Can Japan Change ?: Abenomics and Its Future

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Two Faces of Abenomics

* A. Abenomics as Politics
  * Three A’s: Abe, Aso, and Amari
  * Abe->the first arrow; reflationary policy
  * Aso->the second arrow; “old-fashioned” pork barrel fiscal stimulus
  * Amari-> the third arrow; industrial, target policy
  * Abe’s reliance on METI
* B. Abenomics as Economics

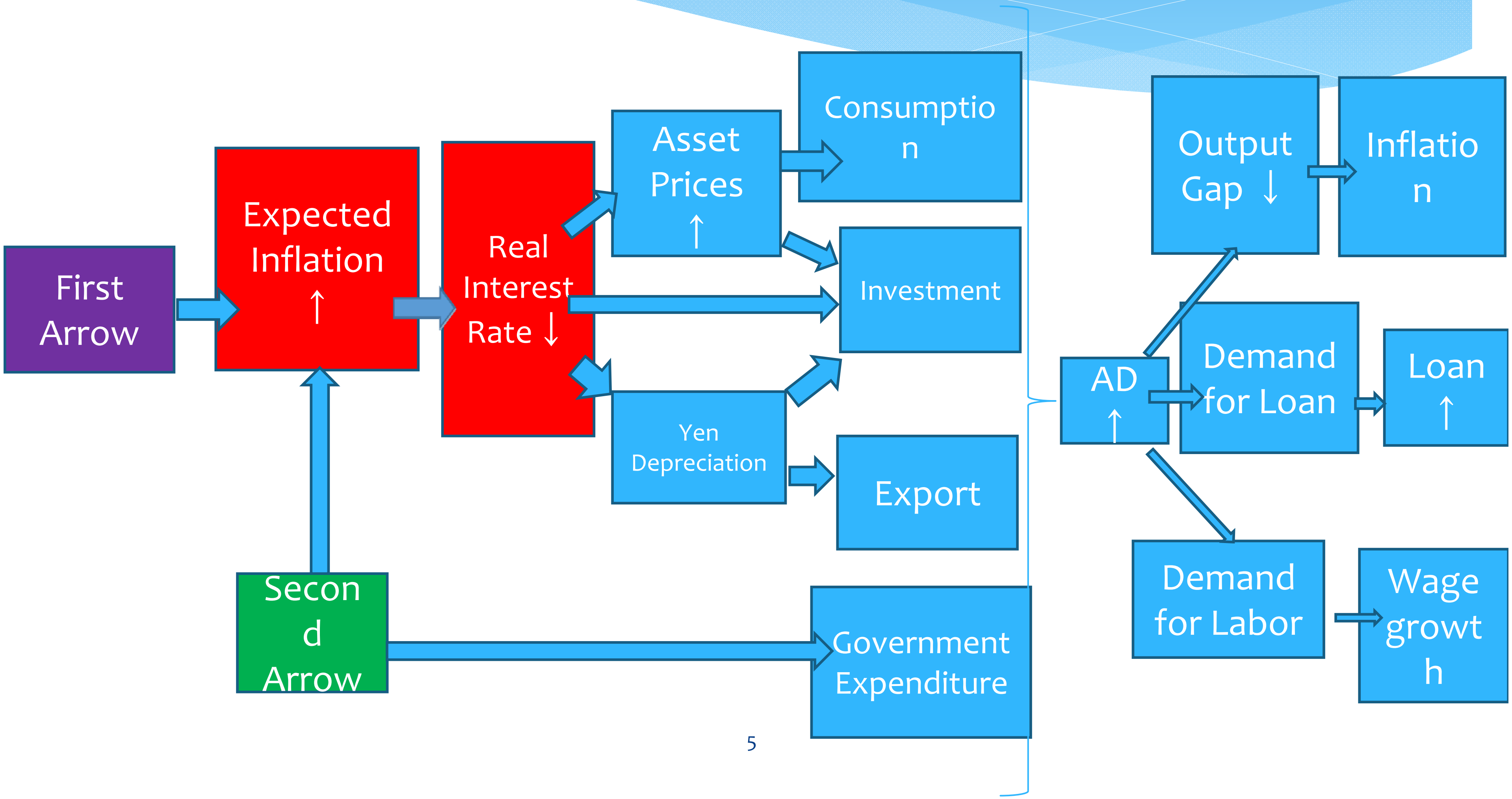
Abe's Political Strategy

* Cautious, patient, yet resolute
* Fights against the BOJ, avoids fighting against the MOF, seeks help from the METI
* The BOJ front: adoption of inflation targeting, appointment of reflationary governor and deputy governor, Haruhiko Kuroda and Kikuo Iwata.
  * Revision of the BOJ law?

A "Policy Regime Shift" (Romer 2013)

* Contrast with the 2001-06 (original) QE experience
* The Old Regime: accepting deflation
  * Long on excuses, short on action
  * No explicit inflation targeting
  * The BOJ people
* The New Regime: fighting deflation
  * Emphasis on Expected inflation
  * Inflation targeting
  * New people: Kuroda and Iwata

How Abenomics Works



How Kuroda Thinks

- Sense of history (Kuroda 2005)
- A macroeconomic policy interpretation of the Japan's long stagnation
- Deflation: distinction between Legal responsibility and economic causes (Kuroda 2005, 173-183)
- The role of exchange rate: quite important
- bubble: Too much expansionary monetary could lead to a bubble (Kuroda 2005, 90), but bursting a bubble was a more serious mistake (Kuroda 2005, 100-102)
- Fiscal consolidation

Risks

* 1. The First Arrow: Could it reach the target?
* 2. The Second Arrow: What is the Impact of the consumption tax hike?
* 3.The Third Arrow: Would it even fly?
* 4. Redistribution, the Missing Fourth Arrow?
* 5. External Environment: Would the World Economy favors Abenomics?
* 6. Media: Do they change their mind?
* 7. Politics as Ultimate Risk: Would Abe Survive?

1. The BOJ Front

* Right now: they are quite satisfied with their policy
* Most likely further action in the case of a drastic fall in expected inflation rate, i.e., change in policy purpose most unlikely
* More tools?
  * Increase the purchase of volume of long-term JGBs
  * Purchase of other assets, more likely ETF
  * Purchase of foreign bonds off the table
  * “Forward Guidance”?
* Change in policy target? Less likely now.
  * Targeting nominal GDP, Unemployment Rate

2.The Consumption Tax Hike

- Negative effects expected
- Permanent ¥8 trn. Negative impact from FY 2014
- Temporary Offsetting Stimulus package ¥5trn.
- The Repetition of the 1937 US, or 2010 UK?

3. The Growth "Strategy"

- Two different economic policy philosophies
- A. METI: Old style industrial, export-oriented, target policy with government sponsored funds
- B. Heizo Takenaka and market-oriented reformers
  - Deregulation, private management of public facilities, corporate reform (outside board member)
  - So far, retreat of market-oriented reformer camp

Things to come: Next Regime?

Open Regime	Closed Regime
Rule, Framework	Discretion, Planning from above
Pro-market	Pro-business
Welcomes new entry	Discourages new entry
Competition policy	Industrial policy
Tax cuts, deregulation	Subsidies, reregulation
More Economics	Less Economics

Impacts of Abenomics

* The First Arrow, and TPP are the main pillars.
* With deflation to 2% inflation in 2 years: Phillips curve + Okun's Law
  * Unemployment: 4.3 + 0.5 = 4.8% (2012) to 2.5% (2014)
  * Okun coefficient: 3
  * Real GDP growth rate: 6.9 % increase in two years
* The Second Arrow: about 0.6% increase in one year

Impacts of Reform?

- TPP:
  - 0.8% increase in growth rate (with all tariffs abolished)
  - 2% (Peter Petri, with all non-tariff barriers abolished)
- Others?
  - Regulatory reforms have positive impact on growth rate (Haidar 2012)
  - Past experiences are not encouraging (Hoshi and Kashyap 2011, 2012)
- But, reasons to be a bit more optimistic: the First arrow matters on the growth front as well

Can We Change?

* “God grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference” (Reinhold Niebuhr)/

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