

SHINZO ABE

Japan economy changed course with Abe's policy: U.S. economists

'Abenomics' remembered for stemming deflation spiral and promoting women's role



"Abenomics has been a truly revolutionary policy," said Adam Posen, president of the Peterson Institute for International Economics. © Reuters

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NEW YORK -- Japan's former Prime Minister Shinzo Abe, who was shot and killed Friday, spent most of his tenure battling the country's long-lasting deflation and low growth, and left his footprint with his flagship economic policy known as "Abenomics."

That policy consisted of three arrows -- working with the Bank of Japan to promote ultra-loose monetary policy, bold fiscal stimulus and structural reforms.

Economists and consultants in the U.S., in their interviews with Nikkei, recalled his initiative as a successful one -- at least in changing course for a Japan suffering from deflation at the time.

David Weinstein, professor of economics at Columbia University, told Nikkei that one of the reasons that made Abenomics' three arrows so successful was its promotion. Abe implemented the strategy with "his communication skills by stating that there were these three objectives to policy."

"He helped to focus the debate on what Japan's problems were and how to help Japan," Weinstein said, adding that "he gave people a sense of optimism and a sense of purpose."

Weinstein said it was also important that Abe "had reached out to prominent economists and tutored himself in the policies. So it wasn't just a slogan."



David Weinstein

He said Abe choosing Haruhiko Kuroda for the governor of the Bank of Japan was "a real watershed moment in Japanese monetary policy because Governor Kuroda was really dedicated to pulling Japan out of deflation."

"And he [Kuroda] largely succeeded," Weinstein added.

As for the second arrow, fiscal stimulus, Japan's "situation was difficult," he said, and "it was tricky to manage the taxes as well." But Weinstein gave credit to Abe as "he did enable Japan to successfully navigate this, this fiscal situation," despite all of the worries that people had about a fiscal crisis ensuing.

Weinstein said the third arrow, structural reforms, was the most important and "also the most difficult to deal with," because it is "not really a single policy, but a large bundle of policies."

"A few things really stand out, for me in that structural reform, and the first is womenomics," he said. Abe "did try in many ways to promote women, whether it was through cabinet appointments or increasing the number of women hired by government bureaucracies."

Weinstein also acknowledged that Abe had said "there's a limit to how fast you can make a country change," so that "he clearly wanted to push this but he also couldn't push it too much, because he didn't want to lose the election."

Weinstein said Abe's death won't "have that big an effect" on foreign investors, as he was already two years out of the prime minister position, and that "Japanese politics is very stable" at the moment. "Prime Minister [Fumio] Kishida is a very competent prime minister, and seems to be doing a lot of good things," he added.

Adam Posen, president of the Peterson Institute for International Economics, is another economist who thinks Abenomics was successful.

"Abenomics has been a truly revolutionary policy," he said. "Mr. Abe was able to demonstrate that a democratically elected leader could take on special interests, look to the long term instead of just reacting to the short term, and still get reelected."



Adam Posen

Posen explained that Abe's long-term vision and its successful implementation have changed people's perceptions of Japan. "It was an extraordinary change in the sense that it showed what is possible for other high-income democracies, such as the U.S. and the U.K., could do by looking outward," he added.

Posen said with Abenomics, "there was a commitment to back up the Bank of Japan and to promote responsible fiscal policy as well, to lead the country out of deflation and into relation." He admitted that, "This did not fully succeed," but went on to say "if monetary and fiscal policies had remained the same, I think the Japanese economy would have fared much worse."

And as the Japanese yen weakens -- to a level not even seen during Abe's tenure as PM -
- Posen is optimistic about the impact of the softening currency on Japan's economy.

"I have said for many years that the impact of a weak yen on inflation and the Japanese economy is much smaller than people have thought. This is being proven clearly by the current weak-yen phase without high inflation or wage growth," Posen said.

Abe's death, in Posen's view, "is more likely to affect monetary policy than fiscal policy," as the BOJ's Kuroda is expected to step down next spring. "I do think there is an opportunity for PM Kishida to change the direction of monetary policy when he appoints a new governor and other policy board members. But I hope he does not change the BOJ policy too radically," he said.

"If he allows the BOJ to continue with the current monetary policy, I think Japan will probably reach the inflation target," Posen added.

Posen said that over the last 10 years since Abe became prime minister for a second term, "Japan has done better than the U.S. and its peers. Output fluctuated little, average unemployment was low, there was no ongoing deflation, and interest rates remained low." He also mentioned that the labor force, especially among women, has increased.

Looking ahead, "I would like to see more adjustments in the tax system to further increase the equality of women in the labor force," Posen said. "I would like to see more foreign investment in Japan, improved corporate governance and more transparent recording and monitoring, which was part of Abe's agenda."



Tracy Gopal

Tracy Gopal, founder of Third Arrow Strategies, named her business after the former prime minister's policies. Third Arrow Strategies is a consultant company dedicated to strengthening board composition by promoting women's participation and effective engagement between Japanese companies and global investors. She told Nikkei, "I want to see Japan thrive and I believe that these policies are critical to Japan's revitalization."

"These policies were the source of inspiration for everything that I do each day," she said.

Gopal acknowledges that targets for the percentage of women on boards set by the Gender Equality Bureau in 2015 were not met five years later, nor were the goals for putting women in senior positions in all areas of society. But she also said, "I speak with women and companies [in Japan] each day and I know that there is a deep transformation underway."

"I have confidence for meaningful change and believe Japan will now achieve the 2030 targets," she said.

Gopal said "The implementation of the corporate governance code has had a tremendous impact on Japan." She said that with regard to board independence and recognition of shareholder value, there is no comparison to a decade ago.

"Yes, of course Japan is not there and there is much work to do," she added. "However, because of the former prime minister's policies, there is a roadmap for what needs to be done. With each year, corporate governance is improving, and I strongly believe these improvements will continue to stimulate the Japanese economy."



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