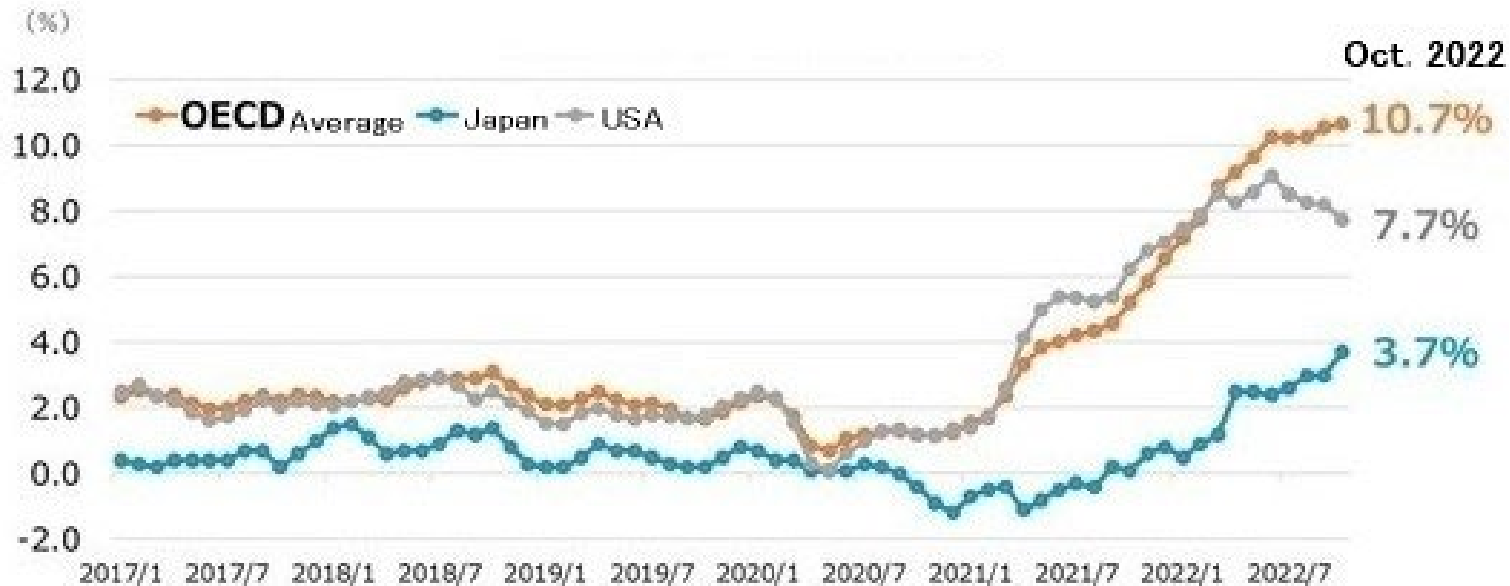
- 2014** New Growth Strategy, Recovering an earning power, Producing workforce, Reform rock-solid regulations, Energy, Tourism
- 2015** Revised Japan Revitalization Strategy 2015, Abenomics Stage 2, Productivity revolution through investment for future, Local Abenomics, Reform 2020: PPP projects for growth
- 2016** 100 Million Total Success, raise GDP from 500 to 600 trillion yen, Fourth Industrial Revolution, higher birth rate, keeping jobs while taking care of old parents, promoting inbound FDI and Japan Brand
- 2017** Future Investment Strategy, Reforms toward Society 5.0
- 2018** Human Power Revolution, Productivity Revolution, working style reform, receiving new foreign labor, etc.

7.5 Years of Abenomics

- ❑ Abe's strategy seems to have been, first secure a good economic recovery (which everyone would welcome), achieve high approval, then push through his conservative agenda related to national defense and constitutional reform.
- ❑ Three Arrows of Abenomics were presented in flashy slogans but, in essence, they were not so different from policies adopted by past administrations.
- ❑ Aggressive monetary and fiscal policies initially lifted business and consumer psychology, but these short-term effects did not produce long-term growth. Meanwhile, government debt continued to rise.
- ❑ The growth strategy was the most crucial yet weakest Arrow of Abenomics. Many measures were introduced under catchy phrases every year, but meaningful results were few. Long-term real-sector policies require fewer targets and longer time frame.

Two-percent Inflation Target?

Consumer Price Inflation (over 12 months)

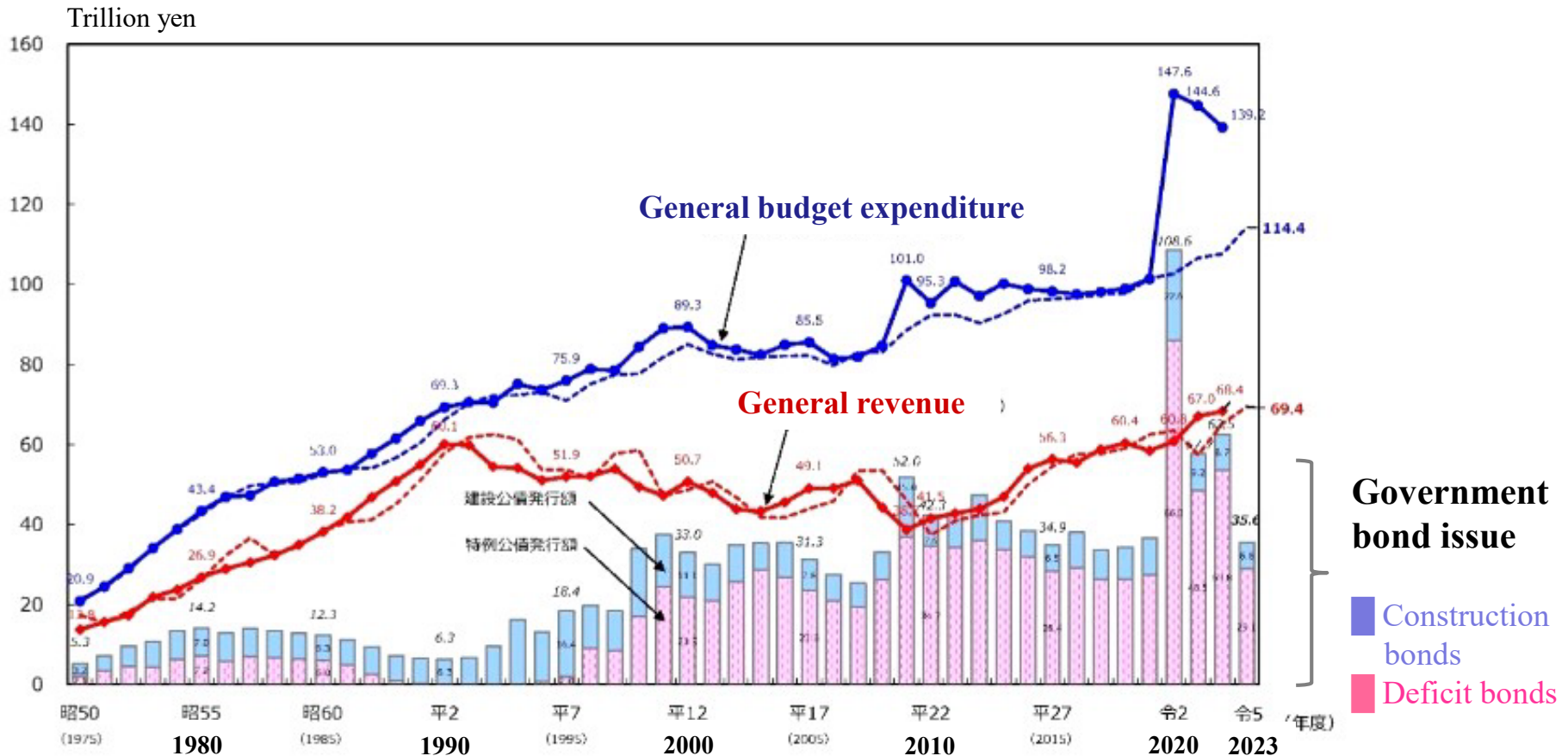


Source: OECD.

During Abenomics (2013-2020), consumer price inflation remained well below 2 percent (apart from the effect of consumption tax increase in 2014 & 2019). Until 2020, inflation was close to zero. After COVID and the Ukraine War, global prices began to rise and Japanese inflation also surpassed 2%. But this was due to energy, food and other supply shocks, not a result of robust economy or high productivity performance.

Revenue Improves, But...

- ❑ In recent years, strong profits pushed up corporate income tax receipt—partly thanks to Abenomics.
- ❑ Consumption tax was raised from 5% to 8% (April 2014) and to 10% (Oct. 2019). This further increased revenue.
- ❑ However, large COVID-19 & Ukraine expenditures greatly increased debt issue.



Additional Topics for Discussion

- ❑ How should Japan have coped with the bursting of the asset bubble? Was there any better way than what was actually done?
- ❑ Evaluate Abenomics.
- ❑ Is inflation targeting by the Bank of Japan appropriate?
- ❑ Under the weak economy, how should fiscal policy be conducted? Is demand stimulus by fiscal stimuli an outdated idea?
- ❑ How should Japan deal with the skyrocketing social security and medical care bills? How do you evaluate the sudden acceleration of public debt issue due to the huge COVID- and Ukraine-related fiscal spending?