Abenomics and Japan's Public Debt

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1. Introduction

Up to 2013 Japan's public debt has been growing for decades. The main reasons for the growing public debt are the welfare system, the structure of the labour market, the pork-barrel politics of the LDP and the economic stagnation after the burst if the bubble. Additionally, demographic changes put extra stress on the situation. Now, Prime Minister Abe wants to end stagnation and cause an economic upturn to eventually reduce the public debt. The focus of the paper lies on the so-called *Abenomics*, introduced by Prime Minister Abe Shinzo in 2013, in regard to their effects on the public debt.

Japan used to be an economically fast-growing country in the post war decades until about the mid-1980s. With the asset-price bubble and it burst in the end of the 1980s Japan's economy came to a long-lasting slowdown; a slowdown that caused the Japanese government's debt to increase beyond the level of any other OECD country. Many different people, economists from around the world as well as politicians, mostly Japanese, have examined this development during the last almost four decades. They find a variety of causes for the path which the debt development in Japan has taken during the last four decades and give as many pieces of advice how to solve the debt problem on the one hand and how to overcome stagnation on the other hand. Prime Minister Abe Shinzo is also one of them and the most recent politician to try and come up with a plan to tackle Japan's fiscal and economic problems: the *Abenomics*. Soon after becoming the Prime Minister of Japan for a second time in the end of 2012, Abe introduced his three arrows, measure that are supposed to help Japan's economy reflate. With the introduction of three new arrows, the second stage of *Abenomics*, in 2015, the original Abenomics economic policies come to an end and appear to be a failure. Now, in the beginning of 2018, those *Abenomics*' measures have had time to unfold and new questions come to mind. Since the Abe administration wants to boost the economy to reduce the public debt in the medium term, it is very likely that the implementation of the *Abenomics*, original and new, have affected the government's debt, but to what extent? Which measures of *Abenomics* affected the Japanese public debt and why did they affect the debt?
I expect Prime Minister Abe's political measure to have a negative impact on the public debt, mainly because of the massive stimulus spending initiated by the Abe administration in the course of *Abenomics*.

The purpose of this paper is to analyse the impact of *Abenomics* on the national debt of Japan. For this reason, I decided against the initial idea to use the International Monetary Fund's

Debt Sustainability Analysis. After all, I do not mean to analyse the sustainability of Japan's national debt. Neither do I mean to predict the future, which is not a very reliable science. Instead, my approach will be to examine Prime Minister Abe's policies separately, regarding its direct or maybe even indirect influence on the national debt.

To answer the questions above the structure of this paper is as follows:
Following this introduction, the second chapter gives an overview over the literature concerning the development of the public debt in Japan and over the debt development itself. Beginning shortly after the end of World War II, Japan established a unique system in both the labour market and welfare system as well as in the fiscal system. Structural peculiarities like the ones just mentioned are popular scapegoats for the cause if the debt and deflation in Japan among many international economists, while others prefer to blame international crises and Japan's aging population combined with wrong macroeconomic measures at the wrong times.
Chapter three introduces both the original *Abenomics* launched in 2013 and the second stage of *Abenomics*, *shin sambon no ya* (Makino 2016, 38), which have tried to reboot the *Abenomics* in 2015. Both consist of three arrows, each arrow representing a politico-economic set of measures. The original three arrows are: 1) bold monetary easing, 2) flexible fiscal policy and 3) growth strategy (Wakatabe 2015, 115 and Botman, Danninger, Schiff 2015, 3). The second set of arrows, consists of 1) strong economy, 2) support for child raising and 3) enhanced social security (Craig 216, 119).
As its title suggests, in chapter four I analyse the effects that both the original *Abenomics* and the second stage of *Abenomics* have on the debt of the Japanese government so far although the country is facing severe difficulties such as a fast-aging population.
Chapter five summarises the findings.

2. An outline of the development of Japan's public debt

During the decades following World War II until the present day many different authors with either economic or political background (or both) have examined the development of the Japanese government's debt. Some of them blame structural characteristics while others focus on searching the reasons for Japan's debt development in the government's incorrect or inappropriate macroeconomic decisions. In this chapter I seek to give an overview over the different authors' findings and opinions divided into three periods based on Suzuki's division (Suzuki 2011, 3). Naturally, the Japan's fiscal and economic situation has seen ups and downs during each period that the subchapters go into detail about. The first part covers the immediate post war years until about 1975 when the government first has been forced into deficit spending, the second part continues from 1975 to the burst of the asset bubble in 1991. Part three reviews the period following the burst of the bubble until Abe Shinzo became Prime Minister in the end of 2012. Lastly, I summarise the main points of the three parts in a separate subchapter.

2.1 From the Post War Years to the Mid-1970s

The authors that see structural characteristics of Japan at fault for the debt development start their research all the way back in the post war years when the basis for a new and modern Japan was being established. In the immediate post war years Japan's political development has been largely influenced by the Allied Occupation, namely the US government. They wanted to demilitarise Japan and establish a stable democratic state where Japan was left destroyed from bombs and with no working economy or welfare system. Unemployment has been high in post war Japan and labour protection basically non-existent. The deflation policy introduced in 1949 only made the situation worse leading to mass dismissals of workers (Miura 2012, 44). Changes came along during the 1950s. One of the changes was the introduction of a social protection system that Miura (2012) identifies to be a "welfare through work"-system. The system is based on employment protection as income maintenance instead of using tax revenues for social spending. High employment rates therefore were able to reduce inequalities among the people (Miura 2012, 2). A part of the welfare through work-system is also the "gendered dual"-system. The core workers that enjoy employment protection are the male workers only while women often work part-time and are expected to leave their jobs at some point to care for their children (Miura 2012, 12). Another change came with the 1955 Five-Year Economic Independence Plan that aimed at full employment and economic independences (Miura 2012, 42) but soon in 1956 the Japan's economic main goal turned to growth (Miura 2012, 42). Prime Minister Ishibashi's plans were unfeasible without fiscal expansion, so his cabinet started public spending to create jobs in 1957 (Miura 2012, 42, 43). Estévez-Abe (2008) calls the same social protection system a "work-based" protection system (Estévez-Abe 2008, 19). For her the two main points of this system are that firstly welfare benefits are tied to the job and secondly that creating jobs and protecting jobs both are welfare benefits in themselves (Estévez-Abe 2008, 19, 20).

Furthermore, Estévez-Abe (2008) also describes the so-called Employee Pension Scheme. It supplies workers with benefits based on their income. Contributions are paid by employer and employee in equal shares (Estévez-Abe 2008, 24). Farmers and the self-employed are covered by the National Pension Scheme that in contrast levies fixed contributions and only grants fixed benefits (Estévez-Abe 2008, 26). Pension reserves are managed by the Trust Fund Bureau that belongs to the Ministry of Finance. Through the Fiscal Investment and Loan Program the Trust Fund Bureau invests the pension reserves (Estévez-Abe 2008, 42), a system that Park (2011) only calls the "FILP-system" (Park 2011, 1). According to Park (2011) the FILP-system has been the only possibility that has allowed the conservative government to spend money and pursue the aforementioned growth policy without increasing taxes (Park 2011, 1, 2) and breaking the budget restraint that had been imposed on Japan by the US Military (Park 2011, 55). It even allowed cutting taxes and paying its supporters in order to remain in power (Park 2011, 247, 248). The FILP gives out loans that have to be paid back and only have low interest rates (Park 2011, 256). The system itself consists of many different and interrelated institutions that became more and more during the following decades in which the FILP was used (Park 2011, 25, 28). During the 1970s finally, problems started to occur when bad loans and public deficits accumulated in the FILP-system and more and more items normally financed by the regular budget were pushed into FILP (Park 2011, 141, 142, 176). An economic slow down was the result (Park 2011, 144).

The authors Estévez- Abe (2008), Miura (2012) and Park (2011) agree that Japan managed to successfully lead its economy to growth, fast growth even, during the decades after World War II until a slowdown was reached in the mid-1970s. They agree that the institutions created in the 1950s are very characteristic for Japan, allowed the conservatives to remain in power, allowed spending far beyond tax revenues and lastly pushed economic growth. Furthermore, they all point at the stagnation and fiscal problems that Japan had to face in later years and connect them to Japan's unique welfare system and the FILP system.

2.2 From the Mid-1970s to the Burst of the Bubble in 1991

During the 1970s the world has faced two Oil Crises: in 1973 and in 1979/80. Nevertheless, Japan experienced steady growth while many other countries suffered from the 1973 oil shock (Miura 2012, 1). Still, the former high growth period came to an end, also caused by a change in the demographic structure: live expectancy was increasing. Additionally, tax revenues declined, and the government had to rely on borrowing for the first time since the post war years (Estévez-Abe 2008, 199) because taxes had been cut often in the high growth years (Estévez-Abe 2008, 202). Estévez-Abe adds that even after the second oil crisis Japan still did economically better than most countries. the real problem was the change in the society's age structure that increased the labour costs of firms and the necessary amount of financial resources that the government had to spend on social security, namely health care and pensions (Estévez-Abe 2008, 202). With the economic growth slowing down the systems and institutions created in the previous decades revealed their hidden dangers: 1) subsidies to the agricultural sector were far too expensive 2) the tax system dependent on income growth needed reform, 3) the tax burden was unequally spread and paying taxes easily avoided and 4) demographic changes challenged the fragmented welfare system (Estévez-Abe 2008, 205-207). After the budget restraint had been abolished (Park 2011, 250) 1972 saw free health care for the elderly (Estévez-Abe 2008, 208) which had finally to be abolished in 1982 because of rising costs (Estévez-Abe 2008, 216). Reforms of the welfare system were overdue. In the end of the 1970s first attempts on reforms for both the Public Pension System and the Health Care System but due to the upcoming elections in the three years 1976, 1977 and 1979 the reforms were never realised. On top of that the Ministry of Finance was more concerned with the fiscal deficit to allow an increase in social spending (Estévez-Abe 2008, 211). Nevertheless, the Unemployment Insurance was revised in 1974 and 1975 to allow higher benefits over prolonged periods especially for middle-aged and elderly worker (Estévez-Abe 2008, 213, 215). In the mid-1980s then benefits were eventually cut due to increasing worries over Japan's fiscal health. Not only had the elderly to pay for medical care but the copayments for patients generally rose. In 1985 benefits were cut a second time (Estévez-Abe 2008, 216). As a result, the health care burden was shifted to the wage earners who suddenly had to pay disproportionally high shares in the health care system but reduced employers costs (Estévez-Abe 2008, 217, 218). Because the reforms (or benefit cuts) alone were not enough to counter the fiscal problem a consumption tax was introduced in 1989 (Estévez-Abe 2008, 222). Miura (2012) calls the year 1973 "the first year of welfare" because of the expansion in unemployment benefits and the free health care for the elderly (Miura 2012, 52). She describes the same increases in social spending during the mid-1970s (Miura 2012, 52) and retrenchments in the 1980s in favour of fiscal austerity (Miura 2012, 62) as Estévez-Abe. Miura adds that "social spending in relation to gross domestic product (GDP) stagnated in the 1980s" (Miura 2012, 62).

Park (2011), although following a different approach with the FILP system, also agrees with Estévez-Abe and Miura that the Japanese government's budget fell into a deficit in the 1970s but attributes it to the fact that the FILP system as a financial system could not finance the government's spending without tax revenues forever. In the 1980 this resulted in more budget-finance item being pushed into the FILP system in order to restore the balance of the national budget (Park 2011, 5, 144). Another problem Park (2011) identifies are the interlinked local national budgets. The local governments rely on receiving a share of the national budget. This practice became a problem when the Ministry of Finance limited the transfers to the local governments in favour of balancing the central government's budget. Starting in the 1970s it encouraged local governments to borrow from private institutions instead (Park 2011, 154, 155, 159).

Suszuki's (2011) approach to Japan's financial problem is an entirely different one. He focuses on the Japanese Bank Monitoring System, arguing that a change from the established typical Japanese system based on trust and close information networks to the Anglo-American monitoring system was insufficiently planned and therefore caused uncertainty that prolongated Japan's financial and economic stagnation (Suzuki 2011, 2, 3, 8). The transition started in the mid-1980s (Suzuki 2011, 2). Financial deregulation and a change in technology because Japan had finally caught up to the Western technology standards in the mid-1970s had made the traditional Japanese monitoring system inefficient in the 1980s (Suzuki 2011, 4, 8). Suzuki's (2011) point of Japan reaching the technology frontier in the mid-1970s is in accordance with the previously discussed authors' findings that Japan's economic growth came to a slowdown at that time. Finally, in the second half of the 1980s Japan developed an asset bubble. The Nikkei stock prices tripled, so did the land prices. According to Hamada, Kashyap and Weinstein (2011) this happened because of a financial liberalisation and loosened monetary policy. Investors optimistically believed that the high growth and low interest rate would continue endlessly (Hamada, Kashyap, Weinstein 2011, 17, 18). With the Plaza Accord of 1985 the Japanese yen started to appreciate causing Japanese firms to be less competitive against US-American firms, reducing Japan's trade surplus (Hamada, Kashyap, Weinstein 2011, 105, 107, 126). This was a turning point in Japan's macroeconomic policy

(Wakatabe 2015, 21). Still the gross debt-to-GDP ratio was not even 70 percent in 1990 (Botman, Danninger, Schiff 2015, 54).

In short, the institutions and structure of the Japanese economy that had been established in the 1950s and delivered good results during the high growth period proved to be very impractical when Japan's economic growth slowed down and at the same time the population began to grow older. It resulted in fiscal deficits in the 1970s. In the 1980s the Plaza Accord, financial deregulation and a shift in the Banking System's monitory practices caused a climate that eventually developed the asset bubble.

2.3 From 1991 to 2012

The following to decades saw the burst of the bubble in 1991 and two financial crises, one in 1997/1998 and the other one ten years later in 2007/2008. With the burst of the bubble in 1991 the Japanese economy went into stagnation (Suzuki 2011, 4). The ten years of recession in Japan following the burst of the bubble have gone down in history as the "Lost Decade" sometimes prolonged to the "Lost Two Decades" but according to Wakatabe (2015) in the present time it would be more accurate to use the term "Thirty Years' Crisis" (Wakatabe 2015, 21, 143). Bubbles are not a rare phenomenon in international economic history, but Japan handled the bubble and the bursting of the bubble in a particular poor way (Wakatabe 2015, 143). According to Wakatabe (2015), Japan initially recovered from the bubble until 1996 and the primary balance-GDP ratio continued to be a surplus until 1992 (Wakatabe 2015, 21, 24).

Garside (2012) on the other hand writes that Japan faced two periods of recession in the 1990s: the first covered the years 1990 to 1993 and the second period began in the years 1997. In between Japan experienced a short recovery with low GDP growth (Garside 2012, 83, 84) while the overall growth rate between 1991 and 2000 accounted for 0.5 percent (Garside 2012, 83). Nevertheless, stock prices were declining throughout the decade, starting in September 1991 until 1999 (Garside 2012, 80) and the continuing appreciation of the yen between 1990 and 1995 deepened the recession (Garside 2012, 85). Garside (2012) writes that "Japan's average budget deficit from 1995 to 2001 was about 5.1 per cent of GDP" (Garside 2012, 127). After Miyazawa Kiichi had become Prime Minster in 1991 he wanted to solve the bad loans problem by using public funds but the Ministry of Finance stopped him (Wakatabe 2015, 26). Instead, more deregulation and electoral reforms were passed (Wakatabe 2015, 27, 28) under Hashimoto who had become Prime Minister in 1996, for example the Fiscal

Structural Reform. A part of the reforms was also the consumption tax hike from 3 to 5 percent.

Then, in 1997 the Asian currency Crisis hit Japan (Wakatabe 2015, 29). In 1999 and 2000 the Internet technology boom again brought some recovery (Wakatabe 2015, 31) and starting in 2002 under Prime Minister Koizumi Japan began to slowly recover from the aftermath of the bubble. Thanks to that in 2004 the bad loans problem and structural problem could be solved. Furthermore, the labour market deregulation was passed. Contrary to his original plan Koizumi was not able to pass any other reforms.

In 2007 another crisis hit Japan: The Global Financial Crisis. The fact that the Bank of Japan ended its qualitative easing policy in 2006 deepened the crisis for Japan (Wakatabe 2015, 21, 22, 34, 35). However, Prime Minister Koizumi's "growth first" policy did have some positive effects for fiscal consolidation (Wakatabe 2015, 36). During his first administration in 2007 Prime Minister Abe tried to reform public administration and raise annual GDP growth to ambitious 4 percent but failed (Wakatabe 2015, 36) and in 2008 the Lehman Shock caused further yen appreciation and a drop of the employment rates (Wakatabe 2015, 38). When in 2009 the DPJ for the first time since the end of World War II won election against the LDP they had the opportunity and the necessary mean to make changes but it never became more than attempts at change. The DPJ failed to learn from previous mistakes (Wakatabe 38, 42). At a last big event that clearly had influence on Japan's precarious financial situation there is the earthquake, tsunami and nuclear catastrophe that occurred in March 2011. The disaster had long-lasting effects and caused great economic damage (Wakatabe 2015, 43). Japan faced a fiscal dilemma: the deficits and public debt had to be taken care of but that hinders economic growth. Between 1997 and 2008 Japan's GDP increased but household incomes decreased faster than prices did, so people's real spending capacity declined. In 2007 the gross debt-to-GDP ratio had reached 180 percent, but it kept increasing to 240 percent in 2012 (Botman, Danninger, Schiff 2015, 54). It should be to Japan's advantage though that 95 percent of the public debt is being held domestically and "financed by bonds that attracted low interest rates" (Garside 2012, 179, 180). But not only crises contributed to Japan's stagnation on the one hand and fiscal deficits on the other hand. The aging population that has been causing trouble since the mid-1970 is not a problem that will just vanish. On the contrary it will continue to exist and is even expected to become worse in the near future. Kaizuka and Krueger (2006) point out that although Japan's health care spending is low compared to other developed countries but nevertheless will increase. Therefore, the system need urgent revision (Kaizuka, Krueger 2006, 79, 99, 100).

2.4 Summary

To summarise this chapter, Japan has faced multiple difficulties since the end of the high growth period during the 1950s and 1960s. Beginning in the mid-1970s when Japan had technologically caught up to the West, the structures created in the post war years and the 1950s proved unreliable or at least hindering. However, that is not the only problem: opportunities for reforms came up several times but reforms almost always failed for different reasons. The bubble that burst in 1991 and its aftermath had a huge impact on Japan’s fiscal health and economic growth, so did the Asian crisis in 1997 and the global financial crisis in 2007 and the earthquake in 2011. Repeatedly, wrong decisions prolonged the stagnation. Furthermore, demographic changes strain the welfare system and cause further deficits.

3. Introduction to *Abenomics*

This chapter introduces the basic ideas of both the *Abenomics* launched in 2013 and the rebooted version of *Abenomics*, that have been introduced in 2015. Furthermore, this chapter also considers the criticism that has been passed on both versions of the *Abenomics*.

3.1 The Three Arrows of *Abenomics*

The economic policies measures that come along with Prime Minister Abe’s plans for Japan are called the Three Arrows. As has already been mentioned above, the Arrows are namely: 1) bold monetary easing, 2) flexible fiscal policy and 3) growth strategy (Wakatabe 2015, 115 and Botman, Danninger, Schiff 2015, 3). At a closer look there is more to each arrow than just an auspicious name.

The First Arrow, monetary easing, aims at increasing the monetary base to escape deflation. The Bank of Japan has started increasing the monetary base in April 2013 to achieve the inflation target of two percent by 2015 (Botman, Danninger, Schiff 2015, 3). Inflation is hoped to keep the real interest rate on a low level even in the long run which then in turn stimulates domestic demand and investment (Botman, Danninger, Schiff 2015, 4). Furthermore, the Bank of Japan buying Japanese Government Bonds from other financial institutions is also part of the plan. This measure is supposed to level out he balance sheets and enable more lending both in Japan and to overseas (Botman, Danninger, Schiff 2015, 4).

The Second Arrow, fiscal stimulus, is supposed to help the Japanese economy to deflate, very much like the First Arrow. The concrete measure here is spending in the short run, so the upward spiral of the economy caused by the *Abenomics*’ first and second arrow will enable taking care of debts and deficits at a later time (Botman, Danninger, Schiff 2015, 4, 5). Until the fiscal year 2015 the goal is to reduce the primary deficit by fifty percent compared to the level of 2010 and to achieve a primary surplus until the fiscal year 2020 (Botman, Danninger, Schiff 2015, 30).

Lastly, the Third Arrow, growth strategy, consists of many different projects that include some structural reforms as well as trade agreements to ultimately reach a higher level of economic growth (Botman, Danninger, Schiff 2015, 5). Among the structural reforms are measures to increase labour participation of women, the elderly and immigrants and general labour market reforms to a more flexible structure. Another point is deregulation, especially in the agriculture. Regarding trade agreements the Trans-Pacific Partnership (TPP) appears to be important to Prime Minister Abe (Botman, Danninger, Schiff 2015, 6).

3.2 Criticism regarding the Three Arrows

Since the start of *Abenomics* in 2013 a few years have passed and the policies and measures had time to develop and show effects. They have not been the only ones, though. International economists as well as Japanese politicians have had the time to watch *Abenomics* unfold, to detect their weaknesses and to publish critical assessments regarding the policies and their success. This part of the paper introduces the main point of criticism and praise that the *Abenomics* have earned during the last years.

Wakatabe (2015) summarises the main points of criticism regarding *Abenomics* in the years 2014 and 2015. However, most of the criticism brought up are concerns for the future, some based on historical experiences but never based on actual economic development after the introduction of Prime Minister Abe’s policies. Wakatabe comments on these fears and partly refutes them (Wakatabe 2015, 123-126).

Concerning the First Arrow criticism comes from opponents of monetary expansion policy, policymakers of developing countries and bond traders. The opponents of monetary expansion policy argue that monetary expansion is ineffective (Wakatabe 2015, 123) and worry that it will eventually cause hyperinflation (Wakatabe 2015, 125). Furthermore, in their opinion the plan of the Bank of Japan to expand the monetary base is unfeasible (Wakatabe 2015, 123). On the other hand, the foreign policymakers, mainly from emerging countries, fear that depreciation of the yen will bring about too strong competition among currencies at their expense (Wakatabe 2015, 125). Bond traders are concerned that the long-term interest rates could go up (Wakatabe 2015, 125). Other critics are worried that the inflation in the end might cause another bubble (Wakatabe 2015, 123, 125). A very valid point of criticism is the observation that during the first two or three years of *Abenomics* only two different groups of people have been affected positively: stock owners and the unemployed (Wakatabe 2015, 125). The decline in unemployment is, next to the real GDP growth rate that has increased, the only visible success of the First Arrow (Wakatabe 2015, 123), but most of the formerly unemployed work in a non-regular job now which makes the success questionable (Wakatabe 2015, 125). Wakatabe (2015) himself adds as a point of criticism that in 2014 the Bank of Japan reacted too late with its monetary easing policy after the consumption tax hike in April 2014 caused the newly gained growth to go back to recession (Wakatabe 2015, 124). Lastly, Wakatabe suggests measure that could help improve the First Arrow and help it achieve its goals. Those are: “a revision of the BOJ law to introduce an inflation target” (Wakatabe 2015, 127), a more concrete formulation of what exactly the target is and as the last point Wakatabe recomments thinking of how to continue after the inflation target has been reached (Wakatabe 2015, 126, 127).

The Second Arrow has earned some criticism, too. Changes in fiscal policy are urgent, but some voices doubt their overall success and effectiveness (Wakatabe 2015, 127). Another point of interest among critics is the consumption tax hike. It is unpopular among the public but originally has not been part of Abe's plan. It had been decided before his inauguration (Wakatabe 2015, 128). The problem about the tax increase was the growth slowdown it caused (Botman, Danninger, Schiff 2015, 8). Getting out of deflation is the first step to fiscal consolidations (Wakatabe 2015, 129).

The Third Arrow concerns growth strategy which is a difficult topic. Wakatabe doubts that Prime Minister Abe and as a result the *Abenomics,* too, do not understand the underlying difficulties. A manual to successful economic growth does not exist (Wakatabe 2015, 130). Joining the Trans-Pacific Partnership is part of this third arrow, but faces strong resistance form the agricultural sector (Makino 2016, 62) that fears the cheap imports that has the potential to push domestic producers out of the market (Wakatabe 2015, 131). The planned National Special Economic Zones, too, come with the hidden danger to draw firms and production from one place to another. They could cause a shift instead of contributing to growth (Wakatabe 2015, 131). To improve and implement the growth strategy successfully the government has to approach the detected problems more systematically. Democracy, competition and education are basic institutions that help stabilise macroeconomic conditions and eventually bring about growth (Wakatabe 2015, 133). Wakatabe (2015) furthermore recommends reforming the tax collection system and introducing social security numbers (Wakatabe 22015, 134).

Makino (2016) contributed a whole book to examine the downfall of the *Abenomics*. As the title "The downfall of Abenomics: Enquiring its Causes" (Makino 2016, own translation) suggests Makino is more than sceptic when it comes to *Abenomics*. He agrees with Wakatabe (2015) that for the people living conditions and working conditions did not change and least of all improve. Mainly firms have been able to improve their situation and increase profits (Makino 2016, 32). He also criticises the consumption tax hike in April 2014. He calls it a dilemma because it causes consumption to stagnate while increased tax revenues become more and more important for the fiscal balance (Makino 2016, 42). Finally, Makino summarises what in his view are the reasons that *Abenomics* have failed. The increase in firms' profits did not result in an increase of wages for workers and the hoped-for upward spiral and self-sustainability of the economy after the financial stimulus got stuck in its early stages. Furthermore, there is still not only a high but growing demand for care facilities which has been ignored. Makino even quotes a member of the Japan Federation of Bar Associations who says that Prime Minister Abe achieved the opposite of his intentions (Makino 2016, 176 ff).

3.3 Reboot of *Abenomics* in 2015

In June 2015 Prime Minister Abe introduced the second stage of *Abenomics*. They come with a new set of arrows that are namely: 1) strong economy, 2) help for child care and 3) enhanced social security (Makino 2016, 53). Craig (2016) finds these new arrows are empty phrases that come with no actual plan or policy (Craig 2016, 119). In his opinion *Abenomics* have failed, a view that Makino (2015) shares, as has been mentioned above. Instead Craig (2016) sees changes for opposition parties to try and do a better job (Craig 2016, 119).

3.4 Summary

This chapter has introduced both stages of the *Abenomics*. The first set of arrows is 1) monetary easing, 2) fiscal policy and 3) growth strategy. Although the first and second arrow have been partly successful there has also been criticism. Concerning the First Arrow this criticism is mainly based on the fear of repeating old mistakes. The consumption tax hike in April 2014 has been meant to help the fiscal consolidation but unfortunately foiled the growth spurt caused by monetary easing. The Third Arrow is generally problematic because it does not the complexity of economic dynamics and does not formulate concrete enough measures. The second stage of *Abenomics* consists of 1) strong economy, 2) help for child care and 3) enhanced social security. However, they lack any concrete plan how to implement the ideas. In Retrospect both Makino (2016) and Craig (2016) declare *Abenomics* as a failure.

4. An Analysis of the Effects of Abenomics on Japan's Public Debt

The previous chapter have shown that Japan's public debt has been increasing ever since the slowdown of the economy in the early 1970s. But only after the burst of the asset price bubble in 1991 the situation became severe: the economy stagnated and ever since refused to go back to an upwards trend. Furthermore, the previous chapters introduced many different reasons for Japan's economic stagnation, the most important ones being the bubble economy and a major change in the country's demographic structure combined with the welfare system. The previous chapter also introduced Prime Minister Abe's plans to help the economy go back to growth again and reduce the public debt in the long run.
Now, this chapter will introduce the specific politico-economic measures that have been taken in the course of Abenomics and analyse their effects on the public debt. The assumption here is that Prime Minister Abe's plans entail specific measures and that said measures have affected the budget planning and thus Japan's public debt. Furthermore, I expect to find that so far, the public debt has increased instead of having declined.

The structure of this chapter will follow chronologically through the years since Abe was elected Prime Minister in December 2012 until 2018 but split in two separate sub-chapters to take into account the lower house elections in 2014 and its following reintroduction of Abenomics with three entirely new arrows.

4.1 The first set of Arrows and its politico-economic measures in the years 2013 and 2014

The fiscal year 2013

Abe took over as Prime Minister after the elections in December 2012 during the fiscal year 2012/2013. In this very year Japan's gross debt level had reached 240 percent, according to Botman, Danninger and Schiff (2015); the net debt reached 134 percent (Botman, Danninger, Schiff 2015, 4). The Ministry of Finance Japan names different figures for the year 2012: general government's gross debt in the end of 2012 according to the Ministry of Finance amounted to 214.3 percent of GDP (Ministry of Finance Japan 2013f, 12). In total numbers the Central Government's outstanding bonds and borrowings summed up to 997.2 trillion yen at the end of December 2012 (Ministry of Finance Japan 2013i) and to 991.6 trillion yen at the end of the fiscal year 2012 (Ministry of Finance Japan 2013j). Outstanding government bonds made up the largest share of the debt with 812.15 trillion yen in December 2012 (Ministry of Finance Japan 2013i), 814.3 trillion yen in January 2013 (Zaimushō 2013, 15) and 821.47 trillion yen in the end of March 2013 (Ministry of Finance Japan 2013j). The share of the government bonds in the Central Government's outstanding bonds and borrowings accounted for 81.44 percent and 81.93 percent respectively for December 2012 and March 2013, while only 45.39 trillion yen or 4.55 percent of the Central Government's outstanding bonds and borrowings in December and 44.46 trillion yen or 4.53 percent of the debt in March 2013 are guaranteed for (Ministry of Finance Japan 2013i and 2013j). The fiscal year 2013 budget amounted to 92.611 trillion yen, about 2.278 trillion yen more than the fiscal year 2012 initial budget which accounted to 90.334 trillion yen. The larger budget for the fiscal year 2013 was mostly due to the Pension Related Special Deficit-Financing Bonds that brought in 2.611 trillion yen of extra revenues (Ministry of Finance Japan 2013d, 1). 24 percent, 22.242 trillion yen, of the 2013 total budget were expenditures for the national debt service (Ministry of Finance Japan (2013e, 1). A supplementary budget of about 5.496 trillion yen was approved sometime later (Ministry of Finance Japan 2013h). Its largest share, 3.127 trillion yen or almost 57 percent, aimed at covering additional expenditures for reconstruction of damages after the Great East Japan Earthquake and disaster prevention (Ministry of Finance Japan 2013h, 3). To finally mention the General Account primary balance: it amounted to a negative 24.88 trillion yen for the fiscal year 2012 and a negative 23.22 trillion yen for the fiscal year 2013 (Ministry of Finance Japan 2013f, 1 and 2013g, 1). In this situation to counter the debts and to improve Japan's fiscal condition the Abe government took over the fiscal policy in the place of the Ministry of Finance in order to enable more stimulus spending since the Ministry of Finance tends to be saving-oriented. That would not work well with Prime Minister Abe's plans to use spending to cause economic recovery in the long run (Craig 2016, 48). Furthermore, in June 2013 the Abe administration agreed on a fiscal consolidation plan that names as goals, firstly, to halve the deficit of the primary balance by fiscal year 2015 compare to the level of fiscal year 2010 (Ministry of Finance Japan 2013e, 29) and, secondly, to achieve a positive primary balance by fiscal year 2020 (Botman, Danninger, Schiff 2015, 30). The inflation target of two percent was confirmed by the Bank of Japan in January 2013 and was to be achieved within two years. Quickly, in April 2013 the Bank of Japan followed with a first round of Quantitative and Qualitative Easing (QQE) to achieve the previously set goal in time (Botman, Danninger, Schiff 2015, 30). The Quantitative and Qualitative Easing soon showed first successes, the economy grew, however, they were not long-lasting ones (Botman, Danninger, Schiff 2015, 36). Upon becoming Prime Minister in the end of 2012, Abe also passed several stimulus packages, the very first one still in 2012. It amounted to 10.3 trillion yen meant for infrastructure and construction (Craig 2016, 35). In February 2013 followed a second package of deficit-financed spending approved by the Diet for the fiscal year 2013 to 1.4 percent of the GDP (Botman, Danninger, Schiff 2015, 30). According to the World Bank the Japanese real GDP in the fiscal year 2013 amounted to 517.395 trillion yen (The World Bank 2018). In order to counter the consumption tax hike planned for April 2014, a third package to 1.2 percent of the GDP was passed in October 2013 (Botman, Danninger, Schiff 2015, 30). Since spending for social securities and pensions is a major asset of the government's expenditures with a total of 29.1 trillion yen in the fiscal year 2013 (Ministry of Finance Japan 2013e, 1), and as has been discussed above, pension benefits were reduced as of October 2013 with further reductions planned for April 2014 and finally April 2015 (Botman, Danninger, Schiff 2015, 81). The *Saimu Kanri Ripooto* from 2013 introduces the issuance of Japanese Government Bonds and Fiscal Investment and Loan Program Bonds. Following the trend of the previous years with decreasing bond issuances, the issuance of bonds, both Japanese Government Bonds and Fiscal Investment and Loan Program Bonds, was supposed to be reduced in 2013, too (Zaimushō 2013, 8 and 9). Nevertheless, the plan was to issue bonds worth 170.5 trillion yen, 3.7 trillion yen less than in the fiscal year 2012 (Zaimushō 2013, 8 and 9). In the end of the fiscal year 2013, the outstanding debts exceeded the expected 854.8 trillion yen (Zaimushō 2013, 9): the Japanese Government Bonds alone sum up to debt of 848.1 trillion yen at the end of the fiscal year 2013. All bonds issued combined sum up to an amount of 1,025 trillion yen (Zaimushō 2014, 3). Tax reforms of 2013 allowed tax cuts on housing loans effective as of January 2014 until the end of 2017 (Ministry of Finance Japan 2013b, 1). Furthermore, tax cuts for corporations were passed in order to create an incentive to raise wages and support Research and Development (Ministry of Finance Japan 2013b, 3).

To sum up the fiscal year 2013, despite the initial stimulus spending passed by the Abe administration and its success in boosting exports by deprecating the yen, increasing consumption and declining unemployment, the stimulus spending caused the Japanese public debt to grow further and the tax reforms will cause the tax revenues to decline. The continued issuance of bonds also contributed to the growing debts, so that at the end of the fiscal year 2013 the public debts, as expected, were more than in the beginning of the fiscal year 2013/2014.

The fiscal year 2014

Naturally, the debt situation in the beginning of the new fiscal year 2014 equal the situation at the end of the previous fiscal year that has been described above. The fiscal year 2014/2015 budget amounted to 95.88 trillion yen which means the total amount of money available to the Abe administration was larger by about 3.27 trillion yen (Ministry of Finance Japan 2014b, 2). Additionally, a supplementary budget was passed in December 2014 amounting to 3,53 trillion yen (Ministry of Finance Japan 2014d, 0). The expenses for the national debt service increased by 1.03 trillion yen (Ministry of Finance Japan 2014b, 2) from 22.242 trillion yen in fiscal 2013 (Ministry of Finance Japan 2013e, 1) to 23.27 trillion yen in fiscal year 2014 (Ministry of Finance Japan 2015e, 4). That is an increase of 0.3 percent from 24 percent to 24.3 percent (Ministry of Finance Japan 2014b, 4 and 2014c, 1). The primary balance expenditures increased as well from 70.4 trillion yen to 72.6 trillion yen, mainly because of more expenditures for social security that amounted to 30.52 trillion yen, 4.8 percent more than the previous year, 12 percent higher expenditure also for public works accounting for 5.97 trillion yen and lastly higher energy spending of 13.5 percent totalling 0.96 trillion yen (Ministry of Finance Japan 2014b, 5). Interestingly, the tax revenues increased despite the tax cuts. Income tax rose from 13.9 trillion yen to 14.79 trillion yen, corporation tax revenues rose from 8.71 trillion yen to 10.02 trillion yen and consumption tax revenues increased from 10.65 trillion yen to 15.34 trillion yen (Ministry of Finance Japan 2013e, 2 and 2014c, 2). Total tax revenues rose from 43.1 trillion yen to 50 trillion yen (Ministry of Finance Japan 2015e, 3). The share of the bond issues in the total budget decreased slightly from 42.9 trillion yen to 41.3 trillion yen (Ministry of Finance Japan 2015e, 3). A first step towards reaching the goals for the primary balance has been taken: the balance improved from a negative 23.2 trillion yen to a negative of 18 trillion yen, while the Bond Dependency Ratio also slightly decreased from 46.3 percent in the fiscal year 2013 to 43 percent in the fiscal year 2014 (Ministry of Finance Japan 2015e, 3). Real GDP turned negative to a negative growth rate of 0.5 percent after only having reached a 2.1 percent growth rate in the previous year (Ministry of Finance Japan 2015e, 3). Nevertheless, the real GDP grew slightly compared to 2013 to 519.334 trillion yen (The World Bank 2018). Expenditures for the National Defense also increase by 2.8 percent compared to the fiscal year 2013 (Ministry of Finance Japan 2014c, 58). In April 2014 the new fiscal year 2014/2015 started off with a consumption tax hike from 5 percent to 8 percent that actually was not part of the *Abenomics'* set of measures and that successfully managed to counter the success of the measures of the first two arrows of *Abenomics* (Wakatabe 2015, 113 and 115). Thanks to the consumption tax hike the economy shrank by 7.3 percent during the fiscal 2014 (Craig 2016, 26), despite two stimulus packages passed by the Diet. The first of which amounted to five trillion yen, 1.2 percent of the GDP (Botman, Danninger, Schiff 2015, 57 and Craig 2016, 36) and the second was passed before the National Diet dissolved in November 2014 and amounted to two billion yen (Craig 2016, 29). In October 2014 the Bank of Japan started a second round of Quantitative and Qualitative Easing and tripled its purchase of long-term Japanese Government Bonds, both in order to counter the unexpected high negative impact of the consumption tax hike and to achieve the inflation goal (Wakatabe 2015, 124). Following the announcement of the previous year, the fiscal year 2014 also saw changes in the pension system. In the course of the Third Arrow of the *Abenomics* the Social Security and Tax System has been the subject of reforms, mainly to lower expenditures in the form of benefits and to adjust, meaning increase, contributions (Ministry of Finance Japan 2014c, 41-43). Pension finances have been re-examined and the Government Pension Investment Fund contributed with 130 trillion yen to help finance pensions (Botman, Danninger, Schiff 2015, 81). Furthermore, to cut expenditures the salaries of civil servants were adjusted, meaning reduces to close the pay gap between civil servants and employees of private enterprises (Ministry of Finance Japan 2014c, 63). A huge part of the *Abenomics*' Third Arrow are trade agreement such as the Trans-Pacific Partnership and another agreement with Australia. The Trans-Pacific Partnership was still in the future during the fiscal year 2014, but in July 2014 Japan signed the trade agreement with Australia (Heinrich, Vogt 2017, 46 and Botman, Danninger, Schiff 2015, 104). Already before Abe became Prime Minister, Japan had Economic Partnership Agreements with other East-Asian Nations that aside from trade also allowed workers to come to Japan to be trained as nursing staff and then to work in Japan. Abe picked that idea up when he negotiated an agreement with Vietnam in 2014 trying to fight against the nursing staff shortage, but very little people make use of this agreement. In fact, the programme is in danger of having its financial resources cut (Heinrich, Vogt 2017, 86-90). Further tax reforms brought again tax cuts for both companies and Research and Development. For example, tax reductions for companies come as tax credits if they can fulfil certain conditions to improve their overall productivity, while Research and Development may profit from tax credits depending on their research expenditures (Ministry of Finance Japan 2013c, 1). Individual income tax on the other hand was raised in the fiscal year 2014 and is scheduled to further rise in the course of the following years until 2017 (Ministry of Finance Japan 2013c, 2).

In short, higher tax revenues may have caused a higher initial budget and allowed more spending, but the central government nevertheless had to make new debts to cover all expenses. Furthermore, the consumption tax hike counter all positive effects that the *Abenomics* had had in the fiscal year 2013 and thus ended the economic upturn again very quickly. All that the Abe administration could do was pass extra stimulus packages and QQE. But in the end the GDP growth rate turned negative and the debts increased.

4.2 The second set of Arrows and its politico-economic measures in the years 2015 to 2018

The arrows of the second stage of *Abenomics* are 1) strong economy, 2) support for child raising and 3) enhanced social security.

The fiscal year 2015

The fiscal year 2015/2016 had the largest budget ever amounting to 96.34 trillion yen (Craig 2016, 38) and the largest ever military budget amounting to 4.98 trillion yen. Thus, it is two percent higher than the previous year (Ministry of Finance Japan 2015e, 9). According to Craig (2016) Japan plan to spend a total of 24.7 trillion yen for the military until the fiscal year 2019 (Craig 2016, 58, 59). A supplementary budget was passed in December nevertheless, amounting to 3.5 trillion yen (Craig 2016, 137) Another record high were the outstanding government bonds that amounted to 873.1 trillion yen and the total debt of the Central Government amounting to 1,053 trillion yen at the beginning of the fiscal year (Zaimushō 2015, 3). On the other hand, the share of government bond issues in the budget again declined to 36.86 trillion yen compare to 41.25 trillion in 2014 (Ministry of Finance 2015e, 4). Furthermore, the primary balance and bond dependency ration both improved, to a negative of 13.4 trillion yen and 38.3 percent respectively (Ministry of Finance 2015e, 3). Still, national debt service accounted for 23.45 trillion yen, again 24.3 percent of the total budget (Ministry of Finance Japan 2015e, 4). Finally, it should be mentioned that in 2015 the real GDP at least slightly increased to 526.364 trillion yen (The World Bank 2018) and the real GDP growth accounted to 1.5 percent, although this number was only a projection at the beginning of the fiscal year (Ministry of Finance Japan 2015e, 3). Prime Minister Abe personally announced he wanted to continue stimulus spending and economic recovery (Craig 2016, 45 and 78). A goal that in 2015 seems harder to achieve than ever before with rising health care costs (Craig 2016, 108) and 30 percent of the budget spent on social security, 31.53 trillion yen, which means an increase in social security expenditures of 1.3 trillion yen compare to 2014 (Ministry of Finance 2015e, 4) despite cuts on rental support and nursing care subsidies (Craig 2016, 38). Tax revenues again increased by 4.52 trillion yen to a total of 54.53 trillion yen (Ministry of Finance 2015e, 4). As a part of *Abenomics* measures to support working women and women who want to work despite having children were implemented. A package of 900 billion yen was approved, 700 billion yen of that alone were spent on additional child day care (Craig 2016, 38). After an economic slowdown in the second quarter of 2015, an inflation drop to zero percent, recession in the third quarter of 2015 and continuing low consumer spending and the absence of wage raises, the economic growth fell to -0.8 percent, the Bank of Japan continued the QQE (Craig 2016, 108, 110, 123, 125, 128). In the course of the Third Arrow of *Abenomics* the Abe administration implemented labour reforms. In 2015 the minimum wages were raised by 2.3 percent in an attempt to make consumers spend more money (Craig 2016, 131). On the other hand, the *Equal Pay Legislation* and *Dispatched Workers Law* that were passed in summer 2015 (Craig 2016, 93) only seem like improvements for the groups of workers in question but may actually turn out to be to the workers' disadvantage. The *Dispatched Workers Law* was supposed to make the transition from temporary work to a regular employee easier, while the *Equal Pay Legislation* is supposed to increase the wages of temporary workers. Especially the *Equal Pay Legislation* though is questionable. It may just lead to wage cuts for the permanent employees instead of a wage raise for temporary workers (Craig 2016, 93) which on the one hand strongly contradicts Prime Minister Abe's ambition to generally increase wages and on the other hand also contradicts the raise of the minimum wages to boost consumption. The same is true for the overtime exemptions introduced for high income workers, those who earn more than 10.75 million yen a year. It was supposed to increase flexibility and productivity while at the same time reducing work hours, but it may just lead to unpaid overtime work (Craig 2016, 43). Concerning tax reforms three points are especially important in the fiscal year 2015/2016. First of all, the Abe administration introduced a hometown tax called *furusato* tax that allows individuals to redirect a part of their income tax to another region in Japan of their choice. In exchange, individuals can profit from an income tax reduction of seven percent (Craig 2016, 44 and Ministry of Finance Japan 2015c, 1). To boost the housing market the application period for reduced housing loans was also prolonged (Ministry of Finance Japan 2015c, 1). The corporation tax reforms, just like in the previous years, mainly consisted of tax reductions: firstly, the corporation tax rate was reduced from 25.5 percent to 23.9 percent and secondly, the corporation enterprise tax rate on income was reduced from 7.2 percent to six percent in fiscal year 2015 and is supposed to be further reduced in fiscal year 2016 to 4.8 percent. The effective corporate tax was reduced from 34.62 percent to 32.11 percent and is to be reduced further in fiscal year 2016 to 31.33 percent (Ministry of Finance Japan 2015c, 2). As a last point it should be mentioned that the consumption tax hike to ten percent scheduled for October 2015 was rescheduled to April 2017 (Ministry of Finance Japan 2015c, 3).

In short, the total debt again grew, so did the tax revenues and the expenditures for social security, while the primary balance improved, and the debt dependency ratio decreased. Both labour reforms and tax reforms aimed at increasing productivity and reallocating tax burdens from corporations to the individual. More stimulus spending and QQE did not quite manage to boost the economy.

The fiscal year 2016

The fiscal year 2016 total budget amounted to 96.72 trillion yen, only 0.378 trillion yen more than in the previous fiscal year, despite tax revenues of 57.6 trillion yen, 3.079 trillion yen more than in 2015. The share of the government bond issues in the total revenues decreased to 34.43 trillion yen, along with the bond dependency ratio that declined to 35.6 percent. Nevertheless, the total debt increased again, now amounting to 1,049.9 trillion yen, 901.5 trillion yen or 85.9 percent of which are Japanese Government Bonds. The two biggest assets among the expenditures still were the national debt service amounting to 23.61 trillion yen and the social security spending amounting to 31.97 trillion yen which was an increase of 1.4 percent compare to 2015. Furthermore, the primary balance improved again to a negative of "only" 10.82 trillion yen (Ministry of Finance Japan 2015c, 1, 2015g, 1, 9, 2016c, 3, 4 and Zaimushō 2016, 3). That means that the Abe administration at least reached the goal to halve the primary balance until the end of the fiscal year 2015 compared to the level of the fiscal year 2010 which amounted to a negative of 23.65 trillion yen (Ministry of Finance 2009, 1). In the fiscal year 2016 the real GDP reached 531.303 trillion yen and grew by 1.7 percent (Ministry of Finance 2016c, 4 and The World Bank 2018). For the fiscal year 2016/2017 three supplementary budgets were passed, the second of which including 400.8 billion yen for agriculture, forestry and fishery according to Heinrich and Vogt (2017, 109), while according to the Ministry of Finance Japan the amount of money for this sector was even higher with 431.7 billion yen (Ministry of Finance 2016f, 3). Furthermore, according to Heinrich and Vogt (2017, 109) the plan for the fiscal year 2016 passed in March 2016 included 2.31 trillion yen for the agricultural sector, an increase of 44 percent compared to the fiscal year 2015. This is probably connected to the elections in 2016 and means that under the Abe administration pork-barrel politics are still a means to reach certain goals. After the elections the focus of the government shifted more towards labour reforms. A newly formed committee received the task to find possibilities to implement reforms such as the *Equal Pay Legislation* and better regulation for temporary work (Heinrich, Vogt 2017, 133). In addition, the minimum wage was increased by 3 percent. Prime Minister Abe's goal is to raise the minimum wage to at least 1,000 yen per hour (Heinrich, Vogt 2017, 134). As has been announced before the corporation taxes were further reduced from the 2015 level of 32.11 percent to 31.33 percent, according to Craig (2016, 128); the Ministry of Finance names slightly different numbers for 2016 and 2017: a reduction to 27.97 percent. In 2018 a reduction to 29.74 percent is supposed to follow (Ministry of Finance Japan 2015d, 2).

In short, the fiscal year 2016 follows the previous years suit. Debt increased, while tax revenues and expenditures for social security and national debt service grew. Furthermore, corporation taxes kept decreasing. New was the shift in focus to labour reforms and raising the minimum wage. So far, according to the statistics provided by the Ministry of Finance it seems that at least the goal to halve the primary balance has been achieved.

The fiscal year 2017

The fiscal condition and the budget in the fiscal year 2017 remained mostly unchanged. The total budget amounted to 97.45 trillion yen, 0.733 trillion yen more than in the fiscal year 2016, an increase of 0.8 percent (Ministry of Finance Japan 2017d, 3 and 2017f, 9). The two biggest assets when it comes to revenues were still the tax revenues with a share of almost sixty percent, totalling to 57.7 trillion yen, only 0.1 trillion yen more than the previous year, and government bond issues with 35.3 percent, totalling to 34.37 trillion yen (Ministry of Finance Japan 2017d, 4). On the other side the main expenditures were national debt service and social security spending. The national debt services expenditures amounted to 23.53 trillion yen, a share of 24.1 percent in the total expenditures, while social security spending slightly increased to 32.47 trillion yen, or 33.3 percent of the total budget (Ministry of Finance Japan 2017d, 3). That was a plus of 1.6 percent compared to fiscal year 2016 (Ministry of Finance Japan 2017c, 6). The Ministry of Finance blamed the high expenditures for social security for the large deficit (2017d, 19), and the reforms and planned reforms were supposed to help manage the high and still increasing social security costs. However, most reforms were still a matter of the future (Heinrich, Vogt 2017, 22) even in 2017 after a committee had been assigned to find solutions for implementing reforms in 2016. The primary balance remained unchanged as well with a negative value of 10.84 trillion yen, so did the bond dependency ratio that remained at 35.3 percent (Ministry of Finance Japan 2017c, 3). The general government's gross debt reached 253 percent of GDP, while the net debt reached 130.7 percent of GDP (Ministry of Finance Japan 2017d, 11). The total debt amounted to 1,071.6 trillion yen, 928.8 trillion yen of that fell upon Japanese Government Bonds (Zaimushō 2017, 3), the net debt at the end of the fiscal year 2017 amounted to 669 trillion yen (Ministry of Finance Japan 2017d, 12). Real GDP growth was estimated to be 1.5 percent (Ministry of Finance Japan 2017c, 3). Unfortunately, there is no data available for the real GDP past the calendar year 2016. Concerning taxes, the fiscal year 2017 brought again changes in the tax system. First of all, the expected consumption tax hike in April 2017 was postponed again, this time to October 2019 (Ministry of Finance Japan 2017d, 34, 36). Income taxes were revised, now allowing a higher tax-free income of a dependent spouse. In short, individual income taxes were reduced (Ministry of Finance Japan 2016b, 1). To create an incentive to increase wages the Research and Development taxes were also revised: the tax credit rate now depended on the changes in Research and Development spending, meaning the rate were no longer fixed: the new principle rate accounted for six to 14 percent and 12 to 17 percent for SMEs, instead of the former rates of eight to ten percent and 12 percent for SMEs. In a way this is again a tax reduction for corporations. The same is true for the changes made concerning tax credits for income expansion. To be eligible for a tax credit, companies now had to increase wages more than the previous year and by at least two percent (Ministry of Finance Japan 2016b, 3).

To sum up the fiscal year 2017, the general government's gross debt increased yet again, so did expenditures for social security, but the overall fiscal and economic condition of Japan remained at about the same level as in the previous year 2016. The consumption tax hike was postponed again, while reforms in the tax system allowed for more tax reductions.

The fiscal year 2018

As I write this paper the fiscal year 2018 has only just begun, meaning the information available is scarce. Yet, the amount of debt can be expected to further increase since the Japanese government plans to issue new government bonds worth 149.9 trillion yen in the fiscal year 2018. In the beginning if the fiscal year 2018/2019 the total debt amounted to 1,087.8 trillion yen, Japanese Government Bonds accounting for 947.7 trillion yen of that (Zaimushō 2018, 3). The total budget increased by 0.8 percent or 0.26 trillion yen to 97.71 trillion yen (Ministry of Finance 2017f, 1 and 2018b, 2, 6). Tax revenues again increased by 1.37 trillion to 59.08 trillion yen, but so did the expenditures for social security. They increased by 1.5 percent to 32.97 trillion yen. Government bond issues slightly decreased to 33.7 trillion yen but still made 34.5 percent of the revenues, while tax revenues accounted for 60.5 percent of the revenues (Ministry of Finance Japan 2017f, 1 and 2018b, 2, 5, 6). For the first time in the years this paper examines the expenditures for the national debt service declined by a negative of 0.23 trillion yen to 23.3 trillion yen (Ministry of Finance Japan

2018b, 2, 5). Again in 2018 the primary balance remained almost unchanged with a negative of 10.39 trillion yen compared to a negative of 10.84 in the fiscal year 2017, the bond dependency ratio declined to 34.5 percent and lastly the real GDP growth is projected to grow by 1.8 percent (Ministry of Finance Japan 2017f, 1). Tax reforms play an important part in the political measure of 2018. Firstly, the income tax was adjusted in a way that reduces the deduction for employment and pension income but increases the personal deduction. Secondly, to create further incentives to raise wages, in 2018 corporations have to raise wages by at least 3 percent compare to the previous fiscal year and domestically invest at least 90 percent of their depreciation costs in order to be eligible for tax credits. New is the international tourist tax of 1,00 yen for everyone who wants to leave Japan by plane of ship after January 1 in 2019. Starting with the first phase in October 2018 the tobacco tax will increase step by step to a final addition of 3 yen per cigarette (Ministry of Finance Japan 2017b, 1-4).

In short, aside from tax reforms that are not entirely new after repeated reforms in the previous years, the fiscal year 2018 does not seem to bring any major changes. Except for the still increasing debt the overall fiscal and economic situation has not changed much compared to the fiscal year 2017. Rather it appears to be stagnating.

4.3 Results

Looking at the numbers above it is obvious that the effects *Abenomics* had on the Japanese debt situation were and still are negative. Massive Quantitative and Qualitative Easing in the course of the First Arrow by the Bank of Japan to buy more and more Japanese Government Bonds every year and to cause inflation naturally made the national debt increase. The amount of issued Japanese Government Bonds declined every year, from 170.5 trillion yen in the fiscal year 2013/2014 to a planned 149.9 trillion yen in the fiscal year 2018/2019 (Zaimushō 2013, 3 and 2018, 13). Correspondingly, the total amount of money spent on national debt service increased every year from 22.42 trillion yen in the fiscal year 2013/2014 to 23.3 trillion yen in the fiscal year 2018/2019 accounting for an almost constant share of about 24 percent of the budget. The inflation, although it increased, until now did not yet reach the inflation target of two percent, with the current level of inflation being at 1.12 percent in 2018 (Statista 2018). Thus, the expected and necessary domino effect (Wakatabe 2015, 120) did not occur, although the yen depreciated and the government initiated stimulus spending, the demand and consumption did not rise, neither did the wages. In the end the money invested in boosting the economy by the First and Second Arrow had no other effect that increasing the already high debt-to-GDP ratio to a record of 253 percent in 2017. Still, pork-barrel politics did not entirely vanish from the modus operandi of the LDP, as is obvious from the fiscal year 2015 supplementary budget that supported farmers conveniently before the elections scheduled for summer 2016 (Craig 2016, 137 and Heinrich, Vogt 2017, 109). Reforms implemented in the course of the Third Arrow of *Abenomics*, and since the fiscal year 2015 in the course of the second set of arrows, are few and mostly tax reforms and reforms of the social security system. While the tax reforms at least managed to increase the tax revenues, and thus lessened the bond dependency ratio, social security and pension reforms did nothing to help the annually increasing share of money spent on social security. During the almost six years of *Abenomics* the social security spending increased from 29.12 trillion yen, a share of 31.4 percent of the budget, in the fiscal year 2013/2014 to 32.97 trillion yen in 2018/2019. This accounts for 33.7 percent of the fiscal year 2018 budget. Most certainly credit financed social spending affected the public debt negatively. So did increased military spending. In the fiscal year 2018/2019 planned military expenditures are as high as 5.19 trillion yen and account for a share of 5.3 percent of the budget, compared to 4.75 trillion yen in, 5.1 percent of the fiscal year 2013/2014 budget (Ministry of Finance Japan 2013d, 6 and 2018b, 5), money that could have contributed to social security and pensions better than to national defence. There is one positive point to mention, though: the primary balance did improve and even reached the goal of halving the deficit by 2015, on the other hand the goal for the fiscal year 2020 to generate a surplus is according to the Ministry of Finance impossible to achieve (Zaimushō 2017, 164 and 2018, 163). Furthermore, according to Botman, Danninger and Schiff (2015, 69), Japan needed an 8.5 percent GDP growth, based on the 2014 level, in the medium run to effectively fight the huge accumulated debt. But, as is obvious from the numbers mentioned in this chapter that the Abe administration and their reforms could not reach that goal. Real GDP only grew by 2.3 percent between 2014 and 2016, nominal GDP by 4.8 percent during the same time.

The definite answer to the question. How. Prime Minister Abe’s politics influenced the public debt is, that they had a huge negative impact, the more so since all the measure taken to boost the economy and eventually fight the debts did not go as planned.

5. Conclusion

A combination of post war institutions, wrong policy decisions and (international) crises led Japan on a way that accumulated a high national debt in relation to the gross domestic product. This means,the Japanese public debt has been a well-known problem for several decades, starting in the mid-1970s, but it only became urgent in the 1990s after the burst of the asset bubble, that caused the economy to stagnate completely. It had only just begun to recover in the mid-2000s, when the international financial crisis hit. When Abe Shinzo became Prime Minister in Deceber 2012 many people, economists, politicians and also the Japanese people had great hope and expectations that Prime Minister Abe's policies – 1) bold monetary easing, 2) flexible fiscal policy and 3) growth strategy – could revive the economy and in the long run also reduce the public debt. But critics of Abe's plans remained and so far were proven right. The massive quantitative and qualitative easing and stimulus spending initially showed the promised effects of boosting the economy, but since it did not last for very long, only for the fiscal year 2013. With the consumption tax hike in April 2014 the initial success ended and until the present day never returned again. Thus, the Abe administration had to rely heavily on deficit financing to cover the expenses which of course made the public debt increase without a soon to be expected change of the overall economic and fiscal situation. Reforms proved to be less than what had been promised. The same is true for the reintroduced *Abenomics* – 1) strong economy, 2) support for child raising and 3) enhanced social security – in 2015.

In this paper I examined the effects that Prime Minister Abe's policy measures had on Japan's public debt. As initially expected the effects were negative, meaning the debt increased. This is mainly because new Japanese Government Bonds were issued to finance stimulus spending, but also because stimulus spending and reforms did nothing to boost consumption and thus cause an upward spiral.

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