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The Political Economy of the Abe Government

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1.1 Introduction

The government of Shinzo Abe, which ruled Japan from 2012 to 2020, represents an important turning point in Japanese politics and political economy. Abe became the longest-serving prime minister in Japanese history, reversing a trend of short-lived leaders. But his government stands out not only for its longevity but also for its policies: Abe implemented a variety of significant changes, among the most important being a series of economic reforms to reinvigorate Japan's economy under the banner of "Abenomics." In this introductory chapter, we provide a broad review of the Abe government and its policies and point out several apparent puzzles that motivate the volume.

We argue that the Abe government is the clearest manifestation of a new Japanese political system that represents a full transition away from the 1955 system. The new system is characterized by a strong prime minister with centralized authority, careful management of public opinion, the strategic use of elections for party discipline, and a focus on policies with broad, popular appeal. Abe utilized and strengthened Japan's new political institutions to implement significant policy changes across a wide range of issue areas, including monetary and fiscal policy, the labor market, corporate governance, agricultural reforms, and national security.

The first two "arrows" of Abenomics ("bold monetary policy" and "flexible fiscal policy") were expansionary macroeconomic policies that sought to normalize Japan's economy by bringing an end to persistent deflation. To implement "bold" monetary policy, Abe appointed Haruhiko Kuroda as governor of the Bank of Japan (BOJ), and the BOJ engaged in an unprecedented expansion of its balance sheet. "Flexible" fiscal policy meant that the government pursued fiscal expansion to stimulate the economy while being mindful of fiscal

prudence. Thus, fiscal policy also turned more expansionary, but the government raised the value-added tax (VAT) rate in April 2014 as the starting point for fiscal consolidation in the long run. The VAT rate was scheduled to be raised again in October 2015, but less-than-stellar economic growth prompted the government to postpone the tax hike twice before it was finally enacted in October 2019. During Abe's tenure, deflation came to an end, and, until the 2020 coronavirus disease (COVID-19) pandemic, the Japanese economy grew relatively consistently. Nonetheless, the 2 percent inflation rate target, which was supposed to be achieved in two years, remained unattained even after seven years, and the goal of raising nominal GDP to 600 trillion yen by 2020 was out of reach even before the pandemic.

Many economic reforms were included in the third arrow of Abenomics, also known as "growth strategy to promote private investment." Here, Abe pursued various industrial promotions and a host of structural reforms to increase Japan's potential growth rate. Among other things, Abe's government sought reforms in unproductive sectors such as agriculture; deregulation of the electricity distribution market; promotion of innovation and entrepreneurship, especially in promising industries such as artificial intelligence (AI), robotics, and healthcare; "womenomics" policies to empower women in the labor market; other labor market reforms to establish "work-life" balance; corporate governance reform; and attempts to open up Japan to the rest of the world, including participation in the Trans-Pacific Partnership (TPP) and the promotion of inbound tourism and inward foreign direct investment. The reforms were first packaged in the growth strategy that was announced in June of 2013. The emphasis on various economic reforms changed over time as the growth strategy was revised annually.

In foreign policy, Abe's approach represented a mix of nationalism and pragmatism. This was a surprise to many foreign observers who initially reacted with consternation to Abe's ascendance, fearing he would pursue a revisionist agenda and exacerbate tensions with regional neighbors (Oros 2017, pp.129–130). Abe faced international criticism when he visited the controversial Yasukuni Shrine in 2013, and conflicts over history issues with South Korea intensified after 2017, when President Moon Jae-in rose to power. However, Abe's foreign policymaking largely reflected a pragmatic approach, constrained by both geopolitical and domestic realities, such as the continuing rise of China and the electoral codependence of the Liberal

Democratic Party (LDP) on the more moderate Komei Party (Liff & Maeda 2019). Among other things, Abe refrained from visiting Yasukuni Shrine after 2013, negotiated an agreement with South Korea on compensating comfort women in 2015, became the first Japanese prime minister to visit Pearl Harbor in 2016, and pursued diplomatic rapprochement with China (see Chapter 17). After the victory of Donald Trump in the 2016 US presidential election, Abe pursued a “bromance” foreign policy that established himself as one of the president’s closest foreign counterparts.

Abe orchestrated important shifts that built on long-term evolutionary trends in Japanese security policy (see Chapter 16). These included several major legislative victories: secrecy legislation in 2013 to facilitate greater intelligence sharing; security legislation in 2015 that allows the Japan Self-Defense Forces (JSDF) to engage in collective self-defense under limited circumstances; and anti-terrorism legislation in 2017 that increases the government’s domestic surveillance authority. The Abe government reversed a decade-long decline in Japanese defense spending, which reached postwar highs after 2015. The Free and Open Indo-Pacific (FOIP) vision, developed by the Japanese Ministry of Foreign Affairs, was embraced by the Trump administration during Abe’s tenure, though the substance of FOIP remained somewhat vague and contested (Hosoya 2019).

Several of Abe’s personal priorities proved elusive. Revision of the Japanese constitution was a long-standing goal for Abe, and his large Diet majorities created an unprecedented opportunity. However, Abe struggled throughout his tenure to galvanize sufficient political and popular enthusiasm for the idea (McElwain 2020). Despite considerable efforts, Abe also ultimately could not make progress on the issue of North Korea abductions of Japanese citizens or conclude a peace treaty with Russia.

Abe’s government also invited significant controversy. Abenomics reforms came under fire for a variety of shortcomings, such as stagnant consumption growth (Chapter 6), lack of significant inflation despite unprecedented monetary expansion (Chapter 7), and inadequate attention to climate change (Chapter 15). Journalists assailed Abe’s heavy-handed approach toward the media, particularly liberal news outlets such as Asahi (Fackler 2016). The Abe government adopted an assertive approach toward international organizations despite widespread criticism, withdrawing from the International Whaling Commission

and threatening to pull funding from UNESCO over its handling of the Nanking Massacre (Lipsy 2020). The government’s security legislation invited large-scale protests from civil society groups fearing entanglements in military conflicts and potential violations of human rights.

1.2 Puzzles

The track record of the Abe government raises some intriguing puzzles for scholars of Japanese politics and political economy. First, how was Abe able to remain in and exert power for so long? After Koizumi, Japan saw a revolving door of six prime ministers come to power and follow a predictable pattern of collapsing approval ratings and resignation within about a year. Abe himself was among these short-lived prime ministers, lasting only a year in 2006–2007. What was different in 2012? Figure 1.1 shows lower house election results for the Japanese Diet from 1986 to 2017. Abe won three consecutive landslide victories in the lower house – in 2012, 2014, and 2017 – which saw his LDP and coalition partner Komei capture about two-thirds of total seats. The

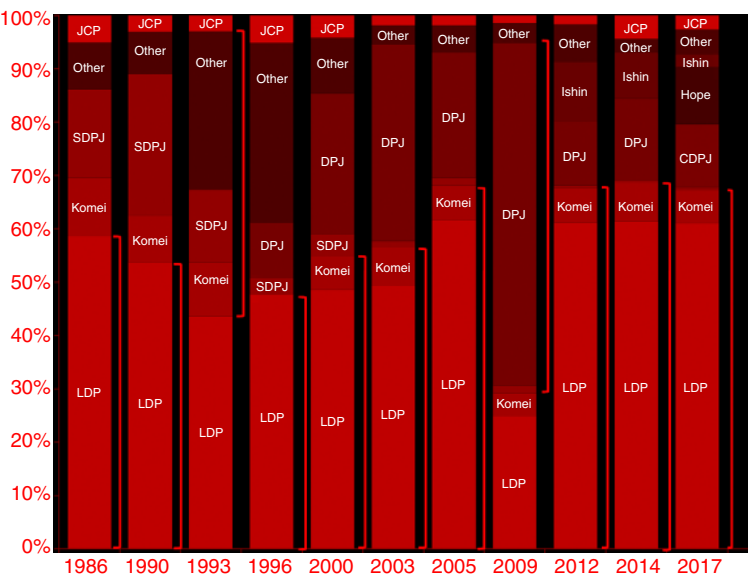


Figure 1.1 Election results in the Japanese lower house, 1986–2017

magnitude of these victories is comparable to the 2005 election under Koizumi, which was considered a historical landslide at the time (Kabashima & Steel 2007). How was Abe able to win decisive victories with such reliability and frequency?

Second, how was Abe able to overcome intraparty divisions that bedeviled governments of his predecessors under both the LDP and Democratic Party of Japan (DPJ)? Prime ministers of both parties struggled to reconcile the conflicting priorities of reformist politicians, primarily drawn from urban districts, and conservatives representing rural districts. In contrast, Abe successfully marginalized potential opponents within the LDP, such as Shigeru Ishiba, and faced limited internal challenges. One illustration of this is Figure 1.2, which shows the passage rate of legislation submitted to the Diet from 1980 to 2019, separated by cabinet-submitted legislation and legislation submitted by lawmakers. The DPJ government was characterized by an unusually low passage rate of cabinet-submitted legislation and a high passage rate of non-cabinet legislation, reflecting internecine conflict within the party (Kushida & Lipscy 2013). In contrast, the Abe government saw

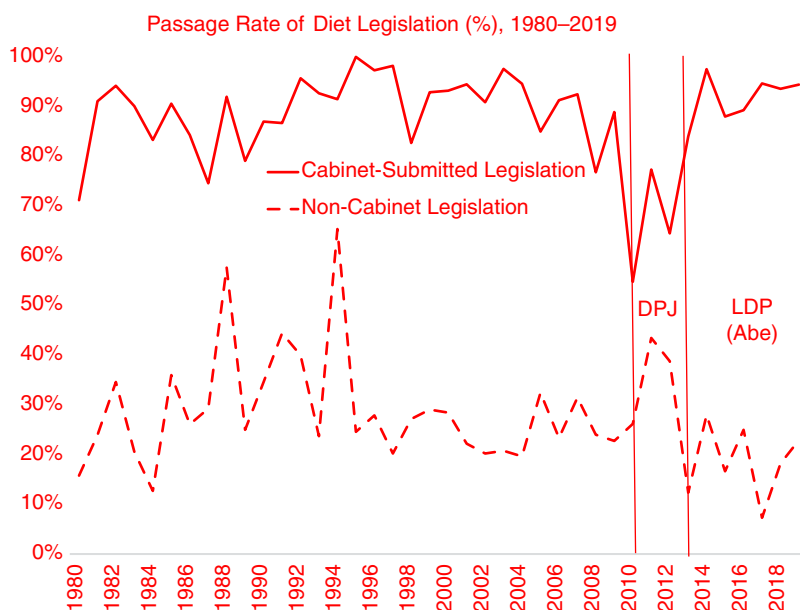


Figure 1.2 Passage rate of Diet legislation (%), 1980–2019

the passage rate of cabinet-submitted legislation recover, and non-cabinet legislation fell to historically low levels. The Abe government maintained meaningful discipline vis-à-vis backbenchers despite its large majorities.

There are also interesting puzzles related to the economic policies of Abenomics. First, despite extremely expansionary macroeconomic policy, especially monetary policy, why did economic growth and inflation remain low? The targeted inflation rate of 2 percent, which was supposed to be reached quickly by 2015, was not achieved even five years later. Economic growth remained below the target growth rates of 3 percent in nominal terms and 2 percent in real terms. Although Japan may have escaped deflationary conditions, the recovery was less impressive than many expected given the unprecedented size of the macroeconomic stimulus.

Second, despite continued concerns about mounting government debt, why was the government able to roll over the existing debt and issue new debt with higher prices (i.e., lower yields) without a credible prospect for fiscal consolidation? The second arrow of Abenomics (flexible fiscal policy) was supposed to be fiscal expansion in the short run combined with a clearly specified path for fiscal consolidation in the long run. Fiscal expansion was implemented, but fiscal consolidation proved more challenging. The consumption tax hike is a good example. After the tax rate was increased from 5 percent to 8 percent in April 2014, another tax hike from 8 percent to 10 percent was planned for October 2015. It was postponed twice and only went into effect in 2019.

Third, how was Abe able to implement some structural reforms in areas such as agriculture and the labor market, which were characterized by entrenched resistance in the past? For example, Abe systematically undermined Japan Agricultural Cooperatives (JA), part of the LDP's traditional support base, while pursuing the TPP – eventually enacted as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after US withdrawal – which included significant reductions in agricultural protection (see Chapter 14). Many LDP politicians feared a repeat of the 2007 upper house and 2009 lower house elections, when Ichiro Ozawa took advantage of rural alienation with the LDP to guide the DPJ to major victories in the countryside (Lipsy 2017). Why was Abe willing to gamble rural support to pursue agricultural reforms? Conversely, why were reforms

less ambitious in other areas, such as climate change policy, promotion of inward direct investment, policies to increase corporate entries and exits, and measures to encourage fluidity of the labor market?

1.3 A New Japanese Political System

Abe's government represents the culmination of political reforms in Japan since the mid-1990s, which fundamentally altered the Japanese political system. It is now appropriate to characterize Japan as operating under a new political system that represents a full transformation from the 1955 system, which ended in 1993. The following characteristics are defining features of this new political system.

First, electoral reform in 1994 shifted the incentives of Japanese lower house politicians from particularism – the narrow targeting of pork to organized supporters – to broad appeal to the Japanese median voter. The consequences of these reforms are well known.¹ Japanese political leaders now face considerable electoral incentives to pursue economic reforms that enhance macroeconomic growth and increase the prosperity of Japanese households at the expense of traditional, organized interest groups.

Second, bureaucratic scandals and administrative reforms since the late 1990s have shifted political authority from traditionally powerful ministries – such as the Ministry of Finance (MOF) and the Ministry of Economy, Trade, and Industry (METI) – to politicians, particularly the Cabinet Office of the Prime Minister (Estevez-Abe 2006; Takenaka 2006; Mulgan 2017). Expansion of the administrative capacity of the Cabinet Office also elevated the authority of the prime minister vis-à-vis backbenchers, who previously exerted influence in specialized policy areas (Schoppa 1991). The personnel of the Cabinet Secretariat expanded by more than three times since 2000. Abe's Cabinet Secretariat came to employ about 3,000 officials, a doubling since the Koizumi years and comparable to the staff of the Ministry of Foreign Affairs (see Chapter 2).

Third, the Japanese upper and lower houses are governed by distinct electoral rules, which creates significant challenges for Japanese political parties. The upper house is still largely governed by the traditional SNTV-MMD (single nontransferable vote, multi-member district) system, with a strong rural bias due to an emphasis on prefectural districts and the tendency for sparsely populated rural

districts to become decisive, single-member districts. Furthermore, the upper house has nearly co-equal authority, requiring a two-thirds lower house majority to override its decisions. The need to appeal to very distinct constituencies in each house contributes to two patterns in recent Japanese politics that stymie policymaking. The first is divided government or a “twisted Diet,” in which different parties control each house. The second is intraparty conflict, in which a party successfully captures majorities in both houses but becomes internally divided. This incongruity proved particularly challenging for the DPJ, which drew from a primarily urban support base while incorporating Ozawa’s traditionalist approach to appeal to rural areas (Lipsky 2017).

Fourth, prime ministers are critically dependent on high public approval ratings in order to maintain party cohesion. The primary leverage Japanese prime ministers can exercise vis-à-vis backbenchers within their party is the threat of withdrawing official support during national elections. This threat is not credible when the prime minister is unpopular and hence unable to implicitly threaten an early election. Japanese prime ministers therefore have strong incentives to maintain their popularity with the general public. Abe maintained relatively robust public approval ratings during his tenure, averaging slightly below 50 percent according to polling by NHK (Nippon Hoso Kyokai), in the same range as Junichiro Koizumi (51.4 percent), the only other prime minister to enjoy longevity in recent years.² All other recent prime ministers had lower average approval ratings and stepped down when their approval ratings sank to around 30 percent. This contrasts to prime ministers under the 1955 system, who routinely remained in power despite average approval ratings in the 30 percent range, such as Kishi, Sato, Tanaka, and Nakasone. This creates an additional impetus to support policies that appeal broadly to Japanese voters.

1.4 Taking Advantage of Japan’s New Political Institutions

Japan’s institutional transformation began in the 1990s, but Abe is the first prime minister who established a stable governance structure that has some chance of replication by future prime ministers. As Abe himself noted, “it is true that prime ministers are in a strong position under a single-member district electoral system. However, it is not

unconditional strength: if prime ministers were unconditionally powerful, my first administration would not have ended in one year.”³

Two previous governments that emerged after the 1990s appeared to mark the beginning of a new era in Japanese politics: the 2001–2006 Koizumi government and the 2009–2012 DPJ government. Koizumi’s tenure exhibits some similarities to Abe’s. His rule was buoyed by strong public approval, and he implemented consequential changes, including transportation sector reforms and the privatization of the postal savings system (Kabashima & Steel 2007; Reed, McElwain & Shimizu 2009). However, his leadership style, which relied on personal charisma and sought to “destroy the LDP,” was defined by internal conflict within his own party. Koizumi’s approach could not be replicated by subsequent prime ministers. This included Abe himself, who succeeded Koizumi in 2006 only to become the first in a string of six prime ministers who lasted for only about one year each.

The DPJ came to power in a historic lower house victory in 2009, marking the first decisive electoral defeat of the LDP by an opposition party (Lipsky & Scheiner 2012; Kushida & Lipsky 2013; Funabashi & Nakano 2017). However, the DPJ struggled to implement meaningful reforms due to persistent internecine conflict and resistance from the Japanese bureaucracy. The party also lost control of the upper house in 2010, making it difficult to pass legislation in a “twisted Diet.” In other words, prior to Abe, Japan’s new political institutions were not associated with a clear and replicable governance model.

The Abe government broke this trend. Unlike Koizumi, Abe ruled as a political insider, largely eschewing public attacks on his own party or the bureaucracy. Abe also maintained party discipline and cohesion despite the LDP’s large majorities in both houses of the Diet, a marked contrast to the Koizumi and DPJ governments. A popular view of the second Abe government is that it stood out for competent management and discipline centered on a core group of officials in the Cabinet Office, particularly Chief Cabinet Secretary Yoshihide Suga.⁴ However, many of the governance practices implemented under Abe were practical measures that could be adopted by future governments. This section briefly reviews what Abe government officials believe they did differently compared to previous Japanese administrations.⁵

The second Abe government was supported by a relatively stable core group of close advisors surrounding the prime minister. Abe brought back many officials from his first tenure, most notably Yoshihide Suga,

Hiroshige Seko, Katsunobu Kato, and Seiichi Eto among politicians and Takaya Imai, Eiichi Hasegawa, Hiroshi Suzuki, and Motoya Nakae among former bureaucrats.⁶ Suga and Imai played a particularly out-sized role as respectively chief cabinet secretary and executive secretary to the prime minister. These officials developed close relationships with Abe during his first administration and remained loyal even after Abe resigned (Hoshi 2014, p.176). Imai attributes his close relationship with Abe in part to the fact that his uncle had worked directly under Nobusuke Kishi, Abe's grandfather, when the latter was minister of commerce and industry under the Tojo government in 1941 (Oshita 2017, pp.52–53).

These close advisers to Abe note that the lessons from the first Abe government in 2006–2007 were critical in shaping their management style during Abe's second tenure as prime minister. Abe himself has publicly stated that learning from the mistakes of his first tenure was key to his second prime ministership.⁷ Furthermore, many of the reforms that would be implemented under the banner of Abenomics after 2012 were developed within the prime minister's Council of Economic and Fiscal Policy (CEFP) during Abe's first tenure as prime minister (Chapter 5).

1.4.1 *Managing Public Opinion*

Officials close to Abe sought to manage public opinion to consistently maintain the prime minister's popularity at a high level. This included initiatives to buoy Abe's public approval (primarily by focusing on economic reforms under the banner of Abenomics), a careful strategy to time and selectively pursue policies unpopular with the general public, and a media strategy that sought to minimize political fallout from negative news events. This focus on public approval reflected perceived lessons from Abe I, during which Abe's public approval rating plummeted quickly, triggering internal discord within the LDP, a major upper-house election loss, and Abe's resignation.

Abenomics was designed by the Abe administration to enhance macroeconomic performance and appeal to the reformist inclinations of the general public. Abe saw Abenomics as a defining feature of his government and credited his success in enacting controversial legislation, such as the secrecy and security laws, to strong public support underpinned by his economic policies. Suga similarly characterized the