

# Revisiting the Role of Government

By Kazumasa Kusaka

At the beginning of August 2017, Japanese Prime Minister Shinzo Abe reshuffled his Cabinet and the Liberal Democratic Party leadership with the aim of turning around his battered public approval ratings. The reshuffle certainly changes the nature of the regime. Previously, complacent over his impressive support rate among the public, Abe did not seem to feel it necessary to listen to LDP officials with different views on policies from his. However, this time Abe appointed senior LDP politicians who belong to policy groups whose thinking is different from his own. So now his base is seen as a coalition of powerful groups, and not directly derived from public support. The historical strength of the LDP has come from the diversity of policy stances among groups ranging from conservatives to liberals to the extent almost of social democrats, and the party had no hesitation in changing its original policies in responding to the topical needs of society. It can be said that this time Abe has returned to the traditional governance style of the LDP, and as a result new nuances would be added to policies, while putting his Constitution amendment agenda aside. The current consensus between the Prime Minister's Office and the ruling parties is, "It's the economy, again."

While intra-party support has been engineered, how much and how quickly public support can recover is yet to be seen, because public support is not necessarily obtained by the contents of a policy package, but is quite often affected by affinity, trust and communication skills. The question is how far an "economy first" message can win the hearts of the public. Though the 2% inflation target as evidence of a departure from deflation is still remote, corporate earnings have recorded historically high levels with stock prices recovering, and more eloquently the labor market is extremely tight, making the shortage of labor a constraint on economic expansion. These factors are evidence that Abenomics deserves credit in marking a distinction from the policies of previous Democratic Party of Japan administrations.

When the market cannot find solutions to deflation and spontaneously returns to a healthy economy, government and the central bank play the role of last resort. In recent years, the Lehman Shock and the European financial crisis were cases of government interventions having played an important role in mitigating the economic difficulties brought about by those crises. Japan later joined the QE measures of monetary policy under Abenomics. However, the crisis is over! As is said, "Danger past and God forgotten", the public's expectation of the government's role may have changed. Is this changing expectation applied only to Japan? In most democracies, political leaders face difficult challenges. Is this due to their lack of qualifications? Probably not.

Over the past several decades, political confrontation has been between bipolar stances — the position close to market fundamentalists and the position that market failures have to be corrected by government intervention and the public sector role, offering a safety net. That is, confrontation between conservatives and social democrats. But recently an appeal to identity and a reaching-out

to nationalism or religion has seen impressive political successes, even beyond national borders.

Returning to the post-reshuffle agenda of Japanese politics, the key issue is the structural challenge beyond cyclical economic management. This is how society and the economy could respond to the demographic dilemmas posed by the shrinking and aging population.

One role that the market cannot play very well is seeking a solution which ensures a fair and equal burden sharing between the young generation and the old generation over increasing social security expenditures due to aging while also achieving fiscal sustainability. These efforts have to be made by politics. Sustainable social security and fiscal reconstruction under the constraints of demographic changes will be the immediate challenge. The new Abe Cabinet and emerging new leaders have to meet this challenge through this trying time. The public might be wise enough to tell whoever fails to face reality, daring to prescribe the bitter but effective medicine. But it may not be necessarily true.

It is also to be noted that this challenging task cannot be solely delivered by political leaders. A conscientious politician who first gives bad news to the public tends to be punished at the next election, since the electorate may not be wise enough to identify the politician's wisdom. The electorate may normally prefer to remain in the existing economic and political situation rather than see structural economic reforms that break the status quo. However, occasionally, if we maintain business as usual, we can't survive the global competition. We would need structural economic reforms for revitalization of our economy and our evolution, otherwise we may disappear like the dinosaurs that failed to evolve and disappeared in the prehistoric era. This bad news had better be introduced to the public and stakeholders by academia, think-tanks and other independent bodies as public goods. In a situation where the public shared this bad news with such think-tanks, it would then be a political leader's job to come up with desirable options based on value judgments in order to find out whether they would be approved or rejected at an election.

I hope that the new Abe Cabinet will face reality and work hard. The Japan Economic Foundation (JEF) as a think-tank also has a role to play. JEF, originally started as a promoter of free trade, is also evolving. Irreversible globalization has changed the nature of trade, which used to affect limited stakeholders in the area of so-called tradable goods, to influence the whole spectrum of society, including the increasingly important service sector. Responding to these changing circumstances, JEF is trying to reach out to a broader public. This is to help the political process by improving immunity against naive populism.

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