

Abenomics: a Way to Accelerate the Japanese Economic Growth?

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Abstract: In Japan the Abe administration has begun a wide range of policy measures such as massive monetary easing, fiscal expansion and structural reforms, through which the government aims at revitalizing the whole economy. At the same time there are ambitions to reinforce the good international image of the country. The task is huge, because the country has been suffering from stagnation and resignation for more than two decades, facing many problems of the aging society, and difficulties arise with implementing the important reforms. Moreover, vested interests in the bureaucracy and the concept of developmental state may also hinder the structural changes which are greatly needed. The centralized role of the state is conflicting with many attributes regarded as essential parts of the free market economy.

Keywords: Abenomics, Japanese economy, developmental state

1 Introduction

The Japanese economy has been stagnating since 1991, the year of the collapse of its “bubble”. The decline in the economic performance was so huge and long-lasting afterwards that the period of the 1990s is commonly called lost decade. There were some signs of recovery in the 2000s, but the economic growth markedly slowed down, which formed the basis for speaking about not one but two lost decades. The crisis had a deep impact on the Japanese economy, as in many countries too (Csiszárík-Kocsir et al, 2013).

Prime Minister Shinzo Abe got (for the second time) into power at the end of 2012. He gave his name to a comprehensive economic policy approach, which has become well known as Abenomics. It addresses the weaknesses of the Japanese economy through three broad mechanisms commonly known as “arrows”. The first one has been an expansionary monetary policy led by the Bank of Japan (BOJ) with the target of inflating the economy. The second has been an expansionary fiscal policy directed both at encouraging the economic growth

through increasing stimulus spending and also at balancing the state budget through tax reforms. The third arrow is structural reform which is likely to prove to become the most problematic and difficult among the three focuses, and considered by many analysts the long-term assurance of the success of the reform package. Implementation of the structural changes entails serious concerns, partly because they touch upon too many fields like taxes, labour force, liberalization, partly because the Abe administration has to face many impediments in the way of carrying out the tasks (Patrick, 2013).

To understand the difficulties that might hinder the process of the planned reform it is worth looking at the features of the Japanese economic development. The role of the government was enormous through the past decades; it determined the main directions of the development of the society, purposely intervened with the market forces and managed the problems caused by restructuring the industries, unemployment and other economic changes. The concept of developmental state is originating from the assumption that a state can play an important role in facilitating the transition of a country from a less developed stage to a more modern one (Chang, 2010). This role entails various consequences, positive and negative as well, and the latter include such unfavourable trends like the rigidity of the economy. This issue has much to do with the capability of a country to find the way the most suitable to get continuously upgraded, and become, or in other cases, remain competitive among the continuously changing circumstances of the international market.

This paper is structured as follows. Section 2 gives a brief description of the components of the package of economic policies called Abenomics. Also we touch upon the outcomes of these efforts. Section 3 deals with the concepts of developmental state and the form it has taken in Japan. We are also concerned with the conflicts that may arise from the opposing aims of deregulation and vested interests of the members of the administration. Finally, we give a conclusion.

2 Three arrows of Abenomics

The Abe administration is very ambitious and greatly determined to revive the sluggish Japanese economy at long last. The economic strategies launched in 2013 consist of complex, far-reaching measures. The term Abenomics refers to Japan's three-pronged economic stimulus policy, which involves a combination of monetary policy expansion, fiscal stimulus and structural reform. They are aimed at ending the deflation by reaching an inflation of 2 %, and then attaining a sustainable growth of 3 % (Boesler, 2013).

Although the fiscal and structural components are essential in the package, the monetary policy – the first of Abenomics’ three arrows – has the toughest task in the short term. It has involved unconventional measures of quantitative and qualitative easing by the central bank (BOJ) starting in April 2013, when Haruhiko Kuroda was appointed as the new governor. The goal has been to implement financial easing on an unprecedented scale by reducing real interest rates. The BOJ has undertaken an aggressive buying of assets, particularly long-term bonds of the Japanese government to encourage inflation and spending of people, as well as force domestic investors to turn to more risky assets like stocks. The figure below shows that BOJ’s measures have led to a result in the balance sheet greatly different from those at the central banks of United States, England and the European Union. By the end of 2014, the BOJ’s assets had risen to over 60% of GDP.

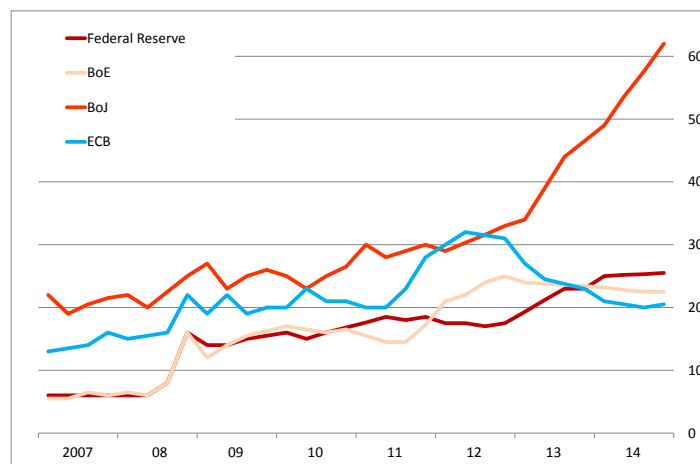


Figure 1

Central bank balance sheets (as of GDP)

Source: Dewit, 2015, p. 1

The step has had a significant side effect entailing the weakening of the yen. Due to the devaluation of the currency, the export has become boosted, as the goods manufactured in Japan have become more competitive abroad. As a consequence of the increase in sales, the corporate earnings (and presumably the business investment) have also expanded. There has been a dramatic boom in the Japanese stock market which has stemmed from the unconventional monetary policy, and the Nikkei stock index rose by 77 % by the end of 2013 (Hausman and Wieland, 2014).

The second arrow of fiscal policy is two-folded: its aim is partly similar to that of the monetary policy that is to give time for structural reforms to be carried out, partly different because it includes a fiscal consolidation due to the gigantic size of Japan’s public debt. As part of this approach an initial stimulus spending package

of Yen 10.3 trillion (approximately Euro 80.8 billion) was launched in January 2013, involving traditional infrastructure investment. This is very closely related to the rehabilitation programme after the disaster in March 2011 by bolstering resilience of infrastructure through laying emphasis on resistance, reliability, redundancy and response/recovery (4 R's of infrastructure resilience) (Dewit, 2015). Supplementary budgets, a long-term fiscal plan and an organizational structure provided additional resources and background to these efforts, which may make Japan a global leader in building resilience.

The fiscal policy also includes measures towards the consolidation of government budget. One of the most important steps to diminish the deficit was the increase in the consumption tax from 5% to 8% as of April 2014. The detrimental impact on growth was much above that anticipated by policymakers, resulting in the delay in the next increase of the tax. Thus it is scheduled to get introduced in April 2017 instead of October 2015. At the end of 2014 the Abe cabinet was desperate to get growth going on, and announced a stimulus package of yen 3.5 trillion. A large part of that was aimed at reinforcing resilience of waterworks and other social infrastructures in the face of natural disasters. The remaining sums were directed to reduce energy costs for low-income citizens and to revitalize local communities. (Dewit, 2015)

The third arrow of Abenomics is concerning the structural reform of the economy and considered the most important of the three. The first two arrows just aiming at creating the growth and inflationary expectations give possibility to the policymakers to undertake deep reforms necessary for an innovation-based sustainable growth. The steps of reform have been gradually released, and the publication titled Japan Revitalization Strategy has included long-range plans. Although economists, inside and outside the country have expected measures to ensure increase in productivity and incomes necessary to a higher growth, the plans have been vague and lacked determination to deregulate the labour market, corporate governance and other areas. The Abe administration has been willing to respond to criticism and been making various amendments to the original version. Yet the dismay has remained and the credibility of Abenomics has become threatened. Japan is unlikely to join the free-trade agreement about the Trans-Pacific Partnership despite the previous promise of the prime minister (McBride, 2015).

3 Developmental state and its role in Japan

According to Ha-Joon Chang (2010), the developmental state can be defined as a state that intervenes to promote economic development by means of selective industrial policy. It explicitly favours certain sectors over others, and its political legitimacy can be derived from the role it plays in economic development. Here

the development refers to a combination of steady high rates of growth and structural change in the productive system both within the country and in its relationship to the international economy. The experiences in East Asian countries from the 1950s through the 1980s were essential in determining the classical type of a developmental state. There were of course variations even within the region, but the Japanese experience was certainly influential.

In Japan after the World War II, the American occupation forces had begun a democratization (and demilitarization) process in the economy, agriculture and labour market. The target was to introduce (and strengthen) the mechanism of free market in order to create a competitive economy. The Cold War, however, distracting the attention of the Americans from the Japanese situation had caused a halt in the democratization and impeded its successful implementation. As a result, the centralized positions of the bureaucracy had become reinforced. Nevertheless it played an important role in achieving the high growth rate in the 1950s and 1960s, which is widely known as Japanese economic miracle (Flath, 2000). The success story depended upon an elite bureaucracy controlling industrial policy through powerful state institutions.

In the bureaucratic structure there were three major and important agencies responsible for and fully involved in directing the path to development. The Economic Planning Agency was small and powerless. On the other hand the Ministry of International Trade and Industry was the pilot agency, although its activities were constrained by the Ministry of Finance. Yet it was the former who had the right to control the allocation of scarce foreign resources and was mostly successful to secure the necessary funding for its programmes. Its supremacy was supported by the political consensus on the need for selective industrial policy, which helped it play a leading role in the economic transformation of the country. Coordination and regulation were important relative to subsidization, giving an essential feature of industrial policy (Chang, 2010).

International openness and export orientation (rather than trade liberalisation) were significant in rapid industrial change. Openness played a role not only in providing support for firms which depended on the competitive performance in export markets, but also in measuring firms against each other even while the state offered protection in the domestic market. It also ensured that firms were forced to adapt cutting-edge technologies and production methods. Competitive rivalry between big business groups was a very significant motivating and disciplining factor. The state support and intervention to augment investment in upgraded industrial capabilities were very closely connected to disciplining mechanism to ensure that the outcomes fulfilled performance expectations (West, 2014).

The Japanese state is a key factor by its measures behind the income support and income equality. It places emphasis on employment security and seeks to minimize the displacement of those people, which are vulnerable due to market forces. The overall efforts by the state also include financial and infrastructural

support for small businesses, programmes for employment maintenance in time of crises, and institutionalized measures for sunset industries.

Politics greatly affects the form a developmental state takes. In Japan right-wing hegemony emerged by the 1960s and determined the main features of the government till nowadays. The political system is plural theoretically, but indeed it is a one-party system. The government party has monopolized the power and government positions (Flath, 2000).

Effective bureaucracy is crucial for the functioning of a developmental state because the state has to be sufficiently autonomous to make national development strategies, able to maintain proper relations with stakeholders and to carry out ambitious programmes. The bureaucracy in Japan, insulated to some extent from different interest groups is characterized by strong corporate cohesion, which ensures that officials pursue institutional goals. Cohesion is also strengthened by the distinctive and rewarding status of bureaucrats, the high level of their expertise ensured through meritocratic recruitment, and the opportunities for long-term career rewards. There is a highly selective procedure (stringent civil service exam) for the applicants to become an official, who are all graduates of the most prestigious universities.

Evans (2010) draws attention on that the bureaucratic autonomy is closely connected to the surrounding social structure, which provides institutionalised channels for the continuous transformation of goals and policies. It is embedded in the society, particularly to certain groups (Marosi, 2013a,b). In Japan for instance the industrial policy relies on the relationship between ministries and industries, because their ties are reinforced by that former officials often receive crucial positions in corporations and industrial associations. The state acts as a partner with the private sector in the industrial transformation and managers respond to the incentives and disincentives through formal and informal channels. The phenomenon of corruption is rampant, and measures of industrial policy are commonly used to promote vested interests instead of aims of national development.

Riain (2000) emphasizes that the domestic alliance between the state and private sector was undermined also in Japan in the late 1990s, as firms became more integrated into the international markets. The responsiveness of the bureaucracy to changing local and global conditions proved to be poor. In this sense he labels the developmental state like that in Japan bureaucratic developmental state. It concentrates on the creation of new domestic capabilities as national actors, instead of transnationally integrated local networks. The state bureaucracy remains embedded only in the domestic market and its coherence is not substituted by flexibility.

4 Conclusions

In Japan the inclination to implement economic reforms seriously needed in many aspects, has particularly been pronounced since Prime Minister Abe got the power in 2012. The weaknesses of the Japanese economy have been addressed through three broad mechanisms commonly known as “arrows”: the expansionary monetary policy, fiscal policy and the structural reform. The three arrows of the policy package have been regarded as necessary to revitalize the economy. Of the package the structural changes would need tremendous effort to help increase competitiveness of the country. To support the liberalization of its market and to encourage the growth based on innovation, a new relationship between the elite bureaucracy and private sector would be necessary through eliminating or at least drastically decreasing the interference by the government.

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