
PERSONALITY, PROGRESS AND PROMISE IN JAPANESE LEADERSHIP

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Prime Minister Shinzo Abe's Japan is a forward-looking, pragmatic bastion of stability in an increasingly uncertain world. This week's cabinet reshuffle cements the unique position that Japanese politics and policymaking occupies relative to most other democratically elected governments. Abe is in complete control of his destiny, picking and choosing competent and loyal elected parliamentarians to further advance his agenda.

Right from the start in December 2012, the goal of "Team Abe" has been single-minded, echoing the rallying cry that inspired the leaders of the Meiji Restoration: "Fukoku Kyohei—Strong Country, Strong Army". Don't get me wrong—this is not about rearmament like it was during the 19th century Meiji era. I draw attention to the Fukoku Kyohei rallying cry to stress that Team Abe is perfectly focused and capable of using political capital for both a strong economy and constitutional reform. In fact, without the first, the second may never happen.

In my experience, Abe's leadership team has always remained relentless in pursuing strategies that aim to restore Japan's place in the world as a respected, admired and worthy top-tier nation. They know that a strong, growing and competitive economy is the most necessary condition to achieve that goal. The second condition is a stronger, smarter and more independent sense of national self-determination and pride among the Japanese people. This is where Team Abe is convinced constitutional reform is necessary as a powerful symbol and catalyst for greater national unity and understanding of what Japan is and wants to be.

The "Abe-Aso-Kuroda" Master Class in Policy Pragmatism Continues

First, for economic policy management, the Abe-Aso-Kuroda central axis got reinforced. Nowhere else in the world of global policymaking can you find such a consistently well-coordinated and decisive axis of power between the prime minister, the fiscal authority (Finance Minister Taro Aso) and the central bank (Bank of Japan Governor Haruhiko Kuroda). The Abe-Aso-Kuroda triumvirate will continue their master class in policy coordination. Where the U.S. and Europe are wasting time debating terminology and procedure, Japan is way ahead in actually implementing "fiscal dominance" and "[modern monetary theory](#)". The Abe-Aso-Kuroda axis simply gets on with it because they have something that both Europe and the U.S. appear to have lost: political and policy consensus.

At least to this observer, Europe and the U.S. bring to mind the fumbling and growing desperation that Japan went through during the long period of political instability before strongman Abe arrived. To turn modern monetary theory into practice, you need functioning and decisive fiscal coordination and plans that go beyond the expediencies of annual budget cycles or election cycle pork-barreling. No fiscal policy vision, no

fiscal dominance... make no mistake! Abe-Asō-Kuroda do know what they want to spend on.

In clearer terms, watch for a boost in fiscal spending if or when global or local economic momentum loses steam. The Bank of Japan will finance the added borrowing requirement if excess savings fail to absorb it.

What About “Structural Reform”?

Here, the cabinet reshuffle opens the door for new ideas and initiatives. Both the ministers for Economy, Trade and Industry (METI) and for Economic Policy have been replaced with U.S.-educated, highly competent young leaders. It is right to expect a pickup in the metabolism of structural reform policy proposals, with a particular focus on boosting entrepreneurship, speeding up industrial reorganization (e.g., M&A, MBO and spin-out rules), regional revitalization and special economic zones, etc. Importantly, the new METI minister, Sugawara Isshu, served as vice-finance minister before, which could lead to closer linkages between tax incentives and industrial reorganization. The new minister for Economic and Fiscal Policy is Nishimura Yasutoshi, a former METI bureaucrat who is well-known in Silicon Valley and Israeli start-up and venture capital circles. All said, what Abe-Asō-Kuroda bring for stability, Sugawara and Nishimura will do for innovation and creative structural change.

Yes, Constitutional Reform is on the Agenda

Lead by the prime minister, Team Abe is now readying to take concrete steps toward constitutional reform. Specifically, one of Abe’s closest allies and trusted friend, Seko Hiroshige (previously the METI minister), has accepted a position away from the cabinet to become chair of the upper house. This is not a demotion, but the strongest signal that Team Abe is gearing up for the complex parliamentary procedures necessary to pass constitutional reform (requiring a two-thirds super majority in both the upper and lower houses, followed a simple majority in a referendum). With an outstanding track record as a creative and loyal mobilizer, Seko is now Abe’s chief whip charged with getting the upper house politicians in line for the constitutional vote.

Here, the sense of urgency is growing. Although Abe’s Liberal Democratic Party presidency ends in September 2021, and most people suggest a reform bill would probably take at least 8–15 months to wind its way through Parliament, my suspicion is Team Abe is getting ready to attempt a more expedited push over the next 6–12 months. There is the temptation of riding the likely popular tailwinds from next year’s Tokyo Olympics is real, as well as the Machiavellian calculation moving before the next U.S. presidential elections. However, while timing remains anyone’s guess, the focus on seeking to maintain a strong “economic feel-good factor” is a certainty. Team Abe must have as perfect a track record on economic management as possible to have a shot at persuading voters to support the constitutional reform.

Getting Ready for Post-Abe?

In my view, it is still much too early to begin serious debate about a post-Abe Japan. His grip on power is simply too strong and his political will to create a historic legacy that goes beyond anything we have seen in post-war Japan is simply too overwhelming. Challengers are explicitly warned to stay out of the way. Yes, young and popular Koizumi is now in the cabinet as minister for the Environment. Personally, I hope he’ll turn this historically dull post into something relevant and inspiring. A new Japan green deal may boost his popularity further, and if Koizumi can build a consensus

together with the deeply entrenched industrial interests (energy policy, plastics policy, etc.), he'll deserve to be taken as a serious contender. Ditto for Kato Katsunobu, who now serves as minister of Health, Welfare and Labor, and is charged with creating entitlement reform. If Minister Kato can rein in Japan's runaway costs for social security and health care without incurring a backlash among voters, he surely deserves to become the top leader. It'll be interesting to watch these developments, but for now the focus must stay on the prime minister and his relentless drive to build his legacy as the leader who truly restores Japan to top-tier nation status.

All said, Japanese politics in general, and policymaking in particular, is set to stay a bastion of stability. Team Abe is in power, is not afraid to use power and most importantly has an agenda that is pro-growth and pro-business. Sooner or later, this should force a break-out from the current value trap Japanese financial markets have been into since last year.

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Modern Monetary Theory (MMT): a macroeconomic theory that suggests that economic cycles can be managed by largely by fiscal policy, since monetarily sovereign nations (like the U.S., Japan, Canada, etc.) can print as much money as they need to achieve their economic goals.