Japan Abe's postelection policy targets wages, delays fiscal reform

By Leika Kihara and Stanley White
October 25, 2017 – *The Globe and Mail / Reuters*

Japanese Prime Minister Shinzo Abe's economic agenda is shaping up after his landslide election win with a focus on steering firms to hike wages and keeping the economic recovery going with loose fiscal and monetary policies.

Details emerged on Wednesday of policy makers' plans to push businesses to use their huge cash-piles to boost salaries and moves to shift fiscal prudence targets, a sign Abe will continue to prioritize growth over austerity.

While the government has no immediate plans for a big spending spree, the Bank of Japan's pledge to keep borrowing costs virtually at zero with ultra-easy policy will allow lawmakers to delay steps to rein in Japan's huge public debt, analysts say.

"The government wants the BOJ to maintain the status quo and help the economy with ultra-easy policy," said Hiroshi Shiraishi, senior economist at BNP Paribas Securities.

"In the meantime, wage hikes would be crucial to generate inflation and a positive economic cycle. The government has had little success so far, but it's not a bad idea to make clear its resolve to boost wages," he said.

With inflation distant from its 2 per cent goal, the BOJ is set to keep policy steady at next week's rate review and stress its resolve to keep its money spigot open.

Fiscal reform on backburner

Abe's ruling coalition scored a landslide victory at Sunday's general election, boosted by his campaign promises to invest more heavily on education and childcare.

To encourage more growth, the government is considering expanding tax breaks for companies that raise salaries to achieve a 3 per cent increase in overall salaries, sources have told Reuters. That would be higher than a roughly 2 per cent increase in big firms' wages in 2017.

The move reflects the government's frustration over slow wage growth that has weighed on private consumption, even as companies reap record profits thanks to an improving economy.

Total cash earnings rose a revised 0.7 per cent in August compared with the same month last year, labour ministry data showed, but adjusted for inflation they fell 0.1 per cent.

"The government will continue to shift more spending to policies that directly affect households," said Norio Miyagawa, senior economist at Mizuho Securities.

"Companies have a lot of reserves, so it makes sense to try to get them to spend that money on capital expenditure and wages."

More spending for households, however, comes at the expense of further delays in fixing Japan's debt burden which, at twice the size of its economy, is the worst among advanced economies.

Abe has pledged to proceed with a twice-delayed sales tax hike to 10 per cent from 8 per cent in 2019. But he decided to divert more proceeds for spending instead of debt payment, forcing the government to abandon an original deadline of fiscal 2020 for balancing the budget.

Some members of the government's top economic council will on Thursday propose setting no new timeframe for meeting a fiscal goal aimed at fixing Japan's tattered finances, a sign Abe will continue to prioritise growth over fiscal austerity, sources have told Reuters.

Delays in fiscal reform have not rattled the bond market yet, but snowballing social security spending for a fast-aging population could strain government finances and make Japan more vulnerable to a sudden spike in borrowing costs.

Abe swept to power in late 2012, pledging to pull Japan's economy, the world's third largest, out of nearly two decades of deflation and stagnation.

His stimulus policies, dubbed "Abenomics" have helped boost stock prices and bring profits for manufacturers by weakening the yen.

The job market has tightened to levels the BOJ considers as near full employment but wages have barely risen, weighing on consumption that makes up 60 per cent of the economy.