

## Comments on the Third Session: Economic Policy of Abenomics

ESRI International Conference

“Toward Revitalization of the Japanese Economy: The Role of Policy in the Global Economy”

May 31, 2013

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Abenomics consists of the so-called three arrows: aggressive monetary policy, fiscal expansion, and growth strategy.

### **1. Monetary Policy**

The aggressive reflationary policy under the new BOJ Governor Mr. Kuroda (April 4) has contributed to a sharp rise of stock prices and depreciation of the yen. It remains uncertain how the policy would achieve 2% inflation for there is little correlation between price and base money (or money) in Japan (or for that matter the US). The significant regime change in wage setting triggered by the long stagnation of the Japanese economy during the 1990's is responsible for stubborn deflation. Monetary policy would not be able to affect wages/prices by directly changing “inflationary expectations”. Consumer sentiment appears improving on the whole, but is still mixed among different groups.

### **2. Fiscal Consolidation**

We need fiscal consolidation rather than fiscal expansion. It is a prerequisite for sustainable economic growth. To raise consumption tax (VAT) from 5% to 10% by 2015 is a necessary first step. To avoid it creates a potential risk of unstable bond market. The major reason for deficits is a steady increase of social security-related transfers due to rapid aging, and, therefore, reform of social security system is called for.

### **3. Growth Strategy**

A lack of innovations on the part of corporate firms is a major problem of the Japanese economy. It aggravates deflation.