I

If the aim of a snap election is to take everyone by surprise, then Shinzo Abe has played a blinder. Almost no one in Japan expected, or for that matter wanted, a parliamentary election just two years into his premiership. On December 14, the Japanese people, or at least those who can be bothered, will go to the polls to choose a new House of Representatives, the lower and more powerful house in the Diet.

The result is not in doubt. Mr Abe’s Liberal Democratic party will win — the question is by how much. If the LDP performs well, then his position will be strengthened. That is why he is seeking to frame the election as a referendum on Abenomics, his attempt to reflate the economy after nearly two decades of deflation. He would use victory, even one delivered with a lacklustre turnout, to claim a renewed mandate that could see him remain as prime minister until the end of 2018. That could breathe fresh life into the policy that bears his name, as well as making him the longest-serving Japanese premier in decades.

The strategy could backfire. If the ruling party disappoints, then Mr Abe’s credibility, even his medium-term prospects of survival, will be diminished.

At first sight, Mr Abe’s timing looks almost self-destructive. The election comes at a time when Abenomics is going through its roughest patch since it began in early 2013.

The economy slipped into a technical recession in the third quarter, according to preliminary estimates, after an increase in consumption tax last April. Inflation has sagged to less than half the 2 per cent target, obliging the Bank of Japan to embark on a second round of monetary expansion by buying up huge quantities of government bonds. This week Moody’s trimmed its rating for Japan by a single notch, querying its long-term goals for deficit reduction in the wake of Mr Abe’s decision to delay a second tax increase by 18 months.

“When Abe came to power, he could not find a brilliant, elegant policy for Japan’s future,” says Kaoru Yosano, a former elder statesman of the LDP who served as chief cabinet secretary during Mr Abe’s earlier stint as prime minister in 2006-07. Monetary expansion is the “wrong path”, he says. “What is needed is not capital, but new technology, new products, new efficiencies.”

Inflation — the centrepiece of Mr Abe’s economic policy — remains more popular with macroeconomists than with the public, who see
only reduced spending power in the absence of commensurate increases in wages. Latest polls in the Nikkei and Yomiuri newspapers show that more people disapprove of the economic policies than support them.

Not only is Abenomics losing support, but cracks have begun to appear in the prime minister’s cabinet, until recently the most stable in the postwar period. In October, shortly after his first reshuffle, two ministers resigned over campaign funding scandals. Mr Abe also suffered an electoral setback in Okinawa, Japan’s southernmost prefecture, where a candidate opposed to his plan to build a new marine base for the US won a resounding victory.

All this has taken its toll. Mr Abe’s support rate fell sharply after the cabinet resignations, to well below 50 per cent. It had already been knocked lower because of public disquiet over the passage of a secrecy bill that many regard as anti-democratic. “In my mind, this is an inept move,” says Jeff Kingston, a Japan expert at Temple University in Tokyo, of Mr Abe’s decision to dissolve parliament. “He isn’t going to get a mandate no matter what the spin-doctors say.”

So why go to the electorate now? “The simple answer is that he can win,” says Kiichi Fujiwara, professor of international politics at Tokyo University. “The opposition parties are still struggling and can’t get their act together. This is a good opportunity for him.”

Taro Aso, the last LDP prime minister, waited too long to face the public and was routed as a result. Mr Abe’s advisers have told him to get ahead of the curve by securing four more years while he still can. Next year, he faces many tricky battles, including restarting nuclear plants suspended after the 2011 Fukushima meltdown. If the going is tough now, it might only get tougher.

The main opposition Democratic party of Japan, which was dumped from office in 2012 after three miserable years, has little ideological or even organisational coherence. Such is its ill-preparedness that it will struggle to field candidates in some constituencies. As a result, many protest voters are just as likely to stay at home as to vote against the government.

“For the electorate as a whole, the only thing worse than having Abe in office is not having Abe in office,” says Gerry Curtis, professor of political science at Columbia University. “Better to have political stability than another round of revolving-door prime ministers.”

The LDP and Komeito, its junior coalition partner, have a two-thirds majority in the lower house, which allows them to overrule any upper house veto. Mr Abe will probably lose that “supermajority”, though even this outcome is not certain with the opposition in such disarray. In any case, the prime minister has “set the bar very, very low”, saying he will step down only if his majority disappears altogether, says Jun Iio, professor at Japan’s National Graduate Institute for Policy Studies.

Assuming Mr Abe secures a comfortable victory, Mr Fujiwara argues the prospect of four more years could embolden the prime minister to press ahead more forcefully with his real passions: revising the pacifist constitution and furthering his conservative agenda. But if he is deprived of his two-thirds majority, such a radical agenda would be harder to implement. “Constitutional revision is now gone,” says Sheila Smith, a senior fellow for Japan studies at the Council on Foreign Relations in the US. “He’s sold that down the pike.”

Nor is Mr Abe likely to rock the boat diplomatically, for example by visiting the controversial Yasukuni war shrine, any time soon. After months of effort, he finally secured a meeting with Xi Jinping, China’s president, at the get-together of Asia-Pacific Economic Cooperation leaders in Beijing.

Though the Xi-Abe discussions were painfully frigid, many foreign policy experts believe Sino-Japanese relations could become temporarily more stable. Tokyo and Beijing have worked out a modus operandi around the disputed Senkaku Islands, which are administered by Japan but claimed by China, which calls them the Diaoyu. There are even signs of a thawing of relations between Japan and South Korea. All this suggests that Mr Abe, partly under pressure from Washington, may ease up on his nationalist agenda.

Once the election is safely over, attention is therefore likely to swing firmly towards the economy, where the success of Abenomics still hangs in the balance.

“Before the consumption tax hike, Japan had been growing at an annualised rate of 2 per cent,” says Masazumi Wakatabe, professor of economics at Waseda University. “After the
hike, we have a shrinking economy. There’s no doubt in my mind that the consumption tax hike is the culprit.”

The big question for Mr. Abe is whether he can get growth back on track and move to his much-talked-about, but so far elusive, “virtuous circle”. Under that happy scenario, higher output and modest price rises would lead to higher wages, consumption and output. Failing to achieve that could mean inflation petering out, growth stalling and the economy sinking back into pre-Abe stagnation.

One hope is that growth will bounce back after two rocky quarters as the effect of the consumption tax increase fades. With inventories running low, production could also rebound quickly. JPMorgan is predicting annualised real growth of 4 per cent in the fourth quarter, double its previous estimate.

Sustained growth is vital to achieve another missing piece in the Abenomics puzzle: wage increases. Since the policy was launched, hundreds of thousands of people, mainly women, have poured into the workforce. The unemployment rate has fallen to a 17-year low of 3.5 per cent and many sectors, including construction, healthcare and logistics, are finding it hard to recruit staff.

However, partly because many of the new jobs are being created in the lower-paid, non-permanent segment of the workforce, wages have not picked up as much as expected. Even big companies, many of which have been making money hand over fist as a result of a weak yen, have preferred to give larger bonuses as opposed to raising base pay.

“Most people feel poorer; they don’t have an actual feeling of economic recovery,” says Nobuaki Koga, head of Japan’s largest group of labour unions, which is recommending its members push for base-pay rises of at least 2 per cent — the most aggressive demand since 1998 — in annual pay negotiations beginning early next year.

Akinari Horii, of the Canon Institute for Global Studies, says there is an inevitable time lag during which employers must shake off their deflationary mindset and get used to the new reality of rising prices. “I think we’ll get there,” he says. “People are still sceptical, but their scepticism will disappear next spring if management and unions can agree to wage increases.”

Mr. Fujiwara is less sure, pointing to the fact that nearly 40 per cent of workers are now non-permanent. “The good old days of lifetime employment are gone,” he says, adding that this blunts the impact higher profits have on pay.

Many economists doubt Mr. Abe has done enough to revive Japan’s economy. In addition to radical monetary policy, they say meaningful supply-side reforms are vital. The prime minister has insisted that his so-called “third arrow” of structural reforms — from commercialising agriculture to lowering corporation tax and improving corporate governance — are on track.

That claim is disputed by many. Much of his agenda involves taking on vested interests. Some policy proposals, such as joining the Trans-Pacific Partnership or allowing a freer flow into Japan of “guest workers”, do not even enjoy the unequivocal support of his own party let alone of a broader electorate suspicious of opening up Japan’s economy too far.

Professor Curtis says Mr. Abe’s fate hinges almost entirely on economic progress. If growth and wages stay in a rut, he predicts, the prime minister could face rebellion within his own party and a serious challenge for the LDP leadership next September.

But if things improve — and particularly if incomes start to rise — he expects support for Mr. Abe and his reflationary experiment to rally. “People say: ‘He’s trying, so maybe we should give him some more time,’” says Mr. Curtis.

There is, however, something of the last-chance saloon in people’s attitude towards Abenomics, he adds: “If this doesn’t work, nothing will.”

***

Bank of Japan: Tensions over sales tax end period of harmony
Policy meetings at the Bank of Japan are almost never interrupted. Once business begins on the eighth floor of the neo-baroque building in Tokyo’s old financial district, the nine board members plus observers are locked away without phones or the internet until they come up with a verdict.

But just before the board expanded monetary easing on October 31, two government officials asked for a break to alert ministers that a move was on the cards. It was the first recess of its kind for seven years, and one that reveals tension at the heart of Abenomics, say analysts.

In January 2013, Shinzo Abe, prime minister, and the central bank signed a policy pact, the BoJ vowing to do all it could to push inflation towards 2 per cent, while the government took steps to cut its huge budget deficit. Ten months later, as Mr Abe decided to press ahead with an increase in the sales tax, BoJ governor Haruhiko Kuroda assured him that he would be on hand with whatever stimulus the economy needed.

Yet after the announcement by the BoJ, which apparently took the government and the markets by surprise, the pair have looked out of step. The most plausible explanation for another round of easing was an attempt by Mr Kuroda to lay the ground for another tax increase scheduled for next October, says Hideo Hayakawa, a senior executive fellow at Fujitsu Research Institute, who served as the BoJ’s chief economist until March last year.

Mr Kuroda’s stated reason for the extra measures – a big drop in the price of oil – makes no sense, he says, given that cheaper oil should provide a big boost to the energy-poor nation.

Hence the “upset” at the BoJ, Mr Hayakawa says, when Mr Abe said he wanted to push back the second tax increase by a year and a half.

The day after Mr Abe called a snap election, arguing that Japan was too fragile to withstand another fiscal squeeze, the BoJ said the economy “had continued to recover moderately as a trend”. Hiroshi Shiraishi, economist at BNP Paribas in Tokyo, says the central bank was “left high and dry” by Mr Abe delaying the second rise in the sales tax.

RELATED TOPICS  Japan Economy