Keynote Address

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1. Opening Remarks

Ladies and Gentlemen:

First off, I extend my sincere gratitude to the many scholars and researchers from abroad who have made the time and effort to travel here from afar and attend this conference.

Abenomics has attracted worldwide attention. At the Davos conference back in January this year, Martin Wolf, the Financial Times Associate Editor that chaired one of the sessions I attended, likened Abenomics to a policy revolution. More recently, Japan's Prime Minister Shinzo Abe was depicted in a Superman outfit on the cover of the British news weekly, *The Economist*. As someone from the generation that grew up watching Superman episodes on TV, for me, that classic "It's a bird. It's a plane. No, it's Superman!" is a nostalgic phrase. *The Economist* cover had "Is it a bird? Is it a plane? No, it's Japan!"

Lately, the foreign cabinet-level government officials and parliament officials that I meet on their visits to Japan always say that they are interested in Abenomics and then ask for briefing in detail. Thatcherism and Reaganomics were renowned economic policies in their day. It may be that Abenomics also will carve out its own place in economic history, provided it succeeds in rescuing Japan from over a decade of deflation and puts our economy on the comeback trail as an engine of global economic growth.

As you know, Abenomics comprises three policy arrows: bold monetary policy, flexible fiscal policy, and a growth strategy that encourages private sector investment. Today, I would like to utilize this opportunity to present an outline of Abenomics and its key features.

At its core, Abenomics aims to change the deflationary sentiment of Japanese consumer and market which has been kept for more than a decade—and accordingly spur the nation’s leading economic agents into following a new course of action. To bring about a change in hard-set deflationary sentiment, the strategy is to intensively apply every resource at once rather than in gradual increments. Another point underlining Abenomics is the determination to go all-out with these concerted policies until they deliver results. This is because it is backed by the view that persistence is the key to success.

Although market and consumer expectations remained unchanged for more than a decade now, they have already begun to show signs of improvement. Benefits are also beginning to appear and work their way through the real economy.

In the first quarter of 2013, real GDP expanded at an annualized 3.5 percent compared to the previous quarter. Since the inauguration of the new Abe Cabinet, stock prices have been rising. The resulting asset effect has improved household sentiment and stoked a turnaround in consumer spending, particularly on car purchases and meals at restaurants. Another background factor that may be cited is the renewed expansion in exports that has been aided by firming business conditions in the U.S. and other economies abroad. In my view the Abe government’s a new phase of economic policy has begun reaping benefits led by an increase in consumer spending. In the period ahead, the economic recovery should gather more convincing momentum as steps are taken to leverage private investments that have stopped declining.

2. Unleashing the First and Second Arrows of Abenomics

Prices have also begun displaying signs of change in certain areas. Under the previous administration, about 60 percent of surveyed Japanese households expected prices to be higher a year later. By April this year, the share of households that felt that way rose to 82.8 percent.

First, in relation to the bold monetary easing that counts as the first arrow of Abenomics, in January this year the Abe government and the Bank of Japan issued a joint statement and BoJ adopted a price stability target for the first time. At that point in time, the BoJ committed itself to achieving a target rate of 2 percent at the earliest possible time. At its Monetary Policy Meeting in April, the BoJ decided monetary easing that is of an entirely new dimension both in terms of quantity and quality. It will double the monetary base and the remaining maturity of long-term JGBs that it purchases. In addition, it sets a two-year time line for achievement of its price stability target of 2 percent. This is indeed a bold policy platform that deserves being described as a new phase of monetary easing, and I applaud the BoJ for putting it into motion.

The second arrow is flexible fiscal policy. Under the previous government administration, the Japanese economy approached an abyss that threatened to sink it to new depths. In fact, the GDP growth rate for the July–September quarter of 2012 registered a negative 3.5 percent at an annualized rate compared to the previous quarter. To rescue the ailing economy, the Abe Cabinet put together a 10 trillion yen supplementary budget proposal equivalent in scale to 2 percent of GDP and had this budget measure enacted in February. Immediately after its enactment, the Abe government launched efforts to have this supplementary budget implemented at full speed. The goal is to create more jobs, thus generating increased income and spreading the ripple effects of the economic recovery to all corners of the nation without delay, and quickly provide the Japanese public with the realization and sense of relief that an economic recovery is at last under way. The consequent improvement in consumer sentiment will in turn lead to an expansion in both consumption and investment. This is the scenario of the virtuous cycle that we hope to achieve at an early date.

In any event, speedy implementation is the common denominator that the Abe government has applied to the first and the second arrows. That stance reflects Prime Minister Abe’s observation that we cannot have growth without action.

3. Criticisms of Abenomics

From the earliest days of its coinage, the term “Abenomics” has been attacked for entailing prohibit implications by the political opposition and the news media. This new phase of monetary easing has also been heavily criticized.

Most of the currently popular criticisms of Abenomics have to do mainly with its presumed side-effects. As such, they can be divided roughly into two categories, as follows.

The first category of criticism stresses that the policies of Abenomics will deal a blow to the lives of average citizens and certain business sectors through price inflation. The argument is that inflation in the absence of rising wages will actually have a detrimental economic impact on people’s lives, or that rising import prices due to the weakened yen will be painful for consumers or cause distress for businesses.

The second category emphasizes that rising long-term interest rates will have a negative impact on the economy and public finances. One argument along these lines is that if this new phase of monetary easing undermines market confidence in JGBs and drives long-term interest rates sharply higher, the economic growth rate will be forced downward and the fiscal and monetary systems will suffer dysfunction.

My current positions on these criticisms of Abenomics are as follows.

The key claims representing the first category of criticism are that the lives of citizens will be seriously impacted by price inflation in the absence of wage hikes or by rising import prices due to the weakened yen. However, our solution to that scenario will be to rescue the economy from further deflation and achieve growth in employment and income through the synchronized implementation of the three arrows forming our unprecedented package of policy measures. Of course, in that process, it is especially important that improved earnings in the corporate sector be fairly distributed. To that end, Prime Minister Abe has called on those members of the business community with available reserves to consider boosting wages to workers, even if it is like a bonus. Some companies have already announced plans to boost employee compensation in sympathy with this policy. Our hope is that as improved business performance buoys corporate confidence, wage hikes will spread through the economy. It is also important, however, that government, the business community, and the labor community engage in candid discussions regarding the domestic employment-related issues they respectively face, strive for deeper mutual understanding, and together work toward solutions. We are currently studying the idea of setting up an appropriate forum that facilitates this process.

Although yen depreciation can be expected to have the effect of increasing price levels for imported goods, it will also lead to improved earnings in certain sectors of the economy. In my view, recycling such benefits back through the economy as a whole will also be important.

As I indicated earlier, the claims forming the second category of criticisms of Abenomics focus on the risk that long-term interest rates will enter a sharp uptrend. First of all, as I see it, the BoJ will be able to handle this scenario because it has announced plans to establish a forum for closer coordination and exchanges of views by market participants than has been the case to date. The government, for its part, will watch bond market trends primarily in the interest of assuring that the market is able to effectively absorb new government bond issues. A sharp climb in long-term interest rates would pose serious risks to the economy, public finances, and the lives of all citizens. Accordingly, in line with the Joint Statement by the government and the BoJ in January this year, the government will move forward with steady steps to establish a sustainable fiscal structure while demonstrating its intentions and plans for the achievement of sustainable fiscal structure.

“Basic reform program of economic and fiscal management” that is expected to be laid out by the Council on Economic and Fiscal Policy in mid-June will provide an outline and direction for strategies aimed at balancing Japan’s economic revival with the need for sustainable fiscal structure. The actual policy measures will be laid out in the medium-term fiscal plan that the government puts together this summer. Medium- and long-term perspectives toward both Japan’s economic revitalization and sustainable fiscal structure will also be prepared this summer.

4. Growth Strategy, the Central Pillar of Abenomics

Benefits have already begun to accrue from earnest implementation of the first two arrows of the Abenomics. However, thus far, those benefits cannot yet be described as sufficient.

Japan has become a 500 trillion yen economy with its private sector playing a primary role. To put this economy to work and have it start new growth, the Abe administration will, as its third policy arrow, develop a growth strategy that expands private investment and consumption. That growth strategy will be the central pillar of Abenomics.

The biggest difference between this growth strategy and others of years past is that this time, strategy is followed by action. The Abe Cabinet pledges that the new growth strategy it soon unveils will be implemented with speed in an entirely new dimension. This is the prime feature distinguishing Abenomics that departed from political gridlock where decisions are rarely forthcoming.

Specifically, we plan to set key performance indicators (KPIs) for each of the sectors addressed by the new growth strategy and assess progress in each sector at least once a year. If progress proves to be below expectations, our approach will be to identify the underlying causes and devise serious supplementary measures aimed at meeting initial sector targets rather than lowering the bar or delaying the schedules for achievement of those targets. In effect, this will be a growth strategy that continues to evolve.

The foundation of this new growth strategy will be built on three pillars.

The first pillar will consist of measures to remove six serious burdens on the business environment and reinforce the nation’s industrial base. This will involve efforts to strengthen the industrial base in multiple areas, including human resources, science and technology, the utilization of information technology, and energy. The goal is to equip Japanese industry with fundamental strengths that enable it to maintain its competitiveness at the global level.

The second pillar involves the creation of new growth markets. We often hear the saying that crisis breeds opportunity. Japan currently faces several pinches, including a declining birthrate with the demographic aging of its population along with the aging of key infrastructure. If it can find solutions to these challenges, it will have opportunities to export those solutions to other countries that face similar challenges in the years ahead. Our goal is to be able to realize, “Japan is back!” and once again experience the prestige of “Made in Japan” in the global marketplace. That possibility and its opportunities are now knocking at our door. We must not allow ourselves to be distracted and intimidated by the crisis conditions we face. We must instead gaze squarely at the opportunities and dare to accept the challenges ahead.

The third pillar of the new growth strategy will be a drive to create structures that enable Japan to fully exploit its geographic position of the midpoint of the world’s growth center—the Asia-Pacific region—and achieve growth hand-in-hand with this region. Its participation in negotiations for a Trans-Pacific Partnership count as a first step in that direction but additional initiatives also will be implemented to shape an environment that allows Japan to promote its economic role at the international level.

The final touches to this three-pillar growth strategy should be complete by mid-June. Prime Minister Abe plans to outline this strategy at the next G8 summit.

5. Closing Remarks

Before closing, I would like to talk briefly about the shape of the market economy that Abenomics aspires to build. Prime Minister Abe frequently uses the expression "*mizuho no kuni* style capitalism." Implementation details for "*mizuho no kuni* style capitalism" are to be hammered out by a special committee to the Council on Economic and Fiscal Policy. Abenomics is different from the speculative financial capitalism that brought us the crisis triggered by the collapse of Lehman Brothers. Abenomics strives to return the market to its proper form, to establish a system that places more importance on medium- and long-term investments, and on this basis to create an economy marked by continuous innovation.

Known as a champion of innovation, the economist Joseph A. Schumpeter once stated, "The difference between a speculator and an investor can be defined by the presence or absence of the intention to 'short-term trade.'" On that note, I feel that one of the most important themes in economic policymaking today has to do with how economic systems integrate mechanisms that encourage investments in fixed assets, research and development, and human resources. It would be interesting to me if this question is also discussed during this conference.

To borrow a phrase from John M. Keynes, “The difficulty lies, not in the new ideas, but in escaping from the old ones.” May this conference provide us an opportunity to abandon outdated concepts and generate new ideas.

Thank you.