
Mizuho Economic Outlook & Analysis

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Abenomics' Second Stage: “Dynamic Engagement of All Citizens”

< Summary >

- ◆ In September, Japanese Prime Minister Shinzo Abe unveiled new programs as the centerpiece of the second stage of his Abenomics policy to realize the “Dynamic Engagement of All Citizens,” while also promoting three new policy “arrows” - strong economy, childcare supports, and social security - to achieve this target.
- ◆ The first arrow - a strong economy with a gross domestic product of 600 trillion yen - involves the new Abe Cabinet taking bold but steady steps to carry out the economic growth strategies previously mapped out, such as reforms to raise the productivity of Japan’s economy and improve work patterns.
- ◆ The targets of the second and third arrows – boosting the birthrate to 1.8 and eliminating the need to leave work to provide nursing care – are lofty ambitions. The Plan to Realize the Dynamic Engagement of All Citizens is expected to be formulated by next spring, and effective measures should be adopted to accomplish these goals.

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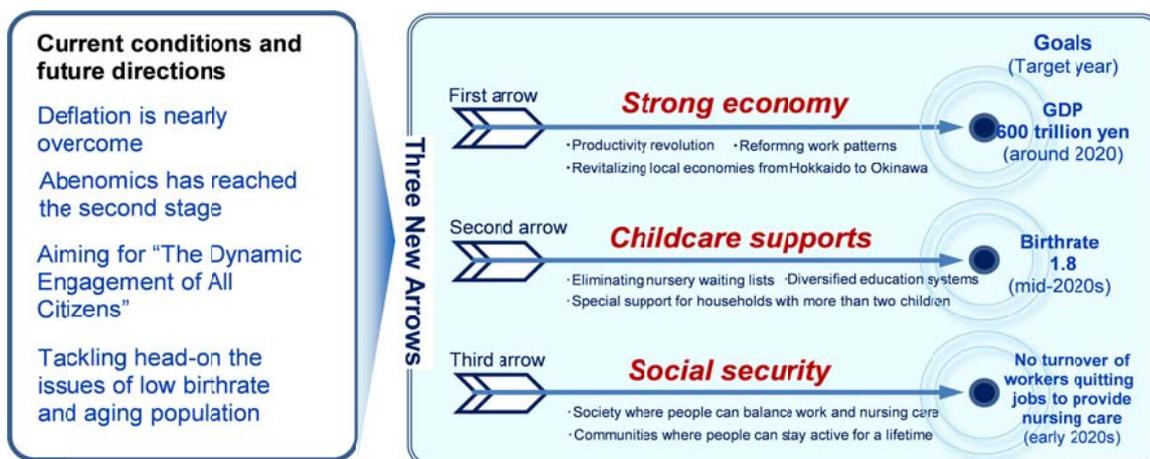
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Three new policy “arrows”: strong economy, childcare supports, and social security

After reelection as president of the ruling Liberal Democratic Party at the general meeting of members of both Houses on September 24, 2015, Prime Minister Shinzo Abe announced at the press conference that he would continue to focus his administration on the economy, while tackling the serious issues of the nation’s falling birthrate and aging population. He also introduced his new policies as the centerpiece of the second stage of Abenomics, namely, to achieve a society that “Promotes Dynamic Engagement of All Citizens,” through the three new policy arrows of a strong economy that gives rise to hope (expanding the nation’s GDP to 600 trillion yen by around 2020), dream-weaving childcare supports (raising the birthrate to 1.8 by the mid-2020s), and social security that provides reassurance (achieving zero turnover of employees leaving work to provide nursing care by the early 2020s). (See **Chart**)

Chart: Three New “Arrows” of the Second Stage of Abenomics



Source: Made by MHRI based on “Press conference by Prime Minister Shinzo” (September 24, 2015) retrieved from the website of the Liberal Democratic Party of Japan, etc.

The Abe administration’s previous three key pillars referred to policy measures consisting of bold monetary policy, flexible fiscal policy, and a growth strategy that encourages private sector investment. But this time, the three new arrows, as Abe himself acknowledges, focus more on his policy goals. The measures (arrows) taken to achieve these goals (targets) will largely depend on the abilities of Katsunobu Kato, who was

appointed the newly established Minister in Charge of Promoting Dynamic Engagement of All Citizens following the Cabinet reshuffle on October 7, 2015. Under Kato's leadership, a series of meetings of the National Council for Promoting the Dynamic Engagement of All Citizens will be held in November 2015 to draw up urgent measures to attain the three policy targets, and a comprehensive policy package "The Plan to Realize the Dynamic Engagement of All Citizens" will be compiled by next spring.

Of the three arrows, the first target of attaining GDP of 600 trillion yen has been frequently criticized as unrealistic. But if the Abe administration can meet its target of 3 percent nominal growth, GDP will rise to roughly 600 trillion yen in the early 2020s, which suggests that Prime Minister Abe may merely be expressing the same goal in a different way. A basic prescription for boosting Japan's economic growth is included in the existing Japan Revitalization Strategy, which was revised in 2015. Based on this scheme, it is essential to implement productivity enhancement programs that encourage investment in fixed capital, technology, and human resources, while taking bold but steady initiatives to promote reforms, such as regulatory reforms to maximize the potential of business activities and workstyle reviews undertaken jointly by the public and private sectors. These approaches are expected to be further discussed to reaffirm the future direction of the government's policies.

No easy task to prevent employees from leaving jobs to provide nursing care

More challenging goals for Prime Minister Abe's new policies are the second and third arrows of childcare supports and social security. First, with regard to social security, employees who quit work to provide nursing care for elderly parents are growing in number to around 100,000 people each year. Left unattended, this problem will dampen Japan's economic growth in the future. In this respect, the target set by the Abe Cabinet – zero turnover of employees quitting work to provide nursing care – seems appropriate. However, his announcement of increasing the number of nursing care facilities appears to contradict his existing policies. In recent years, the government has promoted a comprehensive local care system, where the elderly are provided with around-the-clock doctor house calls and visiting care, allowing seniors to live a sustainable life in close-knit communities while minimizing the establishment of new facilities.

In addition, the rapid expansion of nursing care facilities will not solve the problem without sufficient numbers of caregivers. One way to deal with the chronic shortage of professional caregivers is to improve the wage system by substantially raising their monthly income, which is approximately 100,000 yen lower than the average in Japan's entire industrial sector; but it will not be easy to find additional funds to cover the

expenditures. Meanwhile, balancing work and nursing care requires companies to promote flexible workstyles, allowing employees to take family care leave more easily and to work from home, which makes it all the more difficult to dramatically improve the situation through government initiatives alone. All things considered, addressing these nursing care issues is clearly no easy task, but it is important to see how the government will come up with highly effective policies to achieve the goal of zero turnover of workers leaving their jobs for reasons of nursing care.

Develop plans that can be measured for effectiveness

For the second arrow of childcare supports, the Abe administration has set the target of lifting Japan's birthrate from 1.42 in 2014 to the desired level of 1.8 by the mid-2020s. This desired level of birthrate can be achieved if the government meets the needs of the younger generations who currently struggle to balance work, marriage, and childcare. In order to reach this level, Prime Minister Abe has proposed a range of child support programs, including eliminating nursery waiting lists, expanding free preschool education, and providing support for households with more than two children. These programs, however, have either already been initiated or proved ineffective due to the lack of funds. Note also that there is a time lag between the rise of the birthrate and the time in which children reach working age. With the older population continuing to expand over the next 25 years, the financial burden on the working-age population will become even harder to bear with the increase of children. On this account, it is often pointed out, especially by overseas media, that Japan cannot overcome this rapid population decline unless the nation accepts human resources more actively from abroad.

Prime Minister Abe has laid out his long-term vision for stabilizing Japan's population at 100 million in 50 years, while introducing policy goals that look five to ten years ahead. The willingness to address these challenges is worthy of commendation, but there is still a long way to go, with the risk of Prime Minister Abe's goals being used as a pretext for securing temporary budgets or even being forgotten with the passage of time. In drawing up "The Plan to Realize the Dynamic Engagement of All Citizens," it is vital not only to promote effective measures but also to provide a road map which can verify the effectiveness of these policies in the future.