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Book Review

The End of the Abe Administration—The End of Abenomics? Books on Past and Present in the Japanese Political Economy

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PRIME MINISTER ABE SHINZŌ'S RESIGNATION AND THE END OF AN ERA IN JAPAN

On August 28, 2020, Japanese prime minister Abe Shinzō entered a Tokyo press conference and began speaking. Speculation had been building for weeks that Prime Minister Abe would step down. The rumor was that the health condition, ulcerative colitis, which had cut short his first stint as prime minister in 2007 had worsened again. This turned out to be true. Prime Minister Abe announced at the August press conference that he would be resigning upon the election of his successor, thus bringing to a close one of the most historically and economically momentous administrations in postwar Japanese history.

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Prime Minister Abe navigated, very capably in my view, a slew of challenges. There were history-interpretation standoffs with South Korea, for one thing. These were concluded, on paper at least, with the December, 2015 agreement between Abe and now-imprisoned former South Korean president Park Geun-hye, in which the Korean side promised to stop using the comfort women issue as a political weapon. Abe also had to find some way to work with a maverick American president, who upon entering office in early 2017 immediately withdrew from the Trans-Pacific Partnership on which Abe had expended enormous amounts of political capital, and who has continued to threaten to draw down the base system forming the bedrock of the Japan-US alliance.

Abe chose to prioritize security and stability in more than just his carefully cultivated partnerships with Park Geun-hye and Donald Trump, for example by formulating a "quad" approach to containing communist China by strengthening ties with the U.S., India, and Australia. Aggression against East and Southeast Asian states by the People's Liberation Army Navy (PLAN) continues, to be sure. But Abe skillfully maximized his constrained capabilities despite the postwar "surrender constitution" of Japan, which technically forbids Japan from possessing any kind of military force. Frequent missile launches in Japan's direction by North Korean dictator Kim Jong-un helped convince the Japanese people—laboring under what Japanese conservatives call "*heiwa-boke*" (or the false sense of security inculcated by the postwar reliance on the United States to deal with military matters)—that the time had come to re-acquire the ability to strike back, perhaps even preemptively, against a foreign aggressor. The removal of the hamstring on Japanese military action by revising the constitution and making Japan a fully sovereign nation again was, to my mind, the real priority of Abe's two terms in office.

In September of 2020, Suga Yoshihide, Abe's long-time deputy and the Chief Cabinet Secretary (*kanbō chōkan*) tasked with explaining the daily vicissitudes of government to an often-querulous press corps, garnered the votes to win the leadership position of the Liberal Democratic Party (LDP) and therefore, by default, the prime ministership of Japan (the LDP being the traditional ruling party during the postwar). It seemed as though Abe's legacy was secure. Whatever remains undone by the Abe administration, such

as constitutional revision and securing the release of Japanese civilians kidnapped by North Korea and held as hostage by the Kim regime to this day, is sure to be kept at the top of the to-do list by the incoming Suga team.

There is one legacy, however, which appears on much shakier ground than it did just a couple of years ago. That legacy, many would argue, is the keystone of Abe's political career. It was his platform for re-election to the prime minister slot for the first time fourteen years ago, and its reputation has swayed the poll numbers for Abe and the LDP like virtually nothing else. The signature element of the Abe years is, without doubt, Abenomics. Will Abenomics survive Suga? Or, to put it differently, will Japan survive Abenomics?

THE CORONAVIRUS INTERRUPTION

This question may sound counter-intuitive, even melodramatic, given the Wuhan pandemic which has cut deep wounds into the Japanese economy. Surely, many will argue, Japan's biggest worry right now is not Abenomics, but the fallout from COVID-19. There is very good reason to think this way. Some of the numbers that I have seen these past months have caused me to go goggle-eyed over the statistics pages. Nissan Group reported a 29.6 percent drop in sales in the first quarter of 2020 over the same quarter of 2019. Japan Airlines (JAL) announced at the end of October, 2020, that it could lose as much as 270 billion yen for the year. In August of 2020, Japan's annualized GDP was reported to be a staggering *negative* 27.8 percent. In late October of 2020, the Bank of Japan's (BoJ) balance sheet was a record 690.36 trillion yen, more than 6.5 trillion USD at current exchange rates. This is all largely the result of externalities far beyond the control of Japanese policymakers.

It is worth pausing here to note, as an important aside, that some of the best writing on the coronavirus crisis has been in Japanese. Prolific author and former weekly newsmagazine editor Kadota Ryūshō's *Ekibyō* ("epidemic" or "pestilence") has emerged as the standard for long-form corona journalism. Produced with astonishing alacrity, *Ekibyō* is a blow-by-blow account of how the virus, and the (fake) news about the virus, spread out of China and then

blanketed the world. Kadota's book takes in Chinese and Japanese politics and media reports, regional and world politics, and private-sector responses in an all-inclusive, fact-heavy, yet highly readable account, almost like a Michael Crichton write-up of a fast-moving event with a myriad of angles. Former *New York Times* journalist Alex Berenson has garnered notoriety in the U.S. as a public-facing writer chronicling the pandemic in the broadsheet version of the *longue duree*, but Kadota quite frankly outranks Berenson by several orders of journalistic magnitude. It is a pity that *Ekibyō* is not available in English, as the bestseller would provide English-speaking readers with tremendous insight into how politicians and the media handled the crisis and how outside political actors and Japanese scientists and public health officials tried to move the virus-awareness needle in different directions for a variety of different reasons. The portrait that emerges of a political class caught flatfooted and scrambling to formulate a response to a blindsiding, black swan event has many parallels with what transpired in Europe and the United States.

In the swirling confusion of the Corona Year, there *has* been a little economic good news in Japan. Teleworking is catching on like wildfire, for example, and Prime Minister Suga is concomitantly pushing ahead with digitalization, an area in which Japan has lagged behind South Korea and the People's Republic of China. The Minister of Digital Transformation, Hirai Takuya, is charged with jump-starting Japan's digital renaissance, and there is a strong tailwind in the push toward online commerce and telecommuting during the COVID-19 pandemic. But the reality is that telework often means lost revenue elsewhere. Many of the train lines which shuttle the Tokyo workforce between the capital and the suburbs every day have stopped running trains into the wee hours, a cut in services which translates into a further hit to profits for many Tokyo-area businesses. Very few office workers are enjoying a nightcap at an *izakaya* anymore, and Tokyo governor Koike Yuriko's attempts to find a balance between keeping shops open and keeping the virus at bay have cast a pall over business overall. Many restaurants have closed, and theaters and other congregation-reliant industries are struggling to survive.

Despite, or because of, all of this economic carnage, Abenomics appears alive and well. The Bank of Japan is printing money like Bazooka wrappers. "Stimulus" is sloshing around everywhere. I

personally got a "stimulus" deposit from the central government earlier this year—great news, until I get the tax bill next March. This can't go on forever, and so it won't.

JAPAN'S POLITICAL ECONOMY PAST AND PRESENT

While the economic pain is visible to everyone and is certainly a political wrangling point, unlike in the United States there are very few libertarians in Japan who are raising their voices about the escalation of MMT measures to astronomical levels. In fact, many Japanese conservatives are calling the loudest for even more government intervention. Tamura Hideo, for example, a special reporter with the capitalism-friendly *Sankei Shimbun* newspaper and a former editor at the staid *Nihon Keizai Shimbun* who writes often for the conservative press, and Tanaka Hidetomi, a professor at Jobu University in Gunma who also writes on the political economy for right-of-center publications, have both encouraged the Bank of Japan to print even more money to bring Japan out of the COVID-19 crisis. In the October, 2020 edition of *Seiron*, a serious economics and politics journal with a wide readership in Japan, Prof. Tanaka even argued—provocatively in this plague year—that "fiscal austerity is itself the biggest disaster" (*zaisei kinshukushugi koso saidai no saigai*). (*Seiron*, 133–140) Low-tax free-marketers like my friend and colleague, historian and policy analyst Ezaki Michio, have also joined the fray, arguing that the best thing the Japanese government could do to improve the economic outlook would be to cut taxes. But Ezaki's familiarity with American history and economics may be influencing his anti-interventionist views in a way that escapes nearly every other pundit or policymaker, for Ezaki remains a very lonely voice in a crowd of interventionists. Ironically, the party which has adopted the most stringent anti-tax-increase platform in recent years is the Japanese Communist Party, which is tacking to the hard *right* of the "conservative" establishment on this core fiscal issue.

Sniping over the tax rate notwithstanding, and granted that the Wuhan pandemic has badly damaged the Japanese economy, the fact is that government intervention did not start with the outbreak of the latest Chinese bug. Conservatives in Japan who argue for government intervention and economic relief from the political side are drawing

from a deep political-economic tradition here. As a grad-school classic by former University of Chicago historian Tetsuo Najita, *Ordinary Economies in Japan: A Historical Perspective, 1750–1950* (2009), explains, the Japanese economy is in many ways conceptually underlain by a notion of economics as mutual aid. The *kō*, or pre-modern communal societies designed to mitigate risk by promising to help any community member in need in a kind of localized insurance plan, are still exerting influence today. Bootstrap success story and hard-work champion Ninomiya Sontoku (1787–1856) espoused this ethos in an attempt to imbue the rapidly-developing Edo economy with a humane, ethical tenor. While the Japanese economy is, of course, infinitely more complex now than it was in the nineteenth century, and while modern Tokyoites are probably much closer in economic outlook and practice to consumers in other global big cities than to traditional communities in rural Japan, the conservative, and, indeed, default view of Japanese economic thinkers continues to be rooted in this mutual-aid ideal. The very word for "economics" in Japanese, *keizai*, is a contraction of *keisai saimin*, which means to govern a polity and rescue, or provide relief for, the people living there. Etymology is not destiny, but it is often at least a telling point of departure. Japanese moral philosopher Hiroike Chikurō's concept of *dōkei ittai*, or the notion that economics and moral action are ultimately the same thing, exemplifies the tradition of economics as doing good. When Japanese conservatives speak about economics, it is likely that they are going to appeal to this kind of economic communalism, which is, after all, the traditional approach to how politics and economics ought to interact.

Because there is such a different set of assumptions in Japan about what economics is, it is imperative that those outside of Japan who want to understand the Japanese political economy go deeper than the occasional headlines about Abenomics. Indeed, non-specialists inside and outside of Japan are often surprised to find that there has been such a rich tradition here of economic thought. While there are excellent studies of Japan's political-economic past—one hefty but outstanding volume on deep Japanese political-economic history is *Land, Power, and the Sacred: The Estate System in Medieval Japan*, edited by Janet R. Goodwin and Joan R. Piggott (2018)—there are, surprisingly, very few on the historiography of economic thinking in Japan over the past hundred years. The best I have read so far

is a volume I discovered only very recently: Aiko Ikeo's *A History of Economic Science in Japan: The Internationalization of Economics in the Twentieth Century* (2014), part of the series of Routledge Studies in the History of Economics. Ikeo is an economist and economic historian herself who has written a book on Ninomiya Sontoku, and many other books and scholarly essays besides. In *A History of Economic Science in Japan*, Ikeo reveals, for instance, the connections between Ninomiya and the "forgotten economist Tameyuki Amano's microeconomics." (Ikeo 2014, xvii, 167–89) Ikeo's book provides precisely the kind of context that one needs in order to begin to comprehend what is going on with the Japanese economy.

Ikeo also richly contextualizes Japanese economics in an international setting, as the book's title promises. Ikeo's big contribution is to show that Japanese economists were not pursuing *Japanese* economics after the floodgates to Western thought were opened at the end of the nineteenth century, but were rather fully aware of economic thought from elsewhere in the world and pursued the same debates within Japan as were being undertaken everywhere else—especially on general equilibrium theory, one of Ikeo's foci. There are therefore many layers to the political economy debate here, which Ikeo brings out in *A History of Economic Science in Japan*.

There is much else to learn from Ikeo's delightful book. Japanese economists "Yukio Mimura, Shizuo Kakutani and Hukukane Nikaido" were enamored of John von Neumann's economic theories, for example—Mimura studied under von Neumann at the University of Berlin, and Kakutani studied under von Neumann at Princeton. (Ikeo 2014, 132–33) Ikeo also writes that Finance Minister Takahashi Korekiyo (1854–1936) adopted a deficit financing approach to an overvalued yen in 1932, "*four years prior to* the publication of [John Maynard] Keynes's General Theory (1936)." (Ikeo 2014, 191–92; emphasis in original) Ikeo explains how Japan influenced Western economists and economic historians such as Martin Bronfenbrenner—who was part of the spate of post-World War II economic missions to Japan and who later did research at Kobe University (1963–1964) and Kyoto University (1980) (Ikeo 2014, 229)—and Jerome B. Cohen, who pioneered research on Takahashi as "the 'Japanese Keynes'" (predating a similar tack taken by Japanese political economist Ouchi Tsutomu in his 1967 book *The Way to Fascism*). (Ikeo 2014, 192) Ikeo pinpoints Imperial

University of Tokyo economist Yamazaki Kakujirō (1868–1945) as the first Japanese scholar to make reference to Keynes in an academic work. The context was Indian, imperial, and American currency policy and the backdrop was Keynes's 1913 book *Indian Currency and Finance*. (Ikeo 2014, 195) Cohen, for his part, was "a vanguard member of the US Tax Reform Mission led by Carl Shoup in 1949," Ikeo writes, and Bronfenbrenner was one of the key figures of the Carl Shoup entourage. For more than a century, "Japanese" economics has been inherently, inescapably internationalized.

Most famous of all the economic practitioners who came to Japan in the postwar is undoubtedly the Detroit banker Joseph Dodge, dispatched by President Harry Truman in 1949 to help rescue a Japanese economy battered by inflation, currency restrictions, and price controls. The "Dodge Line" (actually adopted in December of 1948) which Dodge recommended be imposed on Japan is credited with stanching inflation and shoring up the Japanese economy, allowing in particular for orderly ex-im activities going forward thanks to Dodge's prescribed 360-yen-to-the-dollar exchange rate. (Ikeo 2014, 218–26) This rate held until President Richard M. Nixon unilaterally axed gold-exchange support for the USD in 1971, after which the yen appreciated quickly, precipitating further American intervention with the Plaza Accords of 1985 and the Louvre Accords of 1987. Government intervention works best when a given populace is prostrate and utterly defeated—a truism which ought to make Americans break out in a cold sweat when the U.S. Congress starts talking about adding more regulatory festooning to Dodd-Frank.

GETTING DOWN TO DETAILS ABOUT THE POLITICAL ECONOMY OF JAPAN

While Ikeo's book is a very helpful corrective to a blind spot that many in Anglophone countries have toward Japanese economic history, Takatoshi Ito and Takeo Hoshi's *The Japanese Economy*, second ed. (2020) is a much more pertinent, data-driven look at the Japanese political economy past and present. If readers buy just one book under review in this essay, the Ito and Hoshi volume should be it. *The Japanese Economy* is a college textbook, first written by Ito in 1992 and recently issued with major revisions by Ito and Hoshi. It comes, therefore, *caveat emptor*, with an eye-smarting

college-textbook price. But it is worth it. *The Japanese Economy* is a non-ideological, detail-rich introduction to the Japanese economy in history and in current practice, and is a must-read for anyone who is interested in grounding discussions about Japan's economy in more than the usual platitudes about high savings rates (those ended a long time ago) and expensive property values (dead with the bubble bursting, and anyway a product of postwar meddling by the GHQ than of anything inherent to the Japanese economy).[1] Ito is a professor in the School of International and Public Affairs at Columbia University in New York and has been a Senior Advisor in the Research Department at the International Monetary Fund and a Deputy Vice-Minister for International Affairs in the Ministry of Finance in Japan. Hoshi is an economics professor at Tokyo University. So, their textbook presents what is very much the establishment view of Japanese political economics. They also present Abenomics in a rather favorable light, which puts their position even more firmly in the Japanese mainstream.

The strongest feature of the Ito and Hoshi textbook is its historical contextualization of economics. The bubble economy, for example, mentioned above, is often discussed today as a singular event, but the history of the bubble economy is much more complex than the catchy moniker might lead one to believe. In explicating the notorious bubble, Ito and Hoshi go back and recover the changes in Japan's political economy over the 1960s and 70s, the revisions to regulations and policies which enabled a speculative bubble to form in the first place, the constraints on the central financial organs of the government which prompted the reactions (for good or ill) of the authorities as alarms began to sound about overheated prices and sloppy securitizing of debt, and the slow-motion breakdown of the optimism regime as the effects of the (popped) bubble propagated through the wider Japanese economy, structurally and down to the level of individuals' savings accounts and pocketbooks. Important to remember—and Ito and Hoshi do a particularly good job in tracking this history—is that the bubble formed and popped

[1] This is a virtually unknown fact about Japanese real estate prices—that they are largely a product of regulatory overreach rather than real supply and demand. See "K.K. Choei v. Kuroki: 65 Saihan minshu 2269 (Sup. Ct. July 15, 2011)" in Ramseyer (2019), 171–85.

while the yen was doing battle with other currencies on the world market in the shadow of the "exorbitant privilege" (as 1960s French Minister of Finance Valéry Giscard d'Estaing put it) enjoyed by the reserve U.S. dollar.

Ito and Hoshi also remind us that the bubble began a long season of seeming economic bad luck, it also capped off an extraordinary run of good luck. Nixon's torpedoing of the Japanese yen on August 15, 1971 (not coincidentally the anniversary of Japan's surrender in World War II) by removing the exorbitantly privileged dollar from the gold standard, the Plaza Accords presided over by Ronald Reagan's Treasury secretary James A. Baker, III, and Reagan's need to sacrifice the Japanese economy for the sake of his own political legacy were all exerting pressure on Japan's political economy (including in the form of the nettlesome *gaiatsu*, "foreign pressure," which Japanese bureaucrats find convenient for taking the blame for painful reforms the bureaucrats wanted to adopt anyway). But the momentum was with the bulls. Despite every headwind working against Japan, the country came back roaring from postwar price and currency controls and presented serious challenges to American industries from the late 1960s until the bubble burst on the last day of 1989. From the Dodge Line starting line to the popping of the real estate-driven bubble, Japan had been on one of the longest winning streaks in modern economic history. That, too, is very important to bear in mind.

RECOVERING THE POWER OF PERSONAL DECISION-MAKING IN THE "LOST DECADES"

One major drawback to the Ito and Hoshi book is that they understand the political side of the political economy of Japan in the way made popular by Chalmers Johnson, Ezra Vogel, and Karel von Wolferen. Chalmers Johnson wrote *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (1982) to explain his idea of the "developmental state," or the Druckerian political-science notion that "engineers" and bureaucrats worked to guide capital investment in Japan largely independently of influence by elected officials. Ezra Vogel's *Japan as Number One: Lessons for America* (1979) was an earlier attempt to argue that Japan was a socially-conscious technocracy, a managerial-capitalist state which did not pit government against

industry, as in the West, but which pursued a model of pragmatic flexibility in pursuit of what was once called "development."[2] After Johnson and Vogel set the stage for a depoliticized look at the Japanese political economy, Karel von Wolferen repackaged the idea for a popular audience with his 1989 book *The Enigma of Japanese Power*. All of these works assume a faceless, even hollow, power center in Japan, a kind of mechanical whirring of the political-economic machine which is kept bureaucratically humming by a core cadre of Tokyo University graduates acting more or less independently of elected government until achieving coveted *amakudari* golden-parachuter status and feathering their nests for a comfortable retirement.

However, as Harvard Law professor and Japanese political economy expert J. Mark Ramseyer has demonstrated, this view of the Japanese political economy is false. Ramseyer's analysis of judges' decision-making in a variety of cases, and of bureaucratic measures adopted during various elected administrations, proves that judges and other bureaucrats are very much aware of what the political class expects and often pay a heavy career price (missed promotions, posting to backwater assignments) for defying what the elected officials want. In fact, the outdated and incorrect view of the Japanese economy as an epiphenomenon of the bureaucratic soothsaying emanating from the central Tokyo governmental strongholds of Kasumigaseki and Nagatachō is overturned by the rest of Ito and Hoshi's excellent book. For example, their section on "The Two Lost Decades," that period of time (now shading past three decades by many measures) when the Japanese economy stayed down for the count following the bursting of the bubble as the Nineties dawned, is the tale of individuals making key decisions, often from the prime minister's office or with the prime minister's approval, in an attempt to revive the Japanese economy with even more government intervention. (Good luck with that.) There are real, fallible people making decisions in positions of

[2] "Development" has been the OK Corral for many an academic shootout in Asian studies. Some people think development is Western-centric, and that it is therefore racist to assume that all countries pursue a certain developmental path. Others once saw "development" as an ideological counterweight to Marxism. Hardly anyone uses the term unqualifiedly in the American academy anymore. And yet, it is clear that Japan is very different today than in late 1945. It has, whatever the connotation, developed.

power in Japan, and those decisions have consequences all the way down the political-economic line, from power center to private pocketbooks. Ramseyer's analysis is, tacitly at least, vindicated by the evidence presented in the Ito and Hoshi book.

One good example of how personal decision-making can affect a national economy comes when Ito and Hoshi describe the career of Koizumi Jun'ichirō, the colorful prime minister during the early and mid 2000s who continued the privatization trend started by 1980s prime minister Nakasone Yasuhiro (the other half of the famous duo with Ronald Reagan known affectionately, due to their calling one another by their first names, as "Ron-Yasu"). The Bank of Japan ended, about eight months before Koizumi took office in April of 2001, the zero-interest-rate policy (ZIRP) which it had deployed since February of 1999 to combat low growth. When this didn't work, the BoJ initiated quantitative easing, continuing that until 2003. (Ito and Hoshi 2020, 541) Koizumi was thus faced with a central bank which had effectively exhausted its politically available options for electro-shocking the Japanese economy back to health. He therefore tried new ideas. Koizumi's biggest coup was in privatizing the post office, which also doubles as a bank in Japan and which managed an enormous sum in savings accounts, insurance accounts, and other assets before Koizumi broke it up into smaller units. The Japan Post Bank, one of the spinoffs of the Japanese post office following Koizumi's reforms, continues to hold some 3.5 trillion yen in assets. Koizumi's privatization reforms helped pull Japan out of the slump, and for the first time since the banking crisis of 1997–98—which was partly the result of domestic financial trouble and partly the result of the cratering of financial positions in South Korea, Thailand, and Indonesia following the 1997 Asian Currency Crisis—under Koizumi's tenure the Japanese economy nosed up and appeared to be shaking off the lost-decade blues.

ABENOMICS AS A SOLUTION TO JAPAN'S POLITICAL-ECONOMIC STRUCTURAL PROBLEMS

But Japan was not in the clear just yet. There remained some structural and political obstacles to complete recovery from the bubble years. The Asian currency crisis was beyond Japan's control, of course, but the domestic banking trouble was almost entirely

self-inflicted. In 1995 the Ministry of Finance (MOF) in Japan began to consider adopting a hard line against non-performing loans (NPLs) left on the books after the collapse of bubble-era real estate prices in 1990 and after. Cracking down on NPLs was always a common-sense move. Banks and other financial institutions had been "evergreening" these portfolios, shifting capital around and taking out tangential loans in order to keep the payments on the NPLs current, and the MOF rightly began to see this business as a waste of time and money (and also potentially as fraud). However, the MOF was short-staffed and lacked resolute leadership in elected offices, and so the problem was not confronted directly. (Ito and Hoshi 2020, 534) Entire firms, known as "zombie firms," lingered on as the NPLs did, producing nothing and yet limping under the cover of governmental indecision. Koizumi's administration twisted the bureaucracy to crack down on both zombie firms and NPLs in 2003, and many researchers see this as the moment when the tide began to turn in Japan's favor once again. (Ito and Hoshi 2020, 539) Koizumi's liberalizing efforts had begun to pay off in earnest by the mid 2000s and Japan looked poised to move beyond the collapse of the bubble.

And then Bear Stearns collapsed, followed by Lehman Brothers. The "Lehman shock" (as it is known in Japan) continues to be a singed-fingers memory for many here and warns against a too-close financial relationship, where it can be at all avoided, with any outside power. I was in Japan when the Bear Stearns and Lehman news broke, and I remember feeling an odd sense of disconnect between what I was seeing happen in America and the relative calm on the western side of the Pacific. Japan was initially spared a direct hit from the New York financial blow-up and no major Japanese institutions went under as had happened in the U.S. and many other countries. However, as Jacques Derrida might have said had he pursued a career in political economy, "There is no outside-of-the-globalism." A shrinking American market and an appreciating yen took their toll on the Japanese economy by 2009. (Ito and Hoshi 2020, 545) Lehman was apparently here to stay. The next two years were tough and the suppliers for Japan's export industries, especially automobile makers, were especially hard hit as the world shuddered through a sharp downturn in economic activity.

Things had just begun to look up slightly after the Lehman Shock when the Fukushima disaster hit in 2011. Virtually overnight, all of Japan's nuclear plants were taken offline and the Japanese ex-im balance was thrown badly off by the need to import tanker after tanker of petroleum products in order to keep oil- and gas-fired power plants running. And Japan was just emerging from *that* economic hit—tourism was booming and the highly-anticipated Summer Olympics were just around the corner as late as the fall of 2019—when the coronavirus knocked all the pieces back to the table again. This is a country that just hasn't been able to catch a lucky break with the disaster gods since a sudden storm blew Mongolian, Chinese, and Korean invaders back to sea in 1279. Japan has been busy recently weathering 2008, 2011, and 2019–20, and the Two Lost Decades are, it would seem, not over yet.

It was to end the lost decades by shoring up Japan structurally that Prime Minister Abe launched Abenomics. Ito and Hoshi explain that Abenomics consists of three arrows: "bold monetary policy," "flexible fiscal policy," and "growth strategy to promote private investment." (Ito and Hoshi 2020, 70) The first arrow, "bold monetary policy," was essentially *carte blanche* to the Abe-appointed governor of the Bank of Japan, Kuroda Haruhiko, to print yen and laden the BoJ's balance sheets with bond purchases. The second arrow, "flexible fiscal policy," comprises the apparently contradictory goals of carrying out fiscal stimulus while also eliminating the deficit and raising the consumption tax (10 percent as of October of 2019, and about as popular as one would expect). The third arrow, "growth strategy to promote private investment," has the most potential to effect real and positive change, but entrepreneurship remains anemic in Japan and the reflex to inject governmental control into emerging industries remains strong. Ito and Hoshi adopt on the whole a supportive view of Abenomics, albeit while admitting its shortcomings. (Ito and Hoshi 2020, 70) For Ito and Hoshi, "The Lost Two Decades finally ended with an economic policy package that was introduced in 2013," that is, as Abe took office following his second election to the prime minister position in December of 2012. Two very prestigious Japanese economists thus credit Abe Shinzō with turning the Japanese economic ship around and putting the country back on the path to economic growth. (Ito and Hoshi 2020, 562–63)

TAKING ABENOMICS DOWN A FEW (TOO MANY?) NOTCHES

A more pessimistic view of Abenomics is provided by veteran journalist and reporter on Japan's capital markets, *Bloomberg* and *Asia Times* contributor William Pesek. Pesek's 2014 book, *Japanization: What the World Can Learn from Japan's Lost Decades* (2014), is a bracing critique of, well, of Japan entire. Someone must have cut Pesek off in line for ramen noodles one day, because Pesek certainly doesn't seem to like anything about Japan very much.

Pesek says that the word "Japanization," which he defines as "that specter of chronic malaise, deflation, crushing debt, and political paralysis," is what "drove central bankers from Ben Bernanke in the United States to Mario Draghi in Europe to flood markets with liquidity as never before in an all-out effort to avert their own lost decades" after financial crises which took place after Japan's bubble burst after the last day of 1989. (Pesek 2014, ix) And Pesek is decidedly unimpressed by Abenomics, "largely the same old mix of fiscal and monetary excess that left Japan with a public debt it may never be able to pay off, zero interest rates indefinitely, and little to show for it […] a brilliant marketing campaign in search of a product." (xii) Pesek tells a familiar tale of "'Japan's iron triangle' of politicians, bureaucrats, and big business," a closed-off crony network of shortsighted, often irrationally nationalistic bigwigs controlling the Japanese political economy. (7–8) Indeed, Pesek blames cronyism for much of what he claims has been the flawed response by the Japanese government to the Fukushima disaster (95–123), arguing that "the government *is* TEPCO," or Tokyo Electric Power Company, the operator of the Fukushima Daiichi plant and largely seen in Japan as a well-connected bungler indifferent to the lives of civilians. (123)

A critique of Abenomics is certainly fair game. I, too, question much, if not all, of the economic assumptions underpinning Abe's broad intervention in the Japanese political economy. However, Pesek trades in so many clichés about Japan—overdetermining, by a long shot, cultural adages about "losing face" and Japan's being a retrogressive patriarchy (try telling that to Koike Yuriko, who runs the biggest city in the world)—that his book, while illuminating about capital flows around the Tokyo Stock Exchange and through

the Bank of Japan, can safely be skipped by those looking for an in-depth analysis of the way that economics and politics interact in Japan. Pesek rarely goes more than skin-deep, and the Anglophone "experts" he cites about Japan produce commentary about this country which, to this long-time resident and many others, appears to have been written by someone who has never even been here. The day is now far spent when one can call in from pasture Columbia University professor, and ringleader of Japan-bashing in the English-speaking world, Carol Gluck to offer analysis on Japan's political economy.

Japanization could be read, perhaps uncharitably, as an essentialized exercise in economic Orientalism. On closer inspection one finds that there is no "Japanization," really. As Ikeo's book on the history of "Japanese" economics shows, after the beginning of the twentieth century there has been very little which one might point to as being uniquely Japanese about economics here. Since, and long before, the bubble burst, there has been a series of decisions made by mainly Keynesian-minded (and some other Marxist-minded) politicians and bureaucrats. Some of those decisions worked a lot less well than did others, and in order to understand the Japanese political economy one must, counterintuitively, stop looking for cultural colorings (the Pesek method) and instead dig deep in the details, a la Ito and Hoshi. Give *Japanization* a French leave.

THE CHALLENGE OF CHINA

The notion of Japanization itself is also now, arguably, a moot point given the Wuhan virus, which hit right after the Ito and Hoshi book came to market. The horrors flowing from China have exposed a whole new set of risks for Japan. The way forward for Abenomics under the new Suga administration seems, at this writing, fraught, for Abenomics presumes, tacitly, a globalized East Asia, and that looks increasingly difficult to maintain given the disaster which Chinese authorities visited upon the entire planet in 2020. Even before the Chinese crisis there were deep furrows in the Japanese economic road ahead: for example, the Japanese government has experimented with negative interest rates and will surely have to raise taxes even higher in the coming years to keep up with pension payments for an increasing number of retirees relying on the tax receipts of a

decreasing number of workers. (Ito and Hoshi 2020, 255–67) But after COVID, "China" has taken center stage. Ito and Hoshi spend very little time discussing the People's Republic of China (PRC), but that country is at the center of debates in Japan now about economics, politics, and even military spending and territorial defense.

Especially salient in economic debates in Japan these past few months has been "decoupling," the felt need to route supply chains around the PRC and to move the Japanese economy to a position of greater self-reliance. Some more extreme pundits in the United States have seen in this decoupling a return to the autarky which wartime Japan practiced under the Greater East Asia Co-Prosperity Sphere. (See Jeremy A. Yellen's volume on this subject, *The Greater East Asia Co-Prosperity Sphere: When Total Empire Met Total War* [2019].) The mood in Japan is decidedly against what the pro-business group Keidanren (Japan Business Federation) advocates, namely an expansion of dealings with the PRC and its market share of 1.4 billion consumers. Keidanren has powerful allies in politics and the path to decoupling, full or partial, is not clear. One of Suga's rivals during the competition to fill Abe's seat was Nikai Toshihiro, a veteran LDP insider and currently General Secretary of the party. Nikai is one of the leaders of the pro-PRC wing of the LDP, and may have been the instigator behind then-PM Abe's politically disastrous decision to invite PRC dictator Xi Jinping as "state guest" to Japan just before the Wuhan virus erupted in late 2019. However, while Nikai and other senior politicians are as pro-China as they can politically get away with, their position is decidedly unpopular among the general public, especially with Chinese aggression into waters around the Senkaku Islands (part of Okinawa Prefecture) and against other Asian neighbors, including Vietnam, the Philippines, Indonesia, and India. Decoupling may not be the most bottom-line-logical approach to dealing with the PRC, but the sense in Japan among the straphangers and mall shoppers is that the "China risk" is too great not to attempt to mitigate in any way possible. Japan is near to China on the map, and that's about it.

This is all a sharp departure from the Koizumi and Abe visions for the Japanese economy. Koizumi starred in a "*Yokoso*" ("welcome") tourism-promotion ad campaign inviting new and repeat visitors to the Land of the Rising Sun, and Abe oversaw a skyrocketing growth in inbound arrivals building on Koizumi's earlier efforts. Japan had

been setting record numbers for tourist visits prior to the pandemic, and the entire country was looking forward to the 2020 Olympics and to recouping the enormous investments in infrastructure and advertising made for the Games. Those hopes are dashed, perhaps forever. The Olympics have been pushed back to 2021, and may end up being cancelled. To make it a double blow, the streets of Kyoto, Tokyo, and other tourist destinations, once thronged with sightseers even in non-Olympic years, are eerily subdued. The counterweight to having exported manufacturing jobs to Southeast Asia was supposed to have been to bring in tourists by the millions to keep the shopkeepers in the black. That strategy has failed spectacularly, at least for the foreseeable future.

RE-FOCUSING ON THE HOME FRONT

There are other cracks in the Abenomics regime beyond the plummeting tourist figures. Abenomics tried to bring women into the workforce in greater numbers to alleviate the demographic pressures of an aging population and low birthrate, but there are natural limits to this approach. Women's lib never really caught on in Japan. Women here prefer to raise children at home—it is a choice, not some form of feudal oppression. Telework and maternity-friendly corporate culture are both catching on quickly in Japan, but there is only so much that can be done by a government to coax a group of people into a paycheck gig when that group isn't really interested in the offer to begin with. Abenomics did not adequately address, in my view, these and other more structural problems in the Japanese economy, and instead tried to use taxation, quantitative easing, and other not-very-stimulating stimulus measures as quick fixes. Increased mobilization of capital and reliance on foreign visitors did not, and could not, make up for what is a more troublesome trend: the extreme urbanization of Japan. The countryside is emptying at an alarming rate as more and more people flock to the major metropolis areas in the Kantō and Kansai regions. This, more than anything else, I see as the Achilles' heel of the Japanese political economy today. There are too many people in Tokyo. This is having deleterious effects on the city, and on the rest of Japan.

It is on this note, about Japan's urbanization and what it means domestically for the Japanese economy and for Japanese politics,

that another book shows particular analytic strength. *Japan's Lost Decade: Lessons for Asian Economies*, a volume edited by Naoyuki Yoshino and Farhad Taghizadeh-Hesary, is a highly recommended revisionist policy and economic study of what has been ailing Japan, coupled with a series of welcome suggestions as to what can be done next to "spark joy" (as Marie Kondo might put it) for Japanese economic well-being. Yoshino is the dean of the Asian Development Bank and professor emeritus at Keio University and Taghizadeh-Hesary is Yoshino's junior colleague at both institutions. The editors' view on the Japanese economy is therefore informed. It is also very clear: "The empirical analysis of [*Japan's Lost Decade: Lessons for Asian Economies*] challenges the beliefs of some economists, such as Paul Krugman […], that the Japanese economy is in a liquidity trap." Krugman, whom QJAE readers will surely regret having heard of as much as I do, has made a sub-reputation for himself by repeating, again and again, that Japan is mired in a liquidity trap, a Keynesian prediction that ZIRPs and certain other invasive governmental monetary policies will lead to a preference for cash to debt. Not so, say Yoshino and Taghizadeh-Hesary. Krugman has whiffed again: "Japan's economic stagnation stems from a vertical investment saving curve rather than a liquidity trap, and […] monetary policy is ineffective for escalating [Japan's] economic growth. […] The Japanese economy faces structural problems rather than a temporary downturn." (Yoshino and Taghizadeh-Hesary 2017, vii)

In eight equation-dense chapters Yoshino, Taghizadeh-Hesary, and the other volume contributors bypass Krugman's Druidic intoning about liquidity traps and examine the deep-rooted reasons for Japan's economic doldrums, covering much of the same ground as Ito and Hoshi but with an added emphasis on "monetary transfers from central to local governments". (4–5) As Yoshino and Taghizadeh-Hesary write, "about 16% of total government spending is allocated to local governments, making it the second-largest government expense after social security. (4) The aging population, the rush of hinterland Japanese to Tokyo, Osaka, and other major cities, and other demographic and structural changes mean that "Japan has reached the limits of conventional macroeconomic policies." (165) There is really nothing, in terms of fiscal policy, that a central bank or government can do to keep an entire

nation from crowding into a handful of zip codes. Something else will have to be tried.

A novel solution recommended by the editors of *Japan's Lost Decade* to help rebalance this metropole-countryside skewing is "Hometown Investment Trusts," or HITs, which reaches back into Japanese history (although the authors do not make this explicit) to establish person-to-person trust as the basis for credit and lending to entrepreneurs outside of Japan's sprawling megalopolises. Under the HIT method, "lenders are from the same 'hometown' as the borrowers, or they may share a similar interest." (25) The authors worry that Basel III capital requirements are further restricting capital flows to the Japanese outlying regions (26), and HITs are ways, the authors argue, to overcome such restraints and revitalize Japan's withering provinces. Much more than any central government intervention, HITs seem, to this reviewer, to hold the most promise for Japan's economic future. The Japanese countryside is emptying out, but there is no need to think that this is an inevitable, irreversible trend. This is not Japanization, this is just civilizational anomie. It happens to the best of us. HITs could very well be a way to reinvigorate vast non-Tokyo, non-Osaka, non-Yokohama swaths of Japan, which would bolster local tax receipts, lessen the transfer burden on the Bank of Japan and the Ministry of Finance, and, possibly, also provide a lift to the birthrate, as wide-open spaces tend to be conducive to growing families. Kids have always loved meadows and parks more than concrete and cinder block—the Japanese countryside may just be the answer to many of the structural distortions and dysfunctions which continue to plague Japan in the third lost decade.

JAPAN'S POLITICAL ECONOMY: THE ROAD AHEAD

As Japan's new prime minister Suga Yoshihide settles into office he is faced with a host of challenges, from holdover effects from three or so lost decades to Chinese aggression and a world economy which has had its legs cut out from under it by the Wuhan bug. Public debt is ballooning in virtually every developed economy, and Japan is one of the most indebted nations per capita on the planet. Prime Minister Suga is largely seen as the man who will pick up the standard of Abenomics and carry it to victory against

Japan's lost decades, but the reality is that that battle seems already to have been fought, and lost, long ago. The rebuilding of Japan will probably have to be done internally, without relying on quick fixes from the globalist near abroad.

Anglophone readers who want to gain a better understanding of how we got to where we are in Japan, what we see when we look out at the current political-economic situation, and what solutions suggest themselves to us as we ponder the future, will surely want to read some of the volumes introduced above. I also encourage Austrians not to lose sight of Japan in the glare of the news about China. Japan remains a reliable, politically stable, free, open, and democratic trading partner. Japanese industries have fallen behind in technological innovation since the heydays of the 1980s, and silicon chip manufacture, once one of Japan's strong suits, has shifted largely to Taiwan, the PRC, and elsewhere. But Japan is much more than silicon chips. Uniqlo, for example (under the Fast Retailing banner), has become a staple of the clothing business throughout Asia, Europe, and North America. There are many more good surprises like this in store.

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