

Economic Policymaking Process of Abe Cabinet

By *Hirata Ikuo*

Why Abe Cabinet's Structural Reform Seems Slowing Down

Prime Minister Abe Shinzo has taken over a policy of economic structural reform from his predecessor Koizumi Junichiro. Basically, he has also inherited Koizumi's policymaking process in which the prime minister takes the initiative mainly through the Council on Economic and Fiscal Policy he chairs. Nevertheless, the pace of Abe's structural reform is slowing down, which is apparently reflected in his government's declining approval ratings.

According to public opinion polls conducted by Japan's major news organizations, the Abe administration's approval ratings, which stood at 60-70% just after he became prime minister last September, has steadily declined. As of February 2007, many polls showed the approval ratings plunged to the 40% level.

Various reasons are cited for the decline in his Cabinet's approval ratings. But among the main reasons, noted in all polls, is "people's dissatisfaction with economic and employment policies." The criticism appears dominant that Abe has failed to resolutely take bold and appropriate policies to buoy the economy, increase jobs and cope with the widening income disparities in Japanese society.

In fact, although Abe has taken over the basic course of structural reform for the Japanese economy from his predecessor, the pace of reform appears to be slowing down.

On the other hand, the Abe administration has come up with diverse agendas, but it is not very clear which agenda he is going to focus on. His predecessor listed several sweeping reforms such as the privatization of Japan Highway Public Corp. and postal services, and the curtailment of swollen public works projects, and went on to devote full energies to their implementation. Abe has ham-

pered out various agendas, such as measures to rectify the income disparities, "making Japan Asia's gateway" and "enhancing economic viability," and set up an advisory council on each agenda to listen to the views of the public. These themes are all major challenges, but it remains to be seen which theme Abe wants to prioritize. Nor has the Abe administration set a major symbolic reform target that could make us expect a breakthrough in various reform projects. Accordingly, the public is left wondering exactly what the Abe administration is going to change, how it intends to accomplish its objectives, and what benefit the nation can expect as a result.

The Japanese economy has maintained an expansionary trend since early 2002, and in the autumn of 2006 achieved the longest period of uninterrupted economic expansion since the end of World War II. Nonetheless, not only the pace of economic growth is extremely slow, but also the income disparities are gradually widening partly due to the impact of economic globalization. A sense of unfairness is deepening among part-timers, employees of small businesses and people living far away from big cities whose income stays flat.

The Japanese economy cannot afford to escape from various structural reforms necessitated by the changing economic structure as evidenced by economic globalization and the subsequent intensification of competition worldwide in many industries, a revolution in the sphere of information and communication, the graying of the Japanese population combined with a declining birthrate, and the government's accumulated liabilities arising from deficit financing over the years.

In a policy speech at the National Diet in January 2007, Abe made clear his intention of going ahead with structural reform in principle. As for the issue of income disparities, he aims to

promote the "equality of opportunities" in the form of enabling losers to have a second chance rather than ensure the "equality of results" by according better protection to the poor. This approach has incurred revulsion in some quarters. More problematic, however, is that the prime minister has yet to demonstrate a clear-cut direction and a resolute stance on reforms for rectifying the income disparities and revitalizing the economy, including measures to achieve what he describes as "equality of opportunities."

One of the apparent reasons that first comes to mind is that Abe, apprehensive about the House of Councillors election in July 2007, is shying away from any bold policy or action that might encroach on the vested interests of some quarters or force a majority of the nation to make certain sacrifices. In the Upper House, the ruling coalition of the Liberal Democratic Party and the New Komeito party together commands only slightly more seats than those of the opposition parties combined. The opposition camp might secure a majority in the upcoming Upper House election.

But the coalition parties still hold a more than two-thirds majority in the powerful House of Representatives. In principle, therefore, there is nothing to worry about for the coalition team. Nevertheless, if the opposition parties gain a majority in the Upper House, legislative measures, approved by the Lower House, may be voted down in the Upper House more often than not. Moreover, the opposition's morale will be greatly enhanced, rendering it difficult for the ruling coalition to conduct parliamentary business. For this reason, it appears that the Abe administration is giving top priority to prevention of the coalition parties from losing a majority in the Upper House election.

This explains why some people predict that the prime minister will avoid trumpeting any bold reform plan prior to the Upper House election. If this is

truly the case, it follows that once the ruling coalition maintains a majority in the Upper House, the prime minister will take the leadership in discussing reforms and drawing up specific measures to implement them. In fact, Abe has said that discussions on whether or not to raise the consumption tax with the objective of making the national finances sound will have to wait until after the Upper House election.

■ Koizumi's Policymaking Style

Former Prime Minister Koizumi's policy decision style may well be characterized by "leadership from the prime minister's office." Even if prime ministers before Koizumi decided on a number of political agendas in person, they in reality let bureaucrats come up with other agendas and devise specific measures as government policies. Koizumi declared a policy of "leaving what the private sector can do to the private sector" and this became one of key pillars of the required structural reform of the Japanese economy. This spelled the privatization of Japan Highway Public Corp., so far owned and managed by the state, as well as the forthcoming privatization of postal services now operated by a government agency. This also meant turning bureaucrats into private citizens and reducing bureaucrats' workload.

Naturally, bureaucrats themselves could hardly be induced to promote such reforms. Therefore, Koizumi made the most of the Council on Economic and Fiscal Policy, an advisory body formed by his predecessor Mori Yoshiro, for the specific purpose of formulating policies on his own.

Koizumi gave the post of Cabinet minister in charge of the council to Takenaka Heizo, an economist who had been stressing the importance of reforming the Japanese economy. Takenaka happened to share the views of four other council members – two scholars and two business leaders. So, by skillfully using these four members, Takenaka pushed forward with various reforms as desired by Koizumi.

■ Abe Groping His Way Ahead of Upper House Polls

Under the incumbent prime minister, Ota Hiroko has been named Cabinet minister in charge of the council, while some council members – scholars and business leaders – have been replaced. In appearance, however, the council is functioning just as it did under the previous Cabinet. In January 2007, the council came up with a plan, titled the "Course and Strategy of the Japanese Economy" sketching out the direction of Japan's economic policy in the years ahead. At the same time, it set up three study panels of experts to discuss the reform of external trade, agriculture, and the financial and capital markets in keeping with the ongoing trend of globalization; the reform of the labor market; and reform aimed at reducing the government's liabilities. These panels are studying specific measures from a medium-term perspective.

A notable characteristic of the Abe Cabinet is that other councils have been created, similarly charged with tackling problems associated with the economic structure, resulting in the duplication of deliberations. For instance, Nemoto Takumi, an assistant to the prime minister, is in charge of a council for studying the "Asian Gateway Plan," aimed at further opening the Japanese economy to the world in order to play a central role in Asia. However, this plan involves a reform of the financial market – a subject also under study by the Council on Economic and Fiscal Policy.

Another example is the "Strategy for Uplifting Growth Potential," put together under the sponsorship of Shiozaki Yasuhisa, the chief Cabinet secretary, with a view to rectifying the income disparities and enhancing the productivity of medium- and small-sized enterprises. This strategy partially overlaps "measures to support a second chance for disadvantaged people" currently under study by Yamamoto Yuji, state minister in charge of financial services.

Still more alarming, however, is the fact that various government agencies concerned with economic affairs are

maneuvering intensively behind the scenes to have the Cabinet Office establish councils conducive to the adoption of their policies. During his premiership, Koizumi took the distinctive leadership, leaving no room for bureaucrats to have a say in his management of economic affairs. After Abe took over the reins of government, thus far suppressed bureaucrats, in an effort to restore their spheres of activity, "sneaked" into the Cabinet Office by mobilizing diverse channels and managed to set up councils and projects that would enable their ministries to play a central role.

Another matter of concern is that moves to rebel against the reform policy of the previous Koizumi administration, which could be a sort of backlash, have appeared in the LDP, the dominant party of the ruling coalition. These anti-reform moves within the LDP are motivated by what is described as "the need to avoid a defeat in the crucial Upper House election." So, the Abe administration appears to think that they cannot be helped.

Nonetheless, there is the possibility that such moves in the LDP will continue even after the Upper House election, for in remote electoral districts from which many Lower House members of the LDP have been elected, the economy is in dire straits and people tend to blame this on the "Koizumi reform." The fact is, however, that this complaint is not necessarily justifiable. Over the past decade, Japan's manufacturing companies have intensified moves to shift production to other low-wage countries, such as China, by entrusting production or setting up plants in those countries. This is largely responsible for sagging employment and stagnant economic activity in rural districts. Even so, it is also true that the flow of fiscal funds to rural districts has declined due mainly to the reduction of the government's public works budget. The privatization of postal services also threatens the vested interests of rural districts. Therefore, the LDP's Lower House members have started maneuvering to prevent Abe from pursuing a course of bold reform like his predecessor.

Photo: Kyodo News



Prime Minister Abe Shinzo (second from right) attends a meeting of the Council on Economic and Fiscal Policy. On his left is Ota Hiroko, minister in charge of the council.

These backlash moves are not easy to fend off for Abe, who is not as charismatic as his predecessor. In fact, the relationship between the LDP and the Cabinet is undergoing a delicate change compared to Koizumi's days. The Koizumi administration, breaking away with tradition, submitted a number of important bills to the Diet without obtaining the consent of the LDP's Policy Research Council, General Council and other panels. The practice triggered complaints from within the ruling party. By contrast, the Abe Cabinet, taking note of such criticisms, is heeding the LDP's views as much as possible when submitting bills to the Diet. Many LDP lawmakers are in no mood for any drastic reform for the above reasons. Therefore, so long as the Cabinet does not change its stance of heeding the LDP's views, it seems hardly possible to expect the kind of bold reform Koizumi carried out even at the expense of vested interests.

Another apparent change is that the business community has sneaked deep into the policymaking process through diverse channels. Sometimes, this may be beneficial to the Japanese economy, but is not necessarily so in certain

cases. An example is the lifting of a ban on "triangular mergers" in May this year. This system allows a foreign firm to turn a Japanese company into its subsidiary by providing its own equity shares to shareholders in the target company. Japanese companies are worried that the lifting of a ban on such mergers may prompt major takeovers by foreign firms and the outflow of cutting-edge technologies. On behalf of these companies, Keidanren started putting pressure on the LDP from around the autumn of 2006 to curb triangular mergers. Keidanren has approached the LDP with a request for checking foreign firms' attempts to merge with or take over Japanese businesses by modifying the relevant provisions of the Foreign Exchange and Foreign Trade Control Law. In response, the Cabinet is speeding work on measures compatible with the wishes of the economic circles. Keidanren, meanwhile, has sent its Chairman Mitarai Fujio, chairman of Canon Inc., to the Council on Economic and Fiscal Policy as a member. The Keidanren chief is expected to be playing a leading role in the management of this council.

Future Prospects

To sum up, the Abe administration seems very nervous about the possible outcome of the forthcoming Upper House election, shying away from any bold policy. Moreover, the prime minister's office is being affected by the growing influence of bureaucrats, anti-reform moves within the LDP and certain economic leaders' active moves to protect their interests. The Abe administration has yet to possess enough charismatic power to hold down these developments. As a result, its policy-making process, although similar in form to that of the previous administration, no longer functions as marvelously as under Koizumi.

At this very juncture, however, the Japanese economy needs a daring reform as a follow-up to the Koizumi reform. As regards the biggest problem of persistent deficits and accumulated liabilities in the public finances, for instance, the government still has a long way to go before restoring fiscal health. The ratio of combined long-term liabilities of the central and local governments to Japan's gross domestic product (GDP) now stands at a whopping 150%, far exceeding that of the United States at about 60% and Britain at about 50%.

If things go on like this, it is seen as next to impossible to maintain public finance and economic growth. The Abe administration's basic stance is to whittle down fiscal spending and minimize tax increases while promoting economic growth. Nonetheless, both the promotion of growth and the reduction of fiscal expenditures are anything but easy from a viewpoint of restoring fiscal health. To achieve such objectives, the government has no alternative but to carry out structural reforms even more drastic than those of Koizumi in various sectors. This poses an enormous challenge to Abe. Yet it remains to be seen whether or not the Abe administration will be able to muster up enough centripetal force to undertake such reforms. **JS**

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