

1 *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

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 & Lipsy 2013). In contrast, the Abe government saw

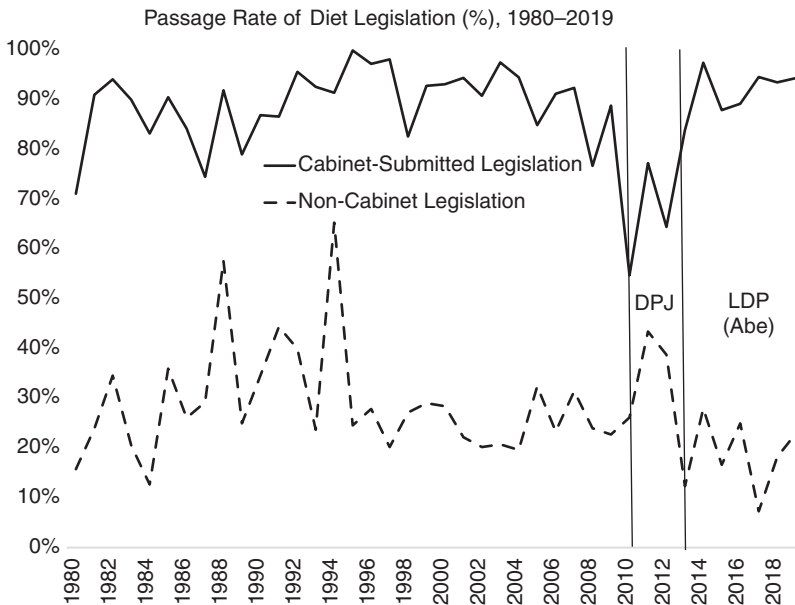


Figure 1.2 Passage rate of Diet legislation (%), 1980–2019

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 (Lipsy & Scheiner 2012; Kushida & Lipsy 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 outsized 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 fallouts 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

Abe government as using its high public approval rating to make progress on diplomatic and security reforms that could cause temporary unpopularity (Oshita 2017, pp.13–14, p.182). Officials close to Abe note that Abe's personal priority always remained his long-standing ambition to "escape from the postwar order" by enacting constitutional reform, but this was seen as an impossibility without successful economic measures to maintain strong public approval (Tazaki 2014, p.135).

Abe's team also explicitly sought to manage the prime minister's popularity by sequencing and timing legislation so that unpopular or controversial laws were followed by more popular initiatives. Suga is said to have predicted that passing the Secrecy Law in 2013 would lead to a roughly 10 percent hit to the prime minister's approval rating. However, the legislation was deemed sufficiently important and proposed after upper house elections to minimize electoral impact. Similarly, after seeing the prime minister's popularity decline after controversies surrounding security legislation enabling collective self-defense, Imai coordinated a pivot back to popular economic reforms under the banner of the "second stage" of Abenomics and "dynamic engagement of all 100 million citizens" (Oshita 2017, pp.180–181, p.241). Furthermore, Abe's nationalist credentials may have contributed to the resilience of his public approval ratings: Chapter 3 suggests that Abe's core conservative supporters were willing to return to the fold even after temporary drops in popularity due to controversies and scandals.

Another perceived lesson of Abe I was the failure to manage the media and news cycle. Abe's advisors concluded that the prime minister's popularity suffered during his first tenure due to poor media management. They inferred that attempting to manage scandals through the resignation of officials is often counterproductive, as it immediately leads to questions about the prime minister's judgement in making the initial appointment. During Abe I, the pattern was set early when Masaaki Honma resigned as chairperson of the Research Commission on the Tax System in December 2006 due to a personal scandal. Abe's government was then beset by successive scandals and resignations, which dominated the news cycle and diminished the prime minister's popularity. In his second government, Abe reversed this approach and resisted calls for resignation of his ministers and lieutenants even during major scandals, except in exceptional cases

where it was judged that the official would not be able to survive (Tazaki 2014, pp.76–77).

The second Abe government also sought to exert direct control over the media cycle. Responding to scandals through indecision and eventual resignation, as was the pattern under Abe I, meant the media would spend many days covering new developments. Abe's advisors sought to limit media coverage to no more than one or two days by acting decisively: either firmly resisting resignation and moving on or opting for immediate resignation. In cases where multiple resignations were necessary, Abe sought to announce them simultaneously to limit the duration of negative media coverage (Tazaki 2014, pp.84–85). The Abe government “proved much better at dealing with the media, including how to limit scandal coverage” (Carlson & Reed 2018).

Another change was elimination of *burasagari* interviews. These were brief, daily interviews that created opportunities for the media to ask (often inconvenient) questions directly to the prime minister. The *burasagari* interviews were canceled by the DPJ government following the Great Eastern Japan Earthquake of 2011. The media hoped the Abe administration would revive the practice, but Abe did not, and the TV media lost the ability to attach the prime minister's face to negative stories. Instead, the soft-spoken and careful Suga became the public face of the government to the media. Suga maintained careful message discipline, claiming to follow Colin Powell's dictum that “reporters have a right to ask questions, and I have a right not to answer them” (Hoshi 2014, p.177).

According to Tazaki (2014, p.91), Abe referred to the cancellation of *burasagari* interviews as “the only meaningful achievement of the DPJ government.” The elimination of *burasagari* interviews also improved discipline within the cabinet by making it less feasible for bureaucrats or politicians to work around the formal decision-making process by going straight to the prime minister and getting him to publicly commit to a policy direction in front of the media. This was an important problem in the DPJ government, in which prime ministers often overturned policy in media interviews without careful consultation.

Abe also ended the previous practice of scheduling prime minister interviews according to a set schedule that rotated between NHK and the private media. Instead, he responded only to interview requests he wanted to field, which led to a disproportionate share of interviews granted to the relatively sympathetic and conservative *Yomiuri* and

Sankei (Tazaki 2014, pp.86–88). Furthermore, the LDP under Abe sought to shape narratives on social media by supporting the “Jiminto [LDP] Net Supporters Club (J-NSC),” a volunteer group of over 19,000 members that promotes narratives supportive of the government and critical of opposition parties.⁸

The Abe government’s media strategy, though perhaps effective at buttressing his popular approval, came under sharp criticism by journalists and advocates of press freedom. For example, the government was criticized for threatening to invoke the Broadcast Law and Radio Law to silence broadcasters that did not conform to the government’s interpretation of political impartiality (Fackler 2016; Kingston 2016). The Abe government and its conservative allies were particularly outspoken about media coverage of historical memory issues, such as reporting on the comfort women issue by the *Asahi Shimbun* (Chapter 17). Japan’s World Press Freedom Index ranking fell from an all-time high of eleventh place in 2011 to sixty-seventh by 2019 (Reporters Without Borders 2019).

1.4.2 Relations with the LDP and the Bureaucracy

Close advisors to Abe claim that they were politically inexperienced during Abe I and had limited ability to manage the internal politics of the LDP. This meant Abe was blindsided by internal discord that sought to elevate Fukuda as an alternative as the prime minister’s popularity diminished. In contrast, during Abe II, his advisors sought to keep a careful pulse on the party and nip any signs of anti-Abe movements in the bud. One important aspect of Abe’s strategy in managing LDP backbenchers was the use of lower house elections as a disciplinary mechanism.

Abe strategically called lower house elections in 2014 and 2017, enhancing his credibility vis-à-vis potential political opponents within his own party and the bureaucracy. For this purpose, the 2014 election was critical. An important rationale for Abe calling the 2014 election was an internal challenge from LDP politicians supported by the Ministry of Finance, which opposed Abe’s proposed postponement of a consumption tax hike. Although they chose not to publicly frame the election in these terms in order to maintain an impression of party unity, there was serious concern that the government could be brought down in the absence of an election. Abe and Suga feared that LDP

opponents would withhold support from the enabling legislation for consumption tax postponement, threatening the survival of the prime minister (Tazaki 2014, pp.9–10, p.17). By calling the election and running on postponing the consumption tax, Abe secured a clear public mandate and strengthened party discipline.

Although the specific context was different, the strategy echoed that of Koizumi in 2005. Koizumi faced opposition from “postal rebels” – those opposed to privatization of the postal system – within his own party. In response, Koizumi expelled the rebels and dissolved the lower house, securing a strong mandate for reform through electoral victory. Both Koizumi and Abe silenced their internal opponents by demonstrating their willingness to call elections, and in turn, the credibility of this threat hinged on the prime minister’s public support. This strategy also reflected a perceived failure of Abe I, when the prime minister readmitted the postal rebels who had been expelled from the LDP by Koizumi. This led to criticism that Abe was reversing Koizumi’s policies despite inheriting his large lower-house majority from the 2005 postal election. This provided an additional rationale under Abe II to call lower house elections when the prime minister announced significant policy shifts.

Abe also sought to improve coordination at all levels – within the Cabinet Office, within the LDP, and with bureaucrats. During Abe I, Abe appointed relatively young and ambitious politicians, such as Yuriko Koike and Hiroshige Seko, to special advisor roles. However, this proved dysfunctional: the special advisors lacked formal legal authority over bureaucrats and had limited sway over backbenchers in the LDP, limiting their influence (Tazaki 2014, pp.52–53). There was no coordination mechanism among the special advisors, which led to communication problems. Under Abe II, all of Abe’s immediate advisors convened daily in a meeting for twenty minutes to coordinate strategy and perspectives: such a coordination mechanism did not exist under Abe I or the DPJ government, leading to scattered decision-making and inadequate message discipline. In addition, to enhance coordination between the prime minister and the Diet, officials close to Abe, such as Seko, actively participated in the Diet Affairs Committee in order to exchange information about priorities and coordinate legislative strategy with LDP Diet members.

The Abe government also sought to incorporate lessons from failures of the preceding DPJ government. Under the DPJ, politicians close to

the prime ministers had become special advisors, playing a role traditionally occupied by executive secretaries. Abe saw this as an ineffective strategy, as politicians had a strong incentive to take credit for their accomplishments, rather than working behind the scenes in support of the prime minister. Abe thus primarily relied on Imai, a METI bureaucrat, to play this role.

The Abe government also exerted strong control over the bureaucracy. Abe strengthened personnel authority over the bureaucracy and centralized authority under the prime minister, particularly through the creation of the Cabinet Bureau of Personnel Affairs in 2014 (Chapter 2). Abe made a point of putting the bureaucracy on notice in January 2013, within weeks of taking power, by overturning a long-held precedent that the Japanese Supreme Court appoints its own justices, exerting his authority under the constitution to reject the court's preferred appointee (Tazaki 2014, pp.63–64).

Abe personally credited Suga with making calculated personnel decisions to maximize political control and minimize bureaucratic resistance. Even before he became chief cabinet secretary, Suga had established a reputation as an effective manager of Japan's traditionally powerful bureaucracy. Suga published a book while the LDP was still out of power, subtitled "A Politician's Resolution: Spur the Bureaucrats to Action," in which he criticized the DPJ's handling of bureaucrats and laid out his principles for bureaucratic management (Suga 2012). Suga notes that information asymmetries are a crucial problem for the cabinet in dealing with the bureaucracy. For example, he notes that bureaucrats often act like their hands are tied by local governments or constituents when they are in fact pressuring localities to adopt their preferred positions (Hoshi 2014, p.171).

The Abe government sought to overcome these information asymmetries by expanding the independent capacity of the Cabinet Office, cultivating close allies of the prime minister among the bureaucracy – in no small part through control of personnel decisions – and appointing former bureaucrats like Imai and experienced politicians like Suga to key positions. For example, the 2013 appointment of Yuji Sato as commandant of the Japan Coast Guard from within the ranks of the agency broke a long-standing norm of appointments of career bureaucrats from the Ministry of Transportation (Yamaguchi 2016, pp.100–103). This signaled to the entire bureaucracy that their bureaucratic turf was not secure, but the specific appointment came with a strong

normative justification that was difficult to resist – that Japan Coast Guard officers defending Japanese territory at the front lines should be led by one of their own.

1.4.3 *The Abe Model and COVID-19*

Abe and his close advisors governed with a deliberate strategy that sought to take advantage of Japan's new electoral and administrative institutions. These practices did not depend on any unique attributes of Abe or his advisors and could thus plausibly serve as a model for future prime ministers. Abe sought to maintain a high degree of public approval by promoting popular economic reforms, timing unpopular policies after elections to allow time to pivot back to popular issues, and employing a media management strategy to limit critical news coverage. Abe's robust public approval ratings, combined with the credible threat of calling early lower house elections in an electoral system that emphasizes party label (e.g., Krauss & Nyblade 2005; Reed, Scheiner & Thies 2012), diminished resistance from backbenchers within the LDP. Furthermore, the Abe government built on prior administrative reforms by further consolidating authority in the Cabinet Office. Practical mechanisms to coordinate policymaking within and among the cabinet, the Diet, and the bureaucracy were implemented to avoid the chaotic decision-making of prior administrations, including Abe's own.

Although the Abe model appeared to function effectively for much of the prime minister's tenure, the 2020 COVID-19 pandemic exposed important shortcomings. In some respects, Japan's response to COVID-19 reflected strengths. The country initiated its response relatively early, though the stringency of its measures lagged behind other developed countries (Hale et al. 2020). Unlike populist leaders in the United States and Brazil, the government relied heavily on scientific experts like Shigeru Omi and Hitoshi Oshitani to orchestrate its response. These experts emphasized measures that appear prescient in retrospect, such as a cluster-based strategy through contact tracing, elimination of high-risk situations for contagion – the so-called three “Cs” of closed spaces, close-contact settings, and large crowds – and an emphasis on cloth masks during a period when the World Health Organization (WHO) and Western countries were discouraging their use.⁹ Japan fared relatively well in terms of reported health outcomes:

Japanese COVID-19 cases and fatalities remained low in international comparison, and there was no significant spike in excess deaths that would suggest undercounting.

However, Abe's response to COVID-19 was also characterized by seeming indecision and hesitance. Shutting down the economy to prevent contagion would reverse the macroeconomic gains of Abenomics, which the prime minister saw as critical to his popularity and legacy. The government faced constitutional restrictions that foreclosed legally enforceable lockdowns. However, even accounting for this, the government shied away from measures that could potentially reduce economic activity, such as providing financial incentives for businesses to stay closed. As his approval rating declined, Abe attempted to stick to his standard playbook by doubling down on Abenomics growth themes. This strategy may have backfired, as initiatives to stimulate the economy, like the "Go To" travel campaign to encourage domestic travel, cut against efforts to limit COVID-19 contagion.

The Abe government also struggled to reach consensus on major decisions, such as the scope of government stimulus and declaration of a national emergency.¹⁰ Abe's diminishing popularity under pandemic conditions reduced his leeway to threaten a snap election, loosening his grip on his party and emboldening other powerbrokers like Secretary General Toshihiro Nikai. The pandemic also elevated the role of local governments in critical areas like testing and business closures. Although Japanese prime ministers exercise strong authority over the central government, local governments retain considerable autonomy (Horiuchi 2010). This provided a platform for governors like Yuriko Koike and Hirofumi Yoshimura to propose more stringent measures and highlight shortcomings of the central government's response.¹¹

Although Abe's COVID-19 response did not create a health crisis, it did create a serious public opinion problem for Abe. Most international leaders saw their approval ratings spike as their countries responded to the pandemic, but Abe's approval ratings slid to the lowest levels of his tenure.¹² A majority of Japanese citizens disapproved of the government's COVID-19 response.¹³ Abe announced his resignation on August 28, 2020, citing deteriorating personal health and apologizing for "leaving various other policies still on the way to being realized and the coronavirus epidemic at hand."¹⁴

1.4.4 *Idiosyncrasies and Good Fortune*

Although the Abe government took advantage of Japan's political institutions and governed with a calculated strategy to remain in power and achieve policymaking success, it also benefited from several idiosyncratic factors. While Abe and his close advisors responded to the perceived failures of prior governments, it is less clear that they would have been able to stay in power as long as they did without other supportive factors (see Chapter 4). This suggests that while Abe's model of governance may be replicable, the same degree of legislative productivity and longevity may prove elusive for his successors.

Abe's tenure was characterized by opposition collapse, most importantly the disintegration of the DPJ. This gave Abe room to selectively pursue policies unpopular with the general public, such as nuclear restarts and the Antiterrorism Special Measures Law, without great fear of electoral consequence. In fact, across most substantive issues, the Abe government's policy positions were less popular with the public than those of most opposition parties (Horiuchi, Smith & Yamamoto 2018). Opposition collapse gave Abe strong credibility in calling lower house elections, in which the failure of opposition consolidation in single-member districts produced a large structural advantage for the LDP. Although opposition failure reflects some structural factors, such as the cross-cutting pressures of the lower and upper house electoral systems, it is unlikely to remain a permanent feature of Japanese politics.

Another factor that worked in Abe's favor was the absence of major international or domestic shocks that undermined Japan's economy during most of his tenure. Abe came to power in 2012, after the worst consequences of the 2008 subprime crisis and 2011 Euro crisis had subsided. Japan's two largest trading partners, the United States and China, were characterized by mostly stable, if somewhat sluggish, growth from 2012 to 2019. Abe became the longest-serving prime minister in Japanese history without having to face a major upheaval like a financial crisis or natural disaster that seriously threatened Japanese economic growth. The 2020 COVID-19 pandemic was arguably the first serious test of his leadership.

Abe also benefited from the relative absence of major crises in foreign policy. While the rise of China remains an important long-term challenge for Japan, Abe escaped serious diplomatic crises, such as the 2010

boat collision incident near the Senkaku/Diaoyu islands during the DPJ government. North Korea's aggressive development of nuclear weapons and missile technology remained persistent challenges, but US threats to unleash "fire and fury" against the regime in 2017 did not materialize. The ascendance of US President Donald Trump, which caused havoc in many Western capitals, was less disruptive for Japan: Abe and Trump quickly developed a personal chemistry, and Japan was credited with successful "Trump management" (Hikotani 2017).

Of course, these outcomes also reflect conscious policy choices by Abe and his allies (Chapters 16 and 17). The opposition remains weak in part because the LDP successfully painted the DPJ as solely responsible for the Fukushima nuclear disaster, despite the fact that regulatory deficiencies long predated the DPJ's rule (Kushida 2014). Positive external economic conditions do not guarantee strong economic performance in Japan, as was seen most clearly in the 1990s. Under a different prime minister, relations with President Trump may have proven more difficult. Nonetheless, Abe clearly benefited from some good fortune.

1.5 Assessing Abenomics

One of the purposes of this volume is to evaluate and assess the track record of Abenomics. As we discussed at the beginning of this introductory chapter, Abenomics combined expansionary macroeconomic policies (first two arrows) with structural reforms and industrial promotion (third arrow). Four chapters of the volume (Chapters 6 through 9) discuss the macroeconomic policies of Abenomics, and six chapters (Chapters 10 through 15) examine some key aspects of the economic reforms. To provide a background to these chapters, this section briefly examines how Abenomics was implemented and evolved over time.

1.5.1 *First Arrow*

As soon as the Abe administration started in December 2012, the government began pressuring the BOJ to enhance monetary easing more aggressively. Before the Abe administration started, major central banks – including the Federal Reserve, the Bank of England, and the European Central Bank – cut interest rates aggressively and embarked on asset purchases at an unprecedented scale after the global financial

crisis of 2007–2009. However, the BOJ was more tentative. It finally did cut the policy rate to zero and started an asset purchase program of 35 trillion yen in “Comprehensive Monetary Easing” in October 2010, but BOJ officials often downplayed the importance of monetary easing, arguing that monetary expansion cannot solve deflation. In late January 2013, within one month of the start of the Abe government, the BOJ introduced the price stability target of 2 percent inflation rate and open-ended asset purchasing until the price stability target was reached.

After Haruhiko Kuroda replaced Masaaki Shirakawa as the new BOJ governor in late March 2013, the BOJ introduced “Quantitative and Qualitative Easing” (QQE) on April 4 and announced it would double the amounts of monetary base, long-term JGB holdings, and ETF holdings in two years. These measures were implemented to achieve the target inflation rate of 2 percent within two years. The BOJ declared that the policy “will support the positive movements that have started to appear in economic activity and financial markets, contribute to a further pick-up in inflation expectations that appear to have risen, and lead Japan’s economy to overcome deflation that has lasted for nearly 15 years” (Bank of Japan 2013, p.4).

The first arrow of Abenomics looked promising, at least initially. Inflation expectations rose, the yen depreciated, and stock prices rose. Careful economic analysis by Hausman and Wieland (2014) estimated that the bold monetary policy under Abenomics should increase the real growth rate by about 1.0 percent. The targeted inflation of 2 percent within two years, however, remained elusive. When Hausman and Wieland (2015) updated their analysis, they found that the VAT rate hike in 2014 reduced consumption, and increased imports (the reason being unclear) also hurt.

The BOJ continued the initial plan of QQE, except for an expansion of its size in October 2014. Then, in February 2016, the BOJ introduced the negative interest rate policy and started to apply a negative interest rate (−0.1 percent) on a part of bank reserves. Many interest rates fell, and commercial banks objected (as their interest margins were further compressed), but the inflation rate did not increase very much.

In September 2016, the BOJ started to target the ten-year JGB yield (initially at 0 percent) in addition to the negative short-term interest rate. The BOJ also clarified the commitment to “inflation-overshooting,” saying, “[The] Bank will continue expanding the monetary base until

the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner” (BOJ 2016, p.3). When the VAT rate increase from 8 percent to 10 percent in October 2019 was in sight, the BOJ renewed its commitment to QQE, announcing that the “Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019” (BOJ 2018, p.1).

Even with the gradually escalated monetary expansion of the QQE, the targeted inflation of 2 percent was not reached. Faced with the COVID-19 crisis in early 2020, the BOJ turned to even more aggressive monetary easing, much like other central banks in advanced economies. On May 22, BOJ Governor Kuroda and Finance Minister Aso jointly announced they would do “whatever it takes” to cushion the ill effects of the pandemic on the Japanese economy.¹⁵ With the sharp economic downturn, achieving the inflation target of 2 percent became seemingly impossible.

Why the super-expansionary monetary policy under Abenomics for seven years was not successful in achieving the inflation target is a great puzzle. The question is taken up in Chapters 6 and 7 of this volume. One success of Abenomics monetary policy was depreciation of the yen (or correction of over-valuation of the yen during the previous years). Chapter 8 examines the implications on exchange rate changes on the competitiveness of Japanese industries.

1.5.2 Second Arrow

The second arrow of Abenomics was called “flexible” fiscal policy, which envisioned fiscal expansion when there is a demand shortage while being prudent in the long run. Since the demand shortage was considered to be a serious issue when Abenomics started, one of the first policies of the Abe government was to put together a supplemental budget that exceeded 10 billion yen as part of the announced 20 billion yen stimulus package of January 2013 (Ito & Hoshi 2020, pp.232–235). Unlike monetary policy, the fiscal expansion of Abenomics was not a departure from existing policy. Japan’s fiscal policy had already turned expansionary right after the global financial

crisis. The Aso government put together three stimulus packages with a stated total size of more than 90 billion yen between October 2008 and April 2009. The DPJ government between 2009 and 2012 also came up with six stimulus packages with stated total amount of 80 billion yen. The stimulus package of January 2013 was followed by more in December 2013 (18.2 billion yen), December 2014 (3.5 billion yen), and August 2016 (28.1 billion yen).

Although fiscal policy under the Abe administration was expansionary, the Abe government also maintained the goal of achieving the primary balance by fiscal year 2020, which was originally set in 2006 under the Koizumi government. To achieve that, the Abe administration planned to follow through with the two-step VAT increase that was legislated in 2012 by the DPJ's Noda government: a first tax hike in April 2014 followed by the second in October 2015. The Abe government indeed raised the VAT tax rate from 5 percent to 8 percent on April 1, 2014, but the economic slowdown that ensued convinced the government to postpone the second VAT increase to 10 percent until April 2017 and then again to October 2019, when it was finally implemented.

By 2018, the government formally abandoned the goal of eliminating primary deficits by fiscal 2020 and set fiscal 2025 as the new deadline. Even the new delayed goal is not likely to be achieved. According to the Cabinet Office (2020a), the simulation by the government just before the COVID-19 shock showed the primary balance for fiscal 2020 is -2.7 percent of GDP, which would improve only to -1.3 percent by fiscal 2025 under the baseline scenario. Even under the optimistic scenario where the nominal GDP growth rates quickly rises to 3.5 percent by fiscal 2025 (as opposed to 1.3 percent in the baseline case), the primary balance for fiscal 2025 would still be -0.5 percent of GDP, and the primary balance would become positive only in fiscal 2027.

Thus, the second arrow may have succeeded in stimulating the aggregate demand by fiscal expansion, but the effort to establish fiscal balance did not progress as quickly as planned. Nonetheless, the analysis in Chapter 9 shows that the fiscal situation does not look very bad. Even though the goal of primary balance by 2020 was postponed, Japan's fiscal situation is still sustainable in the long run with a small amount of tax increases if the growth of government expenditures does not exceed that of GDP per capita.

Japan's fiscal situation deteriorated quickly as the government implemented spending measures to fight the effects of COVID-19. As of May 2020, the government put together two supplementary budgets financed by increased issues of government bonds. The planned bond issues increased from 32.5 trillion yen (about 6 percent of GDP) in the original budget for fiscal year 2020 to 90.2 trillion yen (about 16 percent of GDP) after the two supplementary budgets. Based on this additional spending, achieving primary balance even in fiscal 2027 became very difficult. According to the Cabinet Office (2020b), the latest simulation shows that the primary balance would not be achieved until 2029.

1.5.3 Third Arrow

Finally, let us examine the third arrow. We do this by reviewing each year's growth strategy adopted by the Abe government. All these documents are available at the website of the Cabinet Office.¹⁶ Many documents also have English versions.

The first growth strategy of the Abe administration was published in June 2013 with the title "Japan Revitalization Strategy: Japan Is Back." It collected various policies/ideas on economic reforms and interventions under three "plans" (industry revitalization plan, strategic market creation plan, and strategy of global outreach). From the start, the growth strategy included both structural reforms likely to enhance Japan's potential growth and old-fashioned industrial targeting policies that may not be effective anymore. There is a huge literature on Japan's industrial policy and its effectiveness, and we cannot review that here.¹⁷ Although there is no clear consensus on the overall effectiveness of the industrial targeting policy, many argue that the policy became less effective after Japan's catch-up phase of economic growth ended. When Japan was following more advanced economies, it was relatively easy for the Japanese government to identify promising industries by looking at the past experience of advanced economies. Now that Japan has become an advanced economy itself, it is hard for the government (or anyone else) to know which industry will become important in the near future.

The 2013 growth strategy was criticized for lacking focus. For example, Pilling (2013) argued that "Mr. Abe's 94-page plan, replete with a 48-page road map and 37 subcomponents of industrial

revitalization, leaves no policy stone unturned. Sadly, neither does it present a grand vision.”¹⁸ It included some sensible goals such as encouraging economic restructuring and reducing the cost of doing business in Japan, but it also included various industrial targeting ideas (to promote healthcare-related industry, clean energy, agriculture, and so on). The 2014 revision of the growth strategy responded to the criticism that the original lacked focus and identified the following ten key reforms.

- 1 Enhancing corporate governance
- 2 Reforming investment of public and quasi-public funds
- 3 Accelerating industrial restructuring and venture businesses, promoting provision of funds for growth
- 4 Corporate tax reform
- 5 Promotion of innovation and a robot revolution
- 6 Enhancing women’s participation and advancement
- 7 Enable flexible working practices
- 8 Attracting talent from overseas
- 9 Aggressive agricultural policy
- 10 Vitalizing the healthcare industry and providing high-quality healthcare services

The list was still a mixture of sensible structural reforms (such as accelerating industrial restructuring) and industrial targeting (agriculture, healthcare, and robotics), but it was much more streamlined and focused compared with the original growth strategy of 2013.

The 2015 revision of the growth strategy argued:

Abenomics has shifted from the stage where the focus was primarily placed on solving the lack of demand with the aim of overcoming deflation to a new “second stage” where steadfast policies are required to overcome the yoke of supply constraints due to the decreasing population

and listed “realization of revolution in productivity by investment in the future” and “promotion of local Abenomics” as the two central policies. The latter policy was aimed at “reviving a vigorous Japan where human resources and funds as well as technologies and information to support them are flowing freely and actively all over and in every corner of Japan.” The “second stage of Abenomics” was supposed to “put Japan back onto a growth path to become a leading nation in the world by promoting these two policies as the two wheels

of a cart.” Looking through more details, we find that the 2015 revision includes the ten focus areas of the 2014 revision but add more (such as the need to respond to the fourth industrial revolution, countermeasures to the low birth rate, and the rebuilding of tourism as the driver of regional economies), which ends up somewhat blurring the focus again.

The central part of “local Abenomics” was *Machi, Hito, Shigoto Sōgō Senryaku* (*Comprehensive Strategy on City, People, Jobs*), which aimed at creating more jobs and opportunities in local areas. As Hatta (2018) points out, the policy emphasis was mostly on subsidy policies that encourage the relocation of corporations and people from the Tokyo metropolitan area to rural areas rather than structural reforms and deregulations in such areas as agriculture, fishery, and tourism that would allow the regional economies to grow.

After Shinzo Abe was re-elected as LDP president (and hence prime minister) in the fall of 2015, he announced “new three arrows” as Abenomics entered the second stage. The new three arrows were (1) a strong economy that creates hope; (2) support for child raising that fosters dreams; and (3) social security that gives citizens a sense of reassurance. Each new arrow had a numerical target attached: nominal GDP of 600 trillion yen for the first arrow; a fertility rate of 1.8 for the second arrow; and a reduction to zero of the number of people who quit working to take care of elderly parents or other family members for the third arrow.

The relative emphasis on industrial targeting seems to have started rising in the 2015 growth strategy. Although it continued to include economic deregulation and structural reforms, it started to emphasize the role of government in preparing for the challenges of the fourth industrial revolution, for example. The leaning on industrial policy became clearer in the 2016 revision of the growth strategy. The 2016 revision starts out by arguing that

in the First Stage of the Growth Strategy, the Abe administration has cut into areas where the so-called “bed-rock” regulations remain, such as electricity, agriculture and healthcare, which have been considered taboo

and continues to point out that the government also carried out “reforms that have been thought to be impossible,” such as a drastic corporate tax cut, TPP, and corporate governance reform. Then it states: “On the contrary, private entities are not fully in action.”

The 2016 growth strategy identifies three new missions: (1) strategic cultivation of new “promising markets”; (2) “revolution in productivity” to overcome supply constraints and labor shortage coming from the population decline; and (3) “enhancing capabilities of individuals” to facilitate coming industrial transformation. These new missions are expected to be carried out mostly by the government leadership. Central to the endeavor was “10 strategic public–private joint projects” that (1) respond to the fourth industrial revolution (IoT, Big Data, artificial intelligence), (2) achieve a world leading healthcare country, (3) overcome environment-energy constraints and expand investments, (4) change sports to a growth industry, (5) revitalize markets for transaction of existing houses, (6) improve productivity of service industry, (7) reinvigorate mid-ranking companies, SMEs and microenterprises, (8) promote exports of agriculture, forestry and fishery products, (9) become a tourism oriented country, and (10) stimulate domestic consumer sentiment. Although the 2016 growth strategy still mentions national strategic special zones and other measures to advance regulatory reforms, the emphasis shifted to numerous “projects” conducted under the leadership of the government.

The growth strategy revisions in 2017, 2018, and 2019 maintained the emphasis on industrial policy. The 2017 revision, which was titled “Investments for the Future Strategy 2017,” listed “five basic paths” to achieve “Society 5.0.” The list included structural reform ideas such as corporate governance reform, administrative reform, and regulatory reform, but more attention was paid to various policy supports to targeted industries including healthcare, automotive products, distribution and production networks, economic and social infrastructure, and fintech. The 2018 revision (“Future Investment Strategy 2018”) also stressed “flagship projects” to achieve “Society 5.0,” which aimed at building the next-generation mobility system; creating the next-generation healthcare system; promoting innovations for energy conservation and decarbonization; promoting fintech and a cashless society, shifting toward digital government; building next-generation infrastructure; introducing smart technologies to agriculture, forestry, and fishery; building smart cities; and increasing productivities of SMEs and micro businesses. These projects for Society 5.0 remained central in the 2019 revision (“Action Plan of the Growth Strategy 2019”), though there was also renewed emphasis on social security reforms for all generations and regional promotions.

The 2020 revision (“Action Plan of the Growth Strategy 2020”) continues the emphasis on the projects for Society 5.0. The plan argues that the COVID-19 crisis revealed many shortcomings for achieving Society 5.0 and that the various projects have to be accelerated.¹⁹

The (original) third arrow of Abenomics covered policies in many areas, so the brief overview in this section leaves out many important details. Chapters 10 through 15 of this book examine several policy areas of the Abenomics growth strategy more carefully. In some areas including corporate governance reform (Chapter 12) and womenomics (Chapter 11), authors find the government pushed for structural reforms with some success. Chapter 10 on labor market reform finds that the government shifted the emphasis away from flexibility of the labor market to improving worker welfare. This may not have been growth-oriented but ended up benefiting workers. In agriculture (Chapter 14), the new industrial policy was actually more market oriented than the old industrial policy. In that sense, Abenomics marked progress over previous policy, although the plan to provide funds for modernizing agriculture through a public–private fund (Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-Chain and Expansion Japan) did not succeed.²⁰ In innovation policy (Chapter 13), the policy mostly targeted what the private sector actors would have achieved even without government help anyway, but the government policy helped in legitimizing growth of an innovation ecosystem. In energy policy (Chapter 15), the Abe government made some progress in areas like deregulation of the electricity retail market, but weak efforts on decarbonization and continued emphasis on fossil fuels, particularly coal, invited sharp criticism from the international community.

1.6 Chapter Summaries

We will close by providing an overview of the contributions to this volume. Each chapter examines a substantial puzzle or evaluates a policy of the Abe administration in a specific issue area. The volume is divided thematically into the following sections: political context of the Abe government; Abenomics macroeconomic policy; structural reforms under the third arrow of Abenomics; and foreign policy.

Part II of the book examines the politics and policy formulation of the Abe government: how did Abe govern, and what does it tell us

about contemporary Japanese politics? In Chapter 2, “Expansion of the Japanese Prime Minister’s Power and Transformation of Japanese Politics,” Harukata Takenaka examines the growth of prime ministerial power, which began in the mid-1990s and accelerated under Abe. Using a wealth of data, he illustrates how Abe expanded his authority over both party backbenchers and bureaucrats, creating the foundations for stable rule and the implementation of reforms.

One puzzle of the Abe government is why the prime minister and LDP remained popular and succeeded in elections despite weak voter support for the party’s policies. Two papers examine this question. In Chapter 3, “Why Does the Abe Government’s Approval Rating Always Recover?,” Masaru Kohno argues that Abe’s popularity tended to recover from temporary dips because the dips usually reflected a softening of support among his core conservative supporters, who were inclined to revert to support after key events passed. In Chapter 4, “The LDP under Abe,” Yukio Maeda and Steve Reed examine Abe’s strategy toward elections during his tenure and consider how Abe secured large electoral victories despite often adopting unpopular policy positions. They offer a cautionary note that Abe’s successors will have a tougher time replicating his success as the opposition consolidates and restless backbenchers demand greater say.

One intriguing puzzle about Abe is the apparent divergence between his first tenure as prime minister in 2006–2007 and his more recent tenure after 2012. Abe’s first government saw a rapid collapse in approval ratings, a major upper house election defeat, and resignation amid high-profile scandals. However, in Chapter 5, “The Third Arrow of Abenomics: Est. in 2013 – or 2007?,” Takatoshi Ito finds surprising continuity between Abe’s two administrations: the seeds of Abenomics reforms under Abe II were planted during Abe I. Abe’s tenure in 2006–2007 not only provided lessons about governance: it also set the stage for structural reforms after 2012.

Part III of the book shifts to an evaluation of Abenomics economics policy. We begin by analyzing the so-called first and second arrows of Abenomics: aggressive monetary easing and flexible fiscal policy. Chapter 6, “Abenomics, Monetary Policy, and Consumption” by Joshua Hausman, Takashi Unayama, and Johannes Wieland, asks why consumption growth remained sluggish even though the first arrow of Abenomics successfully stimulated real economic activities and financial markets. The chapter finds that even the consumption of

those households who would have benefited most under Abenomics remained sluggish. The chapter also offers potential explanations for this puzzle. Chapter 7, “The Great Disconnect: The Decoupling of Wage and Price Inflation in Japan” by Takeo Hoshi and Anil Kashyap, looks at another puzzle concerning the first arrow of Abenomics. They ask why nominal wage growth (and hence price inflation) stagnated despite tight labor markets. They argue that the increase in the proportion of part-time (low-wage) jobs and the lack of response of wages for full-time (high-wage) jobs to the labor market condition can explain the stagnant wage growth. One clear impact of the first arrow was depreciation of the yen. Chapter 8, “Abenomics, the Exchange Rate, and Markup Dynamics in Japanese Industries” by Kyoji Fukao and Shuichiro Nishioka, examines how the depreciation of the yen helped the competitiveness of Japanese industries. They do this by estimating the changes of product markups over time. The key question is whether Abenomics successfully stopped (and reversed) the trend of declining product markups.

Mark T. Bamba and David E. Weinstein examine the second arrow of Abenomics in Chapter 9, “The Crisis That Wasn’t: How Japan Has Avoided a Bond Market Panic.” They evaluate the track record of the Japanese government, including the Abe government, on both expansionary fiscal policy and fiscal consolidation. One of the enduring puzzles of the Japanese economy is why Japan has managed to escape a bond market crisis despite having the largest public debt in the world. Bamba and Weinstein find that, contrary to early predictions, the Japanese government has acted responsibly by cutting spending and raising taxes, overcoming supposed political impediments to fiscal consolidation. As a result, Japan’s government finances can be sustainable with modest additional tax increases unless future expenditures start rising rapidly.

In Part IV we turn to an assessment of the third arrow of Abenomics, which focuses on structural reforms in a variety of sectors of the Japanese economy. In Chapter 10, “Abe’s Slight Left Turn: How a Labor Shortage Transformed Labor Politics and Policy,” Steven K. Vogel examines the Abe government’s labor market policy and identifies an important shift away from policies to facilitate labor adjustments by corporations toward policies to promote better working conditions, such as work–life balance. He attributes this to demographic shifts in Japan that transformed a labor surplus into a labor

shortage. One area of the third arrow emphasized by Abe from early on was policies to enhance the participation and to increase the presence of women in the labor market. Chapter 11 by Nobuko Nagase titled “Abe’s Womanomics Policy: Did It Reduce the Gender Gap in Management?” studies this womenomics policy in Abenomics. The chapter focuses on the question of whether the policy achieved one of the stated goals of increasing the number of women in management positions. Using the data up to 2017, the chapter finds that, while the probability that women become managers increased slightly, it remained much smaller compared to that for men.

One area of reform that appeared to progress relatively quickly under Abenomics is corporate governance. This is the subject of Chapter 12, “Corporate Governance Reforms under Abenomics: The Economic Consequences of Two Codes,” by Hideaki Miyajima and Takuji Saito. They review the progress of corporate governance reforms in Japan in the last two decades and examine how the process accelerated under the Abe administration. The chapter finds that many corporations changed the structure of corporate governance as seen in the number of outside directors or the board committee structure, for example, but it fails to find much impact on corporate behavior such as investment rate and cash holdings. Another important objective of the third arrow was encouraging innovation in Japan. Kenji Kushida documents changes in Japan’s ecosystem for innovation in his Chapter 13, “Abenomics and Japan’s Entrepreneurship and Innovation: Is the Third Arrow Pointed in the Right Direction for Global Competition in the Silicon Valley Era?” The chapter finds that Japan’s startup ecosystem improved remarkably under Abe’s government, but much of the improvement would have happened without Abenomics. Japan’s environment for entrepreneurship and innovation had already started to take off even before Abe. The main role of Abenomics, if any, was to provide legitimacy for entrepreneurship and innovation in Japanese society.

As we pointed out earlier, it is puzzling how Abe pursued agricultural reforms and the TPP, risking alienation of agricultural interests, a critical part of the LDP’s traditional support base. Chapter 14, “Japanese Agricultural Reform under Abenomics” by Patricia Maclachlan and Kay Shimizu, tackles this puzzle. They argue that agricultural reform for the Abe administration was analogous to postal reforms under Koizumi. Abe sought to weaken resistance to agricultural reform by

undercutting the institutional foundations of Japan Agricultural Cooperatives (JA), the conservative farm lobby. Although reform momentum slowed after 2017, Abe succeeded in permanently kneecapping the Japanese farm lobby.

Trevor Incerti and Phillip Lipsy examine energy policy under Abe in Chapter 15, “The Politics of Energy and Climate Change under the Abe Government.” They argue that Abe’s reforms in the energy sector prioritized low energy prices in support of macroeconomic growth and industrial policy interventions to support Japanese business interests. Although Abe publicly expressed support for international efforts to combat climate change, Japanese policy during his tenure came under sharp international criticism for lack of ambition and continued support for traditional energy sources, particularly coal. The authors argue that this reflected both institutional constraints and the prime minister’s preferences, which prioritized economic growth over decarbonization.

In Part V, the last two chapters of the book evaluate Abe’s foreign policy in two broad areas: security policy and history issues. Adam Liff takes up security policy in Chapter 16, “Japan’s Defense Reforms under Abe: Assessing Institutional and Policy Change.” He examines the evolution of Japanese security policy under the Abe administration and concludes that they represent a significant shift toward centralization of national security policy decision-making in the executive. This is broadly consistent with the patterns we observe in domestic policy-making. However, Liff also cautions that Abe’s reforms are largely evolutionary in nature, building on long-standing trends in Japanese security policymaking. Furthermore, important constraints on radical reforms remain in place, such as fiscal constraints on military expansion and domestic resistance to amendment of Article 9 in Japan’s constitution.

In Chapter 17, “The Enduring Challenges of History Issues,” Mary McCarthy considers the Abe government’s approach to historical memory and reconciliation. McCarthy notes that the Abe government sought to reinstate a sense of national pride in the Japanese nation and move beyond narratives of Japan as a perpetrator or victimizer. Abe achieved some notable successes in historical reconciliation, such as the 2016 visit to Hiroshima by US President Barack Obama – the first in history by a sitting US president – and a reciprocal visit to Pearl Harbor. However, the comfort women issue proved intractable despite a 2015

agreement with South Korea that declared the issue “resolved finally and irreversibly.” McCarthy attributes this to the democratization and globalization of historical memory by various domestic, transnational, and international actors, which has diminished the ability of governments to shape narratives.

Together, the chapters of the book paint the picture of a dynamic government that took full advantage of political institutions that centralize power around the prime minister. Abe exercised this power effectively in no small part due to his high and stable levels of popularity, which he managed deliberately by focusing on popular economic reforms, sequencing and timing unpopular policies, and appealing to rising Japanese nationalism. The chapters that evaluate Abenomics reforms find meaningful and significant progress across a wide range of issue areas that overturn the conventional wisdom of Japan as a stagnant country mired in policy paralysis. However, progress was not uniform, and the momentum of reform appeared to slow down over time, shifting increasingly toward questionable industrial policy interventions.

Notes

1. The large literature on the consequences of the 1994 electoral reform includes Rosenbluth (1989), Sakakibara (1991), Ramseyer and Rosenbluth (1993), McCubbins and Rosenbluth (1995), Cox, Rosenbluth, and Thies (1999), Hirano (2006), Scheiner (2006), Rosenbluth and Thies (2010), McElwain (2012), and Catalinac (2016).
2. NHK Yoron Chosa, www.nhk.or.jp/senkyo/shijiritsu/.
3. Abe as quoted in Oshita (2017), p.15 (our own translation).
4. For example, see journalistic accounts by Mori (2016) and Matsuda (2016).
5. The information in this section is based on author interviews as well as published interviews of government officials in Abe’s inner circle by journalists.
6. These are the names listed by Abe himself as his closest personal allies. See Oshita (2017), pp.11–12.
7. “Abe Naikaku Sori Daijin Shunin Kisha Kaiken,” 2012, www.kantei.go.jp/jp/96_abe/statement/2012/1226kaiken.html; Tazaki (2014), p.52; Oshita (2017), p.11.
8. “19,000-strong LDP supporters’ group debates how to knock down election rivals,” *Mainichi*, October 18, 2017, <https://mainichi.jp/english/articles/20171018/p2a/00m/0na/010000c>.

9. Evan Dyer, “Some health experts questioning advice against wider use of masks to slow spread of COVID-19,” March 31, 2020, www.cbc.ca/news/politics/covid-19-pandemic-coronavirus-masks-1.5515526.
10. Daiki Nonaka, “Abe naikaku wa naze ‘ichiritsu 10man en wo ukeireta no ka?” *Toyō Keizai Online*, April 23, 2020, <https://toyokeizai.net/articles/-/346133>; “Kinkyū jitai sengen wa naze 4gatsu 7ka?” *FNN Prime Online*, April 14, 2020, www.fnn.jp/articles/-/31768.
11. Eric Johnston, “Tokyo and Osaka governors vie for national attention,” *Japan Times*, June 21, 2020.
12. “Covid-19 has given most world leaders a temporary rise in popularity,” *The Economist*, May 9, 2020.
13. NHK Yoron Chosa, August 2020, www.nhk.or.jp/senkyo/shijiritsu/.
14. Shinzo Abe, Press Conference by the Prime Minister, August 28, 2020, https://japan.kantei.go.jp/98_abe/statement/202008/_00004.html.
15. “Japan’s finance minister, central bank governor vow to use all tools to combat virus fallout,” Reuters, May 22, 2020, www.reuters.com/article/us-health-coronavirus-japan-economy/japans-finance-minister-central-bank-governor-vow-to-use-all-tools-to-combat-virus-fallout-idUSKBN22Y170, accessed May 30, 2020.
16. See www.kantei.go.jp/jp/singi/keizaisaisei/kettei.html.
17. For a brief introductory discussion, see Ito and Hoshi (2020, pp.316–328).
18. See also Hoshi (2014).
19. “Social security reforms for all generations” are not so much on national pension or other social security systems. The policy calls for continued employment to age seventy, more mid-career hiring, and supports for those workers who entered the job market during the “job ice age” (mid-1990s to mid-2000s).
20. The fund, aka A-FIVE, was established in 2013, but accumulated huge loss (more than 10 billion yen as of the end of 2019). In December 2019, the government decided to stop investment and plans to liquidate A-FIVE.

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