CHAPTER 5

The Future Again?
The Assessment of Abenomics

1. Introduction

When Shinzo Abe resigned in disgrace in September 2007, no one expected his second coming. Yet he came back with a strong message for the Japanese economy: a policy package commonly known as “Abenomics.”1 The first time, it did not stick, and it was largely irrelevant, but this time, it is sticking, and it is having considerable consequences. Admittedly Abenomics is still in its early stages, and its future is still uncertain, but early signs have been promising. Stock prices have soared: for example, the Nikkei index has increased from ¥8,664 in November 14, 2012, to ¥15,071 in April 3, 2014, while the yen has depreciated from ¥81 per dollar to ¥103 during the same period. The effects are felt not only in financial markets but also in other markets. The real gross domestic product (GDP) growth rate has turned positive. The unemployment rate has decreased from 4.1 percent in November 2012 to 3.8 percent in June 2014. Even deflation has been receding. The change in the consumer price index (CPI), the so-called headline CPI, has increased from –0.2 percent in November 2012 to 3.4 percent in July 2014. The change in the CPI less all foods and energy, the so-called core CPI, has increased from –0.5 percent to 2.3 percent for the same period.2 But, the consumption tax increase in April 2014 poses a great risk to the course of Abenomics. The growth rate has plunged back to a –6.7 percent annualized rate for April to June, and –1.9 percent annualized rate for July to September. The unemployment rate continues to decline to 3.5 percent in November 2014, but the change in the CPI has decreased to 2.4 percent in November 2014, and the change in the CPI less all foods and energy has decreased to 2.1 percent in November 2014. Toward the summer of 2014, people began talking about Abenomics being in trouble.3
There was a scheduled second consumption tax hike from 8 percent to 10 percent, effective from October 2015. The prime minister had to decide whether he should go ahead with the planned second hike before early December, 2014. The incoming economic figures showed that the economy was in recession. The annualized real growth rates for the second and the third quarters turned to negative, and the output gap widened to – 2.8 percent of Japan's GDP in the third quarter of 2014. In light of the deteriorating economic condition, the prime minister decided to delay the hike to April 2017. In order to delay the hike, he had to change the law, but many members of his own LDP party, the coalition partner, and the largest opposition party DPJ favor the consumption tax hike. And the bureaucracy, the Ministry of Finance in particular, was already expecting the hike. The BOJ unexpectedly announced another round of the QQE on October 31, 2014. Governor Kuroda cited a fall in oil price and a weakening demand of the Japanese economy due to the consumption tax hike for reasons to engage in the second round of the QQE. To break the political gridlock, the prime minister showed up on TV on November 18 and announced that he would dissolve the Lower House of the National Diet on November 21, and call an election due on December 14. In his speech, he admitted that the further consumption tax hike would threaten Japan's escape from deflation, the primary objective of Abenomics. The opposition parties and the media criticized the prime minister that the election did not have a justifiable reason, but calling the election was the only way for the prime minister to postpone the consumption tax hike. The prime minister asked the electorates whether he should continue his Abenomics. On December 14, 2014, the governing coalition parties secured 326 among 475 seats, and won the general election. However, the electorates did not really approve of Abenomics yet. According to the poll after the election, only 7 percent of the respondents thought that the prime minister's economic policy worked so far (Yomiuri Shimbun 2014). Abenomics has not yet won over the Japanese people.

This chapter offers a political, economic, and intellectual interpretation of Abenomics. First, the chapter chronicles the emergence of Abenomics. In the wake of the Lehman crisis, Japan's economic crisis deepened; the Liberal Democratic Party (LDP) government did not deal with it properly. In August 2009, the Democratic Party of Japan (DPJ) came to power with high expectations from the public but failed to revive the economy. Second, this chapter analyzes the official three-pronged economic policy of Abenomics. Abenomics has two faces: politics and economics; it is a product of political compromise among powerful LDP politicians, but it also makes sense as a policy to tackle deflation. Third, the chapter examines the possible risks and the prospects of Abenomics. Here again, the course of action depends on

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