

Shinzo Abe: *The* **BY MILTON EZRATI** *Underachiever*

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Although Prime Minister Shinzo Abe has given renewed hope and purpose to the Japanese people, he needs to do still more. The country has deep structural problems that he has failed to address at all much less adequately, and these will hold Japan back until he does. To Abe's credit, he has at least alluded to these fundamental burdens, which is more than any of his predecessors have done. But allusions and rhetoric are one thing. Action is another. Japan needs something more substantive from its government.

Japan's fundamental reform needs, though complex and varied, fall under two broad headings. Number one is the acute demographic pressure facing the nation. Increased longevity and low birth rates have already brought Japan's population to the point where one person in five is of retirement age. The country has fewer than three people of working age available to support each retiree. This relative shortage of working hands and minds will only become more problematic in coming years. The second

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THE INTERNATIONAL
ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791 • Fax: 202-861-0790
www.international-economy.com
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broad area of fundamental concern is the country's economic growth model. It was devised decades ago to help Japan catch up to the rest of the developed world after the devastation of World War II. It has long since done that. Japan, whatever its recent disappointments, has become one of the world's most sophisticated economies. That model is no longer applicable. On both these fronts, the nation desperately needs action by Abe.

So far, however, the prime minister has focused elsewhere. His plan to revive Japan's long-stagnant economy has three elements, or "arrows," to borrow Abe's metaphor. The first of these is a massive infusion of financial liquidity into the economy by the Bank of Japan. The second is a massive program of government spending on roads, bridges, ports, and other aspects of economic infrastructure. The third arrow promises attention to these structural needs but actually consists of only the vaguest of policies. Abe loosed his first two arrows almost immediately after outlining his program. But his third, fundamental arrow, the most important

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of the three, has so far remained in his quiver, lacking either direction or even definition.

However much Abe has promoted his plan as novel, these first two arrows are little different from the policies that have failed Japan for more than twenty years now. The easy monetary policy may sound new, like a Japanese version of the quantitative easing used by the Federal Reserve, the Bank of England, and the European Central Bank, but at base it is little different from the policies used by Japan for over half a century. The flood of yen liquidity aims to promote Japanese exports by depressing the foreign exchange value of the yen and so the price of Japanese products on global markets. That promise no doubt explains why the stock prices of the country's major exporters jumped on the announcement. Monetary stimulus of this sort can have other uses, but in Japan's case, the currency link is unmistakable. Abe even referred to it during his election campaigning. Although this policy once worked well to propel Japan's economy, making it for a while the workshop of the world, its use now that one in

Old Policies in New Wrapping

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five of the population has ceased active production is questionable. Other versions of this tactic have, after all, failed for these last two decades.

The infrastructure spending even more closely resembles the failed policies of the past. Japan has relied on infrastructure spending as an economic stimulus for so long now that the country shares a standing joke about how all its rivers have concrete beds. This reliance on spending and its attendant financing burdens are why public debt outstanding in Japan has risen to over 250 percent of its GDP, by far the highest of any major nation. Meanwhile, the economic stagnation of the last twenty-plus years speaks loudly to its ineffectiveness. Perhaps even less appealing is the questionable motivation behind such spending. However effective as an economic stimulus, the Liberal Democratic Party, which has ruled Japan for most of the last sixty years and of which the current prime minister is the leader, has notoriously also used such spending to reward firms and regions that support the party. There is no reason to believe that the present party with the same tool is behaving any differently. Indeed, its

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willingness to raise consumption taxes and its offer to offset the ill effects on the economy with infrastructure spending is of a piece with such past practices—using taxpayer monies to pay off political debts.

While wrapping old policies in new packaging, Abe has done little more than talk about urgent structural reforms. It is not surprising. Efforts on this front require imagination, not the strong suit of the political class in any country. No doubt the vague expressions of how Abe will treat the issue signal how imposing the task is and how politically fraught. But the problems are real nonetheless, needed attention long ago, and need it even more so now. His other “arrows” will likely fail to hit their mark, as similar policies have for more than twenty years now, unless he moves on this need.

Needed effort to relieve demographic pressure is most obvious. The relative shortage of working-age people and the overhang of retirees already threatens to bankrupt Japan’s pension system. According to officials of Japan’s social security system, the overhang of retirees will by 2030 absorb almost 50 percent of the country’s GDP, an impossible financial burden.

The Iron Triangle

Japan’s present economic model worked well for the less developed economy Japan once was. Set up around what the Japanese call the “iron triangle”—a close cooperation between politicians, bureaucrats, and big business—it did a fine job of marshaling the nation’s economic resources to follow the lead set by more developed economies, the United States in particular.

But once Japan caught up with the West in the late 1980s, this arrangement began to fail. Without clear direction from more advanced economies, the iron triangle lost its bearings and knew not where to direct economic effort. What Japan needed then, and still does, was a more innovative economic culture, one that encourages hundreds or thousands of economic and technological experiments and then capitalizes on those that work. But because innovation almost always comes from startups and firms that challenge the existing business hierarchy, the iron triangle, particularly its big business side, has remained hostile to such a culture. Yet Abe has made no effort to modify, much less break, the iron triangle.

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Meanwhile, the relative shortage of workers will sap raw labor power from the economy with obvious implications for its growth potential and future prosperity. Questions are raised about Japan’s continuing efforts to remain a broad-based export powerhouse.

There are ways Abe can help relieve this pressure. Because of Japan’s xenophobic culture, immigration may not be an option, but the prime minister could advance policies to increase the relative supply of taxpaying, pension-contributing labor by encouraging longer working lives and by encouraging greater participation by women in the workforce. Japan actually has considerable potential in both these areas. In Japan, only 50 percent of working-age women participate in the workforce. (The figure in the United States is closer to 70 percent.) And though the Japanese are the longest lived people on earth, the country has a remarkably young average retirement age of sixty. But so far, Tokyo has offered nothing substantive to motivate either women or elders. Surely an alteration of Japan’s labor laws to ensure that women command equal pay to men would evoke a pro-work response, as would legislation to help with child care. Efforts to increase average and mandatory retirement ages could keep people on the job longer. But Tokyo has not even discussed such specifics, much less begun to implement them.

Japan could also alleviate its demographic pressures by reorienting its economy. Instead of relying on exports as an engine of growth, it could turn to consumer spending as an economic driver. Its superabundance of retirees would certainly tend to fuel such an engine. They may no longer produce, but they still consume. Of course, such an economic reorientation



During the cherry blossom season, the normally drab concrete-lined Meguro River in Tokyo comes to life. Japan has relied on infrastructure spending as an economic stimulus for so long now that the country shares a standing joke about how all its rivers have concrete beds.

would force Japan to import more, but the country can use that change to its advantage as well. By leaving to China and other emerging economies the simpler products and processes that require a lot of labor, Japan could tap youthful, eager labor forces abroad, even as those workers stay at home. To trade for these needed, labor-intensive goods, the country could use its advanced technology and well-trained workers to best advantage by re-focusing its domestic production to more complex, high-value-added processes and products. The change, of course, would require an increased emphasis on innovation training and capital spending, but Abe has said little on these fronts, much less done anything.

Efforts in this direction are that much more desirable because they also respond to the country's need to revamp its general economic model. The present one worked well for the less developed economy Japan once was. Set up around what the Japanese call the "iron triangle"—a close cooperation between politicians, bureaucrats, and big business—it did a fine job of marshaling the nation's economic resources to follow the lead set by more developed economies, the United States in particular.

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Perhaps it is too soon to dismiss the prime minister and his program. Perhaps he is well aware of what needs to be done. It is not as if people outside the government—academics, business managers, financial experts, and even some politicians—have not written and discussed these fundamental needs for years. Perhaps Abe recognizes that his last arrow requires the most political and social trimming before he can loose it. But until he does commit himself and his country to a convincing and concrete policy of basic reform, it is impossible to become too optimistic about Japan or its prospects. ◆