

## **Fumio Kishida's First Year in PM Office: Is Abenomics to End or Stay?**

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### ***Abstract***

The article addresses the experience of Fumio Kishida's first year as Prime Minister of the Japanese government with respect to its economic policy vision and implementation. This policy is analyzed by comparing it to the policy pursued over the past ten years by PM Kishida's predecessors in the office, on the one hand, and to the commitments he announced during the 2021 election campaign, on the other hand. The paper notes that, in its basic moments, the economic policy of the cabinet of the new leader of the ruling Liberal Democratic Party continues the course previously maintained by the team of then-PM Abe Shinzō, known as *Abenomics*. This is manifested in the specific use of basic instruments of macroeconomic policy, primarily in the monetary and tax areas, as well as in setting priorities for the policy to stimulate consumption and economic activity. Continuity of the course can be particularly illustrated by the soft monetary policy; a positive view of the depreciation of the Japanese national currency; the moderately expansionary fiscal policy relying on domestic borrowing; preference given to interests of the national corporate sector. Legacy inherited from the previous administrations also includes government measures to revitalize deferred private demand, promoting investment in R&D, venture, and innovative enterprises with a particular focus on regional economies. Kishida's particular emphasis on invigorating redistributive mechanisms and increasing the share of wages in the total national income has not yet resulted in specific decisions and actions by the government. Kishida's commitment to expand the number of beneficiaries

of the capitalist market system as part of his idea of “new capitalism” is yet to be carried out.

In recent months, the attention of the government and its economic team has largely been focused on overcoming the consequences of the disruption of transnational production, trade and logistics chains caused by the coronavirus pandemic and rising geopolitical tensions. In addressing this issue, the government prioritizes subsidizing businesses and households to partially offset energy and food price hikes, securing diversification or localization of critical links of trade and production chains, as well as the exclusion from them of politically undesirable or unstable locations. At this stage, however, the actions of the government are limited to setting relevant goals and plans to provide finance for programs with effectiveness yet to be proven.

**Keywords:** Japan, economic policy, social and economic reforms, “new capitalism”, transnational business chains, Abenomics.

The one-year stint as Japan’s Prime Minister of Kishida Fumio, the new leader of the Liberal-Democratic party (LDP) – the main political party of the country expressing sentiments and political perceptions of the bulk of the Japanese establishment – raised the issue of how the change of leadership would impact the government’s economic policy, which, for ten prior years, had, one way or another, reflected the approaches embodied by Abe Shinzō, an outstanding representative of Japanese conservatives. Despite controversial assessments made about the results achieved through these approaches, which were somewhat artificially integrated by the officially used term *Abenomics* (*abenomikkusu*), in the popular view, Japan’s economic reality of the second half of the 2010s was in many respects characterized by this very expression (“*the era of Abenomics*”) [Hoshi, Lipsy 2021].

As Japan’s top political figure changed, there inevitably appears an element of uncertainty: to what extent will the new Prime Minister’s views and preferences affect the economic administration’s arrangements and priorities and can any changes thereof be expected

in the near future and in the medium term. This article attempts to facilitate the fact-based search for answers to all these questions, if not to provide an exact answer.

### **Ideological and Political Positioning in the Starting Period**

Evidently, the new leader of Japan's conservatives has personal and intellectual ambitions inducing him to try on the role of, if not a radical reformer, but, in any case, a proponent of new ideas and approaches. It was especially important for him given the mixed, and sometimes openly negative assessment by the party of the country's economy at the time of the LDP presidential election in the fall of 2021 [Sato 2022, p. 72]. As a candidate for this very significant position in Japan's political world, Kishida expressed an intention to promote drastic changes in various fields of the country's economic development through his future policies. He particularly identified the following goals:

- 1) introducing stronger redistribution of income through increased taxation of the wealthy, a wider system of social benefits, and aid to the most needy, as well as expanding free access to some government services, primarily educational;
- 2) achieving greater "inclusiveness" of the economy through participation in labor and financial markets of the categories of the population that have not been previously involved therein;
- 3) focusing on the social impact of the technological policy, which should not so much (and not only) raise productivity, but rather increase the comfort and well-being of an ordinary individual ("the people").

In addition, the future prime minister often used the expression "new capitalism", its major feature being, as he would say, reducing Japanese businesses' focus on short-term profits and their reorientation towards long-term tasks of "harmonious development" set by society as a whole.

Although Kishida's statements are quite vague and do not imply sharp, let alone radical, interference in economic relations, the new leader's

initial agenda, judging from its major emphasis (closing economic gaps in society, enhancing the government's redistribution function, etc.) may be characterized as left-wing, according to contemporary European standards. This is particularly so considering the essentially socialist contents of his "new capitalism" slogan, implying the superiority of welfare tasks for businesses, compared to maximization of profits and growth of market capitalization. The same characteristic can be derived from the radicalism of the environmental agenda expressed in his public statements, specifically his promise to make Japan a leader of building a new low-carbon and environmentally neutral economy.

This approach might seem unnatural for a representative of Japan's conservative ruling elite, were it not for their growing disposition towards populist phraseology, which has become a permanent image element of political mainstream in recent decades. A certain set of such statements is virtually indispensable for any Japanese politician aspiring to be a visionary and a national leader, regardless of their ideological background. This was actively used by Abe, Kishida's virtual predecessor as the leader of Japanese conservatives (if we disregard Suga's one-year stint in this post), who was vigorously creating the public image of a strong leader, self-assured and confident in his view of the future. Even more populist rhetoric was applied by his team, which initiated development and publication of various policy documents ("strategies") stating the government's vision of pending changes in the economy and society. This vision always included a utopian description of future technologies and a promise to quickly remove all material limitations for life comfort, which would allegedly result from the benefits of the new "industrial revolution" and technological progress.<sup>1</sup> Thus, the new LDP leader

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<sup>1</sup> The second half of the 2010s saw this semi-utopian idea of the future assuming the form of the *Society 5.0* concept – the post-information society of the socio-economic harmony based on the achievements of the Fourth industrial revolution and widespread introduction of technologies using artificial intelligence and cutting-edge communication technologies.

did not break the established tradition; he only modified the accents and verbal clichés, preserving his party's commitment to promises of general welfare and social harmony.<sup>2</sup>

Yet, along with the above-described general principles, Kishida's pre-election speeches contained more specific pledges reflecting his leftist reformist rhetoric. He particularly suggested raising capital gains tax on the property of relatively well-off sections of the population, increasing taxation of dividends paid by companies, and making big business raise labor remuneration pursuant to government recommendations. Kishida also proposed some measures to shift the motivation of corporate sector from focus on the pursuit of short-term profits to achievement of long-term goals. One of his suggestions was to abandon the practice of quarterly statements focused on cash returns and limit corporate buyback. Yet, the lack of particulars implied that those were not serious proposals from relevant working groups in the party apparatus, but rather merely manifesto "gimmicks" suggested to the candidate for party leadership by his staff.

### **Year 1: Adaptation of New Approaches to Habitual Practice**

The time since Kishida's election as the leader of the party and Prime Minister has shown that some specific pledges associated with the slogan of "new capitalism" have turned out to be substantially corrected, while the implementation of others has been postponed until much later.

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<sup>2</sup> The relevant provisions and pledges are contained in LDP official materials, including those published recently (See, specifically: Ketsudan to jikkō. Mirai wo mamoru. Nihon wo mamoru. Jimintō Reiwa 4 nen Seisaku Panfuretto [Decision and Implementation. Protecting Future. Protecting Japan. LDP Policy 2022] [http://jimin.jp-east-2.storage.api.nifcloud.com/pdf/pamphlet/202206\\_pamphlet.pdf](http://jimin.jp-east-2.storage.api.nifcloud.com/pdf/pamphlet/202206_pamphlet.pdf)

For example, the government led by the new Prime Minister did not propose immediate introduction of any important tax innovations which would be aimed at increasing income redistribution. Meanwhile, the projects of tax revisions to this end which had been discussed before were essentially postponed and partially corrected. Speaking in the London City in May 2022 and, later, before investors at the New York Stock Exchange, Kishida shared his plans for tax incentives for private financial investments, while in November of the same year he presented a government-approved plan of extending relevant tax exemptions.<sup>3</sup> These measures are clearly in dissonance with his initial idea of higher taxation of incomes from financial assets as a way of redistributing income and wealth. This discrepancy did not go unnoticed.<sup>4</sup>

As for incentives for a accelerated pay rise, business did not experience any special pressure in this respect either. In any case, no public complaints can be found, and statistics show rather a stagnation of employees' incomes. The rise of basic wages and salaries through traditional spring negotiations on the re-conclusion of collective employment agreements in large corporations amounted to some 1.86 percent in 2022 – less than in the prior years.<sup>5</sup> The annual increase of statutory minimum wage recommended by the Ministry of Health, Labour

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<sup>3</sup> Reference was specifically made to extending the program of tax-exempt investment accounts for private entities, known as NISA. See: Transcript: Japan PM Kishida's speech in London. <https://asia.nikkei.com/Politics/International-relations/Transcript-Japan-PM-Kishida-s-speech-in-London>

<sup>4</sup> Kishida's asset income plan marks departure from focus on wealth redistribution. *The Japan Times*. 30.11.2022. <https://www.japantimes.co.jp/news/2022/11/30/business/kishida-double-asset-income/> See also: Nagata, K. What's behind Kishida's plan to spur household investment. *The Japan Times*. 11.05.2022 <https://www.japantimes.co.jp/news/2022/05/11/business/economy-business/behind-kishida-plan-investment/>.

<sup>5</sup> How 'transitory' is Japanese inflation? *Nikkei Asia Market Spotlight*. <https://asia.nikkei.com/Spotlight/Market-Spotlight/How-transitory-is-Japanese-inflation>

and Welfare (specific figures are determined by prefecture authorities) amounted to the same 3 percent in 2021 and 2022 as in the 2015–2019 fiscal years<sup>6</sup>. In addition, in his statements at public press conferences, the Labour minister recommended matching planned increases with the possibilities companies have, without placing unjustifiably high demands on corporations.<sup>7</sup>

The same is true for regulatory innovations: Kishida's first cabinet's performance failed to show any plans for drastic changes in the regulatory system aimed at stronger control or re-distribution effect.

At the same time, the slogan of “new capitalism” did not disappear from the new leader's rhetoric even after it became clear that he had no plans for revolutionary changes in the economic and social policies. His speeches aimed at wide audiences, including international ones, still contain references to this concept as well as deliberations about the necessity of stronger re-distribution of income through fiscal tools, politically motivated involvement of underused human resources into the economy, stronger social and environmental responsibilities of businesses, etc.<sup>8</sup> Moreover, one can see hints at Kishida's ambitions and readiness to try on the role of a reformer, creator of a new strategy of responding to historical challenges the country faces and, as he puts it, “huge transformation of the liberal democratic society”. For example, when formulating major tasks for his cabinet, F. Kishida goes beyond

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<sup>6</sup> As Japan looks to raise minimum wage, firms say they'll struggle to pay it. *The Japan Times*. 01.07.2022. <https://www.japantimes.co.jp/news/2022/07/01/business/minimum-wage-hikes-companies-pressure>

<sup>7</sup> See, for example, the texts of the minister's speeches at press conferences placed on the Ministry's official site. [https://www.mhlw.go.jp/stf/kaiken/daijin/0000194708\\_00459.html](https://www.mhlw.go.jp/stf/kaiken/daijin/0000194708_00459.html)

<sup>8</sup> See, for example: F. Kishida's address to the participants of the World Economic Forum in Davos <https://www.weforum.org/agenda/2022/01/japan-new-form-of-capitalism-revive-economy/> and his speech before investment bankers in the London City in May 2022 (Transcript: Japan PM Kishida's speech in London), and others.

promises to change the regulatory system, taxation, and administration of budgetary expenditures, referring to the ambitious aim of building a society of “total participation,” where “the effort and contribution of everyone will be adequately assessed and rewarded”.

However, the new leader’s rhetoric is formulated on a rather high level of abstraction and does not transform into well-developed and meaningful official documents. As to the practical policies of the government and economic authorities (that also include central bank, as well as public and semi-public corporations functioning to support the economy), a great degree of continuity may be observed instead of the pledged turn to “new capitalism.”

### **Economic Policy: General Picture and Continuity as the Basic Premise**

This mostly refers to ***monetary policy***. Being a major element of economic policies, monetary policy has remained intact throughout the last decade, and the change of the prime minister did not alter it at all. The priority of the official line in this field, as it was before, is to ensure cheap loans through the targeted influence on the amount of liquidity (money supply) in the economy and interest rates on money markets.

The soft (or, rather, ultrasoft) monetary policy, characterized by keeping interest rates at the extremely low levels, has been more or less intact for the entire last decade. This line was clearly indicated by Kuroda Haruhiko, the Governor of the Bank of Japan, right after his appointment to the post in 2013 and was followed by him and his institution throughout the subsequent years. They made use of all mechanisms available to monetary authorities for this purpose: operations with government bonds in the open market; interest rates for accounts in the central bank held by commercial banks for reserves and other funds; and public statements by the Bank’s management meant to influence expectations of market participants (verbal interventions). A concerted and integrated effort was made to use these



instruments for keeping the borrowing costs in national currency at the lowest possible level and, therefore, exerting downward pressure on the yen exchange rate in the foreign exchange market.

The opportunity for such use was ensured, on the one hand, by the support of Abe Shinzō, who was the one to initiate this course in order to stimulate economic growth and minimize costs caused by the increasing huge national debt and the need to service it. On the other hand, it carried forward due to extremely low inflation and, in some years, even deflation in Japan's economy for this entire period, when the index of consumer prices showed low positive (below 2 percent in annual terms) or negative values.

Even the dauntingly sharp drop of the yen exchange rate in 2022, caused by the key rates of the central bank being kept at the near-zero level<sup>9</sup> against the background of raising thereof by the US and Eurozone financial authorities, did not compel the Bank of Japan to correct its policies. Even as business elite opinions divided over this persistence of monetary authorities, the Bank of Japan management found the exchange rate decrease an insufficient argument for changing key rates. Also insufficient was an argument of consumer and wholesale prices hikes in 2022: an increase of consumer inflation rates up to 2–3 percent (in annual terms) is considered by the Bank of Japan to be caused by non-monetary factors, primarily the rise of prices of raw materials in global markets and the disruption of logistic and production chains as a result of growing geopolitical tension.<sup>10</sup> In addition, given Japan's situation, this inflation is, as many experts believe, mitigated

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<sup>9</sup> In Japan, these are interest rates on the non-compulsory part of commercial banks' deposits with the central bank, that have a decisive impact on short-term money market rates, and the targeted level of yield of long-term government bonds traded on the secondary market maintained by the Bank of Japan. The head of the Bank of Japan had repeatedly, throughout the entire 2022, confirmed the intent to keep these indicators at the level of minus 0.1 and zero percent respectively (for ten-year bonds).

<sup>10</sup> Many reputable economists point to the larger role of non-monetary factors in the current global inflation rise, for example: [Rogoff 2022].

by the highly elastic demand of households, that respond to the price rise by reduced consumption.<sup>11</sup> Consequently, the Bank of Japan sees raising interest rates in these conditions as, at very least, useless from the viewpoint of preventing higher inflation, which, incidentally, was, in 2022, much lower than in the USA or the Eurozone.

There is still evident, ***as a whole, a positive attitude towards the weakening yen***, typical of the former prime minister's economic ideologists, especially at the first stage of formulating the principles of Abenomics. Although Kuroda Haruhiko, as well as the Ministry of Finance officials made public statements about possible negative consequences of such rapid depreciation of national currency, as it was in the summer and fall of 2022 (mostly having a negative influence on business environment predictability),<sup>12</sup> it did not arouse any special concern.

Official statements predominantly argued that sudden movements of the exchange rate and the speed of events might serve as a reason for anxiety, while the process of national currency depreciation per se, especially in the light of trade balance deficit due to the rising cost of imported primary goods, was regarded more as a positive than a negative phenomenon from the viewpoint of economic growth prospects. And although the government, as represented by the Finance Minister Suzuki Shun'ichi, promised to "take appropriate measures" in the event of further uncontrolled movement of the yen rate,<sup>13</sup> the central bank

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<sup>11</sup> How 'transitory' is Japanese inflation?

<sup>12</sup> See, for example, his statements on this issue at the meeting of the Budget Committee the House of Councillors on October 19, 2022 (Nichigin Kuroda sōsai: En'yasu "Kyūsoku katsu Ippouteki waga kuni keizai ni mainasu" [BOJ Governor Kuroda: Yen Depreciation "Rapid and One-sided. Negative to Our Economy"]. *NHK – kabuka kawase*. <https://www3.nhk.or.jp/news/html/20221019/k10013863601000.html>

<sup>13</sup> Yen weakness to ¥141 zone against U.S. dollar in new 24-year low. *The Japan Times*. 06.09.2022. <https://www.japantimes.co.jp/news/2022/09/06/business/economy-business/yen-dollar-141-level/>

made no attempt to correct it by raising rates on the internal money market. Moreover, Kuroda Haruhiko himself repeatedly emphasized in public that he did not consider the difference in interest rates the only reason for the decreasing yen exchange rate. As for attempts to make interventions in the currency exchange market,<sup>14</sup> they reflected rather the intention to soften short-term surges (or, using the official language, “remove excessive volatility”) than expectation of changes in the mid-term trend.

Another important issue for the continuity of the new prime minister's economic policy is his de facto **acceptance of the chronic deficit of the government budget** and, accordingly, further accumulation of the national debt. While at the very beginning of the “Abe era”, i.e., in 2013–2014, the government set the mid-term objective of balancing current government expenditure and revenues with the aim of attaining non-deficit ‘primary budget’ (i.e., the balance of budget revenues and expenditure without the cost of servicing national debt), this task was very soon put off, and later it was dropped completely from among the government's priorities. Apart from growing welfare spending, which was to a great extent associated with the unstoppable increase of the share of elderly groups in the structure of the population, attempts to stimulate economic growth with the help of budgetary expenditure inevitably resulted in the huge budget deficit covered by the issue of new government securities to be accumulated by the Bank of Japan.

As the new prime minister came to power, this situation remained unchanged. The focus is still not on the “improvement” of government finances, but rather on supporting of economic activity by budgetary mechanisms – “stimulus packages” of government aid to businesses.

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<sup>14</sup> These interventions were specifically reported in late September 2022. The Finance Ministry later stated that it had allocated over JPY 2.8Ts (USD 19.8 B) for September interventions See: Japan spent ¥2.84 trillion in September intervention to prop up yen. *The Japan Times*. 30.09.2022 <https://www.japantimes.co.jp/news/2022/09/30/business/financial-markets/japan-forex-intervention-total/>

Virtually all measures to support the economy which were discussed in 2022 were at least accompanied by pledges to channel additional funds from the budgets of the current and following periods into the economy, and often they merely consisted of nothing but such pledges. The consequences of the growth of government expenditure on programs to support various segments of production and consumption are still regarded as a secondary issue, while further accumulation of the national debt is seen as acceptable.

An extra impetus to the public debt increase was also given by the intent to raise military expenditure significantly, including an additional issue of state bonds designated specifically to ensure defense budget funding; this idea was finally developed during 2022.<sup>15</sup> Although relevant commissions at the party level plan to discuss possibilities of raising direct taxes on corporate and individual income, it is reported there is no consolidated opinion on this issue so far, and prompt changes are not to be expected here.

The third important issue of continuity in the economic course of the new prime minister's cabinets is the priority of **interests of business community** in making major decisions in the fiscal sphere. When defining support measures, the taxes on big business are still considered rather an object of possible tax cuts than a source of additional revenues for stimulating expenses. Despite the spirit of left-wing concepts, which see big transnational companies more as a threat than a locomotive for development, the major points of stimulus packages adopted already during the new prime minister's

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<sup>15</sup> The issues of these bonds are different from standard ones, as the sources for repaying them are recorded in advance: these can be, for example, revenues from raised excise taxes for tobacco goods and/or cancellation of some benefits in corporate income taxation. The particulars of such emissions and mechanisms of redemption are yet to be defined. See: Japan floats issuance of government bonds and higher taxes to cover defense costs. *The Japan Times*, 30.09.2022 <https://www.japantimes.co.jp/news/2022/09/17/national/politics-diplomacy/japanese-defense-budget-bonds-taxes/>.

term (in November 2021, April and October 2022<sup>16</sup>) and amounting to JPY 55.7T, 6.2T, and 39T<sup>17</sup>, respectively, testified rather to the intention to support private business as a whole than an attempt to strengthen regulation of big business in the interests of the government and society.

The first of these packages was quite comprehensive and set the task of recovering and boosting economic activity after the shock period brought about by the Coronavirus pandemic. The second one was to help neutralize the consequences of the rapid rise of energy prices, mostly of oil, and other key goods. Both contained obligations to support small and middle businesses that suffered from the reduced demand during

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<sup>16</sup> The texts of the relevant documents approved by the decision of the government on 19.11.2021, 26.04.2022, and 28.10.2022 are published on the site of the Prime Minister's Office. See:

Korona kokufuku shinjidai kaitaku no tame no keizai taisaku (Reiwa 3 nen 11 gatsu 19 nichi) [Economic Policy Measures to Overcome Corona and Open New Era (19 November 2021)]. <https://www5.cao.go.jp/keizai1/keizaitaisaku/keizaitaisaku.html> Koronaka ni okeru "Genyu kakaku butka kōtō nado sōgō kinkyū taisaku" (Reiwa 4 nen 4 gatsu 26 nichi) [Comprehensive Set of Emergent Policy Measures Related to Oil and Overall Price Hikes against Coronavirus Background (26 April, 2022)]. <https://www5.cao.go.jp/keizai1/keizaitaisaku/keizaitaisaku.html>

Butkadaka kokufuku keizai saisei jitsugen no tame no sōgō keizai taisaku (Reiwa 4 nen 10 gatsu 28 nichi) [Comprehensive Set of Policy Measures to Overcome Price Hikes and Rebuild Economy (28 October 2022)]. <https://www5.cao.go.jp/keizai1/keizaitaisaku/keizaitaisaku.html>

<sup>17</sup> It should be stated that part of the measures included in the "package" cost is already a component of previously adopted budgetary plans. Thus, the October package requires additional funding, which amounts to JPY 29.1T (Iwamoto, K., Take, S. Japan unveils \$200bn package to combat highest inflation in decades. *Nikkei Asia*. 28.10.2022 <https://asia.nikkei.com/Economy/Inflation/Japan-unveils-200bn-package-to-combat-highest-inflation-in-decade>

the Coronavirus pandemic in the form of subsidized (unsecured and interest-free) loans and guarantees from state financial institutions as well as subsidies used to partially compensate for the lost income, or, as it was provided for by the second package of measures, increased fuel costs. The largest part of the aid programs was limited both in time (several months, as a rule) and in the amount of aid available to the affected enterprises.

The third package, adopted in October 2022, is the most comprehensive one and provides for the allocation of significant funds to compensate for the growing costs of electric energy and fuel supplied to households and particular categories of enterprises; organizational, informational, and infrastructural assistance to businesses that actively use local resources; support of companies making investments in human, intellectual, and innovative assets, including startups; assistance to companies developing and using digital and “green” technologies.

Finally, one more element of continuity can be seen in the commitment **to encourage financial investments of economic entities**, including Japan’s households, which are prone to saving; this propensity increases as the share of older age groups goes up in the structure of the population. Since 2014, several schemes have been used to channel these funds into the stock market using the system of individual savings and investment accounts (Nippon Individual Savings Account, NISA); these allow tax exemptions for individual incomes received from investment in financial market instruments (not exceeding certain amounts).<sup>18</sup> Kishida Fumio repeatedly expressed intent to make this system permanent, as only 10 percent of consolidated personal savings, amounting to over 2 quadrillion JPY, are invested in traded financial assets. The government plan presented in November 2022 stipulates, along with making the program permanent, raising time and amount thresholds for the benefits applied. Although the prime minister himself links this to his concept of “new capitalism”, with its

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<sup>18</sup> These schemes are described in detail on the Financial Service Office site: <https://www.fsa.go.jp/policy/nisa2/about/index.html>

large stratum of middle-class asset owners, this is in fact contributing to the development of stock markets, predominantly in the interests of its operators and major actors, who had also enjoyed substantial attention of relevant committees and councils under the leadership of the ruling coalition before. No doubt, big corporations that are large-scale bonds and stock emitters will benefit from this as well. These corporations already managed to increase their capitalization dramatically in the previous decades, as well as improve environment for raising funds thanks to, in no small part, the soft policy of the Bank of Japan.

Thus, despite the expectations of some experts that Kishida Fumio would gradually dismount the system of monetary and budgetary stimulus for business, which was the basis of Abenomics, there have been no signs of movement in this direction so far. On the contrary, the predominant features of Kishida's first year in power, if judged by practical policies rather than slogans, are obvious continuity and caution, as well as the wish to complete those sets of measures that were planned and launched into the bureaucratic machine in the prior years.

In this connection, an interesting question is how the Cabinet, primarily its relevant part, sees the economy of Japan and opportunities of affecting it proactively for the next few years.

### **Economic Mid-Term Tasks: Government's Vision**

A review of official releases that appeared after the change of the ruling party's leader allows us to conclude that the state of the economy and expected behavior thereof correspond, as a whole, to the estimates made in the early and mid-2021. A major factor determining the change in the situation is regarded to be the impact of the coronavirus infection outburst and new waves of the disease, that are no longer accompanied by lockdowns but, nevertheless, impact consumption and production chains. The negative consequence is a significant reduction in consumption and private investments; the disruption of economic activity in 2020–2021, negative changes in consumer prices, and extra strain on public finances.

All of this, according to government economists, requires pursuing an active policy of activating deferred private demand, extra government expenditure on supporting economic activity, as well as moral support to individuals and businesses that look for ways to “coexist with Covid.” A major driver and basic condition of “sustainable growth” must be the recovery of private demand on the part of consumers and investors. As for the intensified redistribution of incomes within the “new capitalism” paradigm, it is regarded more as an opportunity created by sustainable growth than as its driving force or cause.<sup>19</sup> Granted, the economic growth and distribution of its results are considered as two complementary and mutually stimulating elements: “new growth is possible only as a result of [correct] distribution of the prior growth benefits.”<sup>20</sup>

The instruments for the recovery of private demand, as in the years of Abenomics, are invariably reduced deflation and “stimulating” budget appropriations. Among the latter, the especially conspicuous ones are expenses on the implementation of programmes promoting procurement of high-tech goods and services within the framework of concepts of “scientific and technological power,” “economic security,” and wide dissemination of digital platforms in accordance

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<sup>19</sup> The document postulating major provisions of the economic policy for the 2022 fiscal year formulates this thesis as follows: “The government commits itself to shape the strong basis for the economy and recovery of national finances. It is on this basis that Kishida’s cabinet will try implementing the new form of capitalism built on the concept of “mutually beneficial influence of economic growth and distribution of its fruits” and development of the “new post-covid society” (Reiwa 4 nendo no keizai mitōshi to keizai seisaku unei no kihonteki taido [FY2022 Prospects for the Economy and Basic Stance on Management of Economic Policy]. <https://www5.cao.go.jp/keizai1/mitoshi/2021/ro31223mitoshi.pdf>

<sup>20</sup> Reiwa 4 nendo no keizai mitōshi to keizai seisaku un’ei no kihonteki taido [FY2022 Prospects for the Economy and Basic Stance on Management of Economic Policy]. <https://www5.cao.go.jp/keizai1/mitoshi/2021/ro31223mitoshi.pdf>



with recommendations of the special government commission on digitalization.<sup>21</sup>

As for the supply side, the focus is mainly on two ideas:

- 1) measures to increase the supply of labor resources for the economy, in quantitative and qualitative terms, and
- 2) support of production and innovation activity in areas of (according to government economists) critical importance.

These areas are production of semiconductor components and electric power accumulators, as well as development and introduction of artificial intelligence technologies. It is suggested to apply direct subsidies and public-private partnership mechanisms in these areas. Concerning the issue of supplying more labor resources, the focus is predominantly made on more flexible employment schemes, including remote work, freelance institutionalization, and improvement of workforce professional mobility. This mobility is to be achieved through government funding of professional retraining programs for facilitation of inter-company and inter-industry migration.

As for measures to improve redistribution relations, the following priority areas are usually indicated: the above-mentioned pressure encouraging higher wages in the private sector and a corresponding increase of wages in the public sector; accelerated increase of labor remuneration for welfare workers and nursing staff; increase of welfare benefits for families including people in need of care, etc. In fact, the focus is on measures that are to result in, aside from solving some social imbalances and tensions, the stimulation of consumption and greater activity of economically disadvantaged groups of the population.

In addition, the authorities postulate mid-term and long-term approaches to the solution of complex tasks in the sphere of resource supply, infrastructure, economic safety, reduction of pressure on the

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<sup>21</sup> Instituted by the prime minister's decree in October 2021 as a special temporary administrative consultative body (dijitaru rinji gyosei chosakai: <https://digital-gov.note.jp/n/ne2e6281812b8>)

environment, and other fields, where budgetary funding for relevant programs (“packages of measures”) is planned for several years ahead.

### **Recent Changes and Potential Evolution of Economic Policy**

By the end of 2022, great changes had taken place in the general conditions of Japan’s economy’, primarily in external factors that influence it.

Firstly, it was a rapid rise of prices of energy resources in the first half of the year and general destabilization of many private commodity and food markets, triggered by the severe crisis in the relations between Russia and the collective West. Rising negative expectations about future developments made this destabilization acute, while its influence on Japan’s economy, initially quite insignificant, gradually started to be perceived as a long-term factor. This raised considerably, in the eyes of the political and business elites, the importance of the national energy policy in all its aspects – from stability of energy import sources to the role of nuclear energy in the future structure of Japan’s energy balance. The discussion of these issues and relevant decision making – from restarting the previously stopped nuclear reactors to preserving Japanese companies’ involvement in the Sakhalin-2 project – became a major component of the Japanese government’s political agenda.

Secondly, it had become evident that the US and EU economies, which represent a critically important component of the external environment for Japan’s economy, turned out to be affected by an outburst of inflation, reaching the levels that are a threat to welfare and growth. Inevitable anti-inflation measures in these countries, mainly focusing on tougher monetary policy, placed the Japanese authorities in a difficult position. On the one hand, aligning with the anti-inflation trends threatens to secure stagnation patterns, which government

economic authorities had been fighting in the recent years without a convincing victory. On the other hand, adherence to the benchmarks defined by Abe's first cabinet back in 2013–2014 begins to engender risks and problems that are more and more threatening in the new global environment. It is expected that 2023 will see a rapid rise in energy tariffs for businesses and individuals, even if no new destabilization of global energy markets and logistic chains takes place. A major drop of the yen exchange rate, associated, in this or that respect, as it has been mentioned above, with soft monetary policy, will inevitably result in higher prices for raw materials and other production costs in the domestic market, which producers will increasingly be passing on to consumers. There are evidently no guarantees that it will not reduce the demand once again, which the Bank of Japan is trying to support through its policies.

Meanwhile, anti-inflation measures taken by the current US administration include not only customer protection initiatives, but also subsidies and cheap loans to producers in a number of areas – alternative power engineering, production of innovative motor fuels, electric cars and others, as provided for by the US Inflation Reduction Act (IRA) passed in August 2022. These measures, creating additional competitive advantages for American producers in some promising fields, arouse concern not only among European corporations, but also among Japanese companies actively working in these areas.

Thirdly, all the above is associated with the concerns about a large-global recession, which may be brought about by the ongoing destabilization of production and logistical chains, as geopolitical risks are simultaneously increasing in several regions of the world. Although these concerns are formulated with a great degree of caution in official publications and cabinet members' statements, Kishida Fumio referred to those as major risks for the country's economy in his keynote speech at the opening of the Japanese Diet session in October 2022. If this scenario comes true, the consequences for Japan's economy will obviously be quite serious, given the high degree of its internationalization and dependence on foreign markets.

Under such circumstances, the focal points in the government's economic policy were somewhat rearranged. Although the hierarchy of priorities is tentative, one cannot but notice the evident increase of the role of **income policies**, specifically, measures of ensuring the rise of individual incomes as the main driving force of the desired economic recovery. In addition to the traditional narrative of salary increases, the above-mentioned keynote speech in October formulated the task of ensuring the “structural raise of labor remuneration” (*kōzōtekina chin'age*) through improving labor qualification. To accomplish this task, the government developed programs to finance labor retraining, for which 1 trillion yen were to be allocated in the next five years. The prime minister expressed hope that the self-sustained process of interdependent rise in the cost of labor and its quality would be launched through “investment in people.”

A more important move, in this respect, is the announced intent to promote the evolution of the labor remuneration system in the private sector towards its orientation on the content and quality of duties performed as opposed to the length of service in the company. In theory, this is to promote employees' interest in additional training as well as improving the quality and value of their work. However, this statement had been mentioned in earlier official programs, and it remains unclear how seriously the government will try to impose the desired changes on private business.

A relatively new point is a pledge to oppose big companies' attempts to sabotage the revision of contract prices for products made by small and middle suppliers of services and components in accordance with actual cost growth. The government sees the pressure exerted by big business on dependent subcontractors and partners to shift part of the general cost growth as a serious obstacle for an adequate increase in incomes in the sector of small and middle-sized enterprises.

The rationale of the focus on raising incomes also encompasses the prime minister's commitment to “protect” the weakest segments of business and households from the negative effect of growing energy

costs by subsidizing schemes for these costs developed by the Cabinet and announced as “resolute” and “unprecedented.”

Another important issue associated with the impact made by changes in the economic conditions in 2022 is ***a new perception of encouraging “investment for growth”*** as one of the priority areas in the government’s economic strategy. Given that all earlier formulated provisions on the encouragement of investment for innovations and promotion of economic “transformations” (“digital transformation”, “green transformation”) remain in the list of investment priorities, a greater role is now given to stable energy supply (including new nuclear energy technologies, which were not mentioned before) and economic security at the national and functional levels. Economic security presumes a higher priority of developments and investments aimed at reducing dependence on the import of essential production components, primarily semiconductors. In addition, cyber safety, sensitive data use, safeguarding of intellectual property and rights of its holders have come to the fore. As for the instruments of investment incentives capable of solving those tasks, they are the same: tax exemptions, eased regulation and special regimes, grants for research and startups, as well as government procurement of innovative services.

Finally, the last new aspect that can be mentioned in this connection is a ***removal of the national finance “recovery” from the official economic agenda***. Instead, the prime minister’s public statements, in which he describes major aspects of the future economic policy, emphasize intensification of public investment (*kan-no tōshi*) aimed at facilitating private investment. Sources of funding for the expected increase of government expenditure are presented as a subject for future consideration allowing for various scenarios, including more debt financing. As the Bank of Japan is the main financial institution accumulating government debt, the commitment to reduce the overall public debt is, apparently, not regarded as urgent for the foreseeable future.

## References

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