

World Knowledge Forum 2013

Iwata Kazumasa, The Future of Abenomics

Early Thursday morning at the 14th World Knowledge Forum, Kazumasa Iwata spoke about Abenomics, the economic policies enacted by the Abe administration to revive a struggling Japanese economy. In regards to the future of the Japanese economy, Mr. Iwata said, "The day of reckoning will be in the fiscal year 2018, which is not so far away. It is not so close, but also not so far away."

Mr. Iwata, President of the Japan Center for Economic Research and Former Bank of Japan Deputy General, outlined the primary strategies of Abenomic policy, as well as some potential risks going forward and important steps to ensuring sustainable growth.

Explaining the recent favorable circumstances of Japanese growth rate, Mr. Iwata cited consumer spending, government expenditure, and the sharp turnaround of the Yen exchange rate. "It is rather unusual in Japan, consumer spending led recovery," he said, "and it's because people are becoming more optimistic."

One of the imminent risks of Abenomic policy is the effect it will have on this consumer spending. Mr. Iwata detailed a plan to increase the consumption tax over the next two years, and expressed concern about how such action will impact an economy with a slow growth rate. Mr. Iwata himself has proposed an alternative plan for the increase, but he said, "There has already been a three-party agreement on the current plan, and I think it will be very difficult for a new consensus to be reached."

Another risk presented was the issue of trade deficit. "After Fukushima," Mr. Iwata explained, "we had a 30 percent supply cut of energy, so we have been obliged to increase our import of fossil fuels. This, of course, is at a very high price, five times that of the US, and the result is a trade account deficit." With such a deficit, Mr. Iwata fears a repeat of the stagflation Japan experienced in 2009.

Mr. Iwata also expressed fear that the large size of the debt has produced fiscal dominance. He explained the term, saying, "By this I mean, this is a monetary policy that cannot affect the long term interest rate and inflation rate, and when we have uncomfortable fiscal domination, interest rates will rise." He continued, "There may be a limit of this function, a limit on the ability of the private sector to absorb government debt."

To conclude his speech, Mr. Iwata identified areas in which Japan needs to improve to guarantee a sustainable economy. "To attain higher efficiency," he said, "we need institutional changes, a higher quality of institutions, not economic but political and social." Mr. Iwata suggested reforms in

education and addressing the gender gap. "Japan is weak on the side of the gender gap," he explained, "and we need to focus on the role of colleges and universities in society."

Mr. Iwata ended on a positive note. "If Japan succeeds to implement these drastic institutional reforms," he said, "the outcome is doubling the size compared to the current per capita gross national income."