

# Japan Again under Abe – Fresh Start or More of the (not so Great) Same?

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February 2015 Asia Policy Brief 2015 | 01

After Japan’s snap Lower House elections called on December 14 by old – and now new – Prime Minister Shinzo Abe, it will hopefully be the former, but probably the latter. This is the very opposite of what Abe promised would happen after his two-year tenure, which included many missed opportunities to adopt badly needed economic reforms capable of leading the country back onto a path of sustainable economic growth. While the jury is still out on whether Abe will focus this time around on economic reforms as opposed to attempts to boost the country’s defense profile and get rid of Japan’s constitutionally prescribed pacifism, his (very) nationalist and at times revisionist political track record suggests that it could be the latter yet again.

## Bad Old LDP Power Politics

This is what US-based Japan scholar Brad Glosserman argues happened in Japan last December. “The government’s difficulties reflected the failure of its policies – for no reason other than their inability to deal with problems – yet the prime minister called an election to get a mandate to press ahead with more of the same,” he writes. The prime minister’s very own explanation of why he called elections is even more to the (cynical) point. “The trick to staying in office for a long time is to hold repeated elections over short intervals. But you need to win those elections,” he said in early December. Yet Japan does not need “tricks,” but the kind of economic and structural reforms Abe promised

two years ago. Calling snap elections as opposed to using the majorities the LDP already had in both chambers of the Japanese parliament to adopt the economic and structural reforms promised since 2012 is arguably an expression of political helplessness at best and incompetence at worst.

Indeed, the first thing Abe talked about after the election victory was the LDP’s allegedly “cherished and decades-old wish” of revising Japan’s US-“imposed” constitution, when constitutional revision is arguably the last thing Japan needs. “Imposed,” as the constitution was drafted by US occupying forces in 1946. Its revision – in order to make a “truly independent” country out of Japan

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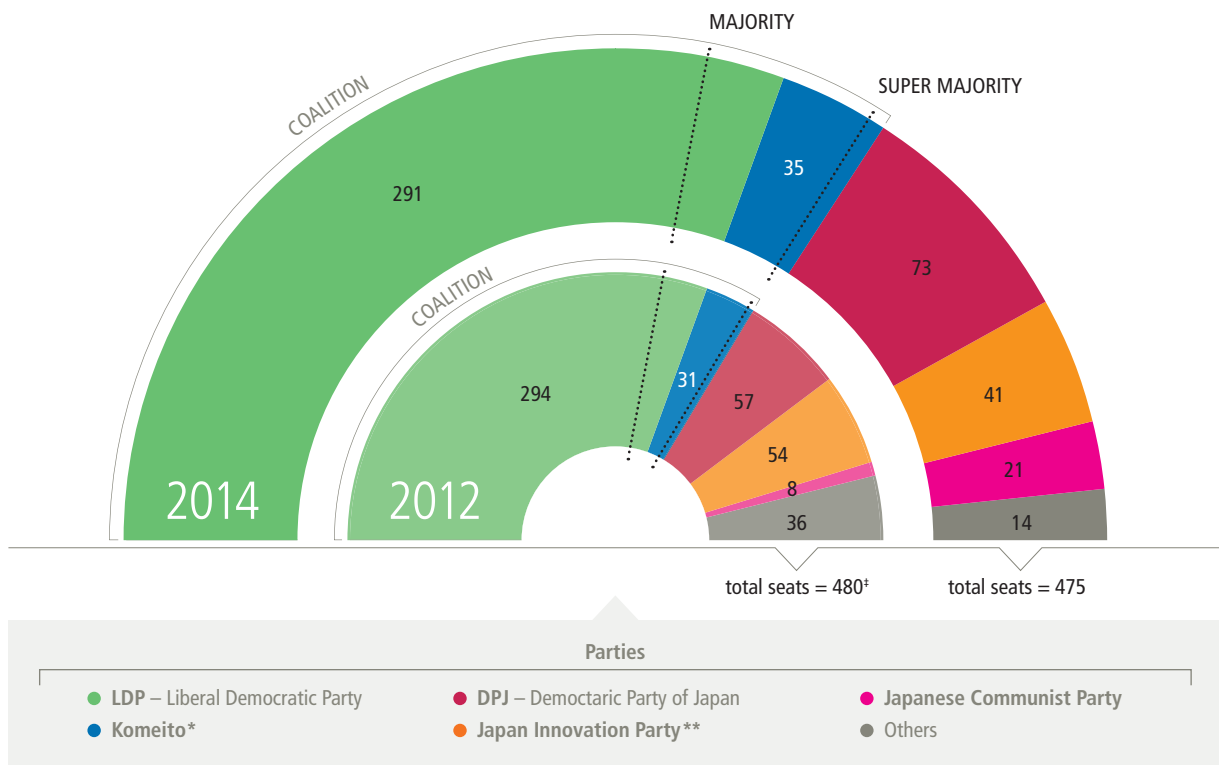
once again, as Japanese revisionists and nationalists put it – has indeed been an officially declared LDP policy goal since the party was founded in 1955. “Cherished,” since this is what Abe and Japan’s like-minded nationalists and revisionists want, as opposed to the vast majority of the Japanese people. Speaking of like-minded: Gen Nakatani, a former (very) hawkish general of Japan’s Ground Self-Defense Forces and newly appointed minister of defense, is very much in agreement with Abe on constitutional revision. Article 9 of the Japanese constitution, he thinks, is “out of touch with reality.” As will be shown below, how-

ever, the real non-starter on Tokyo’s policy agenda in the months and years ahead will most probably be Abe’s plan to revise the constitution.

### A Landslide Victory?

At first sight, yes; looking a bit closer, not really. The LDP and its coalition partner, the Komeito, originally a pacifist party with ideological and financial roots in the Buddhist sect Soka Gakkai, won 326 seats, increasing its majority in the Lower House by one seat. At 326 seats in the Lower House (of 475 seats in total), that is nine seats more than

Figure 1: General-election results 2014 and 2012 – Lower House seats



\* New Komeito in 2012 \*\* Japan Restoration Party in 2012

<sup>†</sup> The difference of five seats from 2012 to 2014 is due to electoral changes. Some party seats were also reallocated over this period.

Source: NHK – Nippon Hoso Kyokai (Japan Broadcasting Corporation)



needed for a 317-seat two-thirds majority, a so-called “super-majority,” in the first chamber of Japan’s parliament (Figure 1). That enables the LDP-led coalition to nominate of all of the Lower House committee chairs while giving it a majority in every legislative committee. Furthermore, it enables the governing coalition to override legislative vetoes in the Upper House (or House of Councilors, the second chamber of the parliament). At first sight this looks like the LDP has achieved a very impressive landslide victory over the main opposition party, the Democratic Party of Japan (DPJ), which won just 73 seats. A closer look at the results, however, tells a slightly different story. Election data published by *The Tokyo Shimbun* show that the LDP won 75 percent of the seats in single-member districts with just 48 percent of the vote. That means the LDP won a greater number of seats with an ever shrinking number of votes, i.e. it took 223 district races with 1.8 million fewer votes than it received in 2009 (when it was defeated by the DPJ).

While the LDP-Komeito coalition won one overall additional seat, the LDP alone lost four seats and now has 291 representatives in the parliament’s first chamber (down from the 295 it had in 2012).<sup>1</sup> Japan’s Communist Party (JCP) – roughly the Japanese equivalent of a European-style “protest party” – increased the number of its seats in the Lower House from 8 to 21. While the JCP will not be able to influence day-to-day politics more than it was able to do with its eight seats, the increase is nonetheless noteworthy as it is an expression of protest against LDP policies. What’s more, only slightly more than half of Japan’s electorate bothered to go to the polls. The turnout was just 53.3 percent, compared to 60 percent in the 2012 elections when the LDP won its first landslide victory over the DPJ. While the low turnout benefited the LDP’s well-organized rural vote-gathering machines, it is also, as Mari Miura, professor of political science at Sophia University in Tokyo concludes in an interview with the *Financial Times*, the result of the electorate’s apathy towards and disillusion with

politics – the kind of apathy the LDP was able to count on from 1955 to 1993, when it governed Japan without interruption. “The absence of a credible alternative to the LDP made the electorate give up on political participation,” Miura says. Indeed, Japan’s main opposition party was caught in a state of complete disarray and, despite winning an additional eleven seats in the Lower House and increasing its total from 62 to 73, the DPJ is only a shadow of its former self when it beat the LDP back in 2009.<sup>2</sup> As a sign of its weakness, the DPJ was able to run candidates for only 60 percent of the 295 available single-member seats. Japan’s opposition in general and the DPJ in particular were even too weak to exploit the fact that Abe’s economic policies produced two quarters of negative economic growth. De facto, that leaves Japan without real political opposition, recalling Japan’s bad old days as a “one-party democracy” when the LDP ruled the country from 1955 to 1993. It has been either that or what Gerald Curtis calls the “2014 system,” i.e. a powerful prime minister and Prime Minister’s Office and a weak party and LDP factions, which have traditionally been very influential, taking turns nominating (and controlling) the country’s prime minister.

### Reforms at Last?

A return to sustainable (as opposed to temporary) economic growth supported by quantitative easing on the part of the Japanese central bank should finally become part of Tokyo’s agenda. Admittedly, that is easier said than done as Japan technically slipped back into recession late last year. Economic data published in October indicated that Japan’s GDP shrank by an annualized 7.1 percent in the second quarter of 2014. Data from November 17 are a little better (although not good), showing that the economy also contracted an annualized 1.6 percent in the third quarter of 2014. Furthermore, a rise in Japan’s consumption tax (i.e. value-added tax) in April led to a sharp drop in consumer spending and a retreat of inflation. Core inflation has fallen to below 1 percent since September 2014. While postpon-

<sup>1</sup> Figure 1 shows the LDP holding 294 and not 295 seats, as the speaker of the Lower House, the Liberal-Democrat Bunmei Ibuki, is not counted as a “normal” parliamentarian due to his officially non-partisan position.

<sup>2</sup> Figure 1 shows the DPJ holding only 57 seats. From 2012 to 2014, the DPJ received five additional seats due to a reallocation of parliamentary seats. The number of its seats in the Lower House increased from 57 to 63.



ing a second consumption-tax increase until 2017 is expected to counter a further drop in domestic consumption, it also has a downside. The increase was meant to reduce the country's enormous public debt, which amounts to a staggering 250 percent of GDP (Figure 2).

The government's envisioned reforms include the issuing of visas to foreign construction and healthcare workers and the expansion of Japan's childcare structures and facilities to enable more women to re-enter the workforce after childbirth. Compared to their counterparts in Europe and the US, far more Japanese women give up full-time jobs after the birth of their first child, and fewer go back to work full-time when their child reaches school age. Recent research suggests that if Japan were able to achieve the level of full-time female employment of Italy, for example, it could add 15 percent to its GDP. To increase female employment, Abe has announced a series of reforms dubbed "Womenomics." These reforms include the provision by 2020 of childcare centers sufficient for 300,000 children, the obligation for listed companies to disclose the number of female executives by March 2015 and revision of the tax and social security system to encourage women to re-enter the labor market when their children reach school age. Furthermore, Abe has announced that by the end of the decade 30 percent of all managers in Japanese companies should be women. The government has also announced plans to abolish the current spousal tax deduction system, which offers tax relief if the low-income spouse's salary does not exceed 1 million yen a year. The current system has encouraged married women to stay out of the workforce, and the reform will offer tax deductions to the spouse with the higher annual income. With 14 million people currently covered by the system, the potential boost to the nation's workforce could be significant.

And then there are Japan's ambitions to join the Trans-Pacific Partnership (TPP), the regional free-trade agreement involving Japan, the United States, Australia and nine other countries. While Japan's TPP entry is, as the prime minister puts it, "imminent," he chose not to men-

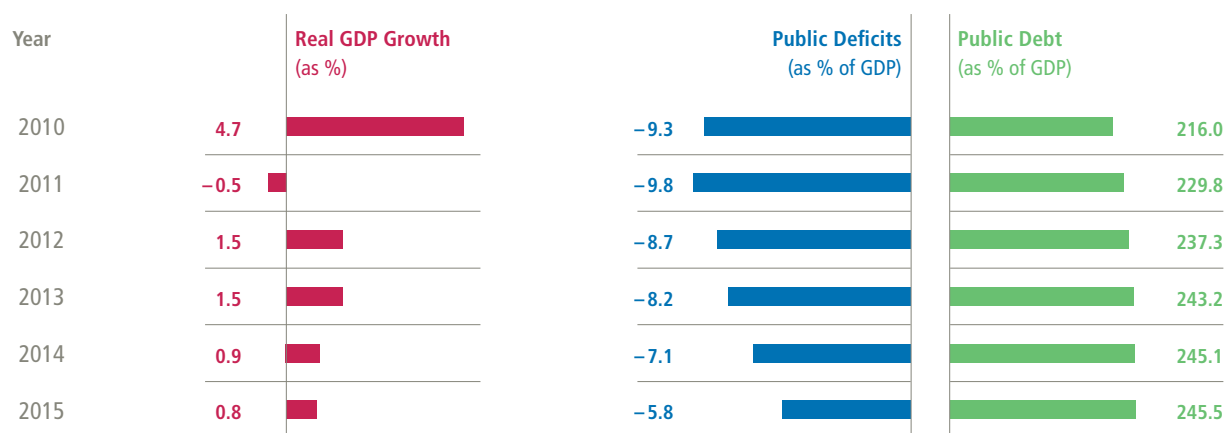
tion the TPP to farmers during the short election campaign, knowing that most of them are fervently opposed to the agreement, which will be accompanied by agricultural trade liberalization. And that, despite the fact that Japan's entering the TPP in 2015 is a central part of Abe's official economic policy agenda. To be sure, Japan's farmers have no intentions whatsoever of giving up their privileges and seeing tariffs reduced on rice (amounting to a whopping 600 percent on imported rice) and other agricultural products.

For now, it is back to what the LDP can do best: pumping liquidity and borrowed money into the economy and markets, hoping that this will lead to sustainable economic growth. On December 27, Tokyo in fact approved yet another economic stimulus package, worth 3.5 trillion yen (\$29 billion), aimed at supporting the country's regions and households with subsidies and merchandise vouchers. While the package is aimed at boosting Japan's GDP by 0.7 percent, Tokyo will, in view of Japan's very dire public finances, have to refrain from fresh debt issuance and instead fund the package with unspent funds from previous budgets and tax revenues. Of the total, 1.8 trillion yen will be spent on support for small firms to revive the country's regional economies and on the distribution of coupons, providing low-income households, among others, with subsidies for fuel purchases. Leaving aside that Tokyo led by the LDP has adopted numerous similar stimulus packages over the years and indeed decades, judging by his two-year track record as prime minister, Abe could be tempted to continue relying on quantitative easing by the Bank of Japan (BoJ), as opposed to complementing massive monetary liquidity with reforms, as a basis for sustainable economic growth.

Japan's budget for fiscal 2015 is more of the same old same old. On January 14, Tokyo approved a record budget of 96.34 trillion yen (\$812 billion) for the fiscal year starting April 1. While the government says that Japan is on course for meeting the earlier promise of halving the primary budget deficit in the upcoming fiscal year (by cutting new borrowing for a third straight year), Tokyo's



Figure 2: Macroeconomic indicators 2010 – 2015



Source: International Monetary Fund, World Economic Outlook Database, October 2014

strategy to reduce the country’s primary budget could turn out to be unsustainable. Japan’s fiscal consolidation, economists fear, relies too much (read: exclusively) on growth to cover rising spending, as opposed to measures for restraining spending. Japan’s defense budget in 2015 will rise to 4.98 trillion yen (roughly \$42.7 billion), up about 100 billion yen from the last fiscal year. The largest budget item, however, is social welfare spending, which is set to rise by 1 trillion yen to 31.53 trillion yen. While Japan’s stock markets have soared over the last two years and the property markets in Tokyo and other big Japanese cities have become very dynamic, household incomes have not kept pace with rising prices. Indeed, ordinary Japanese citizens were confronted with a rise in the consumption tax and – due to the weaker yen – higher energy and fuel costs. Consequently, Japan’s national poverty rate is the highest in the country’s post-war history, with over 2 million people receiving welfare.

### The Economic Good News ...

Not all is bleak, however. Indeed, some economic indicators could play to the government’s advantage in the months ahead. Japan’s labor market has become tighter, and the yen has fallen sharply against the US dollar over the last two years (by roughly 45 percent), in turn increasing the competitiveness of Japanese exports. Last October, the BoJ resumed its massive asset purchase program (i.e. quantitative easing), amounting to a total of around 15 percent of Japan’s GDP per year. That is roughly \$700 billion worth of government bonds meant to help achieve the targeted inflation rate of 2 percent. While the BoJ’s asset purchase program has kept Japan from falling back into deflation, it has failed to achieve the targeted rate of inflation, which currently stands at 0.7 percent. As a consequence of the BoJ’s provision of massive liquidity and because of the cheaper yen, some major Japanese companies have begun re-shoring, investing in new plants in Japan. Furukawa Electric and the industrial groups Toray and Daikin are al-



ready building new factories in Japan, and Japanese car-maker Toyota could follow suit in 2015.

### ... But Japan Inc. Not Helping

Tokyo, economists argue, must continue putting pressure on companies to increase wages in order to ensure that salaries keep up with rising prices. Japan's main blue chip companies, however, are unwilling to do just that, at least for now. In fact, according to a Reuters survey published on December 15, Japanese firms plan to return their excess cash to shareholders next year instead of spending it on raises for employees. Real wages in Japan have been falling over the last 18 months and Abe's economic stimulus packages can only boost domestic consumption if they are accompanied by an increase in salaries. Only one in 10 companies, the survey shows, is planning to raise wages, while more than 70 percent said they would spend cash reserves on dividends for investors and share buybacks, with most of these also prioritizing investment over salary increases. The pay freeze, however, is becoming increasingly unjustifiable as Japan's companies are holding cash equivalent to more than 60 percent of Japan's GDP. To sweeten the government-corporate deal of raising salaries, in January Abe confirmed his commitment to further cutting corporate tax rates.

### The Wrong Priorities Again?

The urgency to adopt economic reforms aside, Abe could again be tempted to focus on his own personal, as opposed to the country's, interests: boosting Japan's military profile and attempting to revise its war-renouncing constitution. Indeed, at the very end of last December, Abe announced he would again submit a permanent law authorizing the deployment of troops overseas in the context of UN-sponsored international military missions. Such a law would replace the past practice of ad-hoc legislation each time Japanese Self-Defense Forces were deployed abroad (except in the case of UN peacekeeping operations, for which Japan adopted a law in 1992). However, following a cabinet

decision in July 2014, Abe has already tested and indeed reached the limits in terms of deployment of Japanese troops acceptable to the Komeito. Back then, the LDP and Komeito agreed to try to adopt the necessary legislation that would allow Japan's armed forces to execute the right to collective self-defense when defending Japanese territory against an outside attack. Until now, Article 9 – which strictly speaking does not even allow Japan to have armed forces in the first place – denies the country this right as formulated in Chapter VII of the UN Charter, the right to militarily defend other countries' soldiers in joint military operations. Allowing Japanese soldiers to jointly defend Japanese territory (together with the 50,000 US soldiers stationed on Japanese soil) in the case of an attack on Japan was the most the Komeito agreed to last July. To be sure, this was significantly less than what Abe initially had in mind. He wanted to re-interpret the war-renouncing Article 9 to allow the country's armed forces to execute the right to collective self-defense in the context of international UN-sponsored peacekeeping and even peace-enforcement missions.

In order to actually authorize Japan's armed forces to execute the right to collective self-defense, the government will have to adopt roughly 15 so-called Basic Laws. While Abe also wants to adopt laws (submission of the bills to the parliament is scheduled for the end of January) that would allow Japan's military this possibility, for example in the context of UN-mandated military operations, Komeito will continue to insist that Japanese soldiers will only be allowed to execute this right when jointly defending Japanese territory with US military personnel stationed in Japan. With the Komeito as the only possible coalition partner – since there is no one else the LDP can turn to, as a number of right-wing parties and potential coalition partners have been voted out of parliament – Abe will most probably not get his way on constitutional re-interpretation beyond what was agreed on with the Komeito last year. What's more, adopting the Basic Laws could take months or even years and the re-interpretation of Article



9 is not, as is sometimes feared in Beijing and Seoul, the beginning of the re-emergence of Japanese militarism. In fact, it is evident that Tokyo's security and defense policies will continue to be defined and restrained by its war-renouncing constitution.

To be sure, Abe hasn't given up on "full-fledged" constitutional revision just yet and has suggested establishing a bipartisan seven-party working group to discuss further constitutional re-interpretation and revision. However, that is a proposal by a prime minister for whom constitutional revision is a near-obsession, as opposed to a policy agenda item shared by Abe's political friends and foes, let alone by a majority of the Japanese electorate. Indeed, investing resources and political capital to try to revise something that is as good as impossible to revise is arguably a waste of time and resources. The procedural and political obstacles for constitutional revision – a two-thirds majority in both chambers of the Japanese parliament followed by a national referendum – will remain in place, since Abe's earlier initiatives to lower the barriers for constitutional revision have gone nowhere so far.

## Conclusions

Prime Minister Shinzo Abe's strategy to call snap elections and take advantage of an incredibly weak political opposition paid off, even if the election victory is less stunning than the raw numbers indicate. Tokyo's policy agenda in the months ahead is, as shown above, very full, but unless Prime Minister Abe changes gear and adopts more of the long-announced economic, structural and fiscal reforms, there could be (many) more very half-hearted reform policies in the months ahead. For now, Abe's efforts to resume and expand constitutional re-interpretation together with the adoption of very familiar LDP-style economic stimulus packages provide initial evidence that we will have to live with "more of the same" as opposed to "something new" as far as Tokyo's economic reform policies are concerned. The election victory gave Abe a mandate to govern Japan until 2018, at least in theory. While Abe seems to be firmly

at the helm of his party, his position as LDP party president could be challenged in the run-up to the LDP party presidency elections in September 2015 – if his economic policies centered around "Abenomics" (hyper-easy monetary policy, government spending and deregulation) do not pull Japan out of recession and if there is no breakthrough in Japanese-US negotiations on Japan's TPP entry.

The Prime Minister has to decide in the months ahead whether to restart another two nuclear reactors. While two reactors at the Sendai plant in Satsumasendai in Kagoshima prefecture have received a green light from Japan's nuclear regulator, two additional reactors in Fukui prefecture could get the go-ahead soon. The Japanese public is opposed to re-starting the country's nuclear reactors, but if the December 2014 elections are anything to go by, Abe might pull another one of his "tricks" and decide on the reactors' restart after the local elections scheduled nationwide in April.



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**ISSN 2195-0485**

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