

## Has Abenomics Lost Its Initial Objective?

By SHIMADA Haruo

I appreciate Prime Minister Shinzo Abe's devotion to his duty as the leader of Japan. The Abe administration upholds Abenomics which is a vital policy for the Japanese economy and people's life, and it draws worldwide attention. However, I am deeply concerned with the accomplishments of Abenomics until now and its recent directions, since I still support the Abe administration despite these worries. The key objective of Abenomics is a departure from 20 year deflation. For this purpose, the Bank of Japan supplied a huge amount of base money to cause inflation, and carried out quantitative and qualitative monetary easing so that consumers and businesses have inflationary mindsets. This "first arrow" of Abenomics was successful to boost corporate profits and raising stock prices by devaluing the exchange rate, but falling oil price makes it unlikely to achieve a 2% inflation rate, despite BOJ Governor Haruhiko Kuroda's dedicated effort. The quantitative and qualitative monetary easing will not accomplish the core objective.

Another reason for such a huge amount of base money supply is to expand export through currency depreciation and to stimulate economic growth, but that has neither boosted export nor contributed to economic growth. We cannot dismiss world economic downturn, notably in China, but actually, Japanese big companies that lead national export, have shifted their business bases overseas during the last era of strong yen. From this point of view, I suspect that the Japanese government overlooked such structural changes that deterred export growth, even if the yen was devalued. The "second arrow" is flexible fiscal expenditure to support the economy, and the result of which has revealed that it is virtually impossible to keep the promise to the global community to achieve the equilibrium of the primary balance in 2020.

In view of the above changes, I would like to lay my hopes on the "third arrow" of economic growth strategy. The growth strategy has been announced three times up to now, in 2013, 2014, and 2015, respectively. The strategy in 2013 launched three action plans, but they were insufficient. The 2014 strategy was highly evaluated internationally, as it actively involved in the reform of basic nature of the Japanese economy, such as capital market reform, agricultural reform, and labor reform. But it takes ten to twenty years for a structural reform like this to work. Meanwhile, it is quite difficult to understand the growth strategy approved by the cabinet in June 2015. Frankly, this is empty and the quality of it has become even poorer. Abenomics was heavily dependent on monetary policy, and did not tackle long term issues so much, such as social security and regional development. However, people increasingly worry about dire prospects of long term problems like

population decrease, aging, and so forth, while the administration responds to such trends with mere slogans like “regional revitalization” and “dynamic engagement of all citizens”. But it is quite unlikely that these “policies” will really revitalize the region, or promote dynamic engagement by the people.

It appears to me that these slogans are intended to boost election campaigns for the House of Councillors or possible double election with the House of Representatives in July, rather than to resolve real economic problems. This is typically seen in distribution of subsidies to the region, increases in governmental assistance to all categories of people, particularly benefits to lower income and elderly people with the total amount of 360 billion yen, and complete acceptance of Komeito’s demand to introduce the reduced consumption tax rate system. Still, I would like to support the Abe administration continually, and this is why I advise them to articulate their policy directions to manage increasingly unforeseeable economy. From now on, I will tackle specific issues of this big problem one by one.

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