

An analysis of Japanese economic policy

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Abstract: This research paper examines the economic policies implemented by Japan over the past decade, focusing on the "Abenomics" framework, based on monetary policy, fiscal policy, structural reform, labor market reforms, and the current state of Japanese government debt. The study analyzes the impact and effectiveness of these policies in addressing Japan's economic challenges and fostering sustainable growth. In the context of "Abenomics," the paper explores the three arrows of monetary stimulus, fiscal measures, and structural reforms, studying their contributions to inflation, GDP growth, and income inequality. Furthermore, it explores the labor market policy adjustments aimed at enhancing job flexibility, increasing workforce productivity, and addressing demographic challenges. Additionally, the paper investigates Japan's current government debt situation, analyzing its implications for fiscal sustainability and the economy at large. Through an examination of relevant data, policy debates, and scholarly studies, this research paper aims to provide a comprehensive understanding of Japan's economic policies, their outcomes, and the challenges that lie ahead.

1. Introduction

Japan stands as one of the foremost economies globally and has significant international influence. Its economic size, developed industry and technological innovation make it a key player in the global economy. The decision to scrutinize Japan's economic policies emanates from an inherent fascination with this pivotal component of the global economic landscape. As the third largest economy in the world, Japan not only occupies a place in the global economy for its advanced industrial and technological innovation, but also attracts attention for its unique set of economic challenges, such as an aging population, chronic deflation, and labor market problems. The deployment of Abenomics, an innovative economic doctrine embraced by the Japanese government, has left an indelible mark not solely on the domestic economic fabric but has also exerted significant ramifications on the formulation of global economic policies. Furthermore, Japan's adeptness in sustaining its economic stature and international competitiveness amidst the tide of globalization, along with the instructive implications of its experiences for other nations, renders it a compelling subject warranting scholarly inquiry.

2. Research design

Japan has embarked on a series of significant economic policies over the past decade, primarily geared towards fostering economic expansion, curbing inflationary pressures, enhancing employment opportunities, and addressing persistent stagnation. This paper delves into the economic strategies implemented by Japan in this period and assesses their impact comprehensively.

Foremost among these policies is "Abenomics," introduced by Japanese Prime Minister Shinzo Abe in 2012, characterized by its tripartite approach known as the "three arrows" – encompassing assertive monetary easing, proactive fiscal measures, and growth-oriented structural reforms^[1].

The first arrow, involving the monetary policy of quantitative easing, sought to disrupt the cycle of economic constriction. In April 2013, the Bank of Japan announced an unprecedented "quantitative and qualitative easing" (QQE), driven by the depreciation of the yen to boost exports strong rebound, inflation, Abe came to power, the main attack on monetary policy, strongly require the Bank of Japan immediately open all printing machines, so that money flows into the market. The rationale behind quantitative easing lies in the anticipated reduction of deposit and lending rates, thereby stimulating household consumption, bolstering domestic demand, and catalyzing overall economic revitalization.

The second arrow entails an active fiscal stance, emphasizing heightened public expenditure, particularly in government-driven investments^[2]. Fiscal stimulus measures to stimulate domestic demand and investment, thereby boosting economic growth. Under the extremely loose monetary policy and fiscal policy, the Bank of Japan engaged in direct monetization by purchasing government bonds, effectively normalizing emergency measures akin to those employed by the United States.

The third arrow, centered on structural reform, encompasses the enhancement of policies across domains such as corporate governance, labor markets, and agriculture. Notably, the Japanese government opted to enact a reduction in the effective corporate tax rate by 2.4 percentage points, transitioning from 38% to 35.6%, effective from April 2014. At the same time, the consumption tax was raised from 5% to 8%. In addition, Japan has abolished decades of subsidies for rice production, allowed online sales of over-the-counter drugs, and and the liberalization of the electricity sector.

Labor-market reform constitutes another pivotal aspect of Japan's economic strategy^[3]. To address labor shortages and aging, the Japanese government has taken measures aimed at increasing the employment rate of women and the elderly. Concurrently, substantive reforms to labor legislation have been pursued to instill greater flexibility within the labor market framework. On the other hand, in order to solve the problem of Japan's growing national debt, the government has opted for a phased escalation of the consumption tax rate.

3. Data analysis

The above economic policies have made adjustments to various aspects of the Japanese economy. In order to visualize their effects, the following figures are presented in the form of charts in recent years. According to Figure 1.

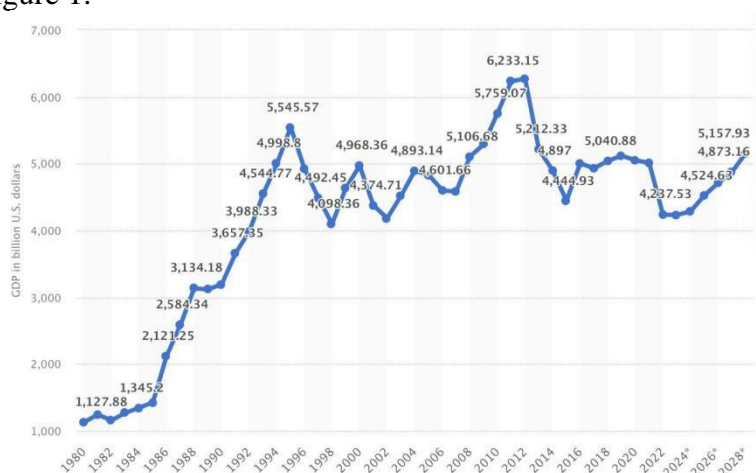


Figure 1. Gross national product

The data illustrates a discernible trend in Japan's GDP subsequent to the inception of Abenomics in 2012, wherein a decline ensued until 2016, followed by a resurgence^[4]. From the perspective of Japan's GDP performance, Japan's GDP growth rate reached 2.01% in 2013, and it never entered more than 2% in the following years, and negative growth again in 2019 and 2020. In terms of per capita GDP performance, due to the sharp depreciation of the yen, Japan's per capita GDP has also seen a sharp decline, from close to US \$50,000 before 2012, suddenly dropped to more than US \$30,000, and then slowly climbed. It is worth highlighting that during the 1990s, Japan's per capita GDP once surpassed that of the United States; however, presently, it stands at approximately half of the latter's.

Japan is confronting significant demographic challenges characterized by an aging population and a declining birth rate, leading to pronounced labor shortages. In response, there have been revisions to labor laws aimed at mitigating these shortages. According to Figure 2. Age ratio of the population.

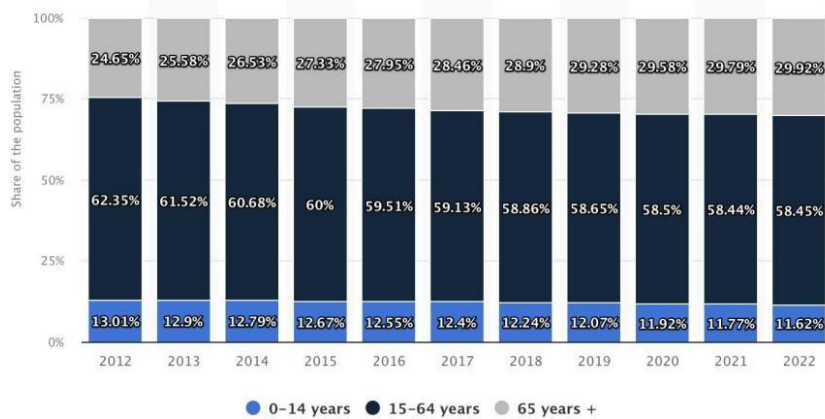


Figure 2. Age ratio of the population

Inflation, which had been rising since 2010, began falling in 2014 after the policy was implemented, boosting consumption^[5]. According to Figure 3.

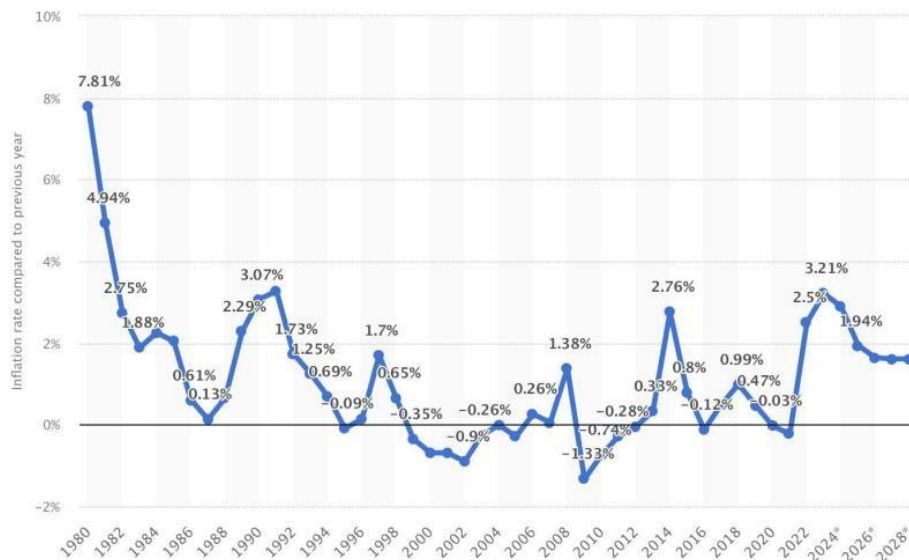


Figure 3. Inflation rate

Japan has the highest percentage of national debt in the world at 259.43% of its annual GDP^[6]. This economic predicament is rooted in a history marked by stagnation throughout the 1990s. According to Figure 4.

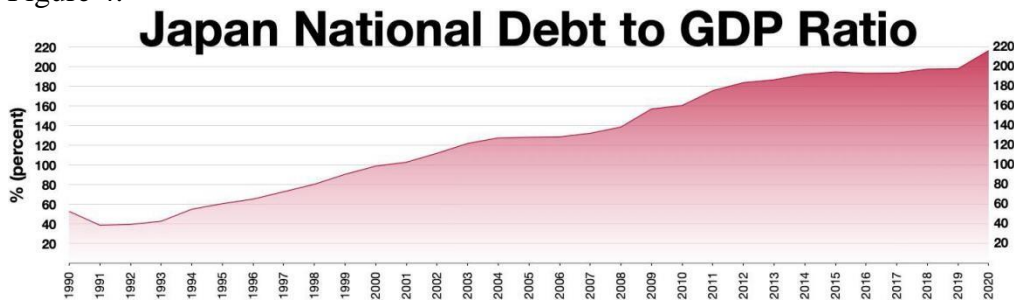


Figure 4. Japan National Debt to GDP Ratio from 1990 to 2020

While policy interventions were undertaken to revitalize the economy, they concurrently contributed substantially to the escalation of the national debt burden. Since that time, additional concerns such as the Great Recession of 2008, the 2011 Fukushima nuclear disaster, and the COVID-19 pandemic have compounded the challenges in addressing Japan's burgeoning debt crisis.

Monetary easing has sharply weakened the currency and boosted exports. Exports increased a lot from 2015 until 2018, when the outbreak began. According to Figure 5.

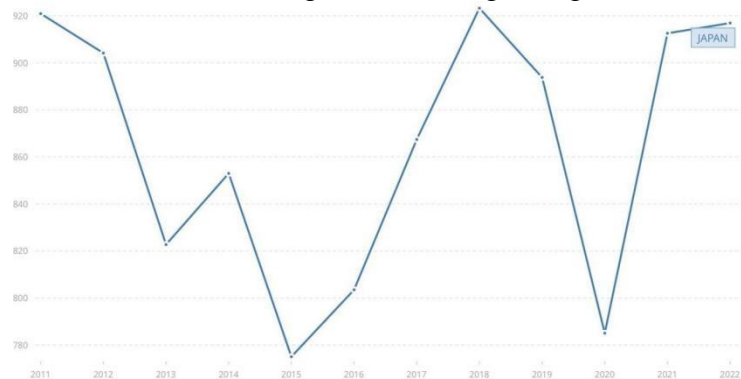


Figure 5. Export of goods and services (current US\$).

4. Findings

Abenomics has yielded favorable outcomes for Japan's immediate economic trajectory, yet enduring challenges persist over the long term.

Expansionary fiscal policy: It has effectively stimulated economic growth, curtailed unemployment, alleviated deflationary pressures, bolstered consumption, and incentivized investment.

However, it has concurrently engendered a reduction in the budget deficit through government spending cuts, potentially impeding future economic expansion. Moreover, waning consumer confidence, coupled with inherent time lags, presents additional complexities.

Expansionary monetary policy: -Increase money supply: central bank prints money, it controls over commercial bank's lending by credit regulation and purchase or sale of government bond. When money supply increase, people holds more money, consumption increase, output increase, employment increase.

-Interest rate decrease: saving benefit decrease, consumption increase, the cost of borrowing decrease, consumption increase.

-Lower exchange rate: domestic goods become relatively cheaper, then export increases.

Nonetheless, the deleterious effects of yen depreciation on domestic purchasing power cannot be overlooked. The aggressive quantitative easing measures undertaken by the Bank of Japan, involving the direct purchase of government bonds, have precipitated a substantial escalation in Japan's overall debt burden. Notably, the proportion of government debt held by the Bank of Japan has surged, exacerbating macroeconomic policy dilemmas and curtailing the feasibility of interest rate hikes, despite looming risks of stagflation. The burgeoning fiscal crisis further exacerbates concerns, as escalating corporate profits fail to sufficiently offset the burgeoning fiscal deficit stemming from the government's relentless expansion of public investment.

5. Conclusion

Overall, Abenomics has yielded short-term economic revival in Japan, characterized by heightened domestic consumption, expanded exports, and increased employment opportunities. But it has also precipitated adverse consequences, notably a decline in GDP and exacerbated long-term challenges regarding national debt sustainability. The nuanced impact of Abenomics on Japan's economic terrain offers insights into the innovative strategies deployed, the attendant challenges encountered, and the enduring implications of this policy framework. Furthermore, it furnishes a significant perspective for comprehending the broader application of economic policy on a global scale. Moreover, it provides a significant perspective for understanding the broader application of economic policy on a global scale, thereby offering valuable insights into its implementation and implications worldwide.

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