Two Year Experience of “Abenomics” and Forthcoming Challenges for Japanese Economy
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I . Introduction

II . Commencement of Abe Administration 3.0 and its challenges

1. The landslide victory of House of Representatives Election in December 2014

On December 14, 2014, the general election for the House of Representatives was held. The result of the voting was a land-slide victory of the parties in power, Liberal Democratic Party and Komei Party. They obtained 326 seats, 291 for LDP and 35 for Komei, out of the total of 475. Their seats are well over the seats of “absolute majority” implying the parties in power can override the parliamentary decision of law making no matter how much the opposition side opposes.

This victory also implies that Abe administration can have a free hand of conducting policies for the forthcoming four years unless it will be caught up in an unexpected fatal trouble. It will mean that Mr.Shizo Abe may enjoy the longest life of his administration in the postwar history.

2. A further look at the result of voting

The other side of the result of the voting was its low rate of participation. Voting rate was only 52.66% which is the lowest of general elections in the postwar period. The low rate of voting apparently suggests that many voters...
were not interested in going to the voting house. Why so? The main reason seems to be that the voters had no other choice than voting to the parties in power. It is because the opposition parties were unprepared and not well organized.

Mr. Shinzo Abe claimed that the general election was to ascertain if the voters support his economic policy package known as “abenomics.” Given this low level of interest of the voters, the overwhelming majority that the parties in power secured, however, may not mean that the overwhelming majority of the population actually support or endorse the “abenomics.”

3. Challenges for Abe administration 3.0.

Mr. Shinzo Abe took the prime minister’s office in 2005 for the first time succeeding his highly popular predecessor Mr. Jun’ichiro Koizumi. Mr. Abe, however, stepped down of his office only a year later because of his health problem after suffering from the miserable defeat in the House of Commons election.

He revived miraculously in September 2012 to become the president of Liberal Democratic Party (LDP) and then in the general election of the House of Representatives in December 2012 he headed the party to win the land slide victory. If we name his administration of this time as version 2.0, the current administration organized after the election of this time may be called as version 3.0.

The challenge for Abe administration 3.0 is whether he could really manage to realize a substantive growth of Japanese economy by his economic policy package “abenomics” so that the standard of living of the population will be improved as well as overcoming dangerous macro-economic risks of fiscal crisis and fatal long-term risks accompanying aging and shrinking population.

In my judgement, Abe administration has been making the far more serious, forth-right, systematic and strategic effort to improve and enhance the Japanese economy as symbolized by the word of “abenomics” compared to any previous administrations in the postwar period. And the economy reacted quite favorably to its financial policy in the first year of his administration 2.0. Since then, however, the economy has not been responding to his policies as expected.
The real challenge is whether he could secure the understanding on the part of population of his economic strategy and their support and cooperation. This is particularly important because the major task of his policy package is now associated with mostly on structural reform policies rather than macro economic policies as financial and fiscal policies. Unlike the macro economic policies which can be conducted by the central bank and the ministry of finance, structural policies can become effective only after the broad understanding by the public is secured and their support and their active participation to the new way of working under the proposed new economic systems by the administration is achieved.

I write this long essay hoping to assist the public to understand what the “abenomics” is all about, and provide them an opportunity whether they would support or participate or not. The grand economic policy package such as “abenomics” could achieve its aim only after securing the understanding and support by the public through the “democratic” process. Since the opposition parties and politicians in Japan currently are not effective to promote this process, I hope this long essay could make some contribution to fill in the vacuum to promote this democratic process.

III. Three Arrow Approach of “Abenomics”

1. The strategic intent of Abe administration

The strategic intent of Abe administration is, in short, to get rid of the long and persistent deflation which Japanese economy has been suffering from for about 18 years since the mid-1990s. When Mr.Yoshihide Suga, minister of the cabinet, gave a talk at a study meeting which myself organized shortly a year after the outset of Abe administration 2.0, he said that it is the responsibility of politicians to bring the economy out of the trap of lengthy deflation. The Abe administration is determined to take the initiative to combat against deflation not delegating responsibility to the central bank and the ministry of finance.

They, Mr.Shinzo Abe, Mr. Yoshihide Suga, and their economic advisors such as Professors Koichi Hamada, Etsuro Honda(Shizuoka Univ. and former official of ministry of finance), Kikuo Iwata(Gakushuin Univ. and currently vice president of
Band of Japan) organized study meetings frequently to discuss how to realize their strategic intent by appropriate economic policies. Mr.Haruhiko Kuroda (then President of Asian Development Bank and now President of Bank of Japan) frequently joined the study meeting.

Their conclusion was simple and clear. Since the deflation is a “monetary phenomenon,” the BoJ(Bank of Japan) should increase money supply, the base money to be precise, remarkably as much as to surprise the market. This is a typical “reflationary policy.” They ascertained this measure as a major policy of their economic policy package.

Up to the beginning of 2013, BoJ was chaired by president Mr.Yoshiaki Shirakawa, who is rather skeptical about the effect of reflationary policy. He is known to have a thought that monetary policy alone can not materialize real economic growth if it could affect the people’s expectation of changes of prices. Under his leadership, BoJ had been rather cautious about increasing the base money relative to central banks of major economies such as the US, UK, ECB etc. This attitude of BoJ is judged by the international market that Japan has relatively weak intent to overcome the deflation. This judgement encouraged purchasing the “yen” and consequently the exchange rate of the yen was driven to a high level, which disturbed Japan’s exports, resulting the long term stagnation of Japanese economy.

Shortly after the outset of Abe administration at the end of 2012, Mr.Shirakawa announced to resign as president of BoJ a few weeks before the expiration of his term, which was irregularly set in mid-April because of the delay of his initial appointment, so that BoJ can smoothly resume its operation from April, the beginning of normal fiscal year, under the leadership of a new president. Abe cabinet recommended Mr.Haruhiko Kuroda to the national Diet where president of BoJ is formally nominated. Since the parties in power consisting of LDP and Komei Party were occupying the overwhelming majority, Mr.Haruhiko Kuroda was smoothly and quickly determined as president of BoJ.

2. “Abnomics”

Abenomics is considered to be consisting of the following three “arrows.” They are financial policy, fiscal policy and growth strategy.
The first arrow, financial policy, is to increase supply of base money dramatically to induce inflation and thus aims to change people’s expectation from deflationary to inflationary.

The second arrow, fiscal policy, it to provide fiscal spending timely and dynamically, whenever necessary, to secure the stable operation of the economy in the process of major structural transformation.

The third arrow, growth strategy, is to realize economic growth by chiefly promoting necessary structural changes for the economy to be able to grow. Economic growth is critical not only to increase income levels of the population but also to facilitate fiscal reconstruction and enriching social securities in Japan’s rapidly aging society. In other words, whether the Japanese economy would grow substantively or not will determine whether “Abenomics” will succeed.

IV. The First Arrow: Did the Monetary Policy Change People’s Expectations?

1. The achievements of the first arrow.

On April 3, 2013, Mr.Haruhiko Kuroda, the new president of BoJ, made a memorable statement in the press conference immediately after taking the office that (1) BoJ will commit to realize 2% inflation in two years, and (2) BoJ will double the amount of the base money in two years, namely from 130 to 270 trillion yen. Mr.Kuroda coined the word “extra-ordinary dimensional” monetary easing. Foreign media called this “Bazooka” declaration.

Responding quickly to Mr.Kuroda’s epochal statement, major foreign investors and speculators sold huge amount of future yen. Consequently, the exchange rate of the yen dropped as much as 20% in two months, suggesting huge increase of expected profits for export oriented businesses. Reflecting this expectation, stock prices increased remarkably as much as 80% in half a year. Increases of expected profits for export oriented large corporations and dramatic increases of stock prices certainly generated a promising atmosphere in Japanese economy. In this sense, the initial effect of the first arrow can be said to be “successful.
2. Extra-ordinary dimensional monetary easing and inflationary expectation

The challenge is whether 2% inflation will be realized by the spring of 2015 as Mr. Haruhiko Kuroda declared in April 2013. As the exchange rate of the yen declined markedly and hence import prices such as energy and food increase, inflation certainly began to be real. By spring 2014, the rate of increase of CPI (consumer price index: the CPI which BoJ adopts is the ordinary CPI minus the effects of perishable foods and consumer tax) reached 1.5% and Mr.Kuroda seemed confident of achieving his promise.

However, the CPI increase started to drop sharply from summer 2014. In fact, in September 2014, the rate turned out to be only 1.0%. BoJ internal calculation estimated that by spring 2015, the rate would be at most 1.5%. This figure would not be good enough to claim that Mr.Kuroda's commitment is satisfied. With these unexpected development of price changes, Mr.Kuroda and BoJ executives secretly started to prepare for another major money easing policy.

The question is whether the people started to have inflationary expectations. With the sluggish increase or even occasional decline of the rate, it is difficult for people to have inflationary expectations.

3. Mr. Kuroda’s second “Bazooka” declaration and its repercussions

On October 31, 2014, Mr.Kuroda, made a totally unexpected declaration of a major money easing policy package, known as the second “Bazooka” only next to his first Bazooka in April 2013.

The declaration includes:
(1) Increase the base money annually up to 80 trillion yen.
(2) Increase of purchase of long term government bond by 30 trillion yen to reach 80 trillion yen.
(3) Increase of purchase of risk assets by 3 times.

Since his declaration was made shortly after the US Federal Reserve Board announced the closing of their extra-ordinary monetary easing policy, and completely unexpectedly, it gave substantive impacts to the market and stock prices increased sharply not only in Japan but also in the US and other countries.
The current policy of BoJ led by chairman Haruhiko Kuroda, however, contains some major risks since it means that BoJ in effect finance the government’s deficit ridden fiscal policy. Once the market interprets that this implies that Japanese government lost the fiscal discipline, the prices of JGB may well drop sharply which jerks up interest rate and accelerate the snowball effect of aggravating government debt to lead to a fiscal bankruptcy.

Another concern is how to manage exit strategy in the future of the current enormously expanded money easing policy. In fact, with the second Bazooka, the expected stock of base money to the GDP will be 70% as compared to 20% for the US. Mr. Naoki Tabata, ex-executive of BoJ and currently an independent financial expert, advises that Japan can learn a lot from a rather cautious and careful exit policy of the US. But Japan should be prepared to take as much time as even 10 years to exit smoothly.

V. The Second Arrow: Effects of Active Fiscal Policy

1. Objectives: stabilizing and smoothing the process of economic transformation

The process of transformation from the deflationary to inflationary economy may not necessarily proceed smoothly and stably. In case of necessity, fiscal policy should be mobilized to stabilize and smoothing the process of transformation. In fact, rather lavish fiscal spending in FY 2013 did help supporting the modest growth of the economy.

2. Active fiscal policy and the prospect for fiscal reconstruction

The active fiscal policy may be seen in the fact that the government at the outset of LDP administration spent as much as 20 trillion yen as emergent economic policy by means of supplementary budget before they organize the regular annual budget of 92.6 trillion for FY 2013. This was followed by 99.2 trillion yen large annual budget for FY2014. In an attempt to mitigate the expected negative shock of raising consumption tax from 5 to 8% in April 2014, the government spent 5 trillion yen as a special measure. The annual budget for FY 2015 is as big as 98 trillion yen.

While this much of fiscal spending certainly helped to stabilize the economy,
it may disturb the prospect of achieving the fiscal reconstruction plan. The fiscal reconstruction plan was determined officially in 2010. It plans to achieve balance between revenue and spending in terms of "primary balance" by 2020. In 2010, the primary balance suffered from deficit of 32 trillion yen (6.7% of GDP). The government plans to reduce the deficit down to 16 trillion yen (3.3% of GDP) in 2015 and achieve the balance or hopefully some surplus by 2020. It was expected that the fiscal balance will barely move along the planned orbit of fiscal reconstruction plan in FY 2014 and 2015.

The declaration of prime minister Shinzo Abe of postponing the second increase of consumption tax rate from 8 to 10% in October 2015 may well, unfortunately, disturb this prospect because of loss of expected revenue accrivable from the consumption tax hike. Prime minister Abe, however, strongly ordered the ministry of finance to keep the orbit even for FY 2015. By the time the annual budget plan for FY 2015 was formulated in January, MoF somehow made up the plan which the desired primary balance will be achieved even for FY 2015 largely by allowing for increased tax revenue particularly from the corporate sector.

However, the prospect from there will be not promising at all. The government officially has to disclose that, even if consumption tax rate would be increased from 8 to 10% in October 2015 and the economy would grow at annual rate of 2.0% in real terms and 3.3% nominally for the period FY 2013 to 2022, in 2020 the primary balance would end up of having deficit of 11 trillion yen or 1.8 percent of GDP. If the economy would not perform as good as this, say annual growth rate of 1.3% in real terms and 2.1 percent nominally for the same period which is more likely given the recent economic performance, the primary balance in 2020 would be 1.6 trillion yen or 2.9% of GDP of deficit, according to the estimation by the ministry of cabinet disclosed in July 2014.

On February 12, 2015, the cabinet office disclosed a report “Estimates of Mid-to-long term economic and fiscal prospect,” in which the office updated the estimation of fiscal balance. The report presents two scenarios: one is “base line case,” and the other is "economic recovery case." The base line case is based on the assumption that economy will grow at an annual rate of slightly lower than 1% in real terms and 1% and a half in nominal terms for the forthcoming decade. The recovery case assumes more than 2 % in real, and more than 3% in nominal terms for the same period.
In base line case, the primary balance will have a deficit of 3.0% of GDP in the target year of 2020, and in recovery case, the primary balance will still have deficit as 1.6% of GDP.

If Japanese economy would fail to achieve balancing the primary balance by 2020 as promised officially by the government, what would the international community and the market would react to it. If they judge that Japan lost the fiscal discipline, Japan’s fiscal credibility would be questioned and consequently the price of the government bonds may well drop sharply. High officials of MoF do not seem to think that this would not take case immediately. They hope that the international financial community will trust the effort of Japanese government and the public to attain the balance in the long-run.


Worrisome risks associated with the first and second arrows as described above will be absorbed most effectively by the growth of Japanese economy. If the Japanese economy will grow as much as say, 3% in real terms and 4% nominally for the forthcoming decade, much of the worried risks would be dwarfed or even gone. The economic growth would increase employment and incomes of people, increase tax revenues which consequently reduce government fiscal debts in medium term and could stabilize the social security system to support the lives of aging population in the long-run.

It is in this sense that the public looks to the third arrow of “Abenomics,” namely, “the growth strategy. Now let us explain the gist of the first growth strategy of Abe administration.

The first growth strategy of Abe administration, entitled “Japan Recovery Strategy” was determined by the cabinet on June 14, 2013. It aims to attain annual nominal growth rate of 3%, real growth rate of approx. 2% in average for the forthcoming 10 years. It emphasizes creating new frontiers and make much use of female and young human resources. The strategy written in 94 pages consists the following 3 major “action plans.”
(1) Japan’s industry recovery plan

It emphasizes renewal of economic structure both in terms of industry and employment. The renewal is promoted by a new law, “industry competitiveness law” which was enacted in December 2013. It also proclaims strengthening the national function of promoting innovations in science and technology.

(2) Creating “strategic” market plan

The plan identifies and assists the development of earning capability in such areas which have not much cultivated in the past as industrial sector, namely, health, energy, next generation infra-structure, and local agricultural areas.

(3) International deployment plan

This plan seeks to promote free trade arrangement with trade partners in the world to attain 70 percent as the share of Japan’s trade by 2018 from the current ratio of 19 percent. To achieve this goal, Japan should negotiate successfully in TPP, RCEP and FTAAP etc. Incidentally, South Korea attained this ratio in November 2014 by means of enacting free trade agreement with the US, EU and China.

The growth performance of Japanese economy, however, has been rather ironical. The economy grow in the first quarter of 2014 by 4.9 % in annual terms, followed by 3.5% in the second quarter. The third quarter, following the announcement of the growth strategy, turned out to be only 1.3 percent. And even worse in the forth quarter as 0.3 %.

The growth strategy is a package of structural reform policies and thus its effect is expected to show up in the medium and long run and not shows up in the short-run. Nevertheless, the fact that the economic growth rate dropped in the wake of the announcement of the plan was disappointing particularly to the cabinet.

Taking this disappointing economic performance seriously, prime minister Shinzo Abe made strong statement in the first meeting of 2014, on January 20, of industrial competitiveness committee held in his office, saying that the government urgently determine the basic directions for the second growth strategy by June 2014. He emphasized that the new strategy will pursue
seriously to reform the what he calls the “bed rock” sectors which deter the efficient use of resources for growth, particularly in agriculture, medicine and employment systems etc.

VII. The Second Growth Strategy: Its Content and Challenges

1. Make-up of policy committees and the reports

Three major committees were involved to promote the growth strategy and prepare the report: (1) industry competitive committee headed by Mr. Toshiaki Amari, minister of economic and fiscal recovery, (2) regulatory reform committee headed by Mr. Motoyuki Oka, executive advisor to Sumitomo Trading Corporation, and (3) economic and fiscal advisory committee headed by prime minister Shinzo Abe. Outstanding feature of these committees is that many outspoken business leaders participate as committee members in addition to relevant ministers, politicians and scholars. They have worked hard to identify the problems, analyze the issues and prepare workable policy recommendations spending a year. They actually started working for the second growth strategy immediately after the disclosure of the first growth strategy, and wrapped up their reports by June 2014.

The second growth strategy consisted of three major reports as follows.  
(1) Industrial competitive committee “Japan Recovery Strategy Revised 2014” 124p plus summary 19p  
(2) Regulatory reform committee “The Second Report on Regulatory Reform- Accelerating Reform” 106p  
(3) Economic and fiscal advisory committee “Basic Directions on Management and Reform of Economic and Fiscal Policies” 80p.

These reports contains voluminous explanations of great many policy proposals. Shortly after the announcement of these reports by prime minister Shinzo Abe on June 24, 2014, foreign media such as Financial Times and the Economist described them as “one thousand needles” of acupuncture rather than “the third arrow.”

Such voluminous reports are certainly difficult to read and understand, let me
pick up major policy areas where the government seriously tried and still trying to promote in some detail in what follows so that the reader could have a good grasp of the gist of the growth strategy of “Abenomics.”

2. Renewal of Industry and Employment

   Part of reasons for the sluggishness of Japanese economy is considered to be associated with the mal-allocation of industry and labor resources in the outdated sectors. To promote the reallocation of industry and labor resources toward more modern and future oriented sectors, the government enacted “competitiveness reinforcement law” in December 2012. This law authorizes to control subsidies to promote such reallocation of industry resources. Also, the government reduced the subsidy measures to help corporations to hoard employment in case of reduced production and increased assistance for workers to seek jobs in growing or future oriented industries.

3. Corporate Governance and Capital Market

   Japanese corporate governance has been viewed as less transparent and more closed and inward oriented than it needs to be. This disturbs active participation of investors to revitalize corporate management. Also, capital resources have been utilized less effectively and efficiently than they should. The fact that nearly a half of GDP wise liquid capital is hoarded in corporations indicates inefficient and ineffective use of capital. To counteract such deficiencies, Abe administration promotes such measures as follows:

   (1) Revising Corporate Law, as enacted in June 20, 2014, by which publicly open corporations, regardless of its size, should appoint at least one independent member of the board by the season of stock holders’ meetings this year, namely, June. Those companies which do not follow this direction have to state the reasons why publicly.

   (2) All the publicly listed companies have to determine “governance code” to secure the transparency of management for investors by the season of stockholders’ meetings in 2015.

   (3) Major professional investment organizations have to determine and follow “stewardship code” again to increase transparency of strategies and policies
of investment organizations for investors.

(4) Change of fund allocation policy of Government Pension Investment Fund from low risk low return assets to more higher return assets such as corporate stocks. GPIF is the organization which manage as much as 130 trillion yen worth of pension funds under the supervision of ministry of welfare and labor. Late in 2014, GPIF agreed to allocate a quarter or so of its fund to such assets.

(5) JPX Nikkei 400 index is introduced which weighs heavily profitability of corporations such as ROE as reference index for investors.

4 TPP Negotiations

The initiative of TPP, Trans Pacific Partnership, started more than a decade ago by 4 to 5 small countries in the Pacific area as an attempt for highly advanced free trade agreement. The United States, which was seeking a more comprehensive and advanced free trade scheme than a conventional major mechanism as WTO, joined this initiative in 2010. Japan participated in July 2013. Abe administration thinks that TPP is an important lever to promote Japan’s economic growth.

Since the negotiations among the current 12 countries have been promoted energetically on many items, the process has not been smooth nor sometimes promising. In addition to difficult confrontations in such areas as intellectual property rights and state involvement in enterprises particularly between the US and developing nations, the confrontation between the US and Japan in such areas as five critical agricultural products and auto motives have been keen and often look impasse.

After having failed many times to reach meaningful agreements on concrete conditions, the atmosphere in the US and Japan turns out to be more positive perhaps for pressing political reasons for either side. In the US, it would be virtually impossible to promote TPP negotiations in 2016, the year of presidential election. In Japan, it will be also difficult for the government to compromise such items as agricultural tariffs shortly before the House of Representatives national election which is scheduled in summer 2016. Moreover, the US congress finally seems to bestow Trade Promotion Authority, known as
the fast track, to the president, which will make the decision of the president more meaningful.

After having spent strenuous efforts, this slim opportunity to reach general agreement of TPP would enhance the potential for Japanese economic growth provides some hope for the future.

5. Agricultural Reforms

Abe administration wishes to make agriculture a growth leading sector by reforming its structure in which resourceful farmers and agricultural corporations can do their business more freely and actively by means of abolishing non productive regulations and breakingvested rights. Agricultural reform is an important element of Japan’s effort to prepare for joining TPP.

The main foci of reform are: abolishing the rice acreage reduction policy, reform of national agricultural cooperatives, and reform of land ownership regulations. Let me explain more about each of the three.

(1) Abolishing rice acreage reduction policy

The meaning of this reform can be understood better with understanding of some historical background of Japanese agriculture in the post World War II period. In the devastated Japanese archipelago after the bombardment of the war, relatively less damaged agriculture sector barely fed the populations and saved them from starvation. By several years after the war, urban sector began to recover from the damage by industrialization, which increased income levels of urban population.

Agriculture, which remained as small scale labor intensive agriculture due largely to the political intent of Liberal Democratic Party to keep agricultural sector as the pool of many votes, was unable to enjoy productivity growth comparable of urban industrial sector. To mitigate mounting dissatisfaction of farmers on their low incomes, the LDP government introduced in 1960 the political pricing system of rice. Namely, the politically controlled price of rice is increased as much as industrial wages. Since this system was kept repeated for 40 years, the price of Japanese rice increased many times higher those of international prices.
On the other hand, with economic development, increase of incomes, and westernization of eating habit, the consumption of rice has been reducing secularly. Without the price control of rice, rice farmers' incomes were expected to be reduced reflecting the reducing demand for rice. The abolishment of the staple food control law in 1994 accelerated this situation. Anticipating such deteriorating trend, the LDP government introduced the rice a crease reduction policy in an attempt to maintain rice farmers incomes even with reduced demand for rice. In addition to solicit farmers to reduce rice production acreage, the government provides the cooperating farmers the subsidy just to make up for the loss of income due to reduced rice production.

With this policy, incomes of rice farmers have been protected and thus the farmers have been shuttered from the competitive menace of the market accruing from reduced demand for rice. The intent of Abe administration to terminate the acreage reduction policy is to let the farmers confront with market competition so that they would try to improve their competitiveness for survival by their own effort.

The basic direction of abolishing this policy was determined in November 2014, with 5 year preparation period to finally abolish it.

(2) Reform of national agricultural cooperatives.

Agricultural cooperatives exist in many counties. The cooperative organizes farmers of the local area so that they can make use of collective capability in terms of farming methods, purchasing tools and fertilizers more cheaply and help distribution of agricultural produce. In Japan, there exist approx.750 local cooperatives.

Unique to Japan is that there also exist on the top of local cooperatives, huge national and broader regional organizations, which control local cooperatives and exercise political power as well as enjoying money business using a huge accumulation of farmers’ deposit. Since much of the activities of such national and regional organizations do not really contribute improvements of local farming activities, and even often disturb creative activities of local cooperatives by imposing uniform control and levy financial contribution from the local to higher organizations.
The aim of reform of Abe administration is to dismantle legal authorization of national organizations to control local cooperatives. There are three major national organizations, JA(Japan agriculture) national central organization, JA economic organization which is in charge of distribution and material supplies, and JA central bank which pursue money business using the huge funds collected from millions of member farmers and quasi members of cooperatives. The government deprive them of some legal authorization, and make JA economic organization to be an ordinary corporation to increase its efficiency. All these reforms aim at liberating local cooperatives from unjust control of upper organizations and let them develop their creative improvement to enhance competitiveness of farmers.

(3) Reform of land ownership regulations

Japanese farm land is rigidly controlled by “Farm land law” which was enacted shortly after the defeat in the WWII under the supervision of Supreme Commander of Allied Forces. The gist of the law is make it impossible for major land lords and businesses, who do not reside in farming area, to own the farm land. The basic aim of this legislation was to terminate heavy levies and control by large land lords imposed on farmers who were not allowed own their land. With legislation of post war land law, many peasants were allowed to own small pieces of their own land and they became self employed farmers.

This law certainly changed Japanese agriculture from the one controlled by large land lords to the one consisting of great many small scale self-employed farmers. This system encouraged small self-employment farmers to work hard to earn their living and consequently helped feed Japanese population in the post war period.

However, after more than half a century, as Japanese agriculture began to face increasingly seriously international competition of agriculture and also international pressures to open Japanese market for international market, the post war system which once was thought a remedy for Japanese agriculture turned out to be obstacles for Japanese agriculture to gain international competitiveness.

The land law prohibits (1) those who do not live in farming area to own the land, and (2) those who wish to buy the land have to be approved by local agricultural committee. With these regulations, land lords and corporations cannot own the land so that Japanese agriculture cannot enjoy the merits of
large scale farming nor business innovations of agricultural items and technologies.

Abe administration tries to relax such regulations so that large scale farmers and agricultural business corporations can operate effectively in agriculture. Through the intensive effort for reform of land ownership regulations, these objectives are partially met but still under strict regulations.

6. Employment Regulatory Reform, Utilization of Female Human Resources, and Introduction of Foreign Workers

These are reform items of employment and utilization of heterogeneous human resources and these items are viewed as one of the bed-rock areas of hard core regulations and vested rights.

(1) Reform of work ways

1) Reform of working hour regulations and introduction of pay by performance

Abe administration has been insisting relaxing the current regulation against pay by performance. Let me explain its background briefly. Japanese workers have been known for hard working and long hour working. Up to the 1970s, such working patterns have been matched by high productivity. In fact this was viewed as an important element of Japanese industrial competitiveness.

However, more recently, Japanese labor productivity has turned out to be much lower than competing advanced economies. One of the major reasons is considered to be that white collar workers who are engaged in creative jobs are controlled by old labor law by which wages should be paid by working hours and not by performance or results. This old law was enacted shortly after Japan’s defeat in WW II.

The Japanese government, then, with the backing of SCAP, earnestly promoted the new legislation of labor law by which status discrimination should be abolished completely from the workshop. Before the war, there had been clear status separation between rank-and-file production workers, and white-collars who assist the management. While production workers are paid
according to the hours they worked, white collar worker salaries are contracted annually and they receive monthly payment of the salary.

This is a common practice widely prevailed in current industrial societies such as the US and some European countries. In the US, this system is called “white collar exemption,” implying that white collar workers are exempt from the rules imposed on production workers.

With the advancement of industrial structure, the proportion of production workers in manufacturing has been reduced markedly down to only 15 percent of entire workers. Other workers are in services, planning, research, marketing, or special services such as medical doctors. While the reward for shop floor production workers should legitimately relate to working hours, the pay for the latter types of work should not necessarily relate to working hours and it should legitimately reflect their work performance or results. While all the workers are regulated uniformly by the traditional working hour regulations, 85 percent of otherwise creative job workers are forced to work long hours, and thus Japan’s labor productivity has become lower more recently relative to other advanced nations.

Reform committees of Abe administration led by prime minister Shinzo Abe himself have been earnestly proposing reform plan of such working hour regulations for the last year. This attempt has been met by strong opposition by trade unions, surprisingly led by white collar executives, and ministry of welfare and labor whose powerful clients are trade unions. While reform committees of Abe administration achieve some progress, however, the pace of progress is much slower than it needs to be.

Other proposed reforms include relaxation of regulation against dismissals aiming to increase flexible adjustment capability of Japanese labor market, and relaxation of regulation against use of “dispatched workers” aiming at utilizing human resources of those who wish to work under more flexible work contract. Both of these proposed reforms are met with strong opposition from trade unions, small businesses, ministry of welfare and labor and opposition parties such as DSP(Democratic Party of Japan) and the progress has been very slow.

(2) Utilization of female human resources.
Japan is considered as one of the countries where female human resources are least utilized, particularly among advanced countries. Japan’s female labor force participation rate is in the range of low 60% which is not particularly low among advanced nations as US and Europe.

Unique about Japan is the shape of life-cycle labor force participation rate which is known as M-shape curve. This means that the rate becomes very low in child bearing and rearing stage. Important is the fact that nature of work the most female workers can get after raising children tends to be of much low skilled, and thus their human capital which they build when they were young is not used effectively and eventually lost in the latter half of their life career. It is in this way that Japanese female human resources are not utilized.

Prime minister Shinzo Abe takes initiative to alter this situation and prepare institutional and social conditions under which female human resources are utilize more fully and effectively. To achieve this goal, industry competitive committee proposes to increase capacity of child nursing and caring facilities markedly both for pre-elementary and early grades of elementary school age children in a few years so that more females of child rearing age can work in the labor market, which has been implemented by the government. The government also asks Japanese corporations to disclose how much opportunities of executives and higher rank officers they provide for females in addition to recommend flexible working time arrangement.

Tax reform to encourage labor market participation for house wives is another important item. Experts in the tax panel and the government launched study to realize such tax arrangement by modifying Japan’s income tax system.

(3) Utilization of Foreign Workers

In view of the long and medium term labor force shortage, Abe administration promoted to implement arrangement by which Japan can introduce more foreign workers. Japan has been using for recent 2 decades a scheme of Training and Working for foreign workers for a limited time, say 2 years of training and 1 year of working. Under the initiative of prime minister Shinzo Abe, the government relaxed this scheme to allow for foreign workers of more wider occupational variety and for a long period of stay and work in Japan.
Under some limited conditions, Japan has been accepting foreign workers with relatively higher skills which Japanese cannot well substitute. What Japan needs for the future is introduction of higher skilled and talented human resources from outside of Japan. This area has not really cultivated yet. Partly because this kind of highly skilled human resources are much sought after in the world, and the host country is required to prepare more attractive conditions for such talented people in many areas such as work regulations, living conditions and children’s education. Japan needs a long way to go in this respect.

Another issue is to prepare immigration law. Japan is one of a few countries which do not have well prepared immigration law so that the conditions for high talented foreign people are still not transparent. This is an obstacle together with a largely negative view of the public to invite foreign people as Japanese citizen. Abe government carefully avoid this issue from their list of reforms.

7. Shrinking Population and Revitalization of Regions

Japan’s population has been shrinking markedly since 2010, and is also aging rapidly. This mega-trend gives rise to rapidly increasing burden on the part of earning population in terms of social security contributions and taxes to pay for increasing costs of taking care of aged population. It also intensifies the problem of hollowing of non-urban regions because young people tend to move to large cities like Tokyo.

Currently, the ratio of social security premiums and taxes burdens relative to national income amounts to 40% given the ratio of aged population older than age 65 relative to the total population is 25%. This ratio would rise to higher than 70 percent as many expert’s predictions suggests by the year 2050 when the aged population will be about 40% of entire population. This figure is high enough to suspect the sustainability of Japanese economy.

On the problem of cross-sectional distribution of population, an interesting research result by experts’ research team led by Mr.Hiroya Masuda was disclosed in May 2014. This report disclosed the estimates of cross-sectional distribution of population for the period of 2010 and 2040. Assuming the current trend of population mobility from rural to urban areas, 49.8% of cities, towns and villages of Japan will have only a half of females of 20s and 30s, or child bearing age, by 2040 compared to the size of 2010. Once this critical point
is passed, the population of these communities will keep declining until they will be gone sometime in several decades.

This report called forth much repercussions throughout Japan particularly among such local communities which face declining population and females of child bearing ago. Abe administration could not neglect such social concerns.

Soon after the disclosure of this report, an experts’ committee of economic and fiscal policy committee presented a policy recommendation that Japan should seek to maintain 100 million population in 2060. The current Japanese population is 127 million and it is expected to decrease down to 86 millions in 2060. For Japan to keep 100 million population in 260millions, Japan needs to recover the total fertility ratio up to 2.07 from the recent level of low 1.30s.

Abe administration is determined to pursue policy package to recreate and empower regions which are suffering from declining population. The government set up “the headquarter of regional recreation” which is headed by prime minister Shinzo Abe on September 5 of 2014. In January 2015, the government disclosed a “long term vision” and “comprehensive strategy.” The prefectural governments are requested to publish regional version of long-term vision and comprehensive strategy by April.

While the government claims to keep their attention particularly on such areas as creating employment, soliciting relocation of people from major cities to regional localities, assisting child rearing, etc, the gist of its policy is to concentrate the government resources to assist good policy proposals provided by local community governments not only of prefectural but also of cities, villages etc. Abe government has increased the budget relating to these policies and projects as much as 1 trillion yen.

8. Reduction of corporate tax rate

Prime minister Shinzo Abe has been emphasizing that sizable reduction of corporate income tax is an important element of “Abenomics, “ for it fortifies competitiveness of corporations and thus contribute to promote economic growth. Incidentally, the effective corporate income tax rate in Japan now is 35.6% while it is in the range of 25 to 30% for many other advanced countries.
Prime minister Abe has been stating repeatedly recently to reduce down to the level of “20s percent” or at least to 29% in several years from FY 2015. The government tax panel decided by the end of 2014 to reduce the corporate income tax rate by 2.5% in 2015. In order to realize the objective of prime minister Shinzo Abe to reduce down to 29% in several years, the rate needs to be reduced further by 2.5% points in several years.

Given the fiscal difficulty that Japan is faced, it is not easy to accomplish this target. In addition to additional economic growth, it may need to reshuffle the whole tax system to achieve this goal.

9. Medical reforms

There are many issues to be reformed in medical sector. Among them, Abe administration particularly picked up the issue of formally admitting “Kongoh Shinryo, “ literally translated to combination of uninsured and insured treatments. This is an unique Jargon perhaps only used in Japan, and ordinary people could not understand the meaning of it if they only read the word. Let me therefore explain its meaning more understandably.

In Japan, while medical treatments are generally insured by the national system of health insurance, those who opt to take uninsured medical treatment, which is often advanced and not examined by government inspection system yet, they have not only to pay the price for the uninsured treatment but also for otherwise insured related treatments. A well known typical case was that when a female patient who gets her breast cut to take a surgery of breast cancer and gets her breast restore afterwards by transplanting other organ of the body, she has to pay not only the uninsured transplanting treatment but also the otherwise insured cancer surgery treatment.

This is obviously unfair institutional punishment against the patient. “Kongoh Shinryo” means to allow the patient takes uninsured treatment by paying uninsured price and take related insured treatment by paying insured price. This should be only normal and nothing special. However, special is that the Japanese government has rigidly not permitted the “Kongo Shinryo” treatment for decades in spite of repeated appeals by patient organizations and even law suites.
The reasons behind this stubborn attitude of the ministry of welfare and labor are not clear. Medical experts suspect that this is due to strong requests by the powerful pressure group of town medical practitioners whose incomes mostly rely on remunerations for insured treatments. Town general practitioners are organized by their association which has been politically influential and these practitioners are usually lag far behind of learning and practicing advanced treatments. Therefore, they fear the adoption of “Kongoh Shinryo” as a threat to their living and survival. In contrast, medical doctors and practitioners working in major hospitals are seldom organized by the association of general practitioners.

In view of strong social demand for “Kongoh Shinryo” the ministry of welfare and labor has been recently admitting step by step only a very limited number of advanced treatment for insured treatment. The demand of Abe administration, particularly led by the initiative of regulatory reform committee, is to admit “Kongoh Shinryo” generally and enable virtually all hospitals and full-fledged clinics to provide highly advanced treatment under insurance.

There has been fierce debates and political battles between Abe administration’s reform team and the ministry of welfare and labor pressed by pressure groups of organized general practitioners for a couple of years. By June 2014, when the new growth strategy of Abe administration was disclosed, Abe administration’s reform team finally gained a small compromise from the fortress of ministry of welfare and labor that so far uninsured advanced treatment could be insured only if “the patient files a legitimate demand for it.”

In November 2014, however, ministry of welfare and labor determined the list of some 100 hospitals which can offer “Kongoh Shinryo,” which is far fewer than what Abe administration’s reform team demanded. The reform team demanded that patients throughout Japan can file the demand for “Kongoh Shinryo” in any hospitals or clinics nearby. Also the time for the patient to wait for the decision and response is another issue. The reform committee required to make it less than 6 months. However, there is no control against the sabotage of medical practitioners on the pseudo claim of examining the safety.

10. Social security reform

This is perhaps the single most serious issue for Japan’s medium and long term future. Because of the speed and the level of aging of Japanese population
which is unprecedented in modern history of the world, the burden of social security system is “mushrooming.”

In 2011, social security payment amounted to 107 trillion yen or twice of entire tax revenue of the nation. Of which, 53 trillion yen is pension payment and 34 trillion yen is medical expenditure. All of these are growing and accelerating at this moment.

The burden on the working population is huge. When measured in terms of “national burden” consisting of tax payments and social security premiums which are compulsory, the ratio of current national burden to GDP is 40 percent when the aging ratio or the proportion of age 65 and older to the total population is 25. In 2050, the aging ratio is expected to increase up to 40 percent, and the national burden ratio is estimated in the range of low 70 percent according to estimations of public and private research studies. This figure suggests that Japan is not sustainable in the future.

Abe administration organized “national committee of social security reforms “ chaired by president Atsushi Seike of Keio University. This committee gave a report in August 2013 after dozens of meetings of intensive review and discussions. The report, however, was unable to give critical recommendations such as increasing the age to start paying pensions, reducing payments regularly reflecting the aging of population etc, perhaps by unsurmountable political pressures from various power groups, even though much discussed among experts.

The report nevertheless pointed to an important point, namely, social security system should pay due emphasis to prepare reasonable conditions to assist child rearing and providing employment opportunities for the less prepared people just as much as conventional items as pensions, medical care and minimum life support. This is meaningful because the fundamental crisis of conventional social security system is in the structural changes of employment and family lives in the recent decades and the social security system has not been innovated to meet the problems of such changes.

The government claimed that it would plan concrete policy measures on the basis of the report of Seike’s committee. The government quickly wrote up what they called “program law package” by October 2013, which was enacted in December 2013. It only makes it clear that those people and sectors which are
deemed capable of bearing more costs are to be imposed higher payments and left critical areas virtually untouched.

The result of the most recent, namely, May 2014, recalculation of basic fiscal data which are conducted regularly to get more reliable parameters to modify pension system apparently suggest that it is imperative to execute critical measures such as (1) raising the age of starting pension payment, (2) regular annual reduction of payment by 1 percent reflecting aging of population regardless of macro economic conditions, which is called “macro slide,” (3) increase labor force participation ratio, in order to maintain the sustainability of the public pension system and to not to enlarge inter generational disparities of pensions.


Special economic zones are viewed in many countries as strategic tools to realize the desired outcomes of advanced regulatory reforms and special strategic policies to enhance the economic viability of the zone, and have been often utilized effectively. Abe administration also looks to this strategy and proposed the method of “national strategic zone.”

In fact, the preceding DPJ (Democratic Party of Japan) administration has promoted earnestly similar policies, entitled, “International economic zones,” largely for the purpose of enhancing international competitiveness of the designated areas. The difference of Abe administration is that it entitles the zone as “national strategic zone” and the regional committee to plan the detailed policies of designated regions consists of three key players as national representatives such as ministers in charge, administrative head of the regions such as governor or mayor, and CEOs of representative businesses in the region, as opposed to the system of siphoning demands and ideas from the bottom pursued by the DPJ administration.

The progress of this project, though, seems somewhat slower than expected. So far several regions are designated as “national strategic zones” such as extended Tokyo area to develop advanced medical services, Yohfu city in Hyogo prefecture and Niigata for more liberated agriculture. Given this pace of development, whether and how much the national strategic zone will contribute to enhance the economic growth capability of Japan, as hoped initially, is yet to be seen.
12. Government’s request for wage hikes

Prime minister Shinzo Abe and his administration is eager to ask industrial community to raise wages. Wages are the variable which should be determined as a result of operation of market forces, more specifically as a result of interactions between the demand for and supply of labor force. Given this nature, government intervention in determining wages is not usually justified in normal times.

However, under special economic circumstances when wage determination has a critical role to achieve a desired macro economic balance, the government intervention may be justified even in the market economy. Half a century ago, when many advanced economy were threatened by accelerating inflation, governments intervened in wage determination not to accelerate inflation. This method was a kind of “incomes policy” which was practiced by several major countries. Faced with a serious “oil crisis” of the mid-1970s, Japanese government intervened the wage negotiations hoping to terminate “wage price spiral” and succeeded to control the rampant inflation.

The challenge for Abe administration, now, is the similar case but the direction is the other way around, namely, the government asks the industrial community not to reduce wages but to increase wages. This is viewed as an important lever to attain the success of “Abenomics.”

The first arrow of the abenomics is to increase the pace of inflation by means of supplying “base money” by a surprisingly large volume. Part of the objectives has been realized by sharp decline of exchange rate of the yen, which resulted in increase of imports and thus led to increase of domestic prices. Now, the question is whether wages would increase at least the pace of increase of prices. If wages increase, then, real wages of people would increase and the Abenomics will be viewed as a success. But if wages do not increase as much as prices, then real wages would decline and Abenomics will be viewed as a failure. It is for this reason that wage hike is so important for the success of Abenomics.

Prime minister Shinzo Abe earnestly asked leaders of business and labor
from summer of 2013. In September, special committee of government, management and labor was organized and at the end of 2013, the leaders of national business organizations basically agreed to recommend their member companies to consider wage hikes seriously. In Japan, wage negotiations are concentrated largely in late spring. This is known by the practice of “spring labor offensive.” Recently, this seasonal determination has been somewhat less orchestrated compared to Japan’s rapid economic growth period. Nevertheless, late spring remains as the season of wage determination. The outcome of wage determination in spring 2014 has been in average approx. 2 % for large firms and diverse around 1% and less for small firms.

Since the economy suffered from declines of real wages since summer of 2013 until recently, which I will describe more in detail later, prime minister Shinzo Abe grew more serious to ask wage hikes to industrial community for the 2015 spring season of wage determination. In December 2014, the leaders of Japan’s federation of economic organizations agreed to labor and government that they will try to ask their member companies to increase wages somewhat more. The government decided to provide special tax treatment for those companies which will increase wages by 3 percent.

VIII. Economic Performance and Abenomics

1. Prices, Wages, Exports and Growth

Let us take a look at relevant macro economic performance for the last 2 years to see how the economy reacted in the process of implementation of Abenomics.

The relationship between prices and wages has been rather disappointing. Prices have been rising reflecting the effects of unprecedented monetary easing particularly by increased import prices pushed up by reduced exchange rate of the yen due to the expectation of drastic increase of base money. In contrast, while wages have been rising but the pace of rising is more modest then prices so that real wages have been declining for year and a half since summer 2013.

Consumer price index has been increasing 0.9% in July-September 2013, 1.4% in October-December, 1.5% in January-March 2014, 3.6% in April-June after raising consumption tax from 5 to 8%, 3.3% in July-September.
In contrast, wages increased for the same period, -0.4%, 0.4%, 0.8%, and 1.5%. As a result, real wages have kept declining since summer 2013 until now. This trend may well give rise to dissatisfaction and distrust against Abenomics on the part of the public.

Export performance has also been disappointing. It was expected that export would increase substantively reflecting sharp declines of exchange rate of yen thanks to the unprecedented increase of base money. However, exports have increased only sluggishly, if any, since the beginning of 2013 until recently and did not contribute to enhance the economic growth rate.

There have been some adverse environments for Japan’s exports such as slowing down of world economic performance in 2013 and 2014, deterioration of political relations with China which seems to have caused sharp decline of Japan’s trade with China as much as 30% for this period. Also, changed structure and reactions of Japanese corporations such as much increased share of global investment which reduced relative importance of corporate export and less sensitive pricing to changes of exchange rate. It is only very recently export increased somewhat to become a positive factor of economic growth.

Economic growth performance for the same period has also been disappointing. Quarterly growth translated to annual growth rate has been 6.0% in January-March 2013, 3.0% in April-June, 1.6% in July-September, -1.5% in Oct.-December, and 5.8% in Jan.-March 2014 reflecting rush purchases right before the increase of consumption tax rate, -6.7% in April-June, -1.9% in July-September, and 2.2% in October-December.

As seen above, the growth performance of the economy is getting secularly worse. The annual average real growth rate was 2.3% for 2013 and will be lower than 1 percent for 2014. This growth performance of the economy may well cast doubts about effectiveness of Abenomics. In the final quarter of 2014, the economy finally picked up a modest upward trend. Whether the recovery would be stronger and persistent will affect the evaluation of effectiveness of Abenomics.

2. The second “Bazooka” declaration of Mr.Haruhiko Kuroda and its meaning
On October 31, 2014, Mr. Haruhiko Kuroda, the governor of BoJ, made an abrupt announcement of the second major monetary easing only following the first declaration of unprecedented mega-easing at the beginning of April 2013.

The gist of his announcement includes:

1. Increase of monetary base more sizably by 10 to 20 trillion yen to reach 80 trillion yen a year,
2. Increase the purchase of long term JGB by 30 trillion yen to reach 80 trillion yen,
3. Tripling the purchase of risk financial assets such as ETF and REIT.

Why Mr. Kuroda dared to make this decision at this moment attracts much attention. He has been committed to achieve the target of realizing 2% inflation rate by 2015. CPI was increasing appreciably during 2013 and BoJ was quite confident in summer of 2014 that CPI would increase at the pace of 1.5% by spring of 2015. However, the pace of CPI increase dropped sharply since September 2014 and afterwards. This slow down was accelerated by the rapid reduction of oil prices in the global market.

Worried about this trend, Mr. Kuroda secretly ordered his reliable staff to prepare the plan for another major monetary easing. On the other hand, he publicly kept the confident stance firmly that there is no need to add another major easing. Market did not expect such a move Mr. Kuroda, thereby, making the impact of his declaration large and effective.

The timing of this “bazooka” was surprising but favorably received in the global financial market particularly because it was shortly after the announcement of the termination of extra-ordinary monetary easing by FRB of the US. Welcoming the Japan’s voluminous easing, stock prices increased sizably not only in Japan but in many countries like the US, Europe etc.

This voluminous easing will leave the huge stock of base money as much as 350 trillion yen which is equivalent of 70% of GDP. This is a much larger burden on the size of economy as Japan, as compared to only 20% for the US even though the absolute value of base money stock of the US amounts to 450 trillion yen. The remaining issue for Japan is how to architect the smooth and reliable exit after the current emergent phase is passed in the future. Mr. Naoki Tabata, the ex-executive of BoJ recommends that if BoJ carefully manage the process of reducing the stock of purchased JGB by smooth market operation spending sufficiently long time-span and maintain sensitive and
sensible communication with the market to assure the trust and confidence on the part of the market.

3. Issue of the second increase of consumption tax

It was legally prescribed that the consumption tax rate was to be increased from the previous 5% to the current 8% in April 2014 and also up to 10% in October 2015. The increase to 8% was already executed which gave somewhat unexpectedly large negative effect on Japanese economy. The question left was whether the rate should be increased to 10% as scheduled. Prime minister Shinzo Abe promised to make his decision by November 2014.

As the timing drew closer, there have been many opinions and views expressed from various people and organizations such as IMF. Many of international experts and organizations expressed their views that Japan should raise the rate as promised. They apparently view the action of raising consumption tax rate as scheduled is critical for Japan to show its commitment and strong will to restore fiscal discipline to international financial community.

Many of economists in Japan also took the similar views. They thought that many indices of macro economy such as growth, unemployment rate, manufacturing and mining production, and investment are beginning to rise. They judge that 2015 is the best timing for another increase of consumption tax and also they thought that there would be no guarantee that the economy will enjoy a much better condition if we wait for a few more years. In fact, Mr.Haruhiko Kuroda, the governor of BoJ, kept saying publicly that consumption tax rare should be increased as scheduled. The bold declaration of the second “bazooka” is viewed by some observers was to pave the way for such a scheduled tax increase to take place smoothly.

In contrast, Dr. Koichi Hamada and Mr. Etsuro Honda, the closest economic advisors to prime minister Shinzo Abe openly maintained that 2015 is not the best timing bur rather the worst timing. They even publicly said that the raising the rate this year would be like “committing a suicide.”

Prime minister Shinzo Abe reportedly indicated his intent to his colleague, Mr. Taro Aso, minister of finance who is known of the view that the consumption tax be raised as scheduled, on the plane returning from Australia in mid November to postpone the second increase. This was the day before the growth rate of
July to September will be announced. Prime minister Shinzo Abe had in his hand a memo of advance notice of the figure, minus 1.9 percent.

4. Abrupt announcement of general election and its meaning

In the night of November 18, prime minister Shinzo Abe held a press conference and declared publicly (1) he will dissolve the House of Commons on November 21, and (2) the scheduled increase of consumption tax rate up to 10% will be postpone for another year and a half, and he will never postpone it again. On November 21, at the cabinet meeting after the House of Commons assembly, it was formally decided that the general election will be announced on December 2 and voting will be conducted on December 14.

Many people, public or experts, wonder why prime minister Shinzo Abe dared to call forth the general election at this moment. He was still only a half way of his expected 4 year rein. In other words, he could enjoy two more years without being bothered by elections. Many wished that prime minister should spend much of his energy for the forthcoming 2 years to promote Abenomics more forcefully without being bothered by the next election. Some assessed that he wanted to erase the negative image of scandal of two lady ministers.

Others conjectured that the prime minister chose this timing thinking of forthcoming presidential election of his party, LDP, election of all the regional constituencies in April 2016, and the House of Representative election in 2016. Still others suspected that he wished to reconfirm the majority in the Diet because he will have to tackle unpopular agenda such as collective defense, resuming nuclear power plant operation and even revision of the constitution.

No one except prime minister himself knows the exact intent in his mind. Prime minister Shinzo Abe defined that this election was to ascertain the public support of “Abenomics.” The result of the election was a land slide victory of the parties in power as described at the beginning of this essay. However, the voting rate was historic low. Oppositon parties were confusing and practically unable to show any substantive policy alternatives for the public. Therefore, it was not certain, as many foreign observers commented, that the public really understood or supported the “Abenomics.” The matter of the fact was there were no other meaningful choice than to vote to LDP.
After the election, the public realized that Abe administration 3.0 would enjoy another 4 years without having to hold a general election. This means that the public will have to leave or trust their destiny to the leadership of Abe administration for 4 years of critical period of this country. Prime minister Shinzo Abe will have enjoyed the longest rein, including the preceding 2 years, in postwar period if he successfully manage to maintain his administration. Perhaps, this was his main intent and motivation to have called for this election at this moment.

IX. Evaluation of Abenomics: Can it Make Japanese Economy Grow?

1. Historic economic experiment

“Abenomics” attracts much attention recently in the world. It is reflected in the fact that influential media such as the Financial Times of London carries major articles relating to Abenomics frequently. This is impressive in view of the fact that Japan has not attracted much attention for nearly half a century since the early 1970s when Japan was a focus of attention as it has demonstrated phenomenal economic growth arising from the ashes of the destruction in the wake of the defeat in WWII.

Since then Japan has not been the focus of attention for a long time. After the era of “Japan bashing” and “Japan passing”, Japan has hardly attracted any attention for nearly two decades since the 1990s when Japan has been trapped in a deflationary stagnation. Since the outset of Abe administration at the end of 2012, however, foreign media and experts began to pay much attention to Japanese economy and policies of Abe administration.

Why foreign observers are interested in Abenomics? This is probably because it is a historic economic experiment to salvage the Japanese economy which has been sinking in the depth of deflationary stagnation for nearly 2 decades, which is unprecedented in modern economic history and reset on a more healthier inflationary growth path.

If Abenomics succeeds, this experience could be a useful textbook case for many economies which are either trapped in a chronic deflation or may fall into deflation as suspected in the case of Euro zone. However, if Abenomics fails to salvage Japanese economy, its experience will be of no use for other countries.
It is for this reason, I suspect, why foreign experts are interested to watch and understand the contents and the process of deployment of Abenomics.

2. Risks of Abenomics and the need for higher growth

Abenomics consists of three arrows. This first arrow is monetary policy of providing unprecedented amount of base money to the market, or “extra-ordinary dimensional monetary easing” according to the phrasing of Mr. Haruhiko Kuroda. By this, BoJ and the government intends to alter the mindset of people from deflationary to inflationary expectations. This “extra-ordinary dimensional monetary easing” has a huge implicit risk of collapsing the price of JGB because the purchase of huge amount of JGB by BoJ is in effect BoJ’s financing of government deficit and conceivably would weaken the fiscal discipline of the government.

The second arrow is the dynamic fiscal policy of providing fiscal spending dynamically whenever and wherever necessary. This policy necessarily tends to increase fiscal spending and thus makes it more difficult for the government to achieve fiscal reconstruction plan of the government. Indeed the cabinet ministry of the government reports that even though the economy goes along the desired path of growth for the forthcoming decade at the rate of 2 percent in real and 3 percent in nominal terms, the primary balance on the target year of 2020 leaves deficit of 11 trillion yen or 1.8 percent relative to GDP. If this result will be interpreted as failure of fiscal reconstruction or the lack of fiscal discipline, it may incur serious consequences.

Therefore, it is critically important that Abe administration will provide effective growth strategy to generate necessary economic growth. To avoid or absorb the risks as mentioned above, the economy will need to grow at the pace of more than 3 percent in real and 4 percent in nominal terms for the coming decade.

The two year experience of Abenomics, so far, has been the other way around. For the two years since the outset of Abe administration growth rate has been getting lower, and real wages also has been decreasing. Since the most recent trend seems somewhat upward, the economic performance in the future may not be as bad as it looks by only watching the data for the past two years. However, the most likely prospect given the data of the recent two years, would be much less than what should be necessary for Japan to overcome particularly
heavy problems in the long run stemming from shrinking and aging of population.

3. Experts’ view on long term growth potentials

In view of long term growth, many experts and research organizations have been studying the growth potentials of Japanese economy. According to a summary of the cabinet ministry, the estimated growth potentials are disappointingly low.

For example, IMF estimates 0.8% for the coming decade, Mitsubishi Research Institute 0.6% and 0.5 % each for the first 5 years and latter 5 years of coming decade and 0.4% afterwards. Nikkei center estimates 0.6% for the decade. Nissei(life insurance)Institute estimates 1.1 and 1.2% for the first 5 and latter 5 years of the same period, Mitsubishi UFJ(bank) Research Institute estimates 0.7% and 0.6% for the same period. Most optimistic is Daiwa Research Institute estimates 1.3% and 1.3% for the same period.

Since this is the figure of net growth rate obtained by subtracting the decline of labor force, which is 0.7% annually, from the rate of per capita productivity increase, the expected per capita productivity increases for the coming decade would range between 1.3 to 2.0 percent. With this level of growth rate, it is hardly possible for Japan to reconstruct fiscal balance as scheduled and to enrich social security system to support the life of aging population.

The growth potential is the potential supply side growth. Under the macro economic demand management of Abe administration for the last 2 years, the deflationary gap has narrowed substantially, meaning that the apparent growth rate is closer to the supply side growth potentials. Now the question is whether and how we can enhance the supply side growth potentials. The figures introduced above are the result of estimation of supply side potentials given the recent and current structures, resource endowments and their utilizing conditions of the economy. The question is whether or not and how the supply side potentials could be enhanced by the so-called “growth strategy” of Abe administration.

4. Structural reform vs. growth strategy
When we examine closely the contents of “growth strategy” of Abe administration as we have done earlier, we may notice that the strategy pursues earnestly structural and institutional reforms in an attempt to liberalize economic activity and prepare more efficient competitive environments, but how such attempts will lead to and result in “growth” of the economy is not quite clear.

When the Japanese economy realized a phenomenal rapid growth during the 1960s and early 1970s, the growth has been propelled by vigorous incentives for expansion by industrialists who were able to take advantage of the merits of “catching up stage,” strategic industries which enjoys the expanding effect of the economy of “scale” and young and ever enlarging population.

After Japan passed this stage, growth has been maintained to a large extent by enriching infra-structure by deficit financing of the government, which resulted in a voluminous fiscal deficit. Enriching infra-structure by government spending certainly has had a visible effect to support the economic growth. China is currently a typical example of making use of this strategy by a gigantic scale and has managed the economy to realize remarkable growth. This strategy heavily utilized in Japan during 1980s and 1990s cannot be utilized any more, partly because Japan’s accumulated government debt will not tolerate to expand the deficit financing any more, and partly because infra-structure such as railroads, highways, ports, housing developments etc are satiated and the multiplier effect of government spending is very small or even negative for some areas.

A big difference of current Japan from the past is the demographic change. Labor force has been a big factor to increase the expected growth rate until a few decades ago. In fact, the rapid economic growth period of 1960s and 1970s, labor force factor has been an additional 2 percent to enhance the macro economic growth rate. In contrast, this factor currently is of negative 0.7 percent and will be more negative in the future. This labor force factor affects heavily the pessimistic estimates of growth potentials as cited above.

Question is whether we could envision a new growth possibility in the forthcoming Japanese economy which will be constrained by further aging population and rigid structure of conventional system of vested interests.

Abenomics’ focus on structural reform is right to make a break through on the rigidly structured economy with excessive regulations and vested rights, which prime minister Shinzo Abe names the “bed rock.” Prime minister Abe
defines his role as the cutting edge of a drill to break the bed rock. Many of important reforms which we reviewed in detail earlier such as reforms of corporate governance and capital market rules, reforms in agriculture, regulatory reform to introduce pay by performance, reform of medical policy etc. are examples of reform of the rules created shortly after the defeat in the Pacific War or the systems which have been perpetuated during the rapid growth period.

While such structural reforms are important and necessary to change the nature and structure of Japanese economy and business, the question is whether such reforms will bring about powerful economic growth in the rapidly aging Japanese society and economy. The consecutive slowing down of economic growth and lowering real wages for the period of implementation of Abenomics may suggest that the growth strategy of Abenomics may not work effectively in the heavily structured aging society and economy of Japan.

X. New Horizons of Growth Strategy for Aging and Maturing Japan

1. learning from preceding experiences

Is it difficult for a country like Japan where population is aging and shrinking and the economy is heavily structured with many vested rights which have been accumulated in the process of postwar successful growth to make a breakthrough to find a new horizon of growth for the new era?

There are countries in the world where the economy has shown a remarkable development in spite of lack of labor force or even lack of much of resources for economic development.

One example may be found in the case of Dubai. This is a small country which only had desert and a shabby fishermen’s town along the sea shore. The sheik there invented a revolutionary idea to make this small country a hub of world aviation network simply taking advantage of its pivotal location to connect Eurasian, African and American continents.

They devised advanced incentive programs to invite foreign firms. Currently, Dubai is one of the most flourishing countries in the world having most luxurious facilities and services even without producing oil at all as a country in the oil
producing area. Currently, Dubai has 2.2 million population while original Dubai people are only 10%. This is an example that a country can develop with very small population if it deploys great strategic plan to make use of global opportunities inviting not only industries but also foreign workers.

Another example may be found in the case of Republic of Singapore. Singapore had to become an independent country in 1963 disconnected from Malay Peninsula from which Singapore used to obtain all the resources including food, water and the like. Having to face the crisis of survival, the young leader of the country, Mr.Lee Kuan Yew devised one after another drastic policies to build the country.

He built cheap high rising residential buildings to absorb poor population from the slums to create a modern city in a small underdeveloped island, invited foreign manufacturing companies from Japan and Europe by attractive incentive programs to provide employment opportunities for Singaporean people to pay for the rent of their residence.

As the income level increased, he shifted the country from manufacturing to financial center which will provide Singapore much higher returns. Currently, the average income of Singapore is 60 000 USD as compared to 40 000 USD of Japan. This is a great example that a country can develop well even without any resources other than people if you have good development plans and a leadership.

Some may argue that these are small countries which can change quickly. Their experiences may not apply to a country like Japan which is fairly large to have as many as 127 million population.

Perhaps, the most powerful example that the current Japan should learn from is Japan of 70 years ago.

70 years ago, Japan was a country of ashes and destructed ruins by bombardment. Due to the defeat of war, Japan lost 3.1 lives, both civilian and military population, lost all the territories, assets and vested rights in the world. With these fatal damages, a country could have been gone. However, only after a quarter of a century, Japan attained to become the second largest economy in the world only next to the US. This achievement attracted keen attention from international community as “Japan’s economic miracle.
Why and how it was done? In short, taking advantage of the shock of the defeat of the war, Japan changed itself completely denying the old system entirely and created an utterly new country.

This change is known as “postwar reform.” The postwar reform included such drastic changes as dissolution of huge military, dissolution of financial clans, farm land reform, education reform, and labor reform etc.

Dissolution of military and financial clans changed the premises of industry and economy of prewar Japan drastically. The military is the monopolistic and largest buyer of heavy industry products such as guns, ships and airplanes. Their demand has a unique feature of price inelastic. In other words, the military buys regardless of prices as far as the weapons can be of superior capacity against enemies. The suppliers, often the heavy manufacturing companies of financial clans, therefore do not need to worry about price competitiveness and thus lose cost consciousness.

After the dissolution of the military, and dissolution of financial clans, Japanese industry consisting mostly of small and medium size companies has to face a composite demand comprising of great many buyers both in and outside of Japan. The composite demand by its nature is highly price elastic because the demand curve consists of many heterogeneous firms. The demand changes sensitively in response to price. If price is higher than competitors the company lose demand, and vice versa. This entirely new conditions of competition obliged to make Japanese entrepreneurs extremely cost conscious. They worked hard to become low cost, low price suppliers while trying to maintain or improve quality of products. In short, Japanese industry has become one of the most competitive among capitalist market economies in the world.

Farm land, education and labor reforms made Japan the most egalitarian society and the country. Within a few years after the defeat of the war, 80 percent of the farm land which was owned by large land lords who do not live in farming area was distributed to renting peasants who became self-employed farmers. The prewar education system is class oriented and discriminatory which aimed to foster elites by a few elite schools and let the rest of population to become rank and file factory and shop workers and peasants. American based 6-3-3-4 year system was introduced universally where any students can go up to the highest level of education by merits regardless of their social status.
Labor reform was two fold: one was to apply the completely egalitarian labor law which abolish status differentiation, and the other was to admit labor union as a watch dog of labor practices at the shop floor to deny discrimination. This reform was to change class oriented and discriminatory prewar labor practices completely. Under the new system, both white and blue collar employees are applied the same labor law in terms of employment and pay. This is the most egalitarian system in the world, even much more egalitarian than the communist countries.

Provided the most competitive market system and the most egalitarian society in the world, namely a completely new system combining the best of capitalist market economy and the communist system, Japanese population, the majority of them had been constrained and suppressed under the elitist oriented discriminatory system until then, gained enormously vigorous incentives to work to make advancement of their own. Since you can work as much as you want and if you win the competition you can get advancement, entire Japanese devoted themselves in hard working. This was the gimmick why Japan emerged as the second largest economy in the world only 25 after the miserable and fatal defeat of the war.

The precious lesson the current Japan can learn from Japan 70 years ago is to deny the conventional system which is blocking and disturbing growth and to create an entirely new Japan in which people can be highly motivated to use their resources fully to meet the challenges of the forthcoming era. Unlike Japan of 70 years ago, the current Japan has much more rich resources to use for the challenges such as huge financial assets accumulated in private sector, the first class technology in the world and well educated matured population.

XI. Some Policy Proposals

1. Mal-egalitarianism and pseudo-democracy need to be denied.

I would like to propose some policy solutions to get Japan out of the current stagnant impasse. As I wrote earlier, we need to deny the heavily structured conventional system which disturbs Japan from utilizing its human and other resources fully and effectively to generate a new growth for the new era.

Some of the drawbacks of the conventional system were built in as early as
right after the WWII in the process of so-called “postwar reform” but much of
the drawbacks have been formed and perpetuated in the process of successful
economic growth period as deformation of legitimate ideas of postwar reform.

The most typical examples have been to deform “egalitarianism” to “mal-
egalitarianism, and deform “democracy” to “pseudo-democracy”. The main
motivation to create “egalitarian and democratic society” in Japan after the
defeat of the war was to replace the prewar system ridden by oppressive
control of society by the military and monopolization of resources by financial
clans and deprive people from free opportunities by imposing constraints of
class discrimination on people.

The postwar reform pursuing genuine egalitarian and democratic society
certainly liberated and motivated people which led them to achieve “miraculous”
economic recovery and development. However, as Japan started to enjoy
remarkable postwar development, those interest groups who gained merits
under the given system began to stick to such gains and to insist their vested
interest and rights. They increasingly grew to be resistant powers against the
system to change to adapt to the new environmental conditions.

Let me cite a few examples. (1) The current regulation of farm land ownership
is an illustrative case of mal-egalitarian system. Distributing farm land to
peasants to liberate them from exploitation by large land-lords is justified.
However, sticking too much to this principle of prohibiting and eliminating entry
of powerful players such as large farmers and agricultural corporations even
today when enhancing agricultural cooperatives is badly needed in the era of
globalized competition is counter productive against national interest and even
wellbeing of Japanese population.

(2) Working hour regulation is another case of mal-egalitarian system. Enforcing
the same pay-by-hour regulation across blue and white collar workers in the
postwar reform was justified to minimize excessive status differentials at the
workplace. However, sticking to the application of this belt conveyer type of pay-
by-hour system across the board still today, when the majority of workers are
not of manufacturing and more of the type of creative service occupations, is
certain counter productive against efficient and effective utilization of human
resources.

(3) Pseudo-democracy is a serious drawback of the political system of
contemporary Japan. Providing right to vote to all the adult people was justified
in postwar Japan for the purpose of minimizing the excessive dominance of power groups such as financial clans and land-lords in national decision making. However, “democracy” now is deformed into pseudo-democracy in the sense that LDP has been almost monopolizing the dominant power since 1955, except for 3 recent years, when LDP started by organizing several conservative political parties, and no serious and competitive debates are found now between LDP and opposition parties.

The efforts of Abe administration to reform the conventional system of some critical areas such as farm land regulations and agricultural policies, labor regulation on hours and wages, etc, as we have reviewed in some detail as the content of the second growth strategy of are well justified. Their efforts are concentrated to examine the validity of some of the principles of “post-war” reform and to abolish or change the rules and systems which turn out to be obstacles and disturbances from the view point of effective and efficient utilization of resources under the contemporary environment of global competition and aging society.

In short, what prime minister Shinzo Abe claims as “growth strategy” is more of the strategy to change or reform “the nature of postwar system” and may not be quite a policy mix to generate economic growth under the current circumstances. If they are to be entitled as “growth strategy,” they would take a long time easily as decade or two before producing tangible results. It is because their policies need to go through such a process as changing the concept, change laws, reform institutions, abolish the old and build the new system, affect mind sets of people, enhance incentives to work in the new system, see how the new business model develop, see how the new models work and finally hopefully outcomes to enhance growth may be obtained, hopefully.

The “growth strategy” of Abe administration is a great attempt to try to reform the drawback of the postwar system, but how much of it would really contribute to generate growth for the forthcoming future is not clear. It is partly because the denial of the postwar system is not as thorough as it should for it really aims at generating growth. Another is because it’s focus is somewhat lopsided to reform the drawback of postwar reform, but not much strategic and fundamental plans to stimulate incentives and mobilize resources in the forthcoming era are presented in the “growth strategy of Abenomics.”

2. Proposals to generate new growth in the new era
In an attempt to fulfill the deficiency of the growth strategy of Abenomics and fortify its effectiveness, let me propose some strategic ideas in what follows.

(1) Introduction of foreign human resources

It is expected that Japan will suffer in the long-run from sizable and continuous reduction of population. The current population of 127 millions is expected to be fewer than 90 millions by 2050, and current labor force of 65 millions are expected to be around 50 millions depending on labor force participation in the same period. This is a serious deficiency of Japan’s economy not only in terms of the lack of work force but also the deficient contributors to social security system to care of aging society.

The government advocates to assist child bearing and rearing age females to feel more confident to bear children. Currently, the total fertility rate is around 1.3 which is much too much low to slower the pace of shrinking population. A government panel proposed, as cited in section V-8, to maintain population of 100 millions in 2060. To do so, TFR should be raised to 2.07 which is obviously a dream story. Even in case the birth rate would increase somewhat in the future, it would take another 20 years to increase labor force.

The demographic trend is obviously the factor of low growth. Since it is clear that Japan would be unable to increase its population to meet the need of the economy by increasing births, why not Japan adopts a policy to introduce foreign human resources to fulfill the unfilled demand? Indeed there has been no matured country facing the problem of shortage of population managed to sustain itself for a long time in the history without introducing foreign human resources.

While Abe administration plans to bring in more foreign workers by relaxing the regulation of “train and work system,” which I myself recommended a prototype two decades ago to the government multi-ministry task force in charge of foreign workers problem, this action is only very marginal to tackle the labor force issue that Japan is and will be faced.

My personal recommendation to tackle the issue of declining population and labor force is to open doors for immigration of foreign people into Japan. The most important step to do so is to legislate “immigration law.” Immigration law
explicitly prescribes conditions for foreign people to become Japanese citizens.
Japan is one of the few countries in the world which do not have this law.

The only laws which are referred to when accepting or rejecting the entry of foreign workers into Japan is “entry control law” and “refugee recognition law.” Neither law prescribes conditions for Japan to accept foreign people as immigrants. The absence of immigration law makes the de facto conditions for foreign people to become Japanese citizens unclear and non-transparent.

There seems to be strong resistance or allergy against immigration of foreign people on the part of Japanese public for some reason. When prime minister Shinzo Abe takes up the topic of increasing foreign workers in Japan he is very careful not to be interpreted to imply immigration of foreign people. Although it is not clear why, I suspect that the Japanese high psychological barrier against introduction of foreign immigrants relates to a kind of trauma of the defeat in the WWII.

In the 1930s when Japan attempted to extend its power in China and Southeast Asia, Japanese military leaders advocated multi-national harmony. In this harmony, Japanese military leaders put Japanese nation on the top of other nations. This attempt ended up finally as a miserable defeat of the war. Since then, it became a kind of taboo to rank nations or people from the viewpoint of Japan.

The immigration law must make the conditions to become the national of a country clear and transparent. It is imperative to rank candidates of foreign people to invite as nationals by some criteria. This ranking seems to have been and still is a strong taboo in Japan perhaps because of the trauma hinted above.

I think this is the time for Japan to overcome this self-imposed psychological restraint and writes clear and transparent rules and conditions to welcome foreign people who would like to become Japanese citizens. This is the most basic step for Japan to overcome the long-term and ever growing crisis of shrinking and aging population.

(2) Strategic energy planning and forceful implementation

Good energy planning and implementation of energy supply structure is the most important fundamental basis to generate growth of the economy.
Japan’s energy, particularly of electric power, has been highly dependent on nuclear energy since late 1960s which enabled Japan to realize sustained rapid economic growth. Nuclear power industry supplied 30% of total electric power energy up to 2011 when Fukushima Daiichi power plant accident erupted.

Currently all the 50 workable nuclear plants cease to operate. Japan relies now heavily on oil and gas energy which is expensive and pollutes atmosphere. This is a serious negative factor constraining Japan’s economic growth potentials. My recommendation is that resume operation of those nuclear plants which are scientifically certified as robust against earthquakes and other hazards as quickly as possible. I suspect that at least 30 or so plants will be safely workable.

Currently, the decision of resuming operation is unduly dependent on judgement of scientists of the nuclear power regulation committee. Political leaders who can take responsibility of national decisions should take a greater role in making such decisions rather than asking scientists who cannot take such responsibility.

The most difficult and important hurdle is the suspicion of people on the safety of nuclear power generation. It is imperative to get people’s understanding and acceptance for resuming operation. The government and the power industry should spend utmost effort to provide information and secure highest transparency, and device utmost safety guard systems and facilities to minimize likelihood of accidents against various hazards down to a negligible level.

However, Japan should not rely on nuclear power energy too long. Japan should spend much more resources to develop and diffuse renewable power generation accruing from sunshine, wind, geothermal power, biomass, small water power, tide and waves etc. Japan should aim at replacing 70 to 80 percent of the current power generation systems by renewable energy power generation within 10 to 15 years.

One of the essential differences of natural or renewable power generation as compared to conventional power generation including nuclear energy is that the former is power generation of space, particularly of underpopulated areas while the latter is power generation at plants namely points. Moreover, expected returns per land from power generation of renewable energy is 3 to 4 times higher than, say, rice production under the current buying up price of the feed
in tariff. In other words, promoting and proliferating renewable energy power
generation onto under populated regions will alter dramatically the income
generation and distribution structure of Japanese archipelago in favor of so far
disadvantageous rural areas.

One important strategy to materialize such transformation is to build efficient
and high volume power transmission system of sending power created in far
away underpopulated regions to major consuming areas like Tokyo. Mr.Yasuyo
Yamazaki, representative of solar economy association, plans and promotes
projects to make use of highway network to be used for transmitting high
volume power. If the government seriously develop such plans and implement
them forcefully and swiftly, this will be a powerful lever to generate growth
in the new era.

(3) Labor reform: pay by performance and equal pay for equal work

Earnest effort of prime minister Shinzo Abe and his reform staff on
changing work rules to admit pay by performance for white-collar workers is
important and highly appreciated. The status quo, though, is that the attempt
remains still at the stage of beginning as we have reviewed in detail in section
VII-6. Abe administration should pursue forcefully their forth right objective until
they achieve a complete white collar exemption system.

I would like to raise another very important issue to make fair and much better
utilization of young labor force. Great many Japanese young labor force is now
under much discriminated and inferior employment conditions: 2 millions are
unemployed, 4 millions are in unstable casual jobs, called “freeter,” 0.8 million is
in the situation of NEET(not in employment or education or truing) , and most
seriously 9 millions are working poor who cannot feed the family by his or her
earning. They altogether amount to 17 millions or a quarter of entire labor force.
Such disadvantageous and discriminated young labor force has been
accumulated during the Japan’s lost two decades since 1990s.

The most powerful lever to salvage them from the bottom of discriminated
structure of the labor market is to increase demand for labor by generating
economic growth. Another and equally important measure is to prepare more
fair and competitive conditions in the labor market. These under-employed or
unemployed young labor force is the victims of unfairly biased Japanese
employment system which unduly protects incumbent “regular employees” at
the expense of young job seekers outside of the workplace.
To correct such unfair and discriminatory treatment of young labor force, the government should alter labor law particularly of regulations on dismissals in a direction of liberating dismissals on work performance, enforce principles of equal pay for equal work which ILO has advocated by its convention a century ago, and enrich public training programs to equip under-employed young people with useful skills. Employer should develop evaluation methods and programs of skills and performance of workers. Implement principles of equal pay for equal work rather than pay for employment status, which is more common in Japanese workplace.

If the government and employers fail to accomplish such objectives, Japan will increasingly suffer from lack of trained and qualified labor force as the labor force will reduce and get older. If the government and employers successfully achieve such goals, it will strengthen the basic conditions to generate economic growth for the future.

(4) More effective use of female human resources

Prime minister Shinzo Abe earnestly advocated the importance of making better and more effective use of female human resources to promote economic growth. His leadership and effort on this respect is highly appreciated.

Japanese aggregate female labor force participation rate itself which is slightly higher than 60 % is more or less at a similar level compared to US and advanced European countries. However, the pattern of Japan’s female labor force participation is unique in the sense that the rate goes down to a very low level during child rearing period. After this period, most female workers are provided only casual jobs, if any.

This means that they lose the opportunity to use human capital or develop it during the latter half of their occupational life. This is a great loss. Ms.Christine Lagarde, secretary general of IMF once said that if Japanese females are provided equal employment conditions as males, Japan would be able to enjoy a few more percentage higher economic growth, which is understandable.

Remedy to improve this situation is to enrich social system of child caring system so that working women can continue working while getting their children
taken care of in such facilities. Abe administration strives to increase the capacity of child care systems, which is adequate. What should be done is to increase such facilities, increase pecuniary assistance, improve workshop rules so that child rearing females can continue to work at the workplace to the level of France and Sweden, which have successfully achieved marked increase of birth rates in recent decades.

Japan’s government expenditure for family assistance is lop-sided to the aged vis-a-vis young households relative to many of advanced economies. OECD countries allocate 30 percent of funds to assist young households of child rearing age and 70 percent to old age household, while this figure in Japan is 10% to 90%.

This issue needs comprehensive and thorough reform of economic, legal, institutional, educational and cultural environment for child rearing females can continue working without losing human capital or keep developing the human capital during her occupational career. The direction of Abe administration to achieve this goal is correct. The challenge is how effectively and strenuously the necessary steps to achieve the goal are implemented.

(5) Agricultural reform

All the three items that Abe administration pursues as agricultural reform, namely, abolishing rice acreage reduction policy, reform of national agricultural cooperatives and regulatory reform of farm land ownership, are justifiable and commendable. These are very important corner stones to renovate outdated Japanese agriculture to be more productive industry.

However, to achieve the goal of making agriculture another leading industry to generate Japan’s economic growth, we need to promote further and more thorough reform strategically. One is to promote comprehensive liberation of producing any agricultural produce, at any farm land, by any type of producers, and free distribution.

To make such a reform more effective, I would like to propose at the same time “the Neo Land Reform” by which to reorganize most of Japanese farm land into large lots so that large scale farmers and agricultural corporations can take fuller advantage of economy of scale and reduce cost per unit or increase productivity. This land reform should be promoted throughout Japan to solicit
small-scale and aged self-employed farmers, many of them are widows because of aging of population, rent or sell their farm land to more productive producers. Abe administration created a new device of so-called “farm land bank” to liquidate and assist more efficient use of farm land. Meeting the social need to take care of aged farmers, their land should be rented or sold to large scale and high productivity producers as soon as possible.

This is to make the entire agriculture free and competitive industry. Once this is done, production of agriculture will increase voluminously because more efficient producers such as large scale farmers and agricultural corporations increase production and they will produce in fact most of Japan’s agricultural production. Increased production will lead to lowering prices of Japanese agricultural produce and thus increase international competitiveness.

Free and competitive agriculture will make persistence of small scale and old age self employed farmers who are 1.5 millions out of all the earning farmers of 2 millions more difficult. My recommendation is to delete these 1.5 million farmers from the category of earning farmers and ask them to choose either of the following types social farming such as “health farming,” “education farming” “environmental protective farming” and “agrotourism farming.” They can contribute the society in these ways rather than competing in agriculture market.

The government can supply modest additional subsidy to encourage and assist such social contributions. By deleting them out of denominator, the average productivity of Japanese agriculture will increase several times and so will be its international competitiveness. All these comprehensive change and renovation will make agriculture highly attractive industry for further investment and will make it a powerful industry to lead Japanese economic growth.

(6) Medical reform

Half a century ago, Japan exhibited the longest life expectancy of people with one of the lowest medical expenditure. Currently, Japan suffers from high costs of medical services, fiscal difficulty to support medical sector, and poor services such as three hour waiting to get three minute treatment. Why this much of deterioration took place in Japan? It is largely because Japanese medical policies by the government fails to meet the challenge of changing mega-trends for the recent several decades.
Mega-trends include: aging of population which inevitably increases social cost of medicine, (2) increases of unit medical cost due largely to technological innovation, and (3) reduction of paying power of medical cost by the public due largely to stagnant economy. Japanese government tried to meet these challenges by strengthening regulations both on designated prices of medical treatment and on quantity of medical services. This rigidified regulations virtually killed merits of market competition which induces innovations. The results have been such problems as cited above. Admittance of “Kongo Shinryo(combination of uninsured and insured treatments, as cited in section VII-9 of this essay)” promoted by Abe administration is only a very step forward.

My recommendations are (1) greater adoption of ICT throughout medical industry, particularly, application of DPG-PPS( Diagnostic Related Group-Prospective Payment System )system as practiced in the US and Korea, (2) enforce to provide and make use of information of outcomes of medical treatment so that increase transparency of medical market to promote fair competition, (3) increase the share of private medical insurance from the current few percentage up to more than a half and reduce reliance on public insurance which is bound to be compulsory on the people in order to increase freer choice of more variety of medical treatments, (4)reduce drug lag and device lag by opening Japanese market more widely to foreign medical industries, and (8) admission of the “Kongo Shinryo”

7. Promote ICT revolution

ICT is the technology which can be the most powerful lever to generate and promote economic growth. While Japan has a high potential to develop ICT, the use of it lags far behind more advanced countries like the US, some European countries or even some Asian countries.

ICT is considered in Japan as the advanced and sophisticated means of communication and transmission and sharing of information. Unfortunately, however, it has great potentials to be utilized in industrial and commercial activities, and lives of people to change them dramatically to create an entirely new and different economy and society.

To take advantage of such possibilities of ICT, Japan should make much more effort to use it in education, government and public services, social infrastructures and also provide helpful and encouraging conditions for young
talented people to start up venture businesses as can be seen in Israel. To the extent Japan currently lags far behind of some of the more advanced countries in the use of ICT, the marginal gains from promotion could be quite large.

8. Reform of education

Education in Japan now unfortunately lags far behind of many other countries in terms of progress and innovation to meet the challenges of globalized and more competitive world.

Japan’s education was considered half a century ago as one of the most developed in the world in terms of its social coverage and the level of competence. It was efficient in the sense that students are obliged to learn and swallow the uniform knowledge throughout the society. This pattern of education proved to be extremely effective in the catching up stage of Japanese economy as far as Japan has a model ahead from which Japan can learn. Indeed, this kind of education has played a strategic role to generate rapid economic growth in the postwar period.

However, Japan is now faced with entirely different challenges. Japan has become one of the forerunners of economic and industrial competition. Japan has no longer a teacher to learn and copy from. With relative shrinkage of Western advanced economies in the world market and increased prevalence of countries of diverse cultures, Japan needs to work with the new business environment of heterogeneous cultures, values and religions.

Japan’s conventional uniform education which emphasizes quick learning can not work any longer in this new global environments. What Japan needs is a new type of education such as think by yourself, discuss with others, find out problems and try to solve by yourself rather than learn uniformly and memorize the same answer quickly. There are no single authorized answer to the given question in this new environment unlike Japan’s environment of half a century ago.

Question is how Japan can transform their education to meet these challenges. The well structured Japanese education consisting of centralized education authority, more than a million of teachers and well developed education industry to assist national uniform exams who all believe that there is
a single answer to any given question. The system is so solidly constructed, it is virtually impossible to change such a system from within.

My recommendation is that Japan should spend as much effort and energy as possible to create an entirely new education mobilizing effectively human talents from not the traditional sector of education rather than spending time and energy to transform the near hopeless conventional education system.

(9) Urban development

One of the foci of “national strategic zone” proposed by Abe administration is urban development. From the era of DPJ government, Tokyo was considered as a model to revive as the leading city of Asia. Tokyo was truly the leading city of Asia half a century ago. But it now lags behind in many aspects of many rising competitive cities in Asia.

Tokyo now needs remarkable and “discontinuous” innovations and development both in software aspects as social, economic, cultural sphere and in hardware aspects such as design of city plans and construction of buildings, transportation and communication networks etc. to regain the position of the leading city in Asia.

Let me illustrate one example. Tokyo is far behind of many advanced cities in terms of efficient use of space. The average floors of Tokyo buildings in intra circler train system is only 3.5 and including all the wards the figure is 2.2 floors, as compared to 6.0 of Paris. In Paris, population of day time and night time is about the same, whereas in Tokyo, day time population is 2.5 times of night time population. This results in the fact that great many people who work in Tokyo have to commute from neighboring regions spending in average 1.5 hours each way and 3 hours round trip. This is a great loss of quality of life of the public and economic loss of resources for necessary evil uses.

To solve this issue, one way is to tolerate high rising building. In Tokyo, the highest buildings are Tokyo metropolitan office and Roppongi Hills Tower which are 260m because of 300m regulation of aviation law. In many of Asian major cities sky scrapers are of the hight of around 500m. As the hight of the building being twice, the space people can use for living and enjoyment get four times. There are many many possibilities for innovations for urban development. Adopting discontinuous development plans will be another powerful lever to generate economic growth for the new era.