

# Abenomics: Where Are We Now?

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# Challenges for the Global Economy

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- ❖ “Two deep forces” (*IMF World Economic Outlook April 2015*)
  1. Legacies of the crises → reduce spending and growth (demand shortage)
  2. Decline of potential output growth
- ❖ These are the problems that Japan faced during its stagnation (lost decade or two?)
- ❖ If the demand shortage was the only problem, we would have seen deflation spiral, not just persistent but mild deflation
- ❖ Important to look at the latest attempt to solve the problems in Japan: Abenomics

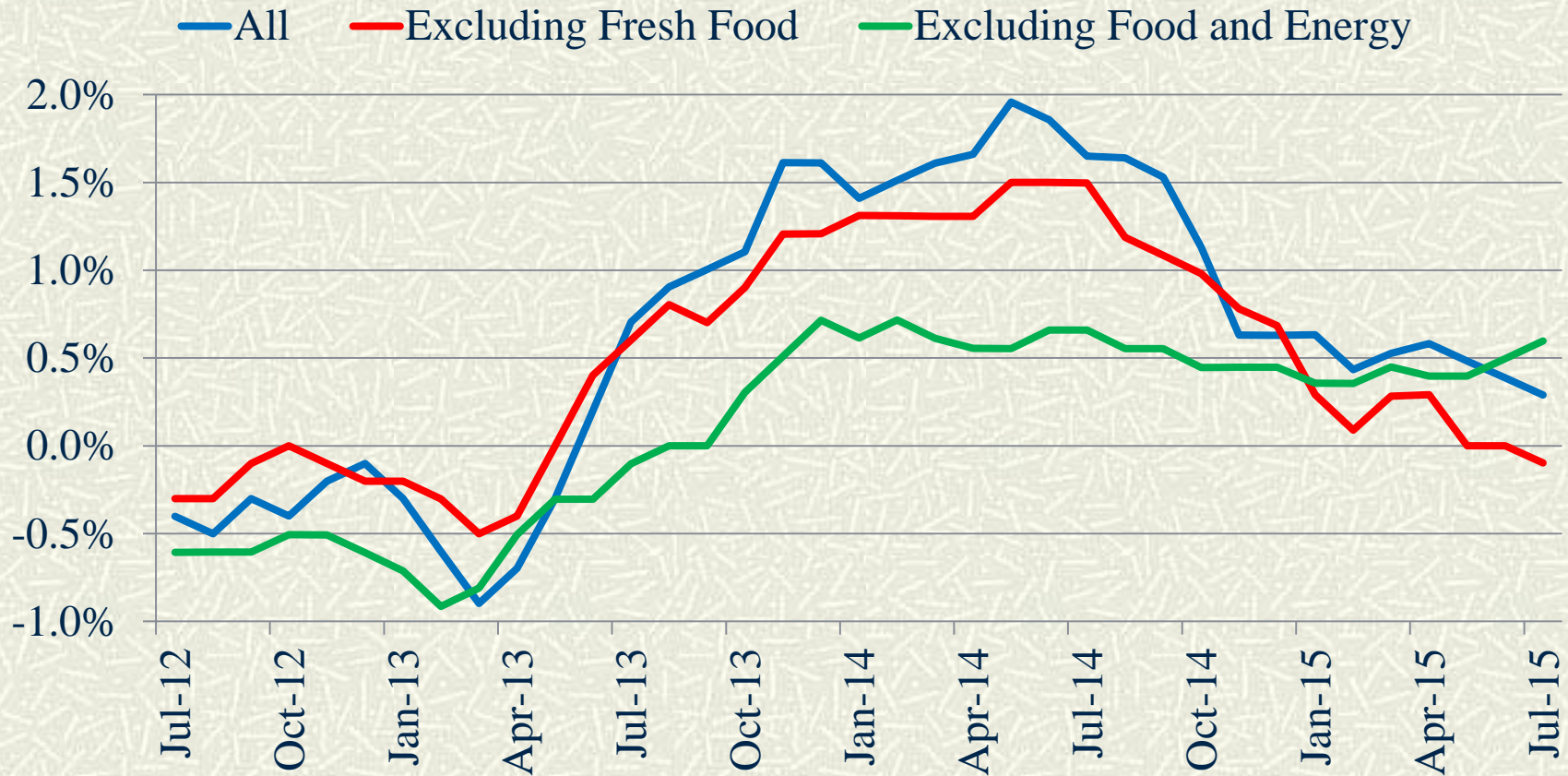
# Grading Abenomics

❖ By Dale Jorgenson and Koichi Hamada circa December 2013

1. Monetary Policy (2% inflation target and QQE) **A**
2. Fiscal Policy (Short-run stimulus and long-run consolidation) **B**
3. Growth Strategy (annually updated growth strategy) **E**

❖ My grades are mostly the same as of 2015.

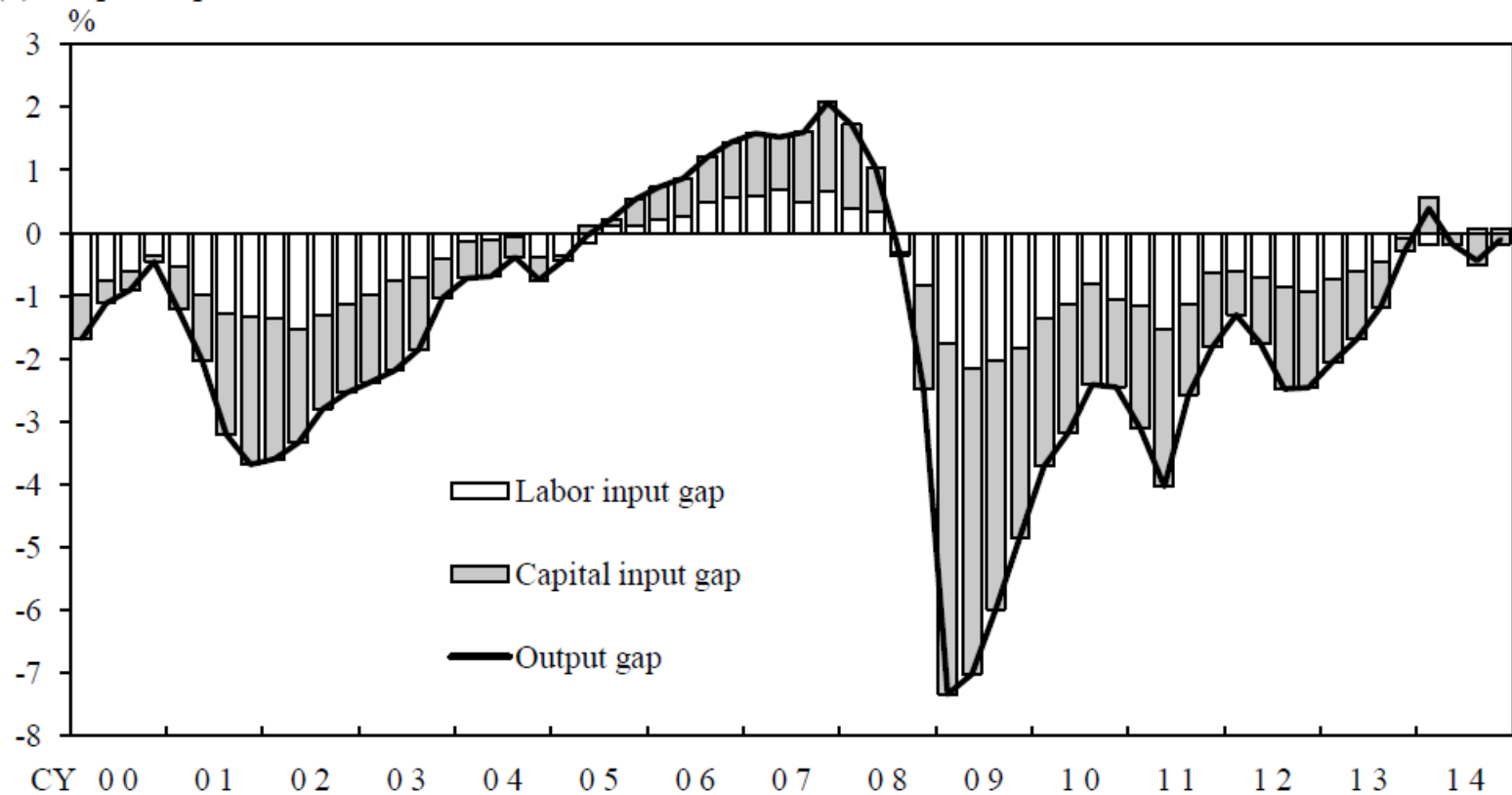
# CPI Inflation: July 2012 – July 2015



With a simple adjustment to remove the impacts of the consumption tax increase in April 2014

# Output Gap (BOJ Estimate)

(1) Output Gap



Note: The output gap and the potential growth rate are estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3. The same applies to the chart below.

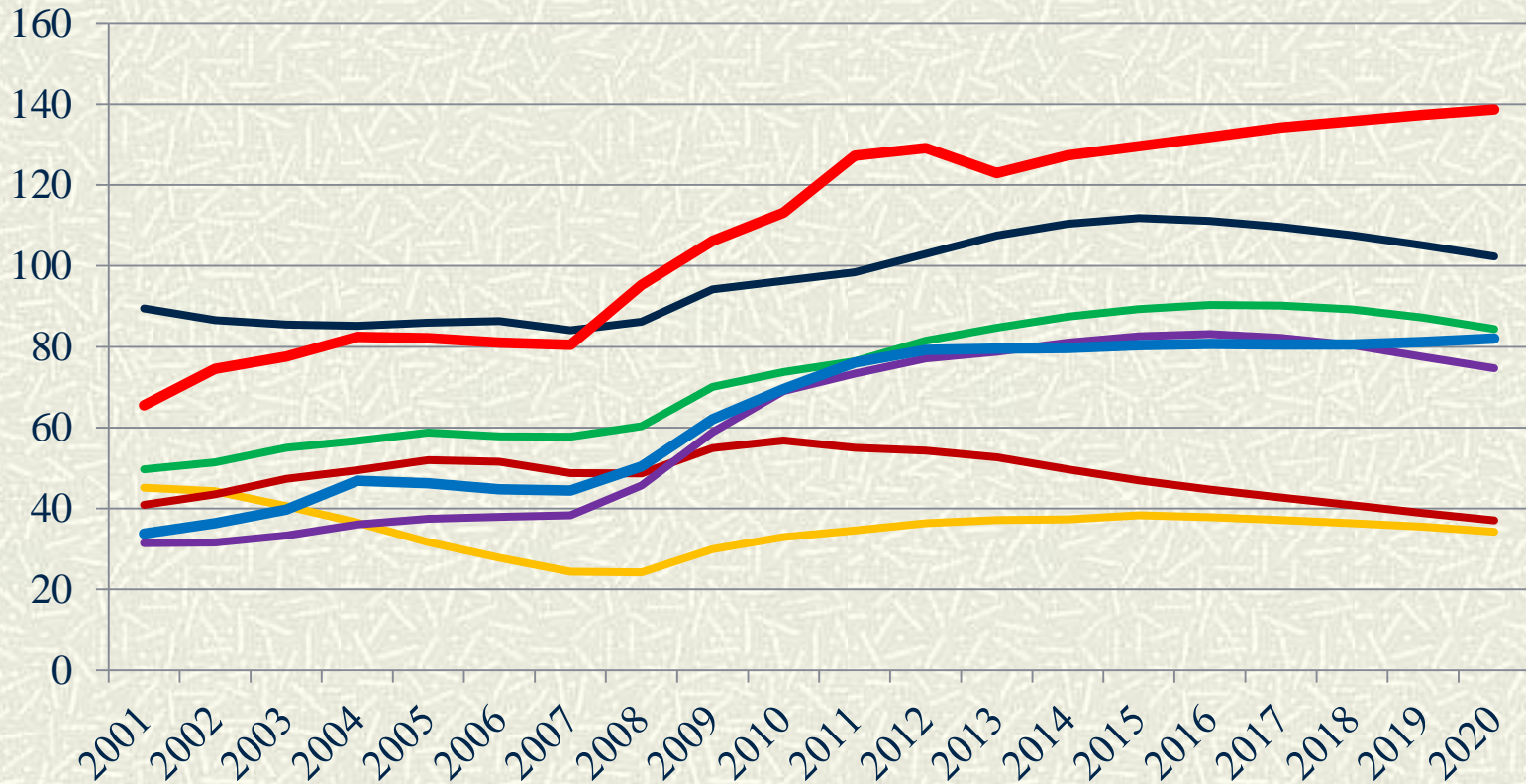
# No credible plan for fiscal consolidation

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- # Consumption tax hike to 8% (from 5%) on April 1, 2014
- # Increase to 10% was initially planned on October 1, 2015 but postponed to April 1, 2017
- # No plan for systematic cut in social welfare benefits
- # Stated target has been to eliminate the primary deficit by fiscal 2020
- # But, the latest government simulation (July 2015) suggests this is impossible even with persistent real growth higher than 2%
- # Basic Policies for the Economic and Fiscal Management and Reform 2015 at least started talking about the necessity of cutting benefits, but no concrete plans
- # S&P Japan's sovereign debt rating to A+ (9/16/2015)

# Net Debt / GDP (%)

Canada France Germany Italy  
Japan United Kingdom United States



# Growth Strategy

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- # Main problem of 2013 version was the lack of focus
- # Impossible to implement reforms in hundreds of areas: not enough political capital
- # Better to pick three or four priority areas
- # Also, many potentially useful ideas have flavor of industrial policy, which is unlikely to work well in today's economy
- # Has gone through revisions in 2014 and 2015



# 2014 Revision of the Growth Strategy

## # 10 Key Reforms

1. Enhancing corporate governance
2. Reforming investment of public and quasi-public funds
3. **Accelerating industrial restructuring and venture businesses, promoting provision of funds for growth**
4. Corporate tax reform
5. **Promotion of innovation and a robot revolution**
6. **Enhancing women's participation and advancement**
7. Enable flexible working practices
8. **Attracting talent from overseas**
9. **Growth-oriented agricultural policy**
10. **Vitalizing the healthcare industry and providing high-quality healthcare services**

# 2015 Revision (Abenomics II)

- # “Abenomics has shifted from the stage where the focus was primarily placed on solving the **lack of demand** with the aim of overcoming deflation to a new “second stage” where steadfast policies are required to overcome the yoke of **supply constraints** due to the decreasing population”
- # “aims to put Japan back onto a growth path to become a leading nation in the world by promoting the following two as the two wheels of a cart”
  1. “Realization of **Revolution in productivity** by investment in the future” which covers not only equipment innovations but also technologies and human resources
  2. “promotion of **Local Abenomics**” aimed at reviving a vigorous Japan where human resources and funds as well as technologies and information to support them are flowing freely and actively all over and in every corner of Japan by recovering vigorous workplaces and attractive investment destinations in local areas

# Includes the focuses in the 2014 revision but adds a lot more

- **Revolution in Productivity by Investment in the Future**
  - Further enhancement of “growth-oriented” corporate governance (1. Enhancing corporate governance)
  - Creation of innovation ventures (3. **Accelerating industrial restructuring and venture businesses, promoting provision of funds for growth, 5. Promotion of innovation** and a **robot revolution**)
  - Challenge to Asian and other growing markets
  - Challenges for the upcoming change (“The Fourth Industrial Revolution”)
  - Thorough utilization of IT while ensuring security
  - Countermeasures to the low birthrate, improvement of labor quality, promotion of further active social participation of women, elderly, etc. (6. **Enhancing women’s participation and advancement, 7. Enable flexible working practices, 8. Attracting talent from overseas**)
  - Reinforcing of human resource capabilities preparing for the time of change: Integrated reform of employment and education

# Includes the focuses in the 2014 revision but adds a lot more (continued)

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## # Promotion of Local Abenomics

- Through strengthening of “earning power” of mid-ranking companies, SMEs and microenterprises
- Revitalization and productivity improvement of service industry
- Establishment of “Proactive Management” in Agriculture, Forestry and Fisheries (9. Growth-oriented agricultural policy)
- Revitalization and productivity improvement of medical care/nursing care/healthcare industry (10. Vitalizing the healthcare industry and providing high-quality healthcare services)
- Rebuilding of tourism industry as the driver of regional economies
- Creation of new business by opening up of public sector market to private sectors, etc.

# Includes the focuses in the 2014 revision but adds a lot more (continued)

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- # Dropped in 2015 (because the reform has been on-going?)
  2. Reforming investment of public and quasi-public funds
  4. Corporate tax reform
- # Overall the revised version seems to have lost the focus again

# Summary

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1. Stagnation of advanced economies after the Global Financial Crisis
  - i. demand shortage in the private sector coming from deleveraging
  - ii. decline of potential growth rate that actually started before the crisis
2. Important to look at Japan that faced both of these problems
3. Abenomics is a policy mix that tries to tackle both problems
4. Abenomics has had some success in fixing the demand shortage
5. Important areas that Abenomics needs to step up the efforts
  - i. Fiscal consolidation in the long run
  - ii. Structural reforms (Third arrow: growth strategy)