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# Political Economy of Abenomics

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**IMF Seminar on Fiscal Monitor**

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# 1. Abe Administration: the first and second

## **The First Abe "Basic Policy 2007"**

### **1. Strengthening economic growth**

Growth strategy, Labor market reform, Regional development

### **2. Reform of public sector**

Fiscal consolidation plan, Tax reform, Budget institutions reform, Civil service reform, Government's assets, reform, Market testing, Further decentralization

### **3. Sustainable and secure society**

Environment strategy, Reform of education, Social welfare reform, Security, disaster prevention, energy

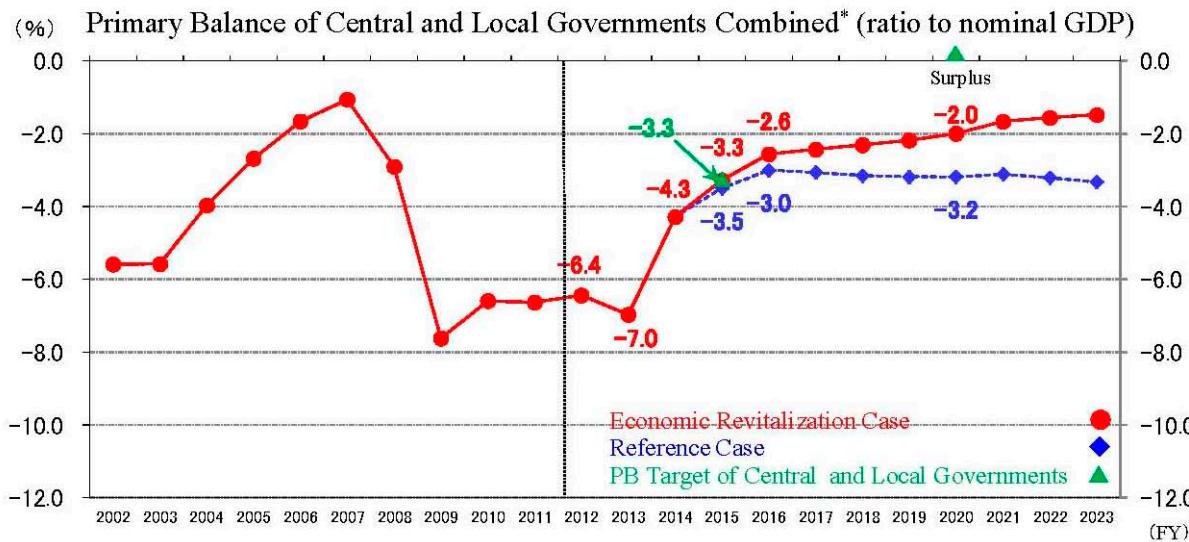
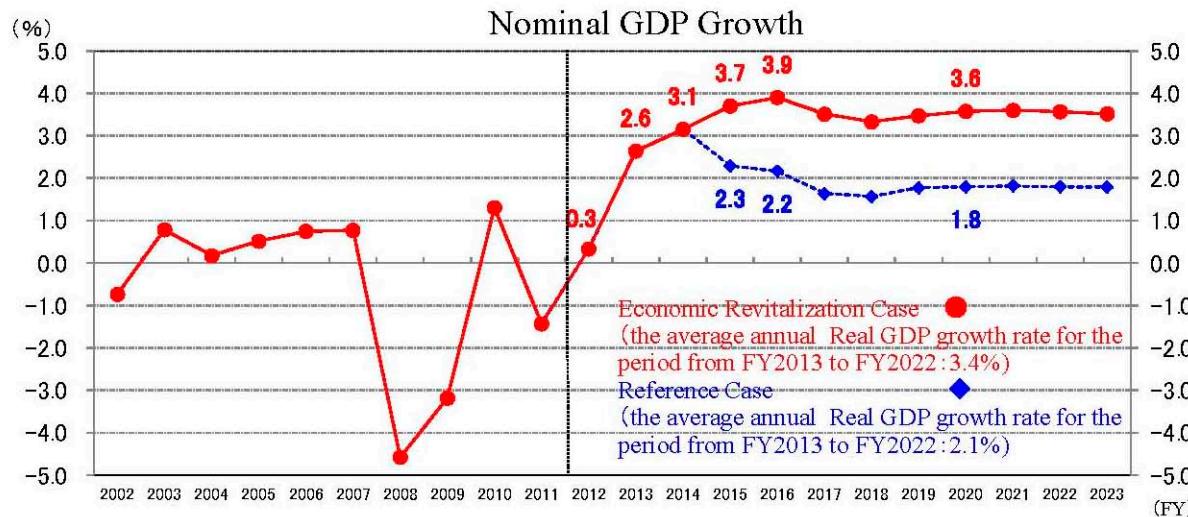
## **The Second Abe "Basic Policy 2013"**

### **1. Strong economy, prosperous and secure life**

Revitalization strategy, Reconstruction of disaster affected area, Strengthen by education, Revitalization of local areas, Agriculture and small-medium enterprises, Global environment, Strengthening land, Economic security of resources and energy, Administrative reform, Decentralization, Privatization, E-government

### **2. Economic recovery and fiscal consolidation at the same time**

## 2. Economic and Fiscal Projections by the Gov



Cabinet Office  
8/8/2013

# 3. Fiscal targets and assumptions

## Fiscal target for FY2015

Primary deficit of General government (excluding SS) should be halved from the FY2013 level

### 1. Nominal economic growth

3 per cent on average from FY2013 to 2022

Real economic growth

2 per cent on average from FY2013 to 2022

### 2. Consumption tax rate : 10 per cent in Oct 2015

### 3. Primary deficit in the General Account of the central government : from 23.2 trillion yen in FY2013 to 15.2 trillion yen in FY2015

## Fiscal target for FY2020

Primary surplus should be achieved

In the economic revitalization case

still primary deficit 2 per cent in FY2020

In the reference case

primary deficit 3.2 per cent in FY2020

**Nothing mentioned about measures for fiscal consolidation in the medium-term fiscal plan**

# 4. Problems of tax policy

## 1. Tax and social welfare contribution

DPJ government legislated "Comprehensive Social Welfare and Tax Reform", but it was not comprehensive, because it was just for the increase in consumption tax rate. Contribution such as pension and health is so regressive and undermines the equity. Social insurance schemes are subsidized by general tax revenue heavily, thus it brings about the inefficiency.

## 2. Corporate tax and economic growth

Abe administration emphasizes economic growth, so made its growth strategy. However, it misses overall tax policy reform for pro-growth.

The government should invite more discussion on tax reform and consult with stakeholders based on data and evidence. Then it is expected to propose the comprehensive reform.

# 5. Views on public finance in Japan

## Positive

1. No general election in three years the government has free hand for policy-making
2. Consumption tax rate from 5 per cent to 8 per cent in April 2014 (can be increased to 10 per cent in October 2015?)
3. Aggressive monetary ease may end the deflation and positive effect on public finance
4. More expectation and optimism due to the Olympic Game 2020 (but what will happen after it?)

## Negative

1. Politicians' and electorates' demand after two elections such as lower house in Dec 2012 & upper house in Jul 2013
2. Emphasis on economic growth and based on too rosy scenario, more spending and less tax even if good time
3. Avoiding painful reforms, particularly social welfare reform
4. Fiscal risk increasing due to the lack of reliable fiscal consolidation plan
5. METI as the winner and MOF as the loser
6. Prime minister's dominance, little check and balance

# 6. Fundamental problems in Japan

**Most fiscal consolidation failed in Japan due to the influence of economic downturn, for instance**

Fiscal Structural Reform Act 1997

suspended in 1998 after the Asian financial crisis

Reform of Expenditure and Revenue 2006

fiscal targets revised and consolidation put off in 2009 after the Lehman shock



**Fundamentally, due to weak budget institutions in particular fragmentation in political decision-making and lack of transparency**

**Furthermore, the capacity of the government to efficiently formulate and implement sound policies is low, because policy process is dominated by bureaucrats, information to public and debate based on data are limited, thus policy-making is not contestable.**