
Mizuho Economic Outlook & Analysis

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Policy issues facing the Abe administration after the Upper House election

The ruling coalition has secured a stable policy foundation

< Summary >

- ◆ In the Upper House election held on July 10, the ruling coalition won a substantial majority of the contested seats. There is no doubt that the Abe administration has secured a stable foundation, and the question is whether it can take advantage of the favorable election results in its policy management.
- ◆ In the short term, it is imperative that the government launch effective measures to improve the current economic situation amid rising uncertainties. From a medium term perspective, the administration will be required to create an environment where the consumption tax hike will definitely be implemented, after having postponed the tax hike to October 2019.
- ◆ The long term issue toward the 2020s is to bring forth a new vision able to respond to such issues as Japan's aging society and declining population. Given a stable policy foundation secured by the recent election results, now is the time for the Abe administration to formulate a drastic reform plan.

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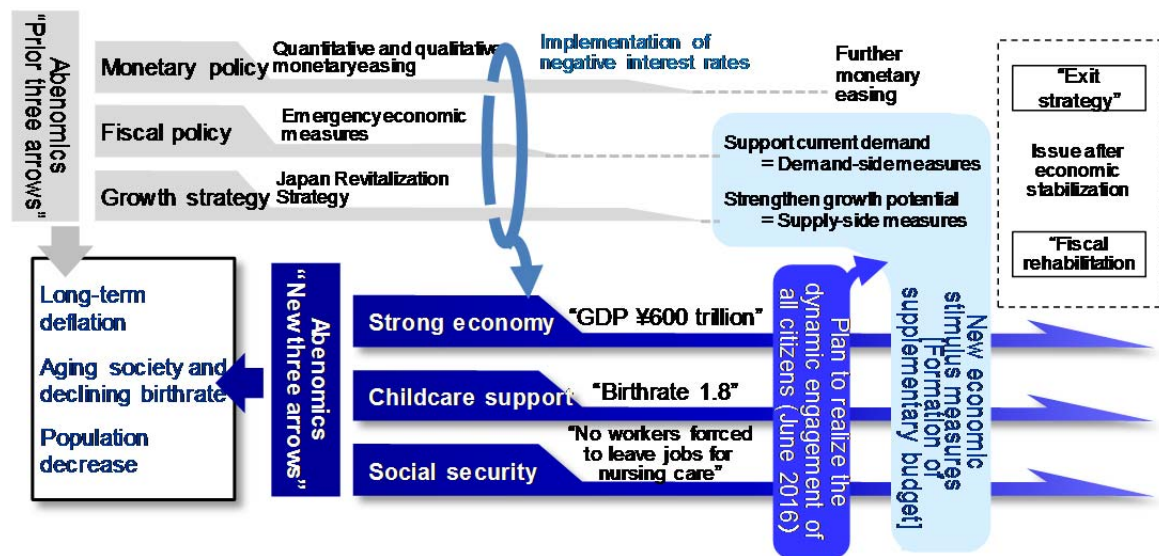
In the July 10 Upper House election, the ruling Liberal Democratic Party and its coalition partner Komeito gained 70 seats, winning a significant majority of the 121 contested seats. Despite headwinds of the rising yen and stock market fall amid the heightening risks of global economic slowdown, Prime Minister Shinzo Abe achieved his goal of securing a majority of the Upper House seats, signifying the public's support for the continuation of "Abenomics" (a policy which includes the "three arrows" of monetary easing, fiscal stimulus and structural reforms, along with various other measures toward building "a society in which all citizens are dynamically engaged" as shown in **Chart 1**). One of the main topics of the election this time was the lowering of the voting age to 18 from 20. According to various survey results covered by the media, the ruling coalition stood to gain a substantial number of votes from young voters. Although some see a "silver democracy" at work in which the elderly generation tends to have a larger voice in politics, the expansion of the voting age may have failed to serve as a significant impact upon the political landscape due to the absence of a political party advocating policies targeting the young generation.

In any case, the Abe administration has secured a stable policy foundation in both the Lower and Upper Houses, and the question is what kind of policies will the current administration be able to materialize under such favorable circumstances.

Important policy themes in the short, medium and long terms

Here we extract the Abe administration's future economic policy issues from short, medium and long term perspectives following the Upper House election. The looming issue over the next one to two years is how to address the rising uncertainties in the domestic and global economy. Prime Minister Abe ordered the formulation of economic stimulus measures immediately after the Upper House election, and new policies are scheduled to be approved by the Cabinet in early August. In the extraordinary Diet session this autumn, a supplementary budget bill is expected to be submitted to implement these economic measures.

Chart 1: Policy development centering on Abenomics' three arrows (new and old) and economic stimulus measures



Source: Made by MHRl.

Since the uncertain economic outlook is one of the reasons behind the postponement of the consumption tax hike originally scheduled in April next year, economic measures possessing immediate effect are required. Attention is also gathering around the FY2017 budget bill which will be drawn up at the same time this fall. Meanwhile, as for deliberations on legislative measures, the approval of the Trans-Pacific Partnership (TPP) Agreement – constituting one of the Abe administration’s growth strategies – and the conclusion of related bills must be realized quickly.

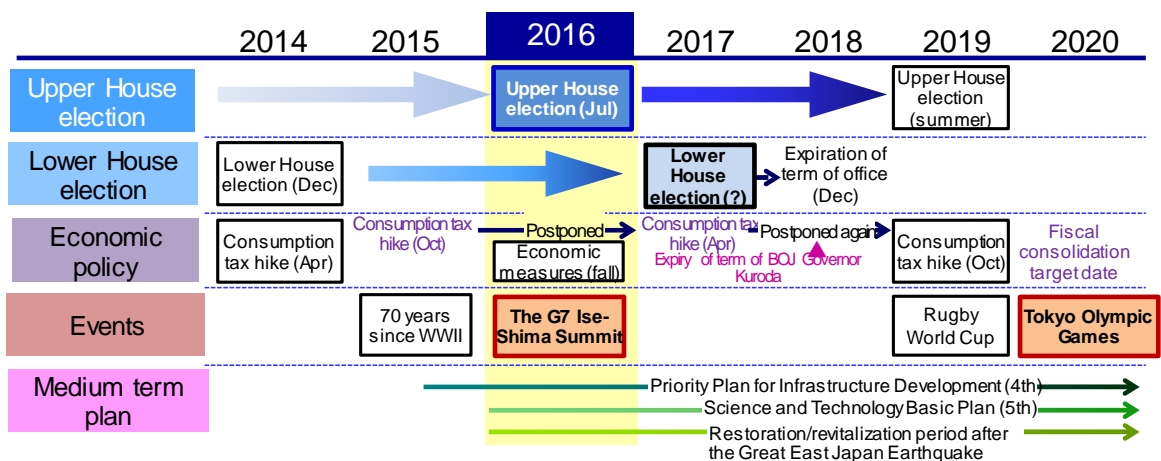
Next, we shall turn to issues over the medium term up to 2020 (Chart 2). The first issue is the creation of an environment to ensure smooth implementation of the consumption tax hike, which has been postponed to October 2019. Given that the tax hike has been postponed twice, it is crucial that definite steps be taken to achieve the fiscal consolidation target (to achieve a primary balance surplus) set for 2020. The formation of a virtuous cycle in which the improvement of corporate earnings leads to the rise of consumer spending through the increase of household income should be realized by coordinated government-management-labor efforts. Moreover, various medium term plans have been started in effect from the current fiscal year (FY2016) targeting 2020, such as the Priority Plan for Infrastructure Development, the Science and Technology Basic Plan, and Restoration and Revival following the Great East Japan Earthquake. Given that many of the key performance indicators (KPI) in the Abe administration’s growth strategy (Japan Revitalization Strategy) have set the year 2020 as their goals, attention will focus upon the actual implementation of various economic

stimulus measures to achieve these targets. In addition, it is necessary to realize the steady progress of preparations for the 2020 Tokyo Olympic and Paralympic Games.

Finally, long term issues refer to challenges subsequent to 2020. As Japan’s “baby-boom generation” reaches their late seventies from the 2020s, Japanese society will enter a full-fledged ageing of its population. Any delay in implementation of the Abe administration’s initiatives to realize “a society in which all citizens are dynamically engaged” may serve as risks to the stability of Japanese society. The Abe administration must promote social security system reform and build a structure that can withstand the nation’s rapidly aging society. Countermeasures against demographic decline are also important. In addition to labor-saving initiatives such as the use of robots, the acceptance of foreign workers must also be examined. The creation of a vision that involves drastic reform envisioning the future is an issue that needs to be addressed, especially when the government enjoys broad public support.

Current developments in the US and Europe reveal a widening division in the direction of society sought by citizens, indicating the intensification of “centrifugal forces” in the political arena. The Abe administration, which has been able to maintain its “centripetal force” in the latest Upper House election, has the responsibility to address various issues from short, medium and long term perspectives to activate the economy and stabilize the society.

Chart 2: Medium term schedule of major political events and policy implementation



Source: Made by MHRI.