

# Japan poll slows action on public debt

Abe plans to spend more on education and child care, but this will put fiscal rehabilitation on the back burner

With Japan's general election taking place on Oct 22, Prime Minister Shinzo Abe has said he wants public support for his new economic plan and strong foreign policy, in light of escalating threats from the Democratic People's Republic of Korea.

The ruling coalition of the Liberal Democratic Party (LDP) and Komeito has pledged to raise the national sales tax from 8 percent to 10 percent in 2019. Abe has changed his mind on how to use around 5 trillion yen (\$44.5 billion) that the tax hike would generate.



Cai Hong

He plans to earmark some 2 trillion yen for free education for preschool children aged 3 to 5, high school students from low-income families, and child care.

The opposition camp has adopted a unified stance against the tax hike by calling for either a freeze or its cancellation.

An Abe election victory will be seen as a renewed mandate to revive Japan's economy through his strategies, also known as Abenomics. When he retook power following the December 2012 election, Abe announced a so-called "three-arrow package" to boost

economic growth and lift Japan out of a decade-long period of deflation. The Bank of Japan was given the difficult task to push inflation toward the 2 percent target.

The first and second arrows — monetary stimulus and fiscal easing — have helped depreciate the yen significantly, which is good for Japan's big exporters. And investors have been encouraged to buy shares in Japanese-listed firms, which has seen the stock market soar.

But price and wage growth remain weak, with companies still wary of passing more of their profits to employees. This has forced the central bank to push back the timing for reaching its price target six times since deploying the massive stimulus program in 2013.

The third arrow, structural reform, aims to strengthen productivity, boost investment and introduce labor market reforms. Amid strong resistance, Abe has found it hard to promote reforms in these areas.

Japan's demographic situation is alarming. The population is aging. The labor force is shrinking. The young generation suffers from heavy workloads and has less time for a social and family life. As a result, Japan's population has decreased by 1 million over the past five years.

To address the declining birth rate and break the chain of poverty, Abe plans to spend more on education and child care. But this will put

the country's fiscal rehabilitation on the back burner.

The Abe administration has previously vowed to turn Japan's budget balance into a surplus in fiscal 2020 as a crucial step to rein in the public debt burden. But the LDP's campaign platform has deleted this targeted deadline.

In 2012, the government of the Democratic Party reached a deal with the opposition LDP and Komeito on the tax hike schedule to curb Japan's huge public debt, which is the highest among developed nations. The fiscal consolidation involved the increase of sales tax from 5 percent to 8 percent and then to 10 percent.

In April 2014, Japan raised the sales tax from 5 percent to 8 percent for the first time in 17 years. Japanese consumers were not ready for higher taxes, which saw Japan falling back into a technical recession.

Abe called a snap election in late 2014 to seek public support for delaying the second tax increase to 10 percent, initially scheduled for October 2015, by 18 months amid concerns that it could further derail growth momentum. He got the mandate he wanted. Also, he delayed the tax hike for a second time until October 2019.

Japan's economy expanded at an annualized 2.5 percent in the April-June quarter this year as consumer and company spending picked up. Japan's core inflation accelerated in August. Industrial output grew

more than expected, and demand for labor remained at its strongest in over 40 years.

On Oct 10, the International Monetary Fund raised its growth forecast for Japan's economy: 1.5 percent in 2017 and 0.7 percent in 2018, up from a July projection of 1.3 percent and 0.6 percent, respectively.

This economic picture does not justify a further delay of the tax hike. Social security costs for expenses like medical treatment, nursing care and pensions have more than doubled in the past 20 years, according to *The Yomiuri Shimbun*.

Welfare expenditure surged to a record 32.5 trillion yen in the fiscal 2017 budget.

"There is no option other than a consumption tax increase as an additional fiscal resource to help cover social security costs that have swelled by the trillions," *The Yomiuri Shimbun's* editorial said.

The government had originally earmarked 4 trillion yen to pay off government debt, and another 1 trillion yen for social services. The new plan now sees the amount split evenly between the two.

The Japanese government's 2020 budget surplus target will be out of reach as less money will be allocated to pay down the debt.

Japanese economists and business leaders expressed concern that the Abe administration will blow a hole in the budget with higher spending, with a deep wariness toward Abe's commitment to reduc-

ing the country's heavy debt load.

However, Christian de Guzman, a vice-president of sovereign ratings at Moody's Investors Service, told Reuters that the benefits of raising Japan's sales tax again outweigh the negatives, even if some of the additional revenue gets diverted to education and welfare.

Respondents in a Reuters poll appeared to be optimistic that Abe's gamble on a snap election will see him keeping his LDP-led coalition majority in the parliament's lower house.

A survey conducted by Japan's public broadcaster NHK from Oct 7-9 showed that 31.2 percent of participants supported the LDP, followed by 4.8 percent for the Party of Hope, 4.4 percent for the Constitutional Democratic Party and 3.8 percent for Komeito. But the approval ratings for Abe's cabinet stood at 37 percent, while 43 percent disapproved.

The coalition of the LDP and Komeito needs a combined 233 seats in the lower house to maintain its majority to regain political ammunition, push through more reforms and follow through with Abenomics.

As both the ruling and opposition parties call for more spending, the election will not help Japan's fiscal consolidation.

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## Goals within reach under Xi's guidance

Party leader keeps development a top priority as he leads country toward achieving centenary objectives

By SONG WEI

Achieving a moderately well-off society by 2020, just before the 100th anniversary of the founding of the Communist Party of China (CPC), and building a prosperous, modern socialist country by 2049, the 100th anniversary of the founding of New China, are the two centenary goals put forward by General Secretary Xi Jinping as the Party's historical task and practical direction for the country to realize the Chinese Dream.

Demonstrating his scientific understanding of China's development objectives, Xi has pointed out that development is still the country's top priority, and the primary mission of the Party is to improve

people's livelihoods.

The country is now at a decisive stage toward achieving the first of the two goals. In this critical period, Xi's thoughts on governance provide scientific guidance for successfully realizing a moderately well-off society by 2020.

Xi has established himself as a strong leading force for achieving the two centenary goals. And as the communique of the sixth plenary session of the 18th CPC Central Committee pointed out, Xi being the core of the leadership is of great significance for both the Party and the country.

Cementing Xi's status as the core of the CPC was the fundamental guarantee that the Party will stay true to its mission. It also enhances the leadership in developing the

cause of socialism with Chinese characteristics.

As leader of the Party, military and the nation, Xi has made a series of practical and historically significant achievements in advancing reform and development, internal affairs and the country's diplomacy, as well as in governance.

In doing so, the Party has won wide support from people of all ethnic groups and high praise from the international community, and the country has moved ever closer to achieving the two centenary goals.

The core leadership of Xi guarantees the successful construction of the socialist cause with Chinese characteristics, which lays a solid foundation for the attainment of the goals.

Since the 18th National Congress,

Xi's thoughts on governance have become the most important guide for the Chinese people to achieve the two centenary goals.

Xi's thoughts on governance are in accordance with the development trends of the world and contemporary China, and in response to the demands of the people.

They have deepened the CPC's understanding of the laws of governance, construction of socialism and social development, which has formed new thoughts, new ideas and new strategies for governance.

According to Xi's new thoughts and ideas on governance, the CPC has carried out a series of significant strategic measures and policies, solved a series of long-lasting problems and achieved a series of significant tasks.

The Party's new thoughts, ideas and strategies formed in practice have not only strongly promoted China's development since the 18th National Congress, but also provided a "Chinese plan" for the common problems faced by developing countries in the process of modernization.

In general, the two centenary goals are the solemn promise that the Party has made to the Chinese people. And the Chinese people are confident of building a well-off society in an all-round way under the guidance of the CPC with Xi as the core.

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