Free from Neo-Liberalism: Prescriptions for Long-term Growth in Japan: No growth without distribution

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Abstract

This paper discusses the reasons why the Japanese economy has remained in a prolonged slump for more than a quarter of a century, despite the monetary easing implemented by the Bank of Japan over the past two decades. This economic situation is largely due to the deep-rooted neo-liberalism that has dominated Japanese economic policy in the past 40 years. Neo-liberalism has fostered income inequality through tax measures such as relaxing the progressivity of income tax, increasing the regressive consumption tax, giving preferential treatment to certain wealthy groups (e.g. reduced asset taxation, reduced taxation of financial income) and reducing or exempting corporate tax rates for large corporations.

One of the most important problems is that neoliberal policies have promoted the liberalisation of the labour market and the expansion of non-regular employment. The result has been a long-term decline in real wages, which has constrained Japan's consumption and hence GDP growth. This paper therefore calls for a fundamental shift away from traditional neo-liberal economic policies through the following policies:

i) a radical shift away from economic policies based on neoliberalism; ii) tax reform to promote economic growth by changing the tax burden on the rich and the poor; iii) reform of labour market policies; iv) reform of the social security and pension systems; and v) the revival of the Economic Planning Agency for independent economic analysis and policy making.

JEL D31, E52, H20, H50, O23

Key Words: Neo-Liberalism, Economic stagnation, Disparity of Income, Tax Reforms, Labour market Liberalisation, Non-regular Employment

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Ritsumeikan Annual Review of International Studies, 2021. ISSN 1347-8214. Vol.20, pp. 97-161

Introduction

This paper argues that a major reason for Japan's stagnant economic growth over the past quarter century has been a slump in domestic demand caused by widening income inequality and a large increase in the number of poor people, and that this has been fundamentally driven by decades of neo-liberal economic policies. The current neo-liberal policies have benefited only certain wealthy groups , and the liberalisation of the labour market has led to a long-term decline in real wages due to the expansion of non-regular workers, which in turn has depressed consumption and hindered economic recovery. This paper therefore calls for a fundamental change in traditional neo-liberal economic policies and makes policy recommendations to achieve long-term sustainable growth for the Japanese economy.

Japan's economy has been in a prolonged slump for more than a quarter of a century, and more than 20 years have passed since the Bank of Japan introduced zero interest rates in 1999. Although the Bank of Japan has implemented monetary easing policies to the utmost limit, including Quantitative and Qualitative Easing (QQE) [April 2013-] and negative interest rate policies [February 2016-], the economy has yet to overcome deflation or disinflation. The 2% inflation target initially set in Abenomics has not been achieved even after 8 years, and the economy has remained stagnant for a long period of time, and recently the economy has deteriorated significantly due to the setback by Covid-19. The abundant money from the BOJ's monetary easing has not been channeled into the real economy domestically, but has only increased the financial assets of the wealthy.

While some large firms and the wealthy have benefited from the neo-liberal policies promoted by previous governments and have benefited from soaring stock prices, the real economy has become increasingly sluggish. The "trickle down" effect of neo-liberal policies has failed to materialise, benefiting only the wealthy few and leaving the majority of the population with little or no income growth and reduced consumer demand, which has led to a downturn in the Japanese economy as a whole. Furthermore, one of the main features of the Japanese economy has been the decline of the middle class and the expansion of the lower income groups.

This is because the liberalisation of the labour market has led to an expansion of non-regular employment, which has resulted in a huge gap in annual earnings between regular employees and the rest of the population, and a fall in overall income levels, which has created a demand deficit in the Japanese economy as a whole.

All of this has led to a slump in consumption across the population, resulting in an economic downturn unparalleled in the developed countries. This economic situation can be attributed in large part to the deep-rooted neo-liberalism that has dominated Japanese economic policy for nearly 40 years since the 1980s, and which has become entrenched in the country's politics, economy and society.

It is clear that the continuation of neo-liberal policies over the past few decades has resulted in a significant increase in income inequality and a dichotomy between the rich and the majority of the lower income groups. This paper argues that the reasons why income inequality has widened, and the number of poor people has increased significantly include the flattening of the progressive income tax system, the preferential treatment of certain wealthy groups (including reduced asset taxation and reduced financial income taxation), and the expansion of non-regular workers following the liberalisation of the labour market, which has led to a long-term decline in real wages.

GDP growth in Japan has consistently fallen in line with the deterioration of the income distribution (widening of the Gini coefficient). The improvement in the income distribution lasted until the early 1970s, when the Gini coefficient improved and growth rates were higher under a more progressive taxation system than today. Piketty (2014), IMF (2015) and OECD (2008), among other leading international organisations, have found that worsening income inequality has a negative impact on economic growth, while Ohta (2007, 2017) has shown that GDP growth can be increased by promoting income distribution through strengthening the progressive income tax system.

In this context, now is the time to fundamentally change the conventional economic policy based on neo-liberalism, to promote income redistribution policy instead of regressive consumption tax that makes the poor more and more impoverished, to focus on strengthening the progressive system of direct taxation, to achieve simultaneous improvement of fiscal balance and acceleration of economic growth, and to aim for a welfare state where people can live in peace.

As one of the Critique of Abenomics, M. Ito (2014) explains the stagnation of the Japanese economy and aims to come up with some policies. However, six years have already passed since its publication, and it does not reflect the latest situation. Kikuchi (2015) points out the problems of neo-liberalism, but does not go so far as to analyse the state of monetary policy in Japan up to the present or the distribution of income. Hattori (2014) also points out the failure of the Bank of Japan's inter-dimensional easing and the failure of economic policies. Furthermore, Morinaga (2018) also introduces the political and economic aspects of the Koizumi and Abe administrations since the 2000s, but fails to propose economic policies based on a long-term perspective. On the other hand, Karube (2020) has recently focused on analysis from a political perspective, while Ito (2020) has approached the debate on the consumption tax, but has only dealt with limited aspects.

In many of these previos works, there is little that discusses the underlying factors and background of the Japanese economic downturn from a long-term perspective and from macroeconomic and international economic and financial perspectives. This paper offers effective prescriptions for the Japanese economy based on empirical and quantitative analysis.

This paper begins with a detailed introduction to Japan's long-term economic stagnation and the realities of economic policy, followed by a description of the policies and consequences of the neo-liberal drive that has long defined and dominated Japan's politics, economy and society, and the political pressures from the US that have had a major impact on the Japanese economy. This is followed by a description of the policies and their consequences. The next section examines the effectiveness of the Bank of Japan's easing policy, the 'First Arrow' of Abenomics, based on the results of empirical analysis.

Finally, some prescriptions for sustainable economic growth in Japan are presented. These include: i) Fundamental shift in economic policy for welfare; ii) Tax reform to stimulate economic growth by changing the burden of tax structure; iii) Reform of labour market policies; iv) Reform of the social security and pension system; v) Revival of the Economic Planning Agency (Need for independent economic policy). These include progressive taxation, stronger asset taxation, reform of the pension and social security systems, and changes in labour policy.

Chapter 1: The "Lost three decades" of the Japanese Economy and the Consequences of Economic Policy

1-1 Economic stagnation and the consequences of economic policy

After the collapse of the bubble economy in 1991, Japan's economic stagnation, which was initially regarded as a "lost decade", has recently exceeded a quarter of a century and can be regarded as a "lost three decades". Japan's real GDP growth rate was 0.49% between 1997 and 2020, the lowest in the world, not only among developed countries but also among developing and emerging economies[1].

1. GDP growth rates are based on statistics published by the Cabinet Office as of October 2020. However, as I point out in this paper, they are not considered to be accurate due to adjustments for "other" items under the Abe administration.

Moreover, nominal GDP has been stagnant since its peak in 1997, and has not exceeded it until recently[2]. Today, Japan's economic aspirations (nominal GDP) are rapidly outstripping China's, which lost the world's second place in 2010, and China's GDP is almost twice that of Japan's (Fig.1). This is due to the fact that Japan has experienced little growth over the long term. Although the bursting of the bubble economy in 1991 triggered a period of stagnation in the Japanese economy up to the present, there was actually a period in 1995/6 when GDP growth recovered to around 3%, and in fact Japan's nominal GDP peaked in 1997 and has been on a downward trend ever since (Fig.2).

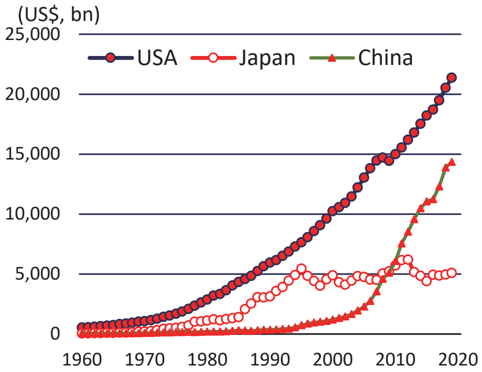

Fig.1: GDP (nominal)

Source: World Bank database

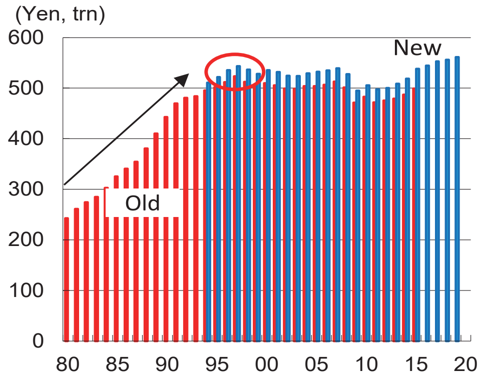

Fig.2: Japan Nominal GDP

Note: Old before 2015. New after 2016
Source: Cabinet Office

Therefore, the Japanese economy did not enter a full-fledged period of stagnation until 1997, when the 'Financial Big Bang' began in earnest and the Asian crisis coincided with the emergence of a financial crisis in Japan. Policy factors during this period also included a significant cooling of consumption due to the coincidence of the increase in the consumption tax rate. As a result, the Japanese economy entered a two-decade slump in which it did not exceed its 1997 nominal GDP for a long time. Moreover, the average real GDP growth rate was higher under the Democratic Party of Japan (DPJ) than under the Abe administration of Liberal Democratic party (LDP)[3] (Fig.3).

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2. The fact that the Japanese economy has also slumped in the wake of financial liberalisation, which began in earnest in 1997, has much to do with the fact that policies based on neo-liberalism have been in full swing ever since.

3. The second Abe administration claims to have contributed to the recovery of the Japanese economy. However, this just happens to be in comparison to the period when the previous

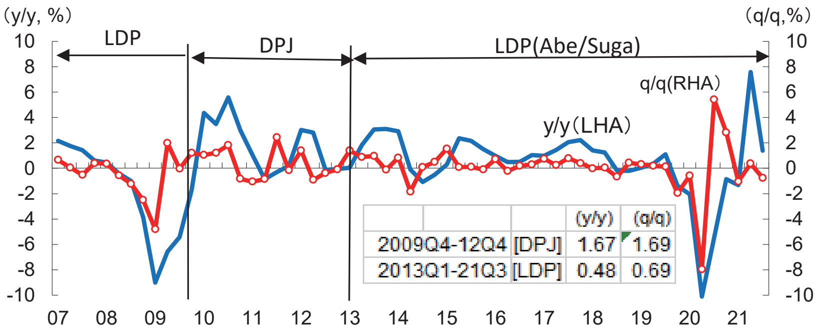


Fig.3: Real GDP Growth (Japan)

Source: Cabinet Office, Japan

Recently, although the government (Cabinet Office) has indicated that nominal GDP has passed the 1997 peak, the credibility of the statistics has been questioned due to changes in the GDP threshold and the fact that "other" items have been given more weight than necessary[4]. Thus, the problem arises that the current GDP figures published by the government do not accurately reflect the reality of the economy, and the numerous statistical problems under the previous Abe administration have become an obstacle to assessing the growth of the Japanese economy.

On the other hand, the 2% annual inflation target, which was the main goal of Abenomics at the beginning, has become a myth and is nowhere near achievable (Fig. 4). Although the CPI inflation rate uniquely exceeded 2% per annum when the consumption tax was raised from 5% to 8% in April 2014, the CPI inflation rate remain below 2%. Although the consumption tax was raised from 8% to 10% in October 2019, CPI growth in 2020 was a sluggish -0.02%.

Japan introduced the world's first zero interest rate policy in1999, and interest rate levels have fallen further since the Bank of Japan adopted a negative interest rate policy in February 2016. Essentially, negative interest rates were set to apply to each bank account in the Bank of Japan's current account following the sale of new government bonds. The negative interest rate was introduced with the intention of directing the funds that are still in the BOJ's current account to be lent by

Democratic Party of Japan (DPJ) government suffered a major economic setback due to the impact of the Global Financial Crisis following the Lehman shock. In fact, real GDP growth under the DPJ (1.6%, 2009Q4-2012Q4]) was higher than that under the Abe / Suga administrations (0.4%, [2013Q1-2021Q2]).

4. At the time of FY2015, nominal GDP was only around 500 trillion yen, but the figure has since grown sharply following a change in the way GDP is measured, reaching 564 trillion yen in 2019 (when published in September 2020). This is suspected to be due to the manipulation of R&D expenditure and "other" items to boost GDP figures.

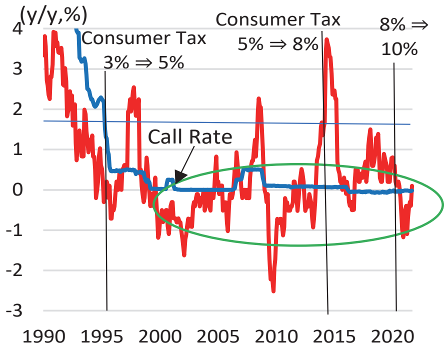


Fig.4 Japan: CPI

Sources: FRB FRED, Statistics Office

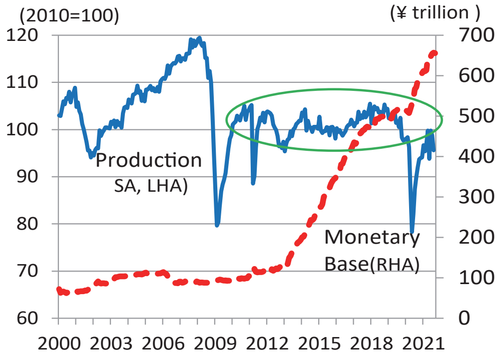


Fig.5: Monetary Base & Industrial Production (Japan)

Sources: Bank of Japan, IFS database (IMF)

the banks in February 2016, but in reality it has hardly worked. A number of assessments have already shown the negative effects of negative interest rates, but the biggest impact has been a sharp decline in the profits of regional banks and other banks from their investments in government bonds, which they had maintained as a stable asset management strategy, and a decline in the profitability of the lending business itself as interest rates have fallen.

These economic policies were part of the "bold monetary easing" under "Abenomics" in the first place, and in particular, since April 2013, the Quantitative and Qualitative Monetary Easing (QQE) policy has been introduced and the Bank of Japan has supplied a large amount of monetary base. However, both of the main instruments of monetary policy-quantitative easing and negative interest rates-have been ineffective in helping the real economy to recover (Fig. 5).

The key to answering the question of why Japan has failed to achieve a full-fledged economic recovery, then, is to look at the economy from the demand side. A major cause of Japan's economic stagnation has been weak consumer spending, which accounts for around 60% of GDP. It is noteworthy that during the Democratic Party of Japan (DPJ) administration (2010-12), the contribution of private consumption to GDP was the highest in more than 20 years and household disposable income was recovering, but no austerity measures were adopted during this period (Fig.6). Furthermore, the propensity to consume of working-age households has fallen in line with the fall in real disposable income, with the propensity to consume of working-age households with two or more members aged 29 and under falling sharply by -25.2% over 2019, when the 2000 level is set at 100. In terms of the contribution to GDP growth, the correlation coefficient (R) with private consumption is 0.76 and the coefficient of determination (R^2) is 0.58% for the average period 1995-2020. In particular, the contribution of household consumption to GDP growth has been sluggish between Q1 2018 and Q2 2020, at an annual rate of -1.1.% (Fig. 7).

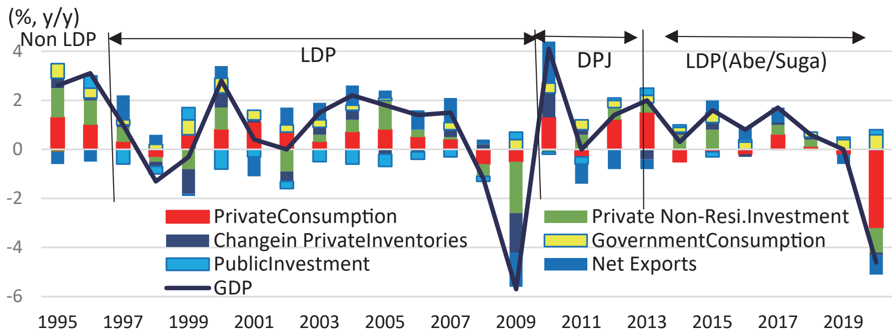
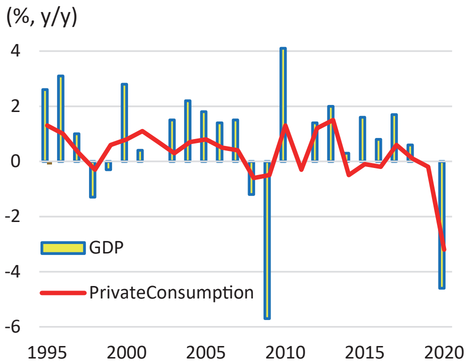


Fig.6: Real GDP Growth (Contribution)

Source: Cabinet Office



[1995-2020]
Priv. Consumption ⇔ GDP Growth
Y = 1.729X + 0.1954
(5.771) (0.6759)
t-value inparenthesis
R: 0.762; R^2: 0.581

Fig.7: Real GDP Growth (Contribution)

Source: Cabinet Office

In Japan, wage levels peaked in 1997, and since then household disposable income and workers' real wages have been on a downward trend for more than two decades (Fig.8). It was a natural consequence of this that personal and private consumption did not grow. The decline in real wages has led to a fall in household income, which in turn has prevented demand from growing and has been a major factor in the prolonged stagnation of the economy and the decline in GDP growth, as described above. A fundamental factor in this has been the growth of non-regular employment, which now accounts for around 40% of the working population (Fig. 9). The downward pressure of wage levels has exerted not only on those in non-regular employment but also on the wage levels of those in regular employment.

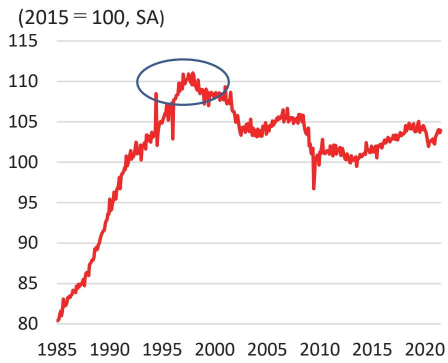


Fig.8: Wage Level (Japan)

Source: FRED

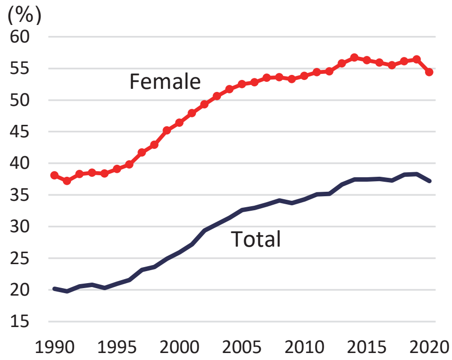


Fig.9 Non Regular Employment (Japan)

Source: Minsitry of Internal Affairs and Communication

In particular, over the past decades, the restricted industries for dispatched workers (non-regular employment) have been relaxed, and the previous Abe government completely abolished these restrictions, thus completely changing the employment environment based on neo-liberalism. As a result, non-regular employment has become increasingly common and real wage growth has constantly declined. This has led to a decline in household disposable income to date and an economic downturn based on a lack of demand. This is probably a result of the government's policy of giving priority to large companies and employers rather than benefiting the lower income groups. Particularly since the beginning of 2020, non-regular workers have been hit hard by the Corona disaster, and there has been a steady increase in employment adjustments and restructuring, which has reduced the overall disposable income of households, resulting in a decline in consumer demand. In other words, the expansion of part-time employment is a major impediment to Japan's economic recovery, and unless this situation is changed, the economic downturn is likely to continue[5].

5. In the US, unlike Japan, the labour market is functioning relatively well, and the proportion of part-time jobs is not extremely high, so real GDP growth has recovered relatively in short period: for the whole of 2020, the growth rate was only -3.1%, and in 2021 it is forecast to be 6.2% (IMF, World Economic Outlook, Oct. 2021).

1-2 The persistent idea of self-responsibility and the spread of Neo-Liberalism

In Japan, Piketty's book "Capital in the 21st Century" (2014) temporarily became a bestseller in 2015/6 and caused a kind of boom, but soon people became less interested in the issue of widening income inequality. Although translations of Piketty's work were published during the boom, it is difficult to say that they have penetrated people's consciousness of the problem. It is important to ask whether the people who were aware of the importance of Piketty's policy of income distribution and who read his work with interest were the general public or ordinary people. It is very difficult to say whether the majority of the general public was always aware of the problems and was willing to participate in politics to reflect them in policy. As a result, once the boom was over, people probably forgot about it. Moreover, those who are aware of the issues are those with a certain level of knowledge and experience, while the people who really need Piketty's arguments donnot have the time to think about it, and therefore have no opportunity to be exposed to academic discussions.

In Japan the neo-liberal policies of the Liberal Democratic Party (LDP) have continued for almost 40 years since the 1980s, with the exception of the Murayama cabinet in the 1990s (1993-5) and the Democratic Party of Japan (DPJ) government in 2009-12. The past few decades have seen the implementation of various deregulation, privatisation and labour market "reforms" in the name of "structural reforms", and the spread of the ideas advocated by neo-liberalism and a lack of understanding of the direction of reform of the status quo through public policy. In other words, people in Japanese society have been indoctrinated and "brainwashed" in a sense by neo-liberalism over the past few decades, and this has led to a loss of acceptance of income redistribution and welfare policies within the mainstream of market-based neo-liberalism.

It seems that many Japanese still do not understand the legitimacy of income redistribution policies, arguing that market-based "competition" is a virtue, that more progressive taxation kills the will to work, and that tighter taxation will cause companies and individuals to flee abroad. In fact, many people are unaware that the deterioration of income distribution and the rapid decline of the middle class and impoverishment of the Japanese economy have been a drag on growth in Japan. In this regard, Piketty himself has suggested that Japan's economy could come out of its slump by strengthening its income redistribution policies. Piketty's argument is similar to that of Ohta (2007, 2017a). Unfortunately, the awareness of such reforms is not well reflected in actual politics in Japan.

Many Japanese people, misled by the catchphrases “structural reform”, “privatisation” and “deregulation”, have taken the neo-liberal approach and its policies for granted. The notion of self-responsibility for the current situation is quite widespread in the consciousness of low-income people in Japan, and academic discourses such as Piketty’s have not been sustainable and generalised. In the following, we explain how the spread of neo-liberalism in Japan came about.

1-3 Neo-Liberalism and “Structural Reform”

Since the 1980s, the typical neo-liberalism of the Reagan administration in the United States or the Thatcher administration in the United Kingdom has been introduced for different reasons in different countries. In the case of the US, cost-push inflationary pressures caused by the oil crisis in the late 1970s became a major drag on the US economy. In this context, Keynesianism was originally understood as a prescription for recovering the economy through fiscal policy during low demand for consumption and investment under recessions, but at the time, the US tried to overcome increasing inflationary pressures with high interest rate policies, and the economic downturn was unstoppable, leading to a situation of so-called “stagflation” (a combination of inflation and recession). For this reason, the Reagan administration tried to promote market-oriented, small government and minimal state intervention in economic policy. However, the Reagan administration expanded military spending against the backdrop of the East-West conflict, and on the other hand, it made significant tax cuts, particularly flattening progressive taxation, which led to a decline in revenue and, therefore, an increase in the budget deficit. In addition, the Federal Reserve adopted a policy of high interest rates to deal with high inflation, which put upward pressure on the US dollar and contributed to the debt crisis in Latin America in 1980s.

At this time in the US, small government and the “supply-sider” theory, which emphasised supply over demand, were gaining ground. Those who believed in these arguments stepped up their attacks on Keynesian economics, which had been the basis of economic theory up to that time. This major shift in economics towards a market orientation also led to a strengthening of the policy features of neo-liberalism. With the Reagan administration in the US, this market-based approach spread to many developed countries.

In Britain, on the other hand, given the strength of the Labour Party and the influence of the trade unions in the state-owned enterprises in the 1970s, the then Prime Minister Thatcher of the Conservative Party thoroughly promoted the privatisation of the main sectors, based on the policy of giving the private sector top priority in all economic activities in 1980s. The privatisation of major state-owned enterprises, including the postal service and the railways, but also the division and privatisation of the railways sector, which was supposed to provide a service to the public as a so-called public good, led to a loss of overall efficiency, very high charges for passengers and poor service.

In the US, however, the typical public services promoted in the UK and Japan, such as rail and postal services, were not privatised and remain the responsibility of the state to this day. This is because in the United States, too, a study conducted to try to privatise the rail and postal sectors concluded in the early 1990s that it would be difficult to increase profits as a commercial enterprise, and so to date the postal and rail services have not been privatised in the United States.

These developments in the UK and the US have had a major impact on Japan, where neo-liberal policies have been promoted under the name of "structural reform" since the Nakasone Cabinet (1982-1987) and reinforced under the Koizumi (2001-2006) and Abe (2013-2020) Cabinets.

2. US Pressure and the Spread of Neo-Liberalism

2-1 The 1980s: The introduction of neo-liberalism in Japan: US pressure and the privatisation and deregulation

In Japan, the Nakasone government (1982-1987) actively promoted deregulation and privatisation based on neo-liberalism, as well as the relaxation of the labour market. The Nakasone government's strong promotion of neo-liberal policies was a precursor to the popularisation of neo-liberalism in Japan over the past 40 years. Since that time, Nakasone has developed a friendly or even close relationship with the United States that is rare in history. Thus, the various privatisation and deregulation policies promoted by US-style neo-liberalism under the rubric of "structural reforms" were in fact politically initiated largely in line with US wishes. For example, in 1986, the year after the Plaza Accord, which was implemented in an attempt to weaken the US dollar and strengthen the yen to make the US economy more bearable, the 'Maekawa Report' (a report by the Economic Structural Adjustment Study Group for International Co-operation) was published in the midst of a bubble economy. This report was prepared under the Nakasone cabinet in order to respond to the increasing pressure from the US to deal with trade issues (Japan-US economic friction).

In the telecommunications sector, the Nakasone Cabinet privatised Nippon

Telegraph and Telephone Public Corporation and established it as the new Nippon Telegraph and Telephone (NTT) in 1985. At the time, NTT was a profitable company, as it had been a fixed-line telephone monopoly even before privatisation. For this reason, there was less resistance from employees and union members than to the privatisation of Japan National Railways, which was heavily in the red.

On the other hand, the railway sector (Japan National Railways, JNR) was also privatised and restarted as Japan Railways (JR) in 1997, but in the case of Japan, it was divided into different regions and only JRs (East Japan, Tokai, and West Japan), which have monopoly in the surface transport by Shinkansen, were profitable. JR Tokai derives most of its revenue from the Shinkansen, and West Japan and East Japan would not be able to wake an operating profit without the Shinkansen. JR Kyushu, JR Shikoku, and JR Hokkaido, which have long been regarded as having the “Three islands problem”, have mostly lost money in their railway businesses, although only JR Kyushu, with the opening of its Shinkansen, has improved recently. In the first place, the purpose of promoting the privatisation of Japan National Railways at that time was a political one: to weaken the opposition Socialist Party, whose support base was the very strong Japan National Railways trade unions. Looking at the subsequent decades of privatisation, it is undeniable that the policies based on neo-liberalism were not only economic, but also favourable to the ruling party, which basically pursued conservative policies, i.e., they weakened the support base of the opposition parties and contributed to the maintenance of the government for a long time.

The United States has a long history of pressure on Japan, and until the 1970s

Table 1: History of US pressure on Japan

Years	Issues	Contents	Japan	US
1984	US-Japan Yen/Dollar Committee	Demand for internationalisation and liberalisation of financial markets	Nakasone	Reagan
1985	Plaza Accord (G5)	Weakening of the dollar and strengthening of the yen		Bush (Sr.)
1986	US pressure on Japanese semiconductors	Japan-US semiconductor agreement signed		
1988- 1999頃	Super 301	Impose high US tariffs as sanctions for trade barriers	Takeshita	 Clinton
1989-	Japan-US structural talks	Expand domestic demand by revising the Large Store Law and increasing	Uno	
1992			Kaifu Miyazawa	Clinton
1993- 1999頃	Japan-US Comprehensive Economic Consultation	Succession of Japan-US structural talks	Miyazawa Hosokawa, Hada	Bush(Jr.)
1994-2009	Annual Reform Request	Promotion of deregulation and privatization	Hashimoto Obuchi, Mori Koizumi Abe and Fukuda Aso/Hatoyama	Obama Clinton Clinton
1997-	Full liberalisation of the Japanese market without exceptions		Hashimoto	
1998-	Entry of foreign insurance companies into Japan	Improvement of related laws and regulations	Hashimoto, Mori	
1999	Easing of the labour market	Deregulation of the Dispatched Worker Law (revision of the Labor Law)	Mori	Bush (Jr.)
2000	Abolish regulation on large shops	Deregulaion for foreing firms to establish branches in Japan		
2000-2016	TPP (negotiating agreement)		Koizumi	
2000	Removal of restrictions on large shops	Amendment of the Large-scale Stores Regulation Bill		
2002	Entry of foreign lawyers	Liberalisation of legal qualifications		
2003	Introduction of US-style management	(Amendment to the Commercial Code)		
2004	Introduction of US-style legislation	Establishment of law schools		
2005	Openness to foreign markets	Simplification of MA for foreign capital (New Commercial Code)		
2005	Privatization of the postal service	Amendment of 6 related bills (easier entry to the Japanese Market)		
2005	Encouraging foreign business participation	Revision of the Antimonopoly Act		
2010-2016	TPP (negotiations: stopped after Trump)		Kan/Noda	Obama
2017－2019		Deregulation of the Dispatch Law (Amendment to the Labour Law) (Neoliberal labour market reform)	Abe	Trump

trade was the main means of pressure, but in the 1980s, when Japan had become the world's largest asset holder and was producing advanced technology in a variety of fields, the US pressure on Japan by all means became increasingly intense. As a typical example, in the 1980s, the Japanese government strongly opposed the inclusion of TRON (The Real-time Operating system Nucleus) technology, developed by Ken Sakamura, then an assistant at the University of Tokyo, as an operating system in personal computers[6].

An important change under the Nakasone administration was the flattening of the progressive income tax system, with the wealthy paying less and the middle- and lower-income groups paying more (Table 2). This was similar to what had been implemented by the Reagan administration in the United States.

In 1984, 1987, 1988 and 1989, the government frequently lowered the

Table 2: Income Tax (Rates Japan)

(￥10,000)

	1974	1984	1987	1988	1989	1995	1999	2007	2015
(National) Income Tax Rates	%	%	%	%	%	%	%	%	%
	10	10.5	10.5	10	10(～300)	10(～330)	10 (～330)	5 (～ 195)	5 (～195)
	12	12	12	20	20(～600)	20(～900)	20 (～900)	10 (～ 330)	10 (～330)
	14	14	16	30	30(～1,000)	30(～1,800)	30(～1,800)	20 (～ 695)	20 (～ 695)
	16	17	20	40	40(～2,000)	40(～3,000)	37(1,800～)	23 (～900)	23 (～900)
	18	21	25	50	50(2,000～)	50 (3,000～)		33 (～1,800)	33 (～1,800)
	21	25	30	60				40 (1,800～)	40 (1,800～)
	24	30	35						45 (4,000～)
	27	35	40						
	30	40	45						
	34	45	50						
	38	50	55						
	42	55	60						
	46	60							
	50	65							
	55	70							
	60								
	65								
	70								
	75								
Max. rate ceiling (￥10,000)	8,000	8,000	5,000	5,000	2,000	3,000	1,800	1,800	4,000
Regional Tax Max.(%)	18	18	18	16	15	15	13	10	10
Max rate(%) (Income＋Regional)	93	88	78	76	65	65	50	50	50
No. Categories (Regional)	19 (13)	15 (14)	12 (14)	6 (7)	5 (3)	5 (3)	4 (3)	6 (1)	6 (1)
Min. Income for Tax	170.7	235.7	261.5	261.9	319.8	353.9	382.1	325	325
Gini Coefficient	**0.344**	**0.337**	**0.356**		**0.372**	**0.4338**	**0.4720**	**0.5263**	**0.5649**

Notes: 1. Limitation applied for 1974 & 1984. 2. Gini Coefficient: gross figures. By Mizoguchi (1986) et al.
Sources: Ministry of Finance, Ministry of Welfare, Health and Labour, Mizoguchi (1986)

6. It was taken up as one of the non-tariff barriers by the Office of the United States Trade Representative (USTR) in 1989, and opposed the attempts by the former Ministry of International Trade and Industry (MITI) and the former Ministry of Education (MEXT) to select BTRON (Business TRON) as the standard operating system for educational PCs in primary and secondary schools. Since the 1990s, Microsoft and Apple software has been the world standard for office automation for PCs. Thus, the long-term "strategy" of the US has succeeded.

maximum income tax rate, and also greatly simplified the classification of taxable income. Previously, income tax (national tax) was divided into 19 levels, and local tax was also divided into 13 levels, and the tax rate was imposed according to income in detail. However, since the 1980s and up to recently, the policy of flattening the income tax system has been consistently maintained. Only in the 2015 reform has the total income and local tax (flat 10%) been increased to a maximum of 55%. However, asset and inheritance taxes have been significantly reduced. This has led to a synergistic increase in inequality within Japan, along with the liberalisation of the labour market.

This has led to a further widening of income inequality until recently. This has continued in the 1990s, 2000s and 2010s with governments based on nuclear magnetic neo-liberalism.

2-2 The 1990s: Deregulation and Continued US Pressure

From the 1990s onwards, the US made annual demands on Japan in order to gain an advantage in US business, and these demands were met in every respect. The US has also increased pressure on Japan in the semiconductor sector, which was Japan's forte and at the time one of the most competitive in the world. The US imposed high tariffs (100%) on Japanese high-tech products such as personal computers and colour televisions on the grounds of "dumping of Japanese exports to third countries" and "failure to increase the share of US-made semiconductors in the Japanese market"[7]. he first "Japan-US Semiconductor Agreement" was signed in July 1986, and the second "Japan-US Semiconductor Agreement" (1991-97) was signed in August 1991, demanding that Japan's domestic production standards be brought into line with US standards and that the Japanese market be opened up to allow the US to increase its share of the Japanese market to 20%.

By the time the second agreement ended in July 1997, Japan's semiconductor industry had lost all momentum. By the time the second agreement expired in July 1997, the U.S.-Japan Semiconductor Agreement was finally allowed to expire, confirming that the momentum of the Japanese semiconductor industry had been completely lost. At the same time, in the 1980s, the Nakasone Cabinet, which had pioneered neo-liberalism in Japan, was increasingly adopting US systems in the name of privatisation, deregulation and "structural reform", transforming the systems that had worked so well in Japan up to that point.

Once the US had undermined this competitive technological base in Japan, it

7. See Endo (2018) on the decline of Japan's semiconductor industry due to US pressure.

made it a top priority to promote the expansion of US companies in the financial markets as well. The complete liberalisation of the financial markets - the so-called "Financial Big Bang" - which was achieved in line with US demands for Japan, has been accompanied by a particularly marked change in the way companies are run and the form they take as financial institutions enter the Japanese market.

[Box] Non-LDP Governments in the 1990s (Murayama Cabinet)

The Murayama Cabinet (June 1994-January 1996) was the first non-LDP coalition government (Socialist Party, Liberal Democratic Party, New Party Sakigake) headed by the Socialist Party in the post war period. Murayama put Mr. Osamu Miyazaki the Director General of the Economic Planning Agency at the centre of economic policy, and instead of austerity measures, he made efforts to improve social security, and the GDP growth rate started to recover (the real GDP growth rate was 2.7% in 1995 and 3.1% in 1996). However, this cabinet was attacked by the media following the Great Hanshin-Awaji Earthquake and was short-lived, and the LDP cabinet under Hashimoto continued to be in charge from 2016 onwards.

In April 1997, under the Hashimoto Cabinet, the consumption tax rate was raised from 3% to 5% (including a 1% local consumption tax). At the same time, direct tax reforms were implemented, and although tax income tax revenues and corporate tax revenues continued to decline in fiscal 1998 and 1999 respectively, corporate tax revenues were reduced in both years, and income tax revenues were reduced in 1999. This tax reforms in the corporate tax and the consumption tax, which reduced the burden on high-income earners and increased the burden on middle- and low-income earners, were a further sign that neo-liberal economic policies were in full swing. Since then, and up to the present day, the income tax burden has been reduced for high-income earners and the corporate tax rate has been lowered.

With regard to revenue and expenditure in this period, the total of the three categories of tax cuts, including the reduction in the flat rate of income tax and inhabitant tax (3.5 trillion yen) and the reduction in the top tax rate (500 billion yen), and the reduction in the rate of corporate income tax and corporate enterprise tax (2.5 trillion yen), amounts to 6.5 trillion yen, which is the same as the amount pointed out above. In other words, the reduction in tax revenues resulting from the tax cuts was to be compensated for by the introduction of a consumption tax. This means that the reduction in the tax burden on large companies and the wealthy was paid for by the introduction of a regressive consumption tax, which further increased the burden on the lower income groups.

The entry into the Japanese market and companies was a great opportunity for Western companies. As a result, Japanese companies have found it difficult to be as competitive, invest for the long term and develop their human resources as they once did. This is exactly what the US wanted.

In the wake of the Financial Crisis in Japan that emerged in 1997/8 and continued until the early 2000s, the US has been pressuring the Japanese government since the 1990s in the form of requests to expand business opportunities in the Japanese market as a prime target. The full opening of the financial markets described above has been implemented in response to this US desire.

It is important to note that during the period of the full opening up and liberalisation of the financial sector, the three long-term credit banks (the Industrial Bank of Japan, the Long-Term Credit Bank of Japan, and the Bond Credit Bank of Japan), which had been the mainstay of long-term financing for the Japanese economy, were completely dismantled as the bad loan problem worsened. The US vulture funds that have taken over those banks pushed hard for restructuring and making huge profits by selling the shares when they had risen significantly. In other words, in a sense, the financial Big Bang was a way of turning Japanese financial institutions over to US capital. In the process, Japanese wealth (money and human resources) has been lost, while US capital has benefited enormously.

2-3 Second phase of neo-liberalism in the 2000s (Koizumi administration)

Since the beginning of the 2000s, the Koizumi Cabinet (2001-2006) strongly promoted the so-called “structural reform”, which was a catchphrase to promote neo-liberal policies. Koizumi was strongly supported by many people who were unaware of the details of these reforms. As a result, the government has played a role in bringing US-style neo-liberalism to Japan and enforcing it. Under the Koizumi administration, which promoted privatisation and deregulation under the rubric of “structural reform”, the postal sector was privatised, a task left undone by the Nakasone administration in the 1980s.

However, the postal service is essentially a typical public service sector, and it is very difficult to make a profit. Even in the US, the postal service remains state-owned because of the difficulty of making it profitable. In New Zealand, the postal service was once privatised, but was eventually renationalised because of strong public resistance to the degradation of services. Today, even though the company is privatised as Japan Post, it maintains its operations through urban involuntary services and real estate rather than the postal service itself.

The privatisation of the postal service was intended to benefit the US financial community, and indeed the US as a whole, by liberalising the financial side of the business. Essentially, the postal service itself was not going to be profitable, and a particularly important aspect of the postal service was the privatisation of its two main operations: insurance (simplified insurance) and savings (postal savings). This is closely linked to the Financial Big Bang of 1997/8. Although the groundwork had been laid for the entry of the US financial industry into the Japanese market, it appears that the US's main objectives were to privatise postal savings, the world's largest depositor, so that the money could flow back to the US, and to facilitate the entry into the Japanese market of the insurance business, whose competitiveness in the US is far greater than that of Japan[8].

This has been made possible under the "pro-US" Koizumi government, which has faithfully implemented the US's later policies. Particularly in the insurance business, the US government appears to have been heavily involved in the Japanese government's policies, which were implemented to ensure that funds flowed back to the US. For example, it has prevented Nippon Life Insurance, Japan's top life insurer, from entering the cancer insurance market, and has allowed a US company (Aflac) to enter the market and sell its products to the privatised Japan Post Bank[9]. As a result, the US has succeeded in diverting large amounts of Japanese savings to the US.

In this context, the opening up of corporate management to foreign investment has intensified, leading to fundamental changes in the management system. For decades often the Second World War, Japanese companies have maintained their previous cross-shareholdings between groups, thus reducing the risk of being heavily influenced by the market. However, the US has sought to further open up the Japanese corporate system to foreign investment. This led to the aforementioned acquisitions and divestments of Japanese companies and financial institutions during the financial crisis, but it also led to the generalisation of the US ap-

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8. The main purpose of the privatisation of the postal service appears to have been largely to channel its abundant funds back to the US. The privatisation of Japan Post has resulted in 200 trillion yen of postal savings being used to buy US Treasury bonds.

9. At the time, cancer insurance was originally to be handled by Nippon Life Insurance, but US demands and pressure led to this outcome. Then in 2013, under the second Abe administration, Japan Post and American Family Life Insurance (Aflac) expanded their partnership to include Aflac's cancer insurance, which was available at 1,000 post offices nationwide, to another 20,000 or so, and to sell products other than cancer insurance. Nippon Life Insurance, which had previously been in a partnership with Japan Post, has now reneged on its agreement.

proach to corporate structure.

On the other hand, the US approach to corporate structure has also become more common in the Japanese business community. This has led to the spread of the holding company, which has promoted the creation of subsidiaries of the same group of companies and has made it easier for foreign capital to enter any of them. Furthermore, the United States, which has long denounced the closed nature of Japanese companies, has made it important to have outside opinions on management and has popularised the system of "external directors." This has made it even easier for US companies and others to influence the management policies of Japanese companies. Today, external directors are commonplace in major Japanese companies, explained in part by the fact that their objective opinions can influence the company's management policy and lead to positive results. However, the reality is that many external directors remain in their positions nominally, without experience or knowledge, and are paid large sums of money by the companies concerned. The influence of US companies has disrupted Japanese management, making it even easier for them to take advantage of it.

Japanese companies in distress due to the participation of foreign capital in their management have been targets of mergers and acquisitions. Many Japanese firms have followed US-style management policies, which in many cases have drastically altered or destroyed what was originally a characteristic and good quality of the company.

For example, Mazda, which at one time was owned by Ford, was forced by US management (1994-2003) to suspend further improvements to its cars, which had world-class proprietary technology (such as the rotary engine), rather than investing in innovation, which was its original strength. The slump continued into the 2000s. However, after Ford's withdrawal, the company's Japanese management team led a revival, and since the 2010s the company has been able to protect its traditional technologies and enhance its brand.

Sony has adopted an American-style management system since the 1990s, and for a time, top-management was American and Japanese executives adopted American-style management during the period 1999-2012[10]. As a result, Sony's business conditions deteriorated in the 1990s and 2000s. Following the departure of the US management team (then CEO Stringer) in 2012, the company

10. Howard Stringer, the CEO at the time, was not familiar with the realities of the Tokyo headquarters, as he lived in the US and did not spend much time in Japan. He also tried to ensure that Stringer would continue to be appointed CEO by changing 13 of the 15 directors to external directors and appointing only those who believed in him.

re-established its management structure and has recently successfully diversified its business, achieving record profits.

Nissan, on the other hand, became a subsidiary of the French company Renault, and its management was sent from its home country to strongly promote the restructuring of the company (from 1999). However, although the company seemed to have recovered, the management of the French company (Carlos Ghosn) was in fact fraught with legal problems, and the company is now in serious financial trouble, so it is difficult to see how this has benefited the company in the long term. Thus, it can be argued that the entry of foreign capital has affected the management and technological development of Japanese companies, steadily weakening them.

More importantly, Japanese companies have been increasingly influenced by foreign management and have tended to aim for short-term profits. This is evident from the fact that quarterly and annual earnings forecasts have become a major factor in the share prices of listed companies and can even influence their management policies. Moreover, as it has introduced a system of outside directors in the last period to strengthen its external reputation, it has become more shareholder-focused than before, and in many cases has ignored the needs of employees and society.

In relation to the changes in Japanese companies, globalisation and financial liberalisation have led to a situation in which stock market trends in Japan are largely driven by foreign investors. This has been the case since the Financial Big Bang and has continued over the past 20 years. This has made it difficult to implement management policies and investments that take into account society and employees, based on a medium- to long-term perspective rather than short-term thinking, which was originally one of the virtues of Japanese management. This is also the fault of companies that have followed the US on neo-liberalism and the governments that have led them. We need to take a hard look at whether US-style management policies and corporate systems have been in line with Japan's national interests.

Deregulation of the labour market is one of the most important aspects of neo-liberal policy. A typical example is the further deregulation of the Dispatched Worker Law, which in 2004 resulted in the lifting of the ban on dispatched work in the manufacturing industry, the extension of the dispatch period, and the unlimited dispatch period for specialist work. Since then, non-regular employment has become increasingly common in Japan.

2-4 The Third Phase of Neo-Liberalism in the 2010s

Neo-liberalism under the second Abe (Jan. 2013-Sept. 2020) and Suga (Sept. 2020-Sept. 2021) administration was a more thoroughgoing deregulation and privatisation based on the previous neo-liberalism. The LDP, which returned to power after successfully replacing the previous Democratic Party of Japan (DPJ) in the general election held at the end of 2012, introduced the "Three Arrows" (monetary policy, fiscal policy, and structural reforms) on the economic front of 'Abenomics' with the inauguration of the second Abe Cabinet in 2013. In monetary policy, in addition to the ultimate Quantitative and Qualitative Easing (QQE) policy, the government introduced a thorough easing policy, including the introduction of negative interest rates. This emphasis on the monetary policy aspect is a characteristic of neo-liberal policy, which overlaps with neoclassical policy. However, the massive monetary easing has hardly contributed to the recovery of the Japanese economy. As we have shown in the previous chapter, QQE has been directed at financial and real estate investment, not at the domestic real economy. Moreover, a great deal of that money has been funnelled into overseas markets. This will be explained in the next chapter.

The reality of 'Abenomics' is that it has pursued ineffective monetary easing to the limit, while fiscal policy has been subjected to austerity measures, and the economy is far from recovering[11]. On the other hand, 'Structural policies', advocated as the 'Third Arrow' of Abenomics, have done little to contribute to economic growth. For example, the government has advocated deregulation and the creation of special economic zones to encourage foreign investment in certain areas, under the guise of guaranteeing free economic activity in these areas, when in fact they have served to benefit companies closely aligned with the regime[12]. Under the guise of promoting foreign investment, the Special Economic Zones (SEZs) have attempted to attract casinos that are competitive with those in the US, but there have been no significant results so far[13]. Moreover, the construction of these casino complexes

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11. This policy was like "stepping on the accelerator (monetary policy) and the brake (fiscal policy) at the same time", which naturally made it difficult for the economy to recover. See Chapter 1.

12. The issue of Kake Gakuen's establishment of a veterinary medical school in Imabari City, Ehime Prefecture, under the Abe administration, was an attraction to an area that had been designated as a special economic zone. See Tsunekawa (2019).

13. The US company Las Vegas Sands, which had been aiming to enter the Japanese market, has announced that it will abandon the development of an integrated resort (IR) facility, including a casino, in Japan in May 2020. Sands had withdrawn from the Osaka development in 2019 and

has had little effect on increasing GDP growth. In other words, the policies introduced as "structural reforms" were not seriously aimed at rebuilding the economy and achieving sustainable growth in the long term.

On the other hand, the government has been steadily promoting preferential policies aimed mainly at large companies. The consumption tax has been raised twice under the Abe administration (in April 2014 and October 2019), which was generally explained as a way to improve social security and welfare, but in fact spending on these has been cut year on year and benefit standards have been tightened. On the other hand, the actual tax increases have served to compensate not only for the redemption of government bonds but also for corporate tax cuts, particularly for large corporations.

One of the policies promoted by the Abe administration that has had the greatest economic and social impact is the complete liberalisation of the labour market. A typical example is the further relaxation of the Worker Dispatch Law, which in 2004 led to the lifting of the ban on dispatched work in the manufacturing industry, the extension of the dispatch period for liberalised work, and the unlimited dispatch period for specialist work. Since then, dispatched work has become increasingly common. Under the Abe administration, the full market economy of the labour market has been accelerated in particular. For example, the revision (amendment?) of the Worker Dispatch Law has completed the lifting of the ban on dispatched work across almost all industries[14].

Table 3: "Specialized" Job Categories (Worker Dispatch Law)

	Contents
1986	Enacted (13 categories)
1996	Revised(16 categories)
1999	Revised(26 categories)
2000	Dispatched persons registered
2002	added financial sales as non-regular employment
2004	liberalized / no restriction for 26 categoried incl. for **Manufacturing**
2006	Liberalized for medical serivices
2007	Extension of 3 Years
2012	official restriction of 26 cat.
2015	**All the sectors/ Jobs allowed (under condition o Max.3years)**

Source: Cabinet Office

was seen as a leading candidate for the selection of an operator for the IR that Yokohama is seeking to attract (Jiji Press 2020).

14. Formally, the same person cannot be employed continuously for more than three years, but there are all sorts of loopholes, such as reviewing the type of contract with the dispatch company, dispatching another person, etc., which stimulate the dispatch business, but also continue to put downward pressure on wages as part-time employment increases.

As a result, there has been a significant expansion of non-regular employment, including part-time work, which supports the labour market. This was highly desirable from a neo-liberal point of view as a means of reducing labour costs and controlling corporate labour costs through labour flexibility. It can be said that labour has been very cheap in terms of cost and has provided benefits to managers and employers. However, non-regular workers earn about a third of the annual income of regular workers.

Majority of non-regular workers do not receive the same half-paid social insurance by the companies as regular workers. In addition, commuting and housing allowances are usually not covered for non-regular workers, whereas they are for regular workers. Moreover, in many cases the nature of the work is the same as that of regular employees, so that non-regular employment has simply become an employment valve and a source of low-cost human resources for management.

Non-regular employment has become so common that it now accounts for nearly half of all employment and has substantially reduced the overall level of labour wages. As a result, household disposable income has fallen for more than 20 years, which has depressed household consumption. This has constrained Japan's economic recovery.

3. Japan's economic stagnation and transformation associated with the promotion of neo-liberalism

3-1 Deterioration in the distribution of income

Non-regular employment has become more common, now accounting for nearly half of all employment, and has substantially lowered overall labour wage levels As a result, the distribution of income has deteriorated and the poverty rate has increased (Fig.10, 11). Accordingly, the disposable income of households has fallen for more than 20 years each, depressing household consumption, which accounts for around 60% of GDP, and leading to a downturn in the Japanese economy.

This rise in the proportion of non-regular workers is compounded by the decline in trade union organisation rates over the past few decades. Since non-regular workers are not regular workers from the start, they either do not have unions or, if they do, they are not members, so the rate of trade union organisation has naturally declined as the proportion of non-regular workers has risen. This reduces upward pressure on wages, and in fact the fall in real wages is closely correlated with the fall in the trade union organisation rate (Fig.12, 13). This rise in the share

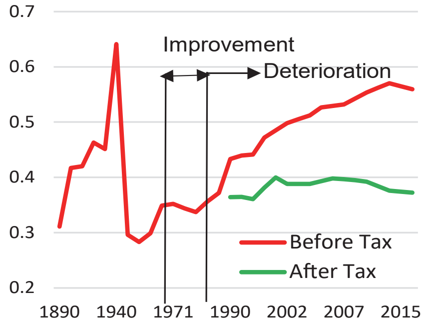

Fig. 10: Gini (Japan)

Sources: Ministry of Welfare & Labour, Mizoguchi 1996)

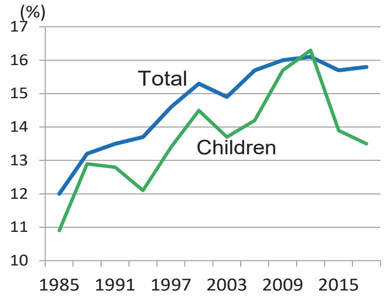

Fig.11: Povety Rate (Japan)

Source: Minsitry of Welfare and Labour (2019)

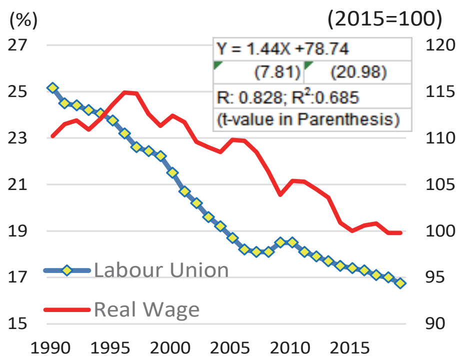

Fig.12: Unionization/Real Wage

Source: Ministry of Health & Labor

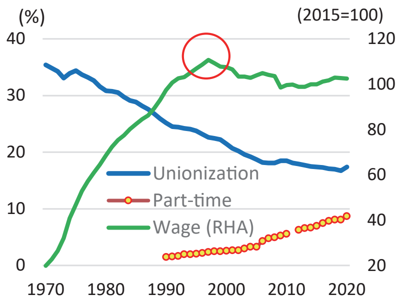

Fig.13: Wage & Unionization

Note: Wage for manufacturing (Sept. for 2020)

Source: Minsitry of Welfare and Labor, FRED

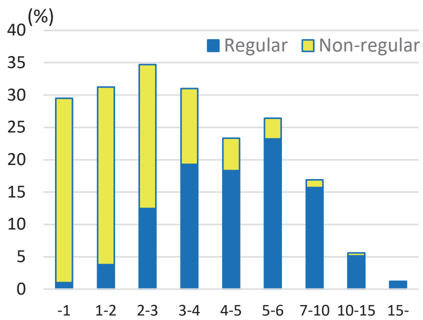

Fig.14: Annual Income (Japan) (regular / Non-regular employees)

Source: Minsitry of Ministry of Health, Labour &Welfare

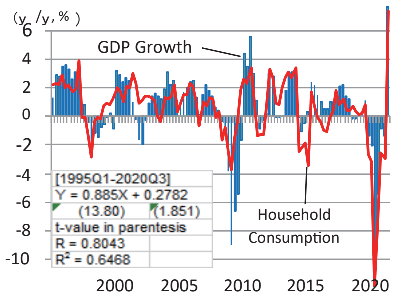

Fig.15 GDP Growth & Household Consumption (Japan)

Source: Cabinet Office

of non-regular employment is partly due to the decline in trade union organisation over the past few decades. As the share of non-regular workers has risen, trade union organisation has naturally fallen, as these workers are not regular workers from the start and therefore do not have unions, or if they do, they are not members.

It is no exaggeration to say that trade union activity has been almost completely wiped out in Japan today. The increase in the number of non-regular employees inevitably reduces trade union membership and household income among all workers, and is closely correlated with GDP growth (Fig.14 and 15).

On the other hand, the policies promoted under the guise of "reforming the way we work" - reducing overtime and encouraging people to work more comfortably - have in fact given management a huge advantage. For example, the High-Level Professional System (also known as the White-Collar Exemption), introduced in April 2019, is based on performance rather than working hours, and offers relatively high incomes (e.g., over 10.75 million per annum) with no restrictions on hours worked but no overtime pays[15]. A menu of other policies was also presented, all of which are in fact measures being introduced to reduce labour costs. The introduction of such a system would accelerate the overall decline in wage levels, and could lead to the generalisation of "free work" without overtime pay at a time when pay levels for full-time employees are stagnant.

3-2 Non-regular employment and the expansion of low-income and poor people

In Japan, the liberalization of the labor market based on neo-liberalism has accelerated since the 1990s: originally, the Worker Dispatch Law introduced by the Nakasone cabinet in 1986 limited the application to 13 industries, but expanded to 26 industries in 1996, and significantly relaxed the number of industries in 1999. This was also a part of the neo-liberal policy. The 2015 amendment to the Worker Dispatch Law removed all restrictions on dispatched workers, except for a maximum of three years, and liberalised the law to allow dispatched workers to work in almost any industry.

The 2020 amendment, which calls for "equal pay for equal work", is only a nominal confirmation, but the gap between the actual working conditions and

15. The number of personnel actually employed under this system was relatively limited according to a survey conducted by the Ministry of Health, Labour and Welfare in November 2020: as of the end of September 2020, there were approximately 20 companies nationwide and 858 workers covered by the system (of which 762 were consultants, accounting for approximately 90% of the total. Other workers included 59 financial traders and dealers who buy, sell and manage securities, and 30 analysts).

those of regular employees remains large. In particular, the expansion of non-regular employment, which began in the late 1990s and 2000s, has had a serious impact on the economy and society, with non-regular employment becoming more common and overall household income falling sharply. As a result, the average household income in 2018 was 5.52 million yen, which is a decrease of 20.3% in nominal value compared with the level of the average household income in 1994 (6.64 million yen). The average annual income of all households in 2020, including single persons, was only 2.8million yen. The generalisation of part-time employment has led to a rapid increase in the number of people in poverty, and the 2015 and 2020 amendments removed restrictions on the types of temporary work, allowing it to be carried out in almost all sectors. As a result, the proportion of non-permanent workers is expected to increase, and the number of low-income earners is likely to rise accordingly.

As mentioned above, the increase in the proportion of non-regular employment has led to a decline in the overall wage level of workers, and in fact real wages have been falling steadily since various neo-liberal policies have been undertaken in the past decades.

In particular, women, who account for the majority of non-regular employment (ratio of women in non-regular employment: 56.4% in 2019 (Fig.14), are at the heart of poor families. Of course, the number of single men and women in non-regular employment is also increasing, and the gap in annual income compared to regular employment is widening substantially. This is because the neo-liberal “structural reforms” have spread to the labour market and a number of deregulations have been implemented. In particular, as can be seen in the revision of the Worker Dispatch Law that has been underway since the 1990s, the existence of restrictions on dispatched workers (previously 26 industries were restricted, including manufacturing) was completely abolished by the Abe Cabinet (December 2012 - September 2020). As a result, nearly half of the working population is now in non-regular employment. The number of households earning about one-third of the full-time workforce in terms of annual income is growing rapidly.

In Europe, the income gap between part-time and full-time employment is only 70-80%, even for part-time workers. In Japan, however, there is a huge income gap and a rapidly growing group of people whose low incomes mean that they cannot afford to pay social insurance contributions (in this case, the National Pension Plan, which is still significantly lower than the Employees’ Pension Plan). This, in turn, has led to a decline in disposable income, which has further contributed to a slump in consumer spending. Under the principle of “equal pay for equal work”, various restrictive measures have been introduced for small and medium-sized enterprises and part-time workers as part of the revision of the Worker Dispatch Law from April 2021, but the trend of increasing the proportion of non-regular workers itself is unlikely to change[16].

The number of single-parent households, where the mother has taken in the children after a divorce, has increased significantly, and the majority of these families are defined as poor. The poverty rate is based on those with less than half the average income, and Japan has one of the highest levels of poverty in the developed world. OECD statistics show that Japan's overall relative poverty rate was 15.4% in 2018 (new 2015 standard) and the child poverty rate reached 14.0% (same) (Figure 16). This level is very high among OECD countries, along with the United States and South Korea among developed countries. On the other hand, the Gini coefficient, which indicates the degree of inequality in the distribution of income, was 0.335 in 2017, and the initial income Gini coefficient was 0.5594, indicating a significant increase in income inequality (Figure 17). Although the latest statistics have not yet been published, it is likely that by 2020, amidst the Corona disaster, the expansion of the poor and the deterioration of income distribution will be rapid. Income inequality is likely to widen further in Japan, as the share of non-regular employment is higher than in other industrialised countries, making it easier to dismiss and restructure.

3-3 The Fall of the Middle Class and the Easing of Progressivity and the Reduction of the Corporate Tax Burden

Under the Koizumi cabinet (2001-06) and the Abe cabinet (2013-2020), which strongly implemented neo-liberal deregulation, small government and fiscal austerity, the share of consumption tax, which is highly regressive and imposes a heavy burden on low-income groups, in total tax revenue has always increased, while the share of corporate tax has consistently decreased (Fig. 16).

The principle of neo-liberal economic policy, that the promotion of free enterprise is essential for economic vitality, made the reduction of the corporate tax burden a major key issue. It cannot be denied that under the second Abe administration, as mentioned above, the maintenance of stock prices was a major policy objective. However, a number of policies have been introduced to achieve this.

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16. The new system states that bonuses, various allowances and benefits will be given to non-regular workers in the same way as to regular workers. However, the basis for this is vague and employers are likely to reduce their own employment in the first place. The situation is likely to remain even more difficult, especially during the Corona crisis.

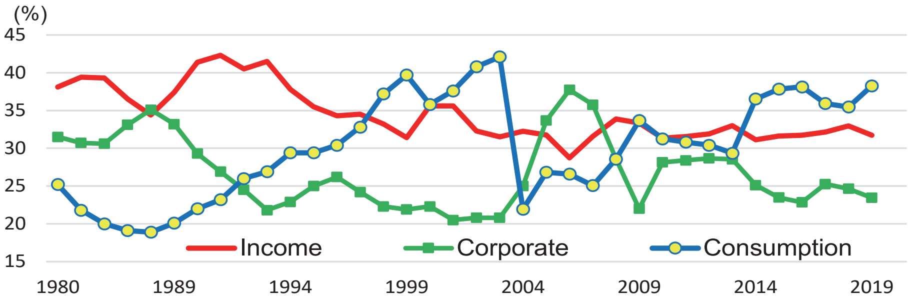

Fig.16: General Tax Revenues

Note: excise tax befor 1989 Source: Author's calculation based on the database of MOF, Japan

Corporate tax rates have been drastically reduced and various corporate tax exemptions have been introduced. The corporate tax rate has been reduced consistently, but at a significantly faster pace under his administration. The government has repeatedly cut corporate tax rates. By 2018, a total of ¥4 trillion in corporate tax cuts had been implemented, including the termination of the special corporate tax for reconstruction one year ahead of schedule (FY2014), reductions in the corporate tax rate (FY15, FY16 and FY18), and the expansion of R&D tax breaks.

The official effective corporate tax rate in Japan was 43.3% before 1985, and has been drastically reduced in response to suggestions that it was high compared to other countries; since April 2018, it has been reduced to 23.2% (for ordinary corporations with capital of 100 million yen or more) and 15% for corporations with capital of 100 million yen or less (Fig.17). Even with this, however, a number of tax exemptions have been provided, and the actual tax burden has fallen markedly, particularly for large companies[17]. In many cases, the actual corporate tax burden is only in the 1-10% range due to various exemptions. This is because funds for research and development (R&D) and investment in new businesses are exempt from corporate tax to that extent, and various schemes have been introduced. As a result, it has been pointed out that the actual corporate tax burden in Japan is lower than in Europe and the US[18].

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17. If the corporate tax is 10 billion yen and the adjustment is 5 billion yen, the adjusted corporate tax is 5 billion yen. If the net profit before tax is 20 billion yen and the corporate tax is 5 billion yen, the tax burden ratio is 5 billion yen / 20 billion yen, which is 25%. This is based on accounting profit, which is different from taxable income. See Ohno (2019)

18. Corporate income tax is the sum of corporate income tax, inhabitant tax and enterprise tax, plus an adjustment for corporate income tax, etc. The larger the adjustment, the lower the corporate income tax payable. For example, Sony's tax burden is 4.5% and Sharp's is 2.9%, and there

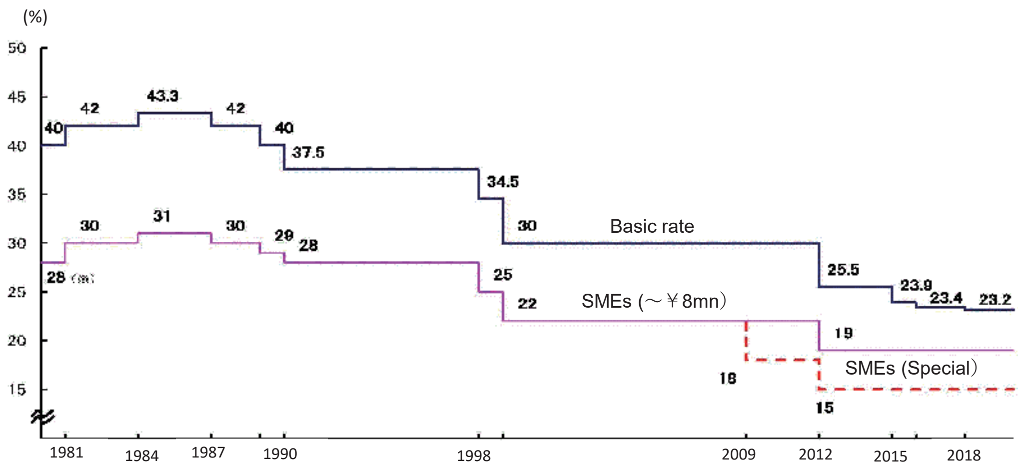

Fig.17: Corporate Tax (Japan)

Source: Ministry of Finance

It has genarally been argued that if corporate taxes are too high, Japanese companies may move abroad. In reality, however, major companies still use a number of tax havens to reduce their tax burden. While this is a legal way of avoiding tax, the original exemptions within the country have further reduced the tax burden for companies.

At present, the investments of the wealthy people are directed towards financial investments, and since income from securities, such as stock investments, is now taxed separately, profits from financial investments by the wealthy are much less burdensome than in other countries. In France, for example, profits from equity investments are taxed at 35% in the case of separate taxation, and at a maximum of 62.2% in the case of total taxation[19]. In the case of interest taxation, Western countries apply a progressive tax rate depending on the level of income. In Japan, on the other hand, there is a fixed rate of withholding tax, which ultimately benefits households with more money and the wealthy more. This allows the wealthy to account for profits from their financial investments separately from their overall income, thus reducing the scope for the state to tax them.

In order to improve the fiscal balance in Japan, it is necessary to adopt a

are many companies with tax burdens in the single digits.

19. A progressive tax rate of up to 45% is applied to employment income and business income, whereas a reduced tax rate of 20% is applied to income from the transfer of shares and other assets, dividends, and financial income such as bonds and deposits, which are “separate taxation”. See Hara (2016).

comprehensive income taxation system for all households. The adoption of comprehensive taxation is also related to the strengthening of asset taxation. Individuals who have built up assets by accumulating profits from financial and real estate investments will see their tax burden decrease if their income exceeds a certain level (e.g., annual income of 100 million yen). Despite the need for fundamental reform of the tax system to create a system of asset taxation, comprehensive taxation and further taxation of income from the wealthy, Japan has introduced a number of measures over the past few decades to favour the wealthy. Income tax has been flattened, of course, but asset taxation has been greatly reduced and exempted, so that the wealthy are favoured not only in terms of the former flow income but also in terms of the latter stock. For example, the burden of inheritance tax has been consistently reduced.

The tax rate on profits from stocks, bonds and other financial instruments has been lower in Japan than in other countries. In addition, the government has actively introduced a policy of exempting small investments in securities from taxation as long as they do not exceed a certain amount. In the first place, financial investment in stocks and other securities is limited to the middle class, high-income earners and wealthy individuals who can afford it. The number of low-income households with little or no savings is rising rapidly as non-regular employment increases. Against this backdrop, the LDP's neo-liberal policies have provided a significant advantage to some of the wealthy in terms of investment in the securities and financial markets. The taxation of such financial income is, in principle, a separate taxation[20].

Thus, the rich and wealthy are better off because the income from such financial investments is separated from income tax and other income for the household concerned[21]. Such a system of separate taxation does not allow for comprehensive taxation of the actual total income of each household, and the principle of a higher burden for households with higher incomes and a lower burden for those with lower incomes, which should be the case, does not apply. This is because, due to the system of separate withholding taxation, income involving lage amounts of profit, such as financial income, is not properly taxed. This system of separate taxation is very rare in the industrialised world and is a departure from the policy principles of

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20. The undeclared income of the wealthy reaches 76.3 billion yen per year (Nihon Keizai Shimbun, 2019).

21. For financial income that is skewed towards the wealthy, such as gains on stock transfers and dividend income, a low rate of "separate taxation" of 10-20% is applied, which is advantageous for the wealthy because it is not a comprehensive tax. See Kajiwara (2017).

appropriate taxation.

3-4 Seriousness of social security and pension problems

As real wages have continued to fall over the past 20 years, the number of people in the low-income bracket has increased rapidly, and the number of people who have not joined or paid into the pension system has increased accordingly[22]. Under these circumstances, the expansion of non-regular employment is likely to lead to the collapse of the welfare pension system itself, which has supported the pension system in the first place. In other words, the fact that almost half of all non-permanent workers are excluded from the current pension system, which is based on the premise that the employer, the company, pays half of the employees' contributions, means that the pension fund will become increasingly insufficient. Moreover, in Japan's current situation, the basic pension system provided by the National Pension Plan is also at risk of collapse. In order to make the pension system sustainable, it is necessary to limit part-time employment and increase full-time employment so that companies contribute to the pension fund.

Currently, the burden of taxes and social insurance in Japan has increased substantially to the point where the burden of pension funds and social insurance for workers in full-time employment exceeds the burden of taxes. In recent years, the tax and insurance burden has increased for the lower income groups, while the burden has decreased for the higher income groups (Fig. 18). 44.6% of the population will be covered by social security in 2020, but without any effective policy, the government has only responded by reducing expenditure, for example by tightening the criteria for social security coverage (e.g., long-term care insurance). As pension funds are decreasing more and more due to the economic downturn and the growth of non-regular employment, it can be said that under the previous Abe administration, "pension reform" basically focused on increasing the burden and reducing expenditure, with no fundamental institutional reform[23].

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22. Saito (2020) shows that the proportion of income tax delinquents is higher among low-income earners than among those who pay, the proportion of pension delinquents is highest among those aged 30-34, and the proportion of delinquents in single-person households is higher than in non-single-person households. Furthermore, looking at the premium payment status by employment status, it is clear that the proportion of delinquent payers is higher among those in part-time and other non-regular employment, and that low-income earners with children have difficulty paying their premiums.

23. At the third meeting of the Social Security Review Council on 21 November 2019, the point made by Akio Mimura, President of the Japan Chamber of Commerce and Industry, was the rising burden of social insurance premiums and the consequent reduction in consumer spending.

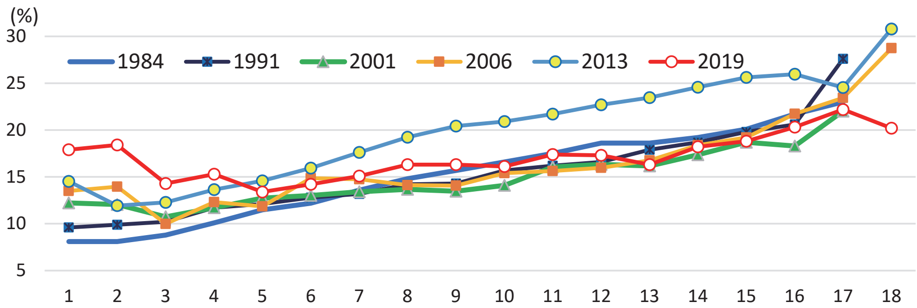

Fig.18: Tax & Insurance Payments by Income Groups

Sources: Statistics Bureau, Japan, Ishikawa (2004), etc.

4. Why "Abenomics" Failed in Economic Recovery in Japan

4-1 An International Financial Perspective

As shown in Chapter 1, the massive monetary easing policies implemented under the Abe administration have had little effect on the recovery of the domestic real economy. The massive supply of money to the market has only benefited the wealthy who have been enriched by the financial investments, while the large corporations and megabanks that have been enriched by them have accumulated profits from their domestic and foreign financial investments and increased their retained earnings. As we will see in this chapter, such monetary easing has led to massive outflow of funds to the US and other foreign countries, which in turn contributed to the US economy and markets. In other words, the money stock in Japan hardly increased at all, but was used outside Japan. Therefore, it is not valid to analyze the monetary policy under Abenomics only for the Japanese domestic market.

There have been very few full-scale quantitative analyses of the impact of the Bank of Japan's monetary easing policies on domestic and foreign markets. This chapter first provides an overview of the quantitative and qualitative easing (QQE) program implemented under the Abe administration, followed by an analysis of its nature.

4-2 Monetary and fiscal policy under Abenomics: extreme monetary easing and austerity policies

The first Quantitative Easing (QE) [March 2001-March 2006], which was the world's first quantitative easing policy, set a target of 30 trillion yen for the Bank of Japan's current account to supply funds to banks. After the Global Financial Crisis, the government introduced Comprehensive Monetary Easing (CME) in October 2010 as an unconventional monetary policy, not only through quantitative easing but also through equity investments such as ETFs, but on a smaller scale.

The Bank of Japan's Quantitative and Qualitative Easing (QQE), introduced in April 2013, has been much larger than previous monetary easing programmes and has resulted in a monetary base comparable to Japan's GDP[24]. In 2020, the Corona recession has led to an expansion of the monetary base and an increase in industrial production, exchange rate (Real Effective Exchange Rate, REER), and bank lending, which had little effect before the Corona shock. In addition, the authorities use the so-called Price Keeping Operation (PKO) to maintain stock prices[25]. However, in Japan, the rise in stock prices has not had a positive impact on the real economy because the asset effect is not expected to be as strong as in the US.

Thus, the monetary easing policy, the 'First Arrow' of Abenomics, has had no effect. (Fig.19, 20, 21, and 22). Since April 2013, when the BOJ launched QQE, the US had already started to reduce its balance sheet, and the US third round of quantitative easing (QE3) ended in October 2014, and the BOJ introduced the second round of QQE in November of the same year to strengthen easing.

On the other hand, the fiscal policy introduced as the 'Second Arrow' of Abenomics was initially described as a "flexible fiscal policy", but in reality it was the introduction of austerity measures. Under the Abe administration, fiscal spending has been consistently cut, with expenditure to GDP falling from 39.7% in 2012 to 37.7% in 2019 (Fig. 23). At the same time, the results of austerity policies aimed at improving the primary balance have improved the budget deficit (general government sector) from 8.7% to 3.3% of GDP over the same period (Fig.24). The consistent decline in spending as a percentage of GDP is the actual outcome of

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24. The impact of the Bank of Japan's monetary easing policy on the economy and markets from after the outbreak of the Global Financial Crisis, including the period of Comprehensive Monetary Easing (September 2008 to March 2013) was rather more effective than under QQE (see Ohta 2020).

25. The effect of the Bank of Japan's equity holdings (ETFs) and the Government Pension Fund Investment Fund (GPIF) in boosting share prices has been very significant. The Bank of Japan's ETF holdings stand at 51.059 trillion yen (as of the end of March 2021), and by the end of March 2021, the Bank of Japan will be the largest shareholder of Japanese shares, with its effective shareholding ratio The number of stocks in which the Bank of Japan holds more than 10% will exceed 100 within a year. In addition, since half of the GPIF's holdings have been available for investment in equities since November 2014, the GPIF's holdings of Japanese equities have risen to 47.2273 trillion yen (at the end of March 2021), indicating the increasing involvement of government authorities.

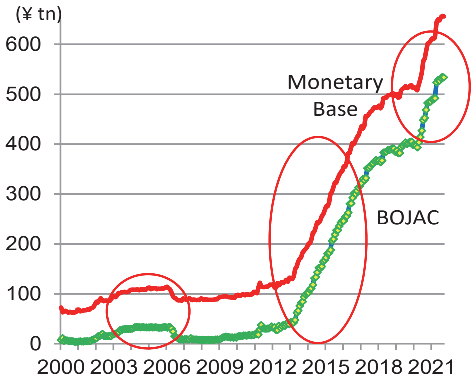

Fig.19: Monetary Base & BOJAC

Source: Bank of Japan

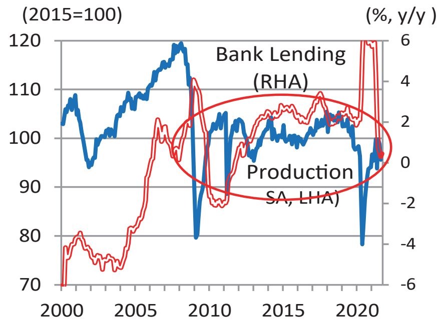

Fig.20 Bank Lending & Industrial Production (Japan)

Sources: Bank fo Japan, FRED

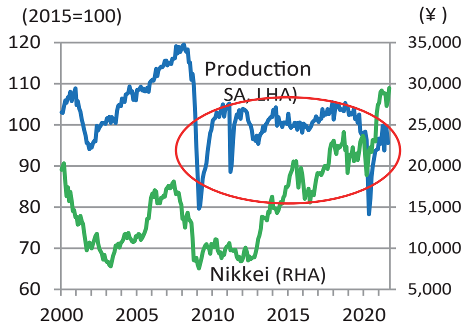

Fig.21: Stock Price & Industrial Production (Japan)

Sources: Bank fo Japan, Nikkei Profile

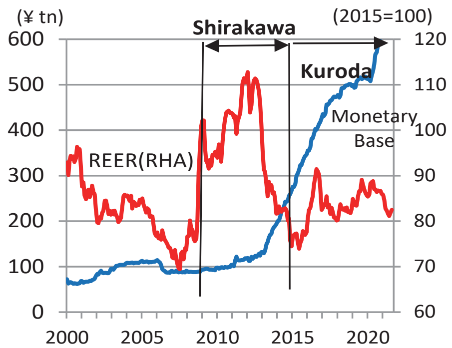

Fig.22: MB & REER (Japan)

Source: Bank of Japan

Abenomics. The fact that the fiscal balance improved by about 5.4% of GDP during 2013-2019 of the second Abe Cabinet means that austerity measures have been faithfully implemented. As a result, the economy stagnated under the Abe administration. In contrast, under the previous Democratic Party of Japan (DPJ) government, the real economy (GDP) grew at a higher rate of 1.6% than 0.3% under the Abe (2013Q1-2020Q3), although the budget deficit also increased as revenues fell in line with the economic downturn following the Global Financial Crisis.

These fiscal austerity measures have not only affected the social security sector, which is targeted at the economically vulnerable, but also the education sector, which is a long-term investment, but constantly decreased in the past decades.

Among OECD countries, Japan has the lowest level of education spending,

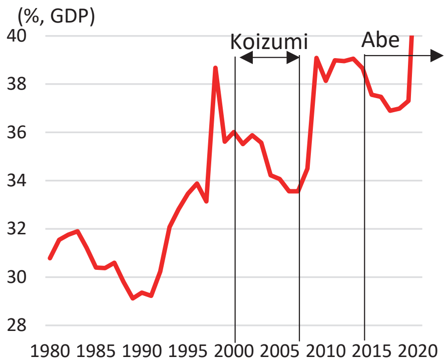

Fig.23: Japan: Expenditure

Source: IFS database (IMF)

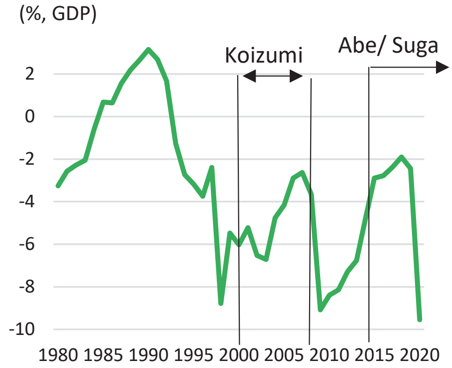

Fig.24: Japan: Fiscal Balance

Source: IFS database (IMF)

with only 8.7% of the total budget, while in Korea, it was 12.0% in 2018 (OECD, 2021). Although the media reports that health and social security expenditure has increased year on year, this is in nominal terms and has fallen as a percentage of GDP. This is just like the countries that have been cutting spending relentlessly in order to improve their fiscal balance under IMF programmes. It is essentially the same as the austerity measures introduced in countries facing crises, such as the Asian and Euro crises in the past. It is common sense in economics that austerity measures inevitably lead to lower growth rates. Under the second Abe administration, austerity measures without an IMF programme have been implemented. It is inevitable that the economy has been stagnated and that there will be no sustained and stable economic growth. In other words, the government has been applying the brakes (spending cuts) while continuing to press the "ineffective accelerator (monetary easing)". It is not surprising that economic growth cannot be achieved in this way.

As a means of raising revenue, the second Abe government raised the consumption tax twice (from 5% to 8% in April 2014 and to 10% October 2019). As a result, the regressive nature of the consumption tax has placed a greater burden on lower income groups, making it increasingly difficult to increase consumption. The government has uniformly cut expenditure items that affect the lives of ordinary people, such as education, welfare, medical care and pensions, and this has increased the burden on the middle- and lower-income groups who make up the majority of the population. Moreover, in Japan, where part-time employment is close to half of the working population, the impact on the lower income groups is even more severe than in other countries. As a means of increasing revenue instruments in general, IMF programmes often recommend raising the value added tax (VAT) as a means of raising revenue in the short term. Thus, while the Japanese government has not borrowed from the IMF, it has implemented fiscal austerity measures in an attempt to reduce its budget deficit, which can be described as "implementing an IMF programme that is not under an IMF programme".

Meanwhile, almost the only thing of note under Abenomics has been the rise in share prices. But this is the result of surplus money going into the financial markets rather than investing in the real economy. It is also the result of artificial manipulation of stock prices. In terms of public funds, in November 2014 (when the second round of quantitative and qualitative easing was introduced), the pension fund (the Government Pension Investment Fund, GPIF) changed its asset management ratio from a maximum of 24% to 50% of domestic and foreign equities and invested a large amount of pension funds in the stock market. The Bank also continued to increase its purchases of exchange-traded funds (ETFs), with holdings reaching 32 trillion yen on a market value basis by June 2020. As a result, as of March 2020, the BOJ owned about 6% of the shares of the entire First Section of the Tokyo Stock Exchange, and together with the GPIF, its share of public funds amounted to about 70 trillion yen[26].

In this way, the second Abe administration succeeded in convincing people that rising stock prices are a symbol of economic recovery.

4-3 The Political Economy of the Bank of Japan's Quantitative and Qualitative Monetary Easing (QQE)

Where did the money supplied by the Bank of Japan's monetary easing policy go? Almost all developed countries, including Japan, have liberalized their financial and capital markets, allowing for the instantaneous movement of large amounts of money. For example, financial assets held by foreign banks can be transferred from their Tokyo branches to their home countries in a matter of seconds. Foreign banks also hold accounts in the BOJ's Current Account, and the funds in these accounts are freely transferable and can be transferred to deposits abroad or in the home country. In other words, the monetary base supplied by the Bank of Japan can be transferred abroad without any restrictions at all under a free financial and capital transactions regime. Thus, the domestic money stock has hardly increased at all

26. If 5% or more of the threshold for reporting large shareholdings is defined as a major shareholder, public money was a major shareholder in 1,830 companies, or about 80% of the 2,166 companies on the First Section of the Tokyo Stock Exchange (as at the end of March 2020) (Asahi Shimbun 2020).

because funds have been flowing out of the country rather than staying in Japan. It can hardly be said that the Bank of Japan's massive money supply is being used in the real economy. This is the reason why the economy has not recovered and inflation has remained low despite the massive monetary easing under Abenomics described in the previous chapter.

Prior to QQE, the Bank of Japan was the first to introduce Quantitative Easing (QE) [2001-06] under the Koizumi administration (2001-2006), which did not contribute to the recovery of the domestic economy. Prior to 2001, the BOJ's Current Account Balances had never exceeded ¥10 trillion, but the QE was a major monetary easing at the time, expanding the BOJ's current account to ¥30 trillion. The Bank of Japan's Current Account Balances expanded substantially in line with this target, and the policy was completed in March 2006 as the economy began to recover from the worst of the crisis. This first round of quantitative easing was unprecedented at the time, and no other central bank in the world had ever expanded its monetary base so rapidly.

At the time of the BOJ's Quantitative Easing (QE) policy, there was a large amount of easing money being transferred overseas, including to the US, and this was known as the typical "yen carry trade". At that time, the Bank of Japan expanded its Current Account Balances to 30 trillion yen, which was a massive supply of funds to the market, and it is thought that this was also at the behest of the US. After the bursting of the IT bubble in the latter half of 2000, the United States maintained a policy of low interest rates, including the FF rate, but interest rates remained at a historically very low level from 2001 onwards and were gradually raised until 2005/6, but during this period housing loans were extended to low-income groups and the subprime loan problem became serious. This led to the Lehman shock and the global financial crisis. The fact that low interest and abundant funds associated with the yen carry trade were flowing into the US market is evident from the fact that the Federal Reserve's money supply in the early 2000s showed almost no growth. Therefore, it is highly likely that the funds flowing into the US were one of the sources of the expansion of subprime loans associated with the housing boom[27].

In contrast, when the Global Financial Crisis broke out in 2008, European

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27. Yen carry trade is the borrowing of yen funds to conduct a variety of transactions, when interest rates are low and investing it in higher-yielding foreign currencies, stocks, bonds and other financial assets to make a profit. The subsequent subprime mortgage crisis and the Lehman shock in the US were the result of the inflow of low-interest and ample BOJ money flowing into the US market, which was practically the 'Japan-US collaboration'.

countries and the United States introduced significant monetary easing policies and unconventional policies one after another, and the United States introduced large-scale quantitative easing (QE) and rapidly expanded the assets of the Federal Reserve Board (FRB or Fed). The Bank of Japan (BOJ) had already been conducting extensive monetary easing at the time, and the rate of growth of the MB itself was modest compared to the Fed, ECB, etc. The Bank of Japan's Comprehensive Monetary Easing (CME) introduced in October 2010 was also modest compared to the Fed's initial growth, but during this period, BOJ Although the CME was small compared to the Fed's initial growth, it certainly contributed to the recovery of the US economy and markets[28]. In particular, the introduction of the CME (October 2010) came at a time of significant uncertainty in domestic and international markets following the end of US quantitative easing QE2 in June 2010, and increased pressure on Japan to take further easing measures. In other words, it can be said that the CME was also implemented in line with the intention (or request) of the US, as in the Quantitative and Qualitative Monetary Easing (QQE), which was introduct under the Abe cabinet in April 2013.

After the outbreak of the Global Financial Crisis, the United States also introduced significant monetary easing policies. The first round of Quantitative Easing (QE1) by the Federal Reserve Board (FRB or Fed) required a massive injection of funds under the de facto nationalization of major domestic financial institutions and other companies, and was therefore more about helping major financial institutions and companies escape the financial crisis. This was followed by QE2, introduced in November 2010, which aimed to achieve a full-fledged economic recovery. When it ended (in June 2011), it had a major impact not only in the US but also in foreign markets, and so QE3 was introduced in September 2012 to stimulate the economy in the second term of the Obama administration as it entered a risk phase again. However, QE3 was ended in October 2014 as the Fed's assets had already expanded indefinitely and could lead to a loss of confidence in the US dollar (Table 4). In order to further secure the economic recovery, the US authorities needed to continue with their ongoing easing policy. This may have led to a request to Japan to further expand the Bank of Japan's QQE with the aim of channeling funds back into the US.

In other words, the second round of QQE ('Bazooka II', November 2014-) can be seen as aimed at a continued recovery of the US economy and markets, rather than an economic recovery in Japan. In fact, the series of monetary easing measures in

28. In periods of Comprehensive Monetary Easing, Japan's monetary easing policy has had a positive and significant impact on the US market and economy. See Ohta (2020).

Table 4: Monetary Easing by BOJ/ FRB

USA	QE1	QE2	QE3 (Phase Ⅰ)	QE3 (Phase Ⅱ)
Period	2008M11～2010M6	.2010M11～2011M6	.2012M9 ～	2012M9～2014M10
T- Bill	**$300 bn**	**$600 bn**	—	$45bn(Month)
MBS	$ 1.25trillion	—	$40bn(Month)	$40bn(Month)
Others	$175 bn	—	—	Unemployment(6.5%)
Total	$ 1.725 trillion	$600 bn	—	Inflation 2.5%
Japan	**QE**	**CME**	**QQE**	**QQE (Phase Ⅱ)**
Period	2001M4～2006M3	2010M10～2012	2013M4～2014M10	2014M11～
BOJ Current Ac.	**¥30 trillion**			over ¥600trillion
Measures	Purchase JGB	Purchase JGB, CP, ETF, J-REIT	Stronger Purchase JGB, CP, ETF, J-REIT	Stronger Purchase JGB, C P, ETF, J-REIT
Others	Call Rate 0～0.1%			Public Purchase Stocks (by BOJ/ GPIF, etc.)
Int. Rate	Zero Int. Rate	Zero Int. Rate	Zero Int. Rate	Negative Int. Rate 'Feb.2016-)

Sources: FRB, Bank of Japan

the US has led to a steady recovery not only in financial markets but also in the real economy (Fig.25 and Fig.26).

In the U.S., many households and individuals have invested in stocks and other financial assets, and the rise in stock prices is thought to have benefited both individuals and firms through the asset effect. The reason why Japan did not experience the same kind of monetary easing effect as in the US is that the asset effect had almost no ripple effect on the real economy.

In particular, it is noteworthy that US stock prices are very highly correlated with the Bank of Japan's Current Account Balances of foreign banks (Fig. 27). This indicates that the Bank of Japan's monetary easing money has been used to invest in the US market. The Bank of Japan's monetary easing has had a significant impact on economies and markets outside Japan by transferring large amounts of

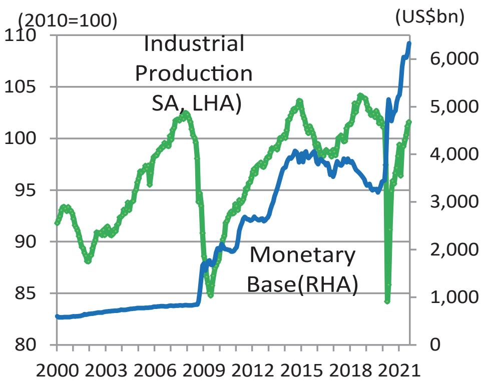

Fig.25: MB & Production (USA)

Sources: FRED, IFS database (IMF)

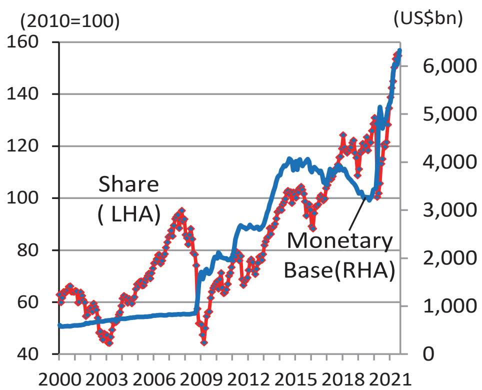

Fig.26: MB & Share Prices (USA)

Sources: FRED, IFS database (IMF)

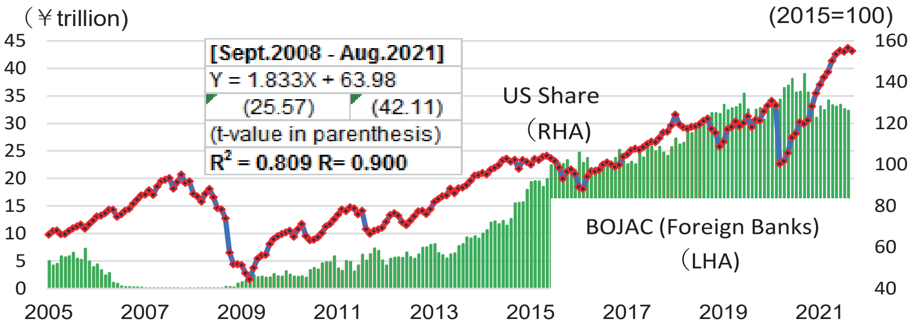

Fig. 27: USA Share Prices & BOJ Current Account (Foreign Banks)

Sources: Bank of Japan, USFRB FRED

low-interest, abundant funds overseas.

The Bank of Japan's monetary easing policies, including not only Quantitative and Qualitative Easing (QQE) but also Comprehensive Monetary Easing (CME) under former Governor Shirakawa, have had a positive and significant impact on U.S. industrial production and stock prices. They have also had a significant impact on the Chinese and Hong Kong markets[29]. While BOJ's monetary easing policies have not had a significant impact on the real economy in Japan, the government and the Bank of Japan's aggressive purchases of stocks and ETFs have pushed up stock prices.

Moreover, financial investment in the Japanese market from China and Hong Kong has come to have an impact on interest rates and stock prices in Japan. In this respect too, the continuation of QQE has been problematic from the point of view of the stability of the Japanese market. Therefore, the Bank of Japan's monetary easing was implemented for the benefit of foreign markets, such as the US, and failed as a stimulus to the Japanese economy. In other words, it is clear that even if monetary easing is carried out to the limit, the economic situation in Japan will not improve, and it is increasingly clear that economic stimulus should be considered from the demand side.

4-4 Impact of the BOJ's monetary easing on the Japanese economy and markets

In the aftermath of the Global Financial Crisis, the BOJ's monetary easing has had little effect on the real economy in Japan, other than on stock prices. With regard to the BOJ's monetary easing policies, including the Comprehensive Monetary

29. See Ohta (2020b)

Easing (October 2010-March 2013) and the Quantitative and Qualitative Easing (QQE) (April 2013-December 2019) that have been implemented. The results of the analysis based on Bayesian Vector-autoregressive (BVAR) models with the variables including monetary base (MB), money stock (M2), real effective exchange rate (REER), call rate, 10-year JGB yield, bank lending, and industrial production are as follows[30].

(a) Industrial Production

During the Quantitative Easing (QE) period 2001-06, the share of the monetary base (MB) in the variance decomposition of industrial production was very high, reaching 38.5% in the 10th period. After the Global Financial Crisis (September 2008 – March 2013), the monetary base (MB) had a relatively positive impact on industrial production. In the variance decomposition of industrial production, the share of the monetary base (MB) was 8.4% in the 10th period, while in the CME period (October 2010-March 2013), the share increased to 27.7% (Table 5-1). However, in the QQE period (April 2013-December 2019), its share in the variance decomposition has fallen to 0.3%; even in QQE Phase II since November 2014, the share was 3.4% in the tenth period, much lower than before the introduction of QQE (Table 5-1).

(b) Stock Prices (Share)

MB had a significant impact on the stock price with the share of 7.2% in the variance decomposition (10th period) during the CME period (September 2008-March 2013), However, MB expansion during the QQE period (April 2013-December 2019) and Phase II of QQE (Nov. 2014-Dec. 2019) did not have an significant impact on the stock prices, seeing that with shares of 1.2% and 0.8%, respectively, in the 10th period of variance decomposition (Table 5-1).

(c) Real Effective Exchange Rate (REER)

MB had a significant impact on the real effective exchange rate (REER), as the share of variance decomposition in the 10th period was 8.9%. However, the MB expansion under QQE (Apr. 2013-Dec. 2019) has no significant impact on the real effective exchange rate (REER), with a share of only 2.4% in the 10th period of variance decomposition (Table 5-2).The ratio of 0.36% of MB is also not significant

30. Table 5-1 and 5-2 below show the results of variance decomposition based on the BVAR model, but the impulse response functions are omitted in this paper as they are very detailed. See Ohta (2019) for details. However, the period covered by this paper is set to December 2019.

Table 5-1: Effects of BOJ Monetary Easing (1) Production [BVAR Variance Decomposition]

		Industrial Producion					Share				
April 2001-Mar.2006 (QE)	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	**S.E.**	**MB**	**REER**	**SHARE**	**Prod**
	1	0.839	7.003	1.000	6.067	85.930	4.737	0.000	0.705	99.295	0.000
	2	0.920	5.825	0.840	10.299	83.035	6.759	0.983	2.494	96.327	0.197
	9	1.487	33.910	3.255	22.338	40.496	15.547	12.555	23.081	63.849	0.516
	10	**1.562**	**38.478**	**3.938**	**20.861**	**36.722**	16.474	**13.902**	**24.587**	**60.928**	**0.583**
Sept..2008-Mar.2013	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	**S.E.**	**MB**	**REER**	**SHARE**	**Prod**
	1	2.908	14.206	0.270	1.588	83.936	4.218	0.664	50.708	48.627	0.000
	2	4.028	10.814	1.488	1.144	86.555	5.636	1.456	63.594	34.946	0.004
	9	5.389	8.050	10.594	1.326	80.030	7.507	1.480	64.083	21.330	13.107
	10	**5.403**	**8.371**	**10.660**	**1.332**	**79.637**	7.562	**1.461**	**63.722**	**21.096**	**13.722**
Oct.2010-Mar.2013 (CME)	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	**S.E.**	**MB**	**REER**	**SHARE**	**CPI**
	1	3.030	33.752	5.061	12.239	48.948	3.687	8.987	48.295	42.718	0.000
	2	3.420	35.481	6.571	9.789	48.159	5.385	11.513	60.163	28.292	0.032
	9	4.002	27.603	25.158	9.941	37.299	8.635	6.982	75.774	12.499	4.746
	10	**4.031**	**27.650**	**25.557**	**9.803**	**36.990**	8.665	**7.178**	**75.576**	**12.412**	**4.833**
Apr.2013-Dec.2019 (QQE)	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	S.E.	**MB**	**REER**	**SHARE**	**CPI**
	1	1.271	0.057	0.085	3.730	96.128	7.688	0.622	31.596	67.782	0.000
	2	1.377	0.287	0.074	3.486	96.152	9.551	1.071	31.939	66.871	0.119
	9	1.652	0.285	0.770	2.761	96.184	12.355	1.133	28.395	68.628	1.843
	10	**1.661**	**0.294**	**1.014**	**2.775**	**95.917**	12.411	**1.225**	**28.149**	**68.610**	**2.017**
Nov.2014-Dec.2019 (QQE Ⅱ)	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	S.E.	**MB**	**REER**	**SHARE**	**CPI**
	1	1.304	3.780	0.606	6.714	88.900	7.984	0.298	24.649	75.053	0.000
	2	1.422	3.452	0.699	6.767	89.082	9.826	0.472	24.781	73.469	1.278
	9	1.657	3.393	1.156	6.155	89.297	12.819	0.757	19.136	61.976	18.131
	10	**1.662**	**3.431**	**1.148**	**6.154**	**89.267**	12.931	**0.845**	**18.854**	**60.939**	**19.362**

Notes: MB: logarithm; Prior type: Giannone, Lenza & Primiceri; 4th lags used for BVAR estimaion.
Sources: Author's caliculation based on database of BIS, BOJ, METI, Ministry of Internal Affairs and Communications, Nikkei Profile.

in the period of Phase II of QQE (Nov. 2014-Dec. 2019). This does not support the general explanation that monetary easing by Abenomics has induced the yen depreciation.

(d) Bank Lending

During the post-Global Financial Crisis period (Sept.2008–Mar.2013), including the CME period (Sept. 2008-Mar. 2013), MB had a significant impact on bank lending: MB accounted for 29.4% and 51.6% respectively of the variance decomposition of bank lending in the 10th period. In this respect, it acted rather more effectively than the following QQE during which the share of variance decomposition of bank lending was only 0.25% in the 10th period (Table 5-2).

Thus, QQE, which has been the most emphasized as the First arrow of Abenomics, has not had a significant impact on the Japanese economy and markets. The QQE period also had a more limited impact on the economy and markets than the period under former BOJ Governor Shirakawa, which included Comprehensive Monetary Easing (CME) in industrial production, REER, stock prices and bank lending. This means that QQE had little effect on the real economy in Japan. This

Table 5-2: Effects of BOJ Monetary Easing (2) REER/Bank Lending [BVAR Variance Decomposition]

		REER					Bank Lending				
April 2001-Mar.2006 (QE)	Period	**S.E.**	**MB**	**REER**	**SHARE**	**Prod**	**S.E.**	**MB**	**Yield**	**CallRate**	**LEND**
	1	1.376	9.037	90.963	0.000	0.000	0.220	0.531	5.483	0.855	93.131
	2	1.944	15.331	83.927	0.034	0.708	0.290	0.384	3.422	0.966	95.228
	9	3.638	27.922	71.113	0.592	0.373	0.626	3.837	2.328	0.832	93.003
	10	**3.759**	**28.641**	**70.186**	**0.808**	**0.365**	**0.673**	**4.618**	**2.395**	**0.823**	**92.165**
Sept.2008-Mar.2013	Period	**S.E.**	**MB**	**REER**	**SHARE**	**Prod**	**S.E.**	**MB**	**Yield**	**CallRate**	**LEND**
	1	1.933	0.004	99.996	0.000	0.000	0.297	0.249	2.015	15.641	82.095
	2	2.872	0.242	94.495	0.176	5.086	0.428	2.924	3.543	13.764	79.770
	9	4.847	4.023	59.349	1.610	35.018	0.795	26.676	6.120	13.753	53.452
	10	**4.885**	**4.174**	**58.911**	**1.678**	**35.237**	**0.833**	**29.385**	**5.623**	**15.581**	**49.411**
Oct.2010-Mar.2013 (CME)	Period	**S.E.**	**MB**	**REER**	**SHARE**	**Prod**	**S.E.**	**MB**	**Yield**	**CallRate**	**LEND**
	1	1.788	0.187	99.813	0.000	0.000	0.160	1.952	4.348	7.886	85.813
	2	2.903	0.612	94.581	0.695	4.112	0.209	19.643	4.875	4.650	70.832
	9	5.559	7.858	82.757	0.819	8.566	0.412	50.594	10.244	7.022	32.140
	10	**5.626**	**8.850**	**81.730**	**0.800**	**8.620**	**0.427**	**51.648**	**10.159**	**7.271**	**30.923**
Apr.2013-Dec.2019 (QQE)	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	S.E.	**MB**	**Yield**	**CallRate**	**LEND**
	1	1.367	1.076	98.924	0.000	0.000	0.152	0.086	0.000	0.282	99.631
	2	1.852	1.226	97.396	0.937	0.441	0.202	0.404	0.187	0.164	99.245
	9	2.870	2.399	88.182	4.677	4.742	0.308	0.249	0.490	1.156	98.106
	10	**2.901**	**2.412**	**87.293**	**4.942**	**5.354**	**0.311**	**0.248**	**0.556**	**1.514**	**97.683**
Nov.2014-Dec.2019 (QQE Ⅱ)	Period	S.E.	**MB**	**REER**	**SHARE**	**Prod**	S.E.	**MB**	**Yield**	**CallRate**	**LEND**
	1	1.205	0.445	99.555	0.000	0.000	0.153	0.363	0.551	0.003	99.084
	2	1.604	0.262	91.074	3.593	5.071	0.197	0.725	0.507	0.858	97.911
	9	2.619	0.361	49.692	11.080	38.867	0.312	0.368	1.006	20.385	78.241
	10	**2.666**	**0.355**	**48.070**	**10.780**	**40.794**	**0.318**	**0.388**	**1.225**	**22.500**	**75.887**

Notes: MB: logarithm; Prior type: Giannone, Lenza & Primiceri; 4th lags used for BVAR estimaion.
Sources: Author's caliculation based on database of BIS, BOJ, METI, Ministry of Internal Affairs and Communications, Nikkei Profile.

can be largely attributed to the fact that the real economy has been stagnant due to the implementation of fiscal austerity policies and a lack of demand associated with falling real wages.

4-5 Impact of Bank of Japan Monetary Easing on the US Economy and Markets

The Bank of Japan's monetary easing has had a significant impact on the U.S. markets and economy. In particular, after the Global Financial Crisis, a series of monetary easing by the Bank of Japan has had a significant positive impact on the US economy and markets. Based on Bayesian VAR (Vector Autoregressive) models, Ohta (2020) examines the impact of monetary easing on the U.S. industrial production, money stock (M2), and stock prices during the Quantitative Easing (QE) in 2001-06, Comprehensive Monetary Easing (CME) after the global financial crisis, and quantitative and qualitative easing (QQE) on the US market and economy from April 2001 to December 2019. The results of the analysis show that the Bank of Japan's monetary easing has had a significantly positive effect on the US market and economy, unlike the case in Japan. The variables used in the analysis are the monetary base (MB), money stock (M2) (JPMB, JPM2), Bank of Japan current account (BOJAC), BOJ call rate, and 10-year JGB yield in Japan; MB and M2, real effective exchange rate (REER), FF rate, 10-year T-bill (TB10Y), and Share prices (Share), and US industrial production (US Prod)[31].

(a) Industrial Production

A variance decomposition on the impact of Japan's monetary base (JPNMB) and money stock (JPNM2) on the BVAR model shows that the effects of Japan's MB and M2 on U.S. industrial production are larger than that of the U.S. MB and M2 during the QE period (April 2001-March 2006) and the post-Global Financial Crisis period (September 2008-March 2013), including the CME period (October 2010-March 2013). For example, in the variance decomposition from September 2008 to March 2013, the shares of Japan's MB and M2 on US industrial production accounted for 67.5% and 57.5%, respectively (10th period) and was larger than that of the US MB (22.1%) and USM2 (7.4%) (Table 6-1). However, during the QQE period, the shares of MB and M2 in Japan fell to 0.5% and 7.3% respectively, and similarly in the US, the share of MB and M2 declined both to 2.3%.

As shown above, the money stock associated with monetary easing in Japan has had a greater impact on the real economy (industrial production) in the US than in Japan. In other words, without Japan's monetary easing money, it would have been quite difficult for the US economy to recover after the Global Financial Crisis.

31. While Ohta (2017) included the period of the first quantitative easing (2001-06), Ohta (2020a) analyses the period after the 2008 Global Financial Crisis based on the latest statistics (up to December 2019). Also note that the BVAR analyses here adopted the Giannone, Lenza & Primiceri as Prior type.

Table 6-1: Effects of BOJ Monetary Easing (1) US Industrial Production [BVAR Variance Decomposition]

QE [Apr.2001-Mar2006]													
	S.E.	JPMB	USREER	USLEND	USSHARE	USPROD		S.E.	JPM2	USREER	USLEND	USSHARE	USPROD
1	0.439	0.006	0.267	0.031	0.213	99.483	1	0.438	0.264	1.030	0.000	0.033	98.672
10	1.063	**35.465**	**1.353**	**2.000**	**12.029**	**49.154**	10	0.987	**23.554**	**11.196**	**1.020**	**15.368**	**48.862**
	S.E.	USMB	USREER	USLEND	USSHARE	USPROD		S.E.	USM2	USREER	USLEND	USSHARE	USPRODS
1	0.439	0.340	0.683	0.055	1.031	97.892	1	0.432	0.620	0.045	0.189	0.674	98.471
10	0.802	**7.399**	**0.624**	**1.674**	**24.493**	**65.810**	10	0.708	**3.745**	**0.215**	**2.940**	**15.175**	**77.924**
Post-Global Financial Crisis [Sep2008-Mar2013]													
	S.E.	JPMB	USREER	USLEND	USSHARE	USPROD		S.E.	JPM2	USREER	USLEND	USSHARE	USPROD
1	0.509	1.568	2.279	8.179	1.413	86.562	1	0.409	4.923	5.634	4.110	0.130	85.204
10	1.765	**67.505**	**3.397**	**2.564**	**7.989**	**18.545**	10	0.998	**57.530**	**4.280**	**3.406**	**13.061**	**21.723**
	S.E.	USMB	USREER	USLEND	USSHARE	USPRODS		S.E.	USM2	USREER	USLEND	USSHARE	USPROD
1	0.474	9.037	11.940	7.303	0.390	71.331	1	0.452	0.092	0.800	5.375	5.821	87.912
10	1.194	**22.097**	**6.534**	**10.948**	**32.066**	**28.355**	10	0.926	**7.414**	**46.051**	**5.567**	**2.287**	**38.681**
CME [Oct 2010-Mar2013]													
	S.E.	JPMB	USREER	USLEND	USSHARE	USPROD		S.E.	JPM2	USREER	USLEND	USSHARE	USPROD
1	0.286	6.875	11.987	28.373	0.007	52.758	1	0.321	4.648	7.738	8.259	0.000	79.354
10	0.593	**32.747**	**7.687**	**17.904**	**3.320**	**38.343**	10	0.707	**32.234**	**3.569**	**3.041**	**8.980**	**52.175**
	S.E.	USMB	USREER	USLEND	USSHARE	USPRODS		S.E.	USM2	USREER	USLENDY	USSHARE	USPROD
1	0.275	7.473	1.357	2.022	0.019	89.129	1	0.452	0.093	0.798	5.372	5.818	87.919
10	0.590	**23.944**	**1.320**	**0.650**	**9.196**	**64.891**	10	0.926	**7.413**	**46.048**	**5.567**	**2.285**	**38.687**
QQE [Apr2013-Dec2019]													
	S.E.	JPMB	USREER	USLEND	USSHARE	USPROD		S.E.	JPM2	USREER	USLEND	USSHARE	USPROD
1	0.417	0.705	2.922	3.199	0.026	93.148	1	0.411	2.296	3.573	3.011	0.220	90.900
10	1.082	**0.544**	**2.025**	**15.512**	**40.548**	**41.372**	10	0.947	**7.292**	**13.719**	**13.000**	**18.533**	**47.456**
	S.E.	USMB	USREER	USLEND	USSHARE	USPROD		S.E.	USM2	USREER	USLEND	USSHARE	USPROD
1	0.406	1.779	1.109	4.648	0.065	92.398	1	0.403	0.020	2.426	3.852	0.836	92.867
10	0.951	**2.344**	**0.666**	**3.561**	**54.319**	**39.110**	10	0.816	**2.296**	**15.956**	**18.261**	**12.264**	**51.222**
QQE Phase II [Nov.2014-Dec.2019]													
	S.E.	JPMB	USREER	USLEND	USSHARE	USPROD		S.E.	JPM2	USREER	USLEND	USSHARE	USPROD
1	0.417	1.502	5.501	1.768	0.013	91.217	1	0.413	4.683	6.421	1.407	0.806	86.683
10	0.974	**2.835**	**12.315**	**6.443**	**34.410**	**43.997**	10	0.929	**18.573**	**14.259**	**9.653**	**17.892**	**39.623**
	S.E.	USMB	USREER	USLEND	USSHARE	USPROD		S.E.	USM2	USREER	USLEND	USSHARE	USPROD
1	0.402	5.466	2.356	1.278	0.610	90.290	1	0.413	0.101	5.217	1.652	0.303	92.728
10	0.885	**16.757**	**7.766**	**16.834**	**23.895**	**34.748**	10	0.813	**0.752**	**18.776**	**9.893**	**16.743**	**53.836**

Notes: MB/ M2 are logarithm; LEND: y/y lending rate (y/y,%); Prior type: Giannone, Lenza & Primiceri; 4th lags used for BVAR estimaion.

Sources: Author's calculation based on data of Bank of Japan, Statistics Office (Japan), FRB (FRED)

(b) MB/M2

The Japan's monetary base (JPMB) and money stock (JPM2) had a significant impact on the US monetary base (USMB) and money stock (USM2), especially during the post-Global Financial Crisis period (September 2008-March 2013), including the Comprehensive Monetary Easing (CME) period (Table6-2). The shares of JPMB in the variance decomposition of the USMB and USM2 in the 10th period were 18.8% and 48.8%, respectively, in the post-Global Financial Crisis period (Table 6-2). However, the share of JPM2 in the variance decomposition of the USM2 during the CME period was higher at 17.3% than that of during the QQE period (April 2013-December 2019) with 0.09% and QQE Phase II (November 2014-December 2019) with 6.6%. On the other hand, the shares of JPMB in the variance decomposition of the USMB and USM2 during the QQE period were higher with 15.6% and 10.1% (10th period). The share of JPMB in the variance decomposition of USMB and USM2 is also relatively high, at 11.9% and 18.8% respec-

Table 6-2: Effects of BOJ Monetary Easing (2) USMB/M2 [BVAR Variance Decomposition]

QE [Apr.2001-Mar2006]													
USMB													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.002	9.357	90.643	0.000	0.000	0.000	1	25.862	6.820	23.437	69.742	0.000	0.000
10	0.004	**3.867**	**72.939**	**22.099**	**0.372**	**0.725**	10	56.882	**2.618**	**50.634**	**37.794**	**4.753**	**4.201**
USM2													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.002	7.892	92.108	0.000	0.000	0.000	1	24.955	11.100	23.507	65.393	0.000	0.000
10	0.004	**7.491**	**71.812**	**19.462**	**0.966**	**0.269**	10	52.621	**14.606**	**41.374**	**36.417**	**5.784**	**1.819**
Post-Global Financial Crisis [Sep2008-Mar2013]													
USMB													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.012	2.696	97.304	0.000	0.000	0.000	1	0.012	1.267	98.733	0.000	0.000	0.000
10	0.030	**18.848**	**61.442**	**0.720**	**13.244**	**5.747**	10	0.028	**2.101**	**75.562**	**0.305**	**17.191**	**4.842**
USM2													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.001	5.000	3.729	91.269	0.000	0.000	1	0.002	0.009	5.262	94.729	0.000	0.000
10	0.006	**48.726**	**14.632**	**26.549**	**0.516**	**9.577**	10	0.005	**9.411**	**24.681**	**56.780**	**0.344**	**8.784**
CME [Oct 2010-Mar2013]													
USMB													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.005	0.208	99.792	0.000	0.000	0.000	1	0.005	4.342	95.658	0.000	0.000	0.000
10	0.017	**9.992**	**45.836**	**3.579**	**37.477**	**3.117**	10	0.018	**2.599**	**49.895**	**6.253**	**34.649**	**6.604**
USM2													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.001	1.987	5.961	92.052	0.000	0.000	1	0.001	9.206	2.050	88.744	0.000	0.000
10	0.004	**3.655**	**8.745**	**66.701**	**18.228**	**2.672**	10	0.004	**17.344**	**17.180**	**42.029**	**21.787**	**1.661**
QQE [Apr2013-Dec2019]													
USMB													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.007	3.575	96.425	0.000	0.000	0.000	1	0.007	1.543	98.457	0.000	0.000	0.000
10	0.020	**15.614**	**47.929**	**5.781**	**2.492**	28.185	10	0.013	**2.469**	**66.642**	**3.422**	**4.082**	**23.386**
USM2													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	40.842	1.895	0.003	98.102	0.000	0.000	1	0.001	0.385	1.865	97.750	0.000	0.000
10	109.866	**10.097**	**1.013**	**61.091**	**11.978**	15.821	10	0.003	**0.091**	**3.322**	**87.416**	**8.255**	**0.916**
QQE Phase II [Nov.2014-Dec.2019]													
USMB													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.007	1.236	98.764	0.000	0.000	0.000	1	0.007	1.884	98.116	0.000	0.000	0.000
10	0.016	**11.850**	**53.945**	**15.188**	**6.483**	**12.534**	10	0.013	**2.846**	**76.009**	**1.117**	**5.060**	**14.967**
USM2													
	S.E.	**JPMB**	**USMB**	**USM2**	**TB10Y**	**FF**		**S.E.**	**JPM2**	**USMB**	**USM2**	**TB10Y**	**FF**
1	0.001	0.908	1.212	97.880	0.000	0.000	1	43.381	8.964	0.095	90.941	0.000	0.000
10	0.003	**18.803**	**26.068**	**42.077**	**9.870**	**3.182**	10	120.848	**6.637**	**17.262**	**60.681**	**11.521**	**3.899**

Notes: MB/ M2 are logarithm; LEND: y/y lending rate (y/y,%); Prior type: Giannone, Lenza & Primiceri; 4th lags used for BVAR estimaion.

Sources: Author's calculation based on data of Bank of Japan, FRB.(FRED)

tively in QQE Phase II.

The results suggest that Japan's MB and M2 had significant impact on both the US monetary base (USMB2) and the US money stock (USM2) after the Global Financial Crisis.

(c) US Stock Prices

The impact of Japan's monetary base (JPNMB) and money stock (JPNM2) on

US stock prices has been particularly pronounced in the post-Global Financial Crisis period (Sept.2008 - March 2013), with the JPMB and JPM2 accounting for 46.1% and 27.8% respectively in the tenth period of variance decomposition, while the USMB and USM2 accounting for 8.6% and 14.8%, respectively (Table 6-3).

While the share of JPMB in the variance decomposition of US stock prices decreased to 2.1% in the QQE period (April 2013-December 2019) and to 5.5% in Phase II of QQE (November 2014-December 2019), the share of JPM2 increased to 14.8% and 22.0%, respectively, which is higher than that of USM2 with 10.9% and 7.8% in the period. This may suggest that the Japan's money stock (JPM2) provided abundant liquidity to the U.S. market which led to significant investment in U.S. equities during the QQE period.

Table 6-3: Effects of BOJ Monetary Easing (3) US Share Price [BVAR Variance Decomposition]

QE [Apr.2001-Mar2006]													
	S.E.	**JPMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**JPM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	1.691	4.809	11.708	0.848	82.635	0.000	1	1.679	0.032	9.863	0.155	89.951	0.000
10	4.200	**8.649**	**18.327**	**3.178**	**67.243**	**2.603**	10	4.131	**0.541**	**18.318**	**3.750**	**74.370**	**3.021**
	S.E.	**USMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**USM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	1.727	3.210	12.690	0.060	84.039	0.000	1	1.665	10.141	6.287	0.500	83.072	0.000
10	4.248	**2.078**	**13.298**	**5.692**	**78.222**	**0.709**	10	3.879	**3.729**	**9.335**	**6.448**	**80.058**	**0.431**
Post-Global Financial Crisis [Sep2008-Mar2013]													
	S.E.	**JPMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**JPM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	2.193	5.594	30.182	0.615	63.609	0.000	1	2.271	10.772	30.582	0.154	58.492	0.000
10	5.440	**46.158**	**17.302**	**2.687**	**25.822**	**8.031**	10	4.195	**27.751**	**26.455**	**0.642**	**41.013**	**4.140**
	S.E.	**USMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**USM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	2.160	1.769	31.446	0.120	66.664	0.000	1	2.203	7.281	46.999	0.003	45.718	0.000
10	4.247	**8.554**	**23.892**	**7.596**	**52.470**	**7.488**	10	3.967	**14.841**	**59.460**	**1.079**	**18.636**	**5.985**
CME [Oct 2010-Mar2013]													
	S.E.	**JPMB**	**USREER**	**USLEND**	**USSHAREUSPRODS**			**S.E.**	**JPM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	1.953	2.015	6.005	3.095	88.886	0.000	1	2.109	2.510	11.678	1.669	84.144	0.000
10	3.012	**9.480**	**6.271**	**8.821**	**73.360**	**2.069**	10	3.297	**2.656**	**11.615**	**7.455**	**76.329**	**1.946**
	S.E.	**USMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**USM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	1.645	8.641	15.134	2.710	73.515	0.000	1	2.203	7.287	46.997	0.003	45.714	0.000
10	2.724	**20.410**	**7.728**	**4.946**	**45.151**	**21.765**	10	3.968	**14.848**	**59.453**	**1.080**	**18.626**	**5.993**
QQE [Apr2013-Dec2019]													
	S.E.	**JPMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**JPM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	2.411	0.398	6.052	2.691	90.859	0.000	1	2.345	3.384	7.033	1.017	88.567	0.000
10	4.532	**2.082**	**6.310**	**10.615**	**79.582**	**1.411**	10	4.125	**14.844**	**17.518**	**4.267**	**63.024**	**0.348**
	S.E.	**USMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**USM2**	**USREER**	**USLENDYUSSHARE**		**USPROD**
1	2.305	0.049	1.124	0.250	98.577	0.000	1	2.184	6.033	4.609	0.688	88.670	0.000
10	4.882	**2.747**	**2.488**	**1.315**	**92.932**	**0.518**	10	3.552	**10.911**	**18.820**	**5.641**	**64.459**	**0.169**
QQE Phase II [Nov.2014-Dec.2019]													
	S.E.	**JPMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**JPM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	2.565	1.712	11.592	4.626	82.069	0.000	1	2.479	9.798	8.097	5.545	76.560	0.000
10	4.466	**5.474**	**21.507**	**3.382**	**68.322**	**1.315**	10	4.324	**21.952**	**21.962**	**4.977**	**50.991**	**0.118**
	S.E.	**USMB**	**USREER**	**USLEND**	**USSHARE**	**USPROD**		**S.E.**	**USM2**	**USREER**	**USLEND**	**USSHARE**	**USPROD**
1	2.309	0.026	5.052	4.217	90.705	0.000	1	2.364	8.520	8.276	4.089	79.115	0.000
10	4.353	**17.882**	**8.482**	**9.075**	**63.352**	**1.209**	10	3.703	**7.828**	**28.442**	**3.844**	**59.826**	**0.060**

Notes: MB/ M2 are logarithm; LEND: y/y lending rate (y/y,%); Prior type: Giannone, Lenza & Primiceri; 4th lags used for BVAR estimaion.

Sources: Author's calculation based on data of Bank of Japan, Statistics Office (Japan), FRB (FRED)

5. Prescriptions for Sustainable Economic Growth in Japan

In order to achieve sustainable and stable growth of the Japanese economy, it is necessary to fundamentally change the policies based on neo--liberalism that have developed so rapidly over the past few decades. Economic policy should aim to ensure that the majority of the population has a decent income and maintains a higher standard of living. To achieve this, serious consideration should be given to introducing the following policies.

5-1 A fundamental shift in economic policy

Under neo-liberal policies over the past few decades, the liberalisation of the labour market has led to a generalisation of non-regular employment, which in turn has led to a decline in average household incomes. As we have already pointed out, fiscal austerity policies have always been adopted under neo-liberal governments, and this has contributed to the economic downturn. At present, there is no country in the developed world where Keynesian policies can be applied as effectively as in Japan. In the short term, therefore, the Japanese economy should make active use of fiscal policy to achieve a steady economic recovery. In doing so, fiscal balance and public debt should be taken into account after the economic growth trajectory has been assured.

Table 7: The Inequality-growth nexus in OECD countries: baseline results

	[Dependent Varibale: $\triangle \log y_t$]							
1975+79	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Net inequality (t-1)	-0.774 **	-0.800 **	-0.809 ***	-1.003 **		-1.257 **	-1.207 **	
	(0.319)	(0.306)	(0.282)	(0.376)		(0.517)	(0.473)	
Gross inequality (t-1)					-0.640	0.138		
					(1.092)	(0.595)		
(Gross-Net) inequality (t-1)							0.064	-0.365
							(0.706)	(1.476)
$y_{(t-1)}$	-0.136 **	-0.080	-0.054	-0.079	0.038	-0.070	-0.079	0.133
	(0.054)	(0.051)	(0.057)	(0.106)	(0.178)	(0.121)	(0.131)	(0.231)
Human Capital (t-1)		-0.005	-0.007	-0.000	0.006	-0.009	-0.010	0.013
		(0.011)	(0.007)	(0.015)	(0.021)	(0.011)	(0.012)	(0.021)
Investment (t-1)		0.197	0.428	0.045	1.545	-0.245	-0.243	2.484
		(0.318)	(0.544)	(1.311)	(1.304)	(1.310)	(1.477)	(2.138)
M2 (p-val)	0.722	0.558	0.623	0.723	0.860	0.606	0.665	0.916 *
Hansen Statistics (p-val)	0.847	0.614	0.377	0.129	0.471	0.129	0.174	0.535
Observations	127	127	127	127	124	124	124	124
No. of countries	31	31	31	31	30	30	30	30
No. of instruments	27	31	26	16	16	18	18	16

Notes: The dependent variable is Δlnyt, where yt is per capita GDP and [t-(t-1)] is a 5-year period.
Inequality is measured by Gini indexes.Robust, 2-step System GMM estimator with Windmeier-corrected standard errors.
Gross inequality uses Gini coeff. before tax and disposable income used for net inequality.
All regressions include country and period dummies. M2 are the p-values of the tests for second order correction in the differentiated error terms. Hansen denotes the p-value on the Hansen test of over identyfing restrictions.
***, **, * denote significance at the 1, 5, 10% levels, respectively.
Source: Cingano (2014) Table 1.

The government's budget for education and welfare has been consistently cut under the neo-liberal policies of the past few decades in Japan. As a result, the Japanese government's education budget is one of the lowest in the developed world. Investment in education is essential for long-term sustainable economic growth, and the OECD paper (Cingano, 2014) has already shown that widening income inequality and declining investment in human capital reduce economic growth (Table7).

In this context, we will need policies that help people to feel less anxious about the future, to increase consumption and to increase demand. Only then can we expect to see stable economic growth. Based on a long-term vision, the Government should first set out the direction of its economic policy and the direction of its social security and pension systems based on a long-term vision. It is then important to achieve sustainable economic growth. It is also necessary to build a social security and pension system that reduces people's anxiety about the future, allows them to live with peace of mind, and is sustainable in the long term. The following policies will be needed to achieve this.

5-2 Tax reform to increase the incomes of the lower- and middle-income groups and stimulate economic growth

One of the most important current priorities for achieving stable economic growth in the long term is to increase the disposable income of the lower- and middle-income groups. As we have shown in the previous chapters, the insurance premium and tax burden should be made more progressive, and national and local taxes should be applied at rates more closely divided according to income than in the past. In other words, the tax system of the past decades, which has flattened the income tax system, should be fundamentally revised and progressive taxation strengthened. As we have shown in previous chapters, the weakness of the Japanese economy is most likely due to the slump in consumer spending, which accounts for around 60% of GDP. This is the result of a decline in household disposable income following more than two decades of falling real wages. There is therefore a need to increase the incomes of the middle- and lower- income groups as a way of increasing the disposable income of the majority of the population and reducing the burden on the lower income groups.

(1) Strengthening the progressive income tax system (income distribution of flows)

As the first policy to be tackled, the progressive income taxation should be strengthened, correcting the expansion of the burden on the lower- and middle-income groups that has been promoted since the 1980s with the flattening of the income tax system. There is a naive view (or misunderstanding) of this policy in Japan that increasing the tax burden on the wealthy will reduced, their incentive to work and cause companies and the wealth to flee abroad[32]. However, while major corporations and wealthy individuals have already slipped through the cracks through Tax Haven and other legal tax breaks, many companies and individuals remain in Japan[33].

On the other hand, a more progressive system of income taxation for the majority of the population, the most important part of the national economy, would have a positive rather than negative impact on economic growth. In this respect, Ohta (2007, 2015, 2017a) have already shown that a more progressive income tax system can increase GDP growth by up to about 2 percent (Fig.28, Table 8)[34].

In the simulation, Case 3 (the most progressive case) results in a 2.2% increase in annual GDP growth. Moreover, the increase in consumption demand due to the expansion of household consumption will lead to economic growth, which will eventually increase the government's tax revenue. Therefore, the fiscal balance is

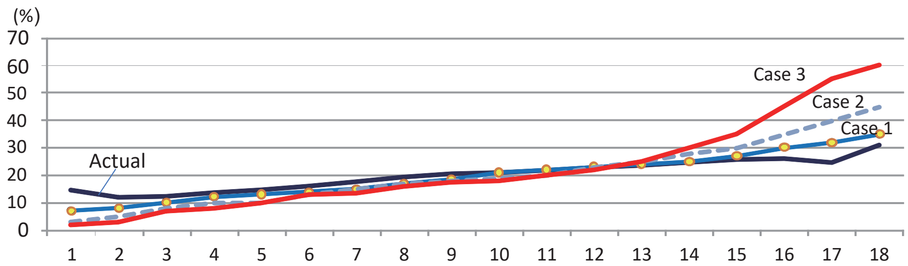

Fig.28: Income Tax/Insurance simulation (by hosehold income groups)

Source: Author's Simulation based on the Household survey in Japan in 2013

32. Harada (2015), for example, says: "Increasing the progressive taxation of income may lead to a decline in the incentive to work and to start a business, and to a contraction of the economy as a whole. On top of that, heavy taxation of stocks and other assets would cause rich Japanese to move more of their wealth overseas than they already do." He added.

33. In the first place, there is no solid evidence to support the argument that the increased progressivity of income tax has reduced the incentive to work. In addition, the majority of the population was hopeful and highly motivated to work during the period of high growth (when income tax progressivity was very high), and the growth rate was high. Similarly, in the United States, which had a strongly progressive income tax system until the 1970s, the average real GDP growth rate during the 1950s and 1970s was 4.0%, higher than the average for the period after that.

34. Ohta (2007) based his analysis on the 2006 household survey, while Ohta (2017) simulated the situation based on the 2013 household survey. In the former, the most progressive case would result in a 2.5% increase in GDP growth.

Table 8: Effecs of Tax reform on GDP Growth / Tax revenue (Japan)

	Household Consumption (￥)	⊿(%)	⊿GDP (%)	Increase in Tax/ Insurance(%,GDP)	⊿Revenue (%)
Case 1	319,170	1.585	**0.946**	1.585	**4.8**
Case 2	327,579	2.634	**1.573**	2.634	**15.2**
Case 3	330,523	3.567	**2.214**	3.567	**34.2**

Notes: 1 Average monthly household spending based on the disposable income and expenditures in 2013. Tax/Insurance payments are based on total income & expenditure by income groups
2 GDP growth forecasts are estimates based on the share of private consumption in GDP

also expected to improve. It is clear from the past experience of the Japanese economy that a higher rate of economic growth is expected to lead to a natural increase in revenue, even without changes to the income tax system. Thus, the strengthening of the progressive system could kill two birds with one stone.

Regarding the positive effect of improving the income distribution on economic growth, Piketty (2014), IMF (2015) and OECD (2008) also point out that the worsening of income inequality has a negative impact on economic growth (i.e., economic growth will accelerate if the income distribution is improved). However, the Japanese government has so far taken no measures to improve the distribution of income, but on the contrary has raised the consumption tax, which is highly regressive and increases the burden on low-income groups, and has tightened the requirements for welfare and nursing care, resulting in budget cuts. And in fiscal 2019, the share of indirect taxes, such as consumption tax, in tax revenue has finally overtaken that of income tax and corporate tax to become the largest. In addition, government investment has been cut for more than 20 years, and the effects of austerity policies have ultimately been to reduce economic growth. These short-sighted and ad-hoc policies should be fundamentally changed, and rational and effective policies should be adopted.

(2) Introduction of a comprehensive taxation system

When high-income earners and the wealthy invest their surplus funds in financial investments, the profits associated with investments in stocks and bonds are treated as a separate tax at source, and this has reduced total tax revenue. For this reason, the consumption tax has been raised in order to compensate for the tax revenue. A comprehensive taxation system would improve the irrational and unfair taxation system, where the actual tax burden decreases when annual income exceeds 100 million yen.

(3) Strengthening asset taxation (income distribution of stock)

The wealthy earn large profits from stock (asset) holdings and their management rather than from flow income. Therefore, strengthening asset taxation will be one of the most important measures in the future. Inheritance tax has already been raised since 2015. The basic exemption, which was previously tax-free, was reduced by 40% from 50 million yen + (10 million yen x number of legal heirs to 30 million yen) + (6 million yen x number of legal heirs), effectively increasing the burden of inheritance tax. However, asset taxation, which can be levied on a more regular basis than inheritance tax, needs to be strengthened to provide a stable source of tax revenue.

Such a tax reform will be difficult to achieve without a fundamental change in the traditional policy of putting the interests of the wealthy and corporations first.

(4) Prevention of corporate tax cuts and Introduction of progressive taxation system

Corporate income tax has been reduced over the past few decades following a review of the tax system. In addition, tax exemptions have been expanded in line with the tax exemption measures. In addition, taxation of small and medium-sized enterprises (SMEs) tends to be higher than that of large listed companies[35]. Therefore, these tax breaks should be considered, and deductions for necessary areas such as research and development should be retained and taxed at the normal corporate tax rate.

Furthermore, the corporate tax rate is currently flat (23.2%), except for the tax on small companies. Therefore, a progressive taxation system, similar to that of personal income tax, should be introduced so that a proportionate burden is applied to corporate tax. This would generate an annual tax revenue of about 9 trillion yen[36].

(5) Introduction of financial transaction taxes

It has been shown (Chapter 4) that the Bank of Japan's massive monetary easing policy has diverted surplus funds in Japan to unproductive investments such as financial investments, which do not contribute to the real economy, and

35. Suga (2012) points out that taxable income has been reduced by tax erosion and tax shelters, reducing the actual amount of tax paid, and that the tax burden is very low, especially for large companies.

36. Indirect tax burdens such as consumption tax should be made more progressive than income tax in terms of fairness of tax burden. See Suga (2019).

that the funds have flowed abroad, contributing to the economic and market recovery in countries such as the US and China. However, if financial transactions involve vast amounts of money, then taxing stock and bond transactions themselves in Japan, even at a low rate, would generate huge revenues. This has already been agreed by 11 countries in the EU in 2014. In practice, France has introduced it on its own, but the lack of full EU-wide agreement has made implementation difficult.

In the case of Japan, on the other hand, it is a very important issue from the point of view of improving the fiscal balance and supplementing tax revenues. In particular, the neo-liberal governments that have been in power since the second Abe administration have prioritised policies that favour the wealthy and large corporations, making it difficult to implement a financial transactions tax. However, a financial transactions tax could be a very powerful tool if the government is concerned about fairness in the tax burden and improving the fiscal balance and public debt. At present, global IT companies and digital taxation are being considered, and an agreement has been reached to introduce a corporate tax of at least 15% in major countries in October 2021.

However, taxing financial transactions themselves would not only increase the government's tax revenue, but would also be preferable from a tax fairness perspective. This is because it avoids regressive taxes, such as consumption taxe, which are more burdensome on lower income groups, while increasing the burden on the wealthy who can afford to invest in financial products[37].

5-3 Reform of labour market policies

There is a need to fundamentally review labour policies which, over the past few decades, have led to an increase in part-time employment, including the liberalisation of the labour market and, in particular, the deregulation of temporary employment in all sectors. The following policies should be considered with the aim of increasing demand by increasing the disposable income of the majority of the population:

(1) Stricter restrictions and Limitation on the types of non-regular employment
(2) Raise the minimum wage
(3) Increase in the wages share of companies

In view of the fact that the increase in non-regular employment is significantly

37. If a financial transactions tax were introduced in the EU (11 countries), with a tax of 0.1% on financial institutions and on transactions in shares and bonds, and 0.01% on derivatives. The expected tax revenue is estimated to be between €30 and €35 billion. See Uemura (2014).

lowering the overall disposable income of households, it is necessary to fundamentally reform current policies. For example, fundamental reform of the labour market: restricting the types of non-regular employment; raising the minimum wage. In addition, it is desirable to reform the dispatch law, which has increased the number of non-regular workers, and to limit the number of industries in which workers can be dispatched: since the Worker Dispatch Act came into force in 1986, it had been restricted to 26 industries, including manufacturing until 1996, but the second Abe cabinet abolished it altogether. This makes sense, as an increase in the number of temporary and non-regular workers in the manufacturing sector, for example, is very detrimental to a company's technological development and investment. It also removes the incentive to manage the company from a long-term perspective. By rectifying this situation, it will be possible to narrow the gap in income between regular and non-regular employees.

It would also be necessary for the government to set targets (e.g., to guarantee 70-80% of full-time employment) to ensure a certain level of monthly and annual income for non-regular workers who work limited hours, such as part-time workers. It is also important to raise the level of the minimum wage significantly, which has remained unchanged for a long time. While this will boost the income levels of part-time workers, who are mainly non-regular workers, it is not enough. Fundamentally, it is necessary to fundamentally review the current system, which makes it easy for companies to reduce labour costs, and also to correct and reform the related legislation.

At the same time, from the point of view of maintaining the pension system, the unrestricted expansion of non-regular employment should be stopped. The income of non-regular workers is so low that it is difficult to maintain pensions for young people and others who cannot afford to pay National Pension Insurance contributions (see next section). If the number of non-regular employees is increased further, it is highly likely that the welfare pension system itself, which has supported the pension system in the first place, will collapse in the future. In other words, the current system, which is based on company contributions, is in danger of not only maintaining the employees' pension system, but also the basic pension system based on the national pension system, under the current situation in Japan, where non-regular employment accounts for nearly half of all employment. In order to reform the pension system and make it sustainable, it is necessary to limit non-regular employment and increase regular work so that companies can pay for the pension fund. This is the policy to make the pension system sustainable.

5-4 Reform of the social security and pension system

Fundamental reform of long-term social security policy is necessary, without which the population cannot foresee a secure retirement, consumption is constantly curtailed, households that are able to save do so, and low-income groups that are not are unable to pay into the pension fund themselves at all.

A long-term sustainable social security pension system would be based on the system introduced in Sweden in the 1990s, i.e., a "deemed funding system"[38] (essentially a revised pension system of 'pay-as-you-go', whereby the current contributors to the social pension insurance fund cover the pensions of current old-age households. In principle, the state does not fund the pension fund, but the amount of contributions is recorded each year in each member's account (pension individual account) with a "deemed investment yield", which is regarded as a pension at retirement. In addition, the amount of the pension benefit is increased in line with each individual's income during their working life. Individuals who are working now could save pension fund as their own savings account. The pension system in Sweden guarantees the payment of pension amount that has been contributed to the working period after the retirement.[39]. Basically, it would increase in proportion to their income before pensions, but could be increased by a special reserve for each person.

In Japan it would be necessary to introduce a state-guaranteed system for low-income groups who do not receive a certain amount of pension, as undertaken in Sweden. On the other hand, the system should compensate low-income groups with a minimum pension payment as in Sweden[40] (Fig.29).

On the other hand, for low-income earners who cannot afford to pay annual

38. With regard to the current state of the Swedish pension system, which is referred to here, based on the agreement of the Working Group on Pensions consisting of the six ruling and opposition parties that was established in Sweden in 2017, a bill was enacted in October 2019 that includes an increase in the pensionable age for income-proportional pensions and the guaranteed employment age. It is expected that legislative measures will be taken in the future to raise the age of entitlement to the guaranteed pension, sickness benefits, employment insurance and the relationship with the tax system.

39. Japan's current pension system is based on a macro-sliding system, which means that unless the economy recovers, there will always be deflationary pressure and pensions will not increase. In order to control pension and insurance expenditure, the Ministry of Finance has deliberately allowed the economy to remain in a slump and has reduced the principal and interest payments on government bonds at low interest rates.

40. This pension system was also considered in Japan during the Democratic Party of Japan (DPJ) administration (September 2009-December 2012)), but was never realised and has not been considered at all until recently with the change of government. See Yamada (2015).

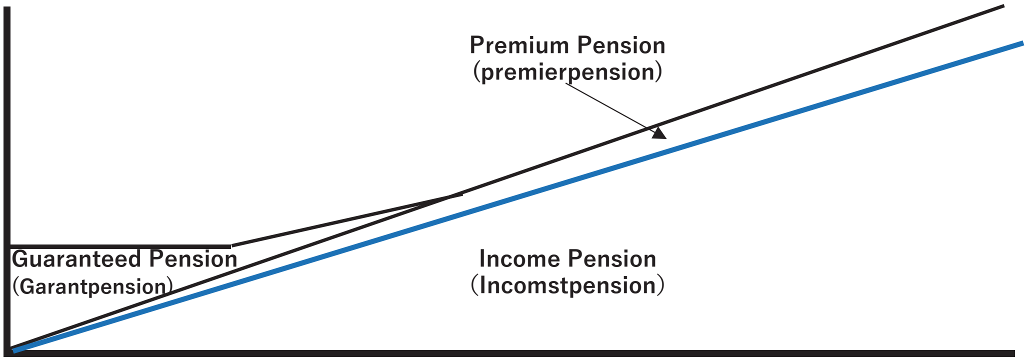

Fig.29: Pension System in Sweden

Source: Minsitry of Health and Social Affairs, Försäkringskassan Pensionsmyndigheten (Sweden)

pension contributions (e.g., those in part-time employment), the pension is to be supplemented by the govermment. A pension system like Sweden's, in which pension contributions are not increased in principle (16% of contributions are levied), but a portion is added according to income (2.5%), would provide a model for the long-term reform of Japan's current pension system. The Swedish system is based on a "hypothetical" reserve, which is used to fund current pension expenditure, but which is applied to actual pension payments.

While the increase in the number of people covered by social security in Japan fundamentally requires an increase in the standard of insurance premiums, it is the expansion of non-regular employment that reinforces the tendency for this burden to be borne by the beneficiaries. For non-regular employees, companies do not have to bear the corporate pension burden as they do for regular employees' pensions. In this case, more and more people will be covered by the low level of the national pension system, and if the proportion of such people increases, as it is the case in Japan today, consumer demand will become even more sluggish due to insecurity and deprivation, which will reduce economic growth, thus creating a vicious circle.

In Japan, however, the pace of the rapid decline in birthrates and the rapid ageing of the population is much faster than in Sweden, so the reform of the current pension system is an urgent issue[41]. In the case of Japan, in particular, it is

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41. In Sweden, the proportion of older people aged 65 and over is currently 21% of the total population (2020) and will be around 22% in the future (2030), whereas in Japan it is expected to rise from 29.1% (2020) to 31.2% (2030) (Ministry of Land, Infrastructure, Transport and Tourism, 2019).

increasingly likely that those in non-regular employment who have not joined or paid into the national pension system will not be able to receive a pension in the future. Moreover, in Japan, the state does not provide pension guarantees for low-income earners in the same way as in Sweden. It is therefore important to put a stop to the further increase in the number of non-regular employees, to improve the pension system and to ensure a guaranteed minimum pension. In other words, it is necessary to increase the number of working age people supporting the levy-based pension system, but it is not enough to simply increase the number of people, it is essential to increase the number of full-time employees. This will increase the long-term sustainability of the pension system.

On the other hand, it is important to ensure an appropriate level of monthly pensions. The income replacement ratio, which represents the ratio of pension benefits to income during working life, is 61.7% in Japan (2019), and with the expansion of households that are inadequate even in the current order of precedence, the outlook is that the figure will fall to the 40% level by 2050 if low growth continues (Ministry of Health, Labour and Welfare forecast). In Europe, however, the Netherlands, for example, has maintained an extremely high income replacement rate of around 70% (2019). The reason for this is that pension contributions are very high. In other words, it is not possible to ensure a high level of pensions and income replacement rates without raising pension contributions.

Current short-term policies such as limiting tax exemptions and raising premiums will make the situation worse in the long term, as non-regular employment grows in the labour market and pension contributions are increasingly insufficient to cover the costs. It is necessary to put a stop to the increasing number of households, particularly those on low incomes, who have not paid their national pension contributions and to improve the pension fund. In order to achieve this, it is important to carry out a fundamental reform of the labour market, i.e., to reduce the number of non-regular workers and to promote the expansion of regular employees. However, this would have been difficult to achieve under the neo-liberal governments of the past few decades.

5-5 Re-establishment of the Economic Planning Agency: the need for independent economic analysis and policy research[42]

In order to achieve constant economic growth, it is necessary to have a

42. Currently, the Cabinet Office has the Economic and Social Research Institute (ESRI), but as it is not independent of the Cabinet like the former Economic Planning Agency, it cannot be expected to conduct neutral research or publish statistics.

long-term outlook based on an accurate understanding of the current state of the economy and to have appropriate economic policies. However, as we have shown in the previous chapter, the economic policy under the Abe administration was to implement a policy of fiscal austerity at the same time as a policy of substantial monetary easing, and even though the former had little effect on the real economy, the latter was a policy that suppressed growth even in economic theory. However, almost no one in the Abe administration, not only the government, but also politicians from the ruling and opposition parties, the mass media, and even academics, has clearly pointed out this fact. This may be partly because the Cabinet Office handles economic statistics, including GDP statistics, and therefore refuses to provide any material detrimental to the Cabinet. Statistics are supposed to be accurate, not manipulated, and should provide the basis for economic analysis and necessary economic policy. There is therefore a need for economic research by a separate ministry, somewhat independent of the Cabinet.

Therefore, it is necessary to revive or re-establish the Economic Planning Agency, which was abolished by the Koizumi administration (2001-2006). In the past, the situation was much different from the current one (statistical data handling within the Cabinet Office). During the period of rapid economic growth in the late 1950s and 1960s, the Ikeda Cabinet set out the “Income Doubling Plan” as a goal of economic policy, and Mr. Osamu Shimomura played an important and central role as a government economist at that time. He was a key economist at the time. In the 1990s, before the abolition of the Economic Planning Agency due to the reorganisation of the ministries, there were a number of highly qualified economists who played an important role in suggesting important economic policy objectives. For example, Isamu Miyazaki, then Director-General of the Economic Planning Agency in the Murayama Cabinet, introduced a range of economic policies to revive the economy after the collapse of the bubble economy. As a result, the period under his cabinet saw relatively high economic growth rates.

However, what has happened so far under the previous Abe administration is that the monetary easing policies of Abenomics were implemented on the basis of “hopeful” expectations, but the economic recovery ultimately failed and there were doubts about the reliability of a number of GDP growth rates and real wage indices. One of the reasons for this was the demise of the Economic Planning Agency. In the process of reorganisation of the ministries and agencies under the Koizumi government (a typical neo-liberal government) in 2001-06, the Economic Planning Agency, which had been an independent agency, was merged into the Cabinet Office, thus losing its independence. The fact that GDP and other key statistics are issued under the umbrella of the Cabinet Office could mean that they reflect the wishes of the Prime Minister, who is the head of the Cabinet. As a result, economic policy may not be able to be based on objective analysis and appropriate policy.

The role of the Economic Planning Agency was to analyse objective data and provide guidance on appropriate economic policy to achieve long-term economic growth. In contrast, under the Abe administration, the Cabinet Office's economists no longer play the role of government economists, but rather as a government agency that discovers the policies of the Cabinet and prepares data that suits its policies. At present, the Cabinet Office is not producing professional economists, and those who want to work in government with a background in economics (including postgraduate studies) are going to the Ministry of Economy, Trade and Industry (METI) or the Bank of Japan, and there are few overseas students from the Cabinet Office these days[43]. There is no career path in the Cabinet Office and no opportunity to specialise in economics. The Cabinet Office does not provide a career path and does not allow for specialised study in economics, which is not conducive to the development of people who can develop a long-term vision backed up by a broad academic perspective.

Therefore, re-establishment of Economic Planning Agency is very important for the formulation of neutral and long-term economic policy and for the implementation of economic policy.

Conclusion

In this paper, I have pointed out that the consistent implementation of neo-liberal policies has been behind the long-term stagnation of the Japanese economy and the significant increase in poverty and income inequality. Today, the relaxation of the progressivity of income tax (flattening of progressive taxation), preferential treatment of certain wealthy groups (including reduced asset taxation and reduced financial income taxation) and the liberalisation of the labour market have led to an increase in part-time work and a long-term decline in real wages. This paper sets out the background to the stagnation of the Japanese economy and its structural problems, and at the same time proposes measures to fundamentally change these neo-liberal economic policies, to bring about long-term sustainable growth in the Japanese economy.

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43. These days, more than a dozen people are hired each year for career-track positions in the Cabinet Office as a whole, but only a few per year, an average of 4.4 per year over the 10-year period (2006-2016), have studied at graduate schools abroad (Nikkei, 2017).

After the callapse of Japan's economic bubble in 1991, the economic downturn, initially called the "lost decade", has continued to the present day and has already reached "lost three decades". In particular, the 1997/8 financial crisis in Japan, coupled with the globalisation of the financial system, led to the full-scale implementation of the "Financial Big Bang". It led to a major restructuring of Japanese companies, not only in the financial sector but also in the manufacturing and service sectors, and the repeated mergers and acquisitions of financial institutions that had contributed to the development of the Japanese economy. In particular, the three long-term credit banks that had driven Japan's economic growth were sold off to foreign capital, and while US hedge funds profited, Japanese financial institutions and industry were badly hit.

The neo-liberal policies that began in the 1980s with the Nakasone Cabinet were based on deregulation and privatisation in the name of "structural reform." As a result, all the systems that had been the strength of the Japanese economy were drastically altered, and the Japanese economy entered a period of prolonged stagnation and decline. The background to these fundamental changes was the steady implementation of economic policies under the US demands and pressure on Japan, which intensified sharply in the 1980s and 1990s.

In 1999, the Bank of Japan introduced zero interest rates in the midst of an economic downturn, and the Global Financial Crisis that followed the Lehman shock in 2008. More than 20 years have passed since then, and although the Bank of Japan has implemented monetary easing policies to the limit by introducing negative interest rate policies (from February 2016) in addition to Quantitative and Qualitative Monetary Easing (QQE), it has yet to overcome deflation and recover the real economy. The 2% inflation target initially set by Abenomics has not been achieved even after 8 years or more, and the economy has recently deteriorated significantly due to the Covid-19 shock in 2020.

The long-term stagnation of the Japanese economy is fundamentally due to the failure of the majority of the population to increase their real incomes, which has led to a decline in consumption. This appears to be the result of a range of neo-liberal policies in the name of "structural reform". While some large corporations and wealthy individuals have benefited from the "structural reforms" implemented under neo-liberalism, and have benefited from soaring stock prices, the gap between the rich and poor has widened, while the real economy has been stagnated. Moreover, this economic situation has been caused by the deep-rooted neo-liberalism that has dominated Japanese economic policy for nearly 40 years since the 1980s, and which has become entrenched in Japanese politics, economy and society.

A prolonged downward trend in real wages has led to a decline in disposable income and a slump in consumer spending, which accounts for around 60% of GDP. One of the main reasons for this has been the expansion of non-regular work following the liberalisation of the labour market. The disparity in annual earnings between non-regular and regular workers has become enormous, especially as the proportion of non-permanent employment has risen significantly over the past few decades, leading to a decline in the overall level of income in Japan, which in turn has created a demand deficit in the Japanese economy as a whole.

In order to break out of the prolonged economic stagnation, the Bank of Japan has been implementing significant monetary easing policies over the past two decades, starting with the zero-interest rate policy (1999) and Qualitative Quantitative Easing (QQE) since 2013. However, it has not contributed to the recovery of the real economy. The money supply associated with the QQE has not been channeled into the real economy domestically, but has only increased financial investment, including stock investment, and the financial assets of the wealthy, and funds have flowed out to overseas markets, including the US and Asian markets, contributing to the markets of various countries along with financial investment. Neo-liberal policies have failed to achieve the “trickle down” effect initially advocated in both Japan and the US in the past decades. In Japan while QQE has benefited the wealthy through increased financial investment, the vast majority of the population has seen little or no growth in their incomes, leading to a decline in consumer demand, which in turn has led to a downturn in the Japanese economy as a whole.

It is clear that the continuation of neo-liberal policies over the past decades, which have resulted in the widening of income inequality and a significant bifurcation between the rich and the majority of low- and middle-income earners, has never been a guarantee of sustainable growth for the Japanese economy. In Japan, GDP growth has consistently fallen in line with the deterioration of the income distribution (widening of the Gini coefficient). The exception to this was the early 1970s, when the Gini coefficient improved, and growth rates were higher under a more progressive taxation system than today. However, the economic policies adopted under the Koizumi and Abe administrations, based on typical neo-liberalism, were austerity measures: fiscal spending was cut, the tax and insurance burden on lower- and middle-income groups increased substantially, and the labour market was liberalised, resulting in a rapid increase in non-regular employment. As a result, households’ disposable incomes have fallen, leading to a decline in consumer demand and a long period of economic stagnation in Japan.

Increasing overall national demand and consumption through improved income distribution is expected to increase GDP growth and also improve the fiscal balance as tax revenues will also increase (Ohta 2007, 2015, 2017a). Therefore, now is the time to fundamentally change the existing economic policy and allocate budget to education, R&D and welfare policy based on Keynesian economic policy for the time being. Instead of relying on the highly regressive consumption tax, it would be necessary to raise revenue by strengthening the progressive system of direct taxation and corporate taxation, introducing comprehensive taxation, and strengthening the taxation of financial assets. Such income redistribution policies would make it possible to achieve both accelerated economic growth and improved fiscal balance.

In addition, the Economic Planning Agency, which was abolished under the Koizumi (neo-liberal) Government, should be re-established to promote independent economic policy planning and formulation, as it needs neutral statistical analysis, strong research and a theoretical basis to achieve sustainable and stable growth of the Japanese economy in the long term.

Furthermore, it is necessary to implement policies to raise the social status of women with high potential in society, to promote their activities and to eliminate the gender gap in Japan which is the lowest level in developed countries. This will make it more likely that rational and appropriate political and correct economic policies will be implemented.

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