

What is Abenomics?
Current and Future Steps of Japanese Economic Revival
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Thank you, Dr. Hamre, thank you Dr. Green, and thank you all for coming to join me. I am Taro Aso and I will say this. I AM BACK, too.

When you say that each Japanese Prime Minister spends only a year in office, you are talking about me. When you say that in Japan, politics is like a revolving door, you are talking about Shinzo Abe and me. Thank you very much.

But, you can see something not so bad, here. You are now looking at an administration that has two former Prime Ministers, and three former party presidents. You must envy us, because you can't do anything like that under your presidential system...., right?

Alliance Economics

Now, I will start off by touching upon our alliance.

My view is, that something is wrong when you say that the U.S. is always on the giving end and Japan, always on the receiving end about the provision of security under our alliance. The Japanese must stand tall as an equal and responsible ally to the U.S. The Japanese must work hard as a guardian of international common goods, peace, prosperity and democracy.

In fact, that was my grandfather's aspiration. When Shigeru Yoshida signed the U.S.-Japan Security Treaty on September 8, 1951 in San Francisco, he hoped, that one day, Japan could work

with the U.S. as an equal partner to sustain the liberal international order. 62 years later, that aspiration still holds.

It is my belief that Japan has its noble responsibility to enhance peace, happiness and democracy in the world.

That's why, ladies and gentlemen, Japan must regain its economic power. That's why, we are working hard to turn around our economy, pushing what you call "Abenomics." Make no mistake. We are pushing Abenomics not only for the sake of economic growth. We are doing that precisely to make Japan your reliable ally and a responsible guardian of peace, prosperity and democracy.

Why TPP?

That also applies to the TPP. In March, we said that we would be joining the TPP negotiations. Last week, Tokyo and Washington reached an agreement about some of the issues we needed to solve in advance. Now, I am very much glad that we are on the right track to enter the negotiations.

Yes, the TPP is about economic integration. But it is also, much more than that. Remember that Japan is still the second biggest democratic economy in the world. If bound together under the TPP, the Americans and the Japanese can make the world a much better place. The US and Japan bound together by the TPP can emerge as a mega stabilizer across the Pacific. Think about our combined size. It is really mega.

Once again, for that purpose as well, Japan must be stronger.

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Abenomics: Three Bazookas

Now, I will spend the next couple of minutes to tell you about Abenomics.

The logic is plain, simple, and straightforward. First, the Bank of Japan eases money. Second, the government

comes in, with fiscal policies, stimulating real demand. And third, the government introduces a growth package, including TPP, massive deregulations, and other growth plans, putting the growth on a sustainable orbit.

That is it. That is what you call Abenomics and its three arrows. Oh, by the way, Shinzo Abe was an archery player in his college days. To call Abenomics a combination of three arrows fits him most nicely. I was not an archery player. I was a skeet shooter and represented Japan for the 1976 Olympics in Montreal. So instead of arrows, I call them bazookas.

Yen and Deflation

Anyhow, the yen has become cheaper as a result, but only as a by-product. To say that cheap yen is our goal would grossly miss the point.

The "big-D," deflation, is too much difficult and too much persistent to get rid of, we have to use every possible means. At the end of the day, a shrinking

Japan could do only harm to the world. Only a growing Japan could do good for the people in Japan, for the people in America, and for the people in the world. That is what we are aiming to bring about.

If you are still in doubt about what I say, it is probably because you have never gone through deflation. Let me tell you a bit about what it is like.

It all started when the asset price bubble collapsed in the early 1990s. Stock price index at the end of 1989 was about 39,000. It fell down to as low as 7,000. The land price in major cities hit its peak in 1991. It became lower by 87%.

As a result, many banks had negative equity. Many companies also had negative equity. Banks were interested only in reducing their balance sheet. Companies were interested only in paying back their debt.

Rather than investing in new ideas or products for future growth, they chose to

minimize the cost, cutting wages. Unions wanted no lay-offs, so they chose to accept the pay cut.

Gradually, money gained value relative to goods. Growth slowed, because no one, except for the government, was willing to invest. A vicious circle took root. Deflation, hence, became persistent.

I must tell you, deflation is like a slow-motion death, by losing temperature. In its early stage, it does not feel so painful. Your wage may not grow. But the CPI is also flat. So your purchasing power does not decline that much.

It is already too late, when you have finally become aware, that you are a hostage, and that you cannot escape the vicious cycle.

Because it is a slow process, deflation could ring no alarm bell, unlike inflation. That's why, deflation is much more harmful.

So, what ought to be done? Why was "Abenomics" necessary?

What matters: Perception

Before the December general election, we thought that the most important thing would be to get rid of "deflation mind-set" of the Japanese, at the outset of Abenomics.

We thought that the economic landscape should be redrawn dramatically so that people can get willing to take risks. It was at that time the idea of three arrows, or three bazookas, shot in one fell swoop, occurred to us.

We made it our campaign platform and pushed it hard during the campaign. And the result was we won a land-slide victory. At long last, voters gave us mandate, political capital, strong enough to do bold things that were long-time coming.

We had done nothing then, other than just voicing our policy package and our will to do it. Interestingly, the market

started to respond. Tokyo stock index started to rise. It speaks volumes about how important it is to change people's perceptions, outlook, and mind-set.

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"Takahashinomics"

It is true that Japan is the only country that has gone through deflation. That is about the post-war history. If you see pre-war examples, I must mention that Japan is among the few countries that have succeeded in containing deflation.

John Maynard Keynes published his "General Theory" in 1936. Prior to that, there was someone in Japan who did Keynesian policy in the early 1930s. His name is Korekiyo Takahashi, who was six times Finance Minister and one time Prime Minister in the early 20th Century.

Takahashi saved Japan by doing exactly what we are doing now. His bold

monetary easing and fiscal spending stopped the deflationary spiral. Like us today, he also did it big and fast, or "SHOCK AND AWE." So much so, FDR would say later, that Takahashi had given him inspiration. It encourages me to think that among our predecessors there was someone who made it. We wish to follow his footsteps.

"Joint Statement" and "Kurodanomics"

Now, back to the real genesis of Abenomics. It started when Mr Masaaki Shirakawa, then head of the BOJ, and I issued a Joint Statement, for the first time in Japan's monetary history, January this year.

In that Joint Statement, the BOJ essentially introduced the inflation target of 2%. We call it "price stability target." On our part, the government pledged to run the kind of macroeconomic and fiscal policies that are flexible and responsive.

It was also written that the government should encourage competition, enhance

Japan's growth potentials, and establish sustainable fiscal structure.

What we did thereafter or what we will do from now on is all based on this Joint Statement.

Anyhow the first bazooka is bold monetary policy.

I will not say more about it. You may just want to open your newspaper. They are now telling a lot about, well, Kurodanomics.

Haruhiko Kuroda, the new governor of the BOJ, really did it big and fast, or SHOCK AND AWE.

We are all glad, first of all, he showed guts. Second of all, he is a good communicator. And third, he is well connected with, and respected by, the members of the central banking community.

Fiscal Policies

Now, let me go on to tell you more about the second bazooka. That is the fiscal policy I am looking after.

Please note, at this point, that we are not making a big government. American conservatism does not apply to the Japanese situation. Here in the U.S., conservatism is about small government and tax reduction. The situation in Japan is more complex. When the private sector cannot spend and only save under deflation, the government must be "the spender of last resort."

Thinking that way, we put forth a large-scale supplementary budget for the fiscal year 2012.

Public works are also important. Not only important, they are vital.

Unless we spend more, and do it now, on the bridges, roads and tunnels that are all, more than 50 years old, at any given time, they may fall apart. I know in the States you have exactly the same problem.

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I would also like you to remember what people said about Golden Gate Bridge, or Hoover Dam. When constructed, many people called them simply, lavish.

However, more than 70 years after its creation, Hoover Dam continues to draw more than a million visitors a year. Without the dam, Las Vegas would have been a very different place.

Without Golden Gate Bridge, the economy in San Francisco would have been much smaller. So we are investing into our future generation when we do public works. That is my definition for public works.

I also believe that our tax policy should play a bigger role.

In Japan, interest rates and land prices are still extremely low. And yet, companies don't invest. Their capital investment remains below their depreciation cost, again as a result of deflation.

So, my ministry introduced a new arrangement. Under that new arrangement, if you buy new machines and equipment for your domestic business expansion, you can get tax deduction, or special depreciation.

If you invest more in R&D, you can also get your tax reduced. Furthermore, if you hire more, or pay more to your employees, you can get tax benefits as well.

Please also note that we do what we do in order to generate domestic demand, not to increase our export. Japanese economy exports only 11 to 13% of its GDP. The number is bigger than that for the U.S. or Brazil, but smaller than all the rest. The

Germans earn 40% of its GDP out of export, while China, about 25%, for instance.

There is another power we can use to invite more growth. That is the power of suasion.

Here, Shinzo Abe and I are lucky, as both of us are ex Prime Ministers. He and I have met a whole bunch of CEOs, and requested that they should remember their patriotism and hire more, or pay more to their employees.

It is working. For the first time in many years, an increasing number of companies are willing to pay more.

Third Bazooka to avoid bad inflation

However, getting rid of deflation mindset alone cannot warrant long lasting recovery. We must lead people's expectation to sustainable economic growth.

And for that purpose, we must address two downside risks. One, inflation without growth. Two, interest rate hike without growth. Let me address them one by one.

Let's assume that you now have a rising CPI, but you have no pay-rise because your economy is not growing. That's the bad inflation. People should suffer then.

It is right here the third bazooka should come into play. The third bazooka, if you recall, is a package of growth enhancement policies.

I know that is hard to come by. I am not saying we can grow very easily. Still, it takes us only to look into mirror to see who we are. Then you realize you can do more.

I know I sound like an optimist. I even believe that to lead your nation you had better be an optimist, rather than a cynic. One thing in common between Shinzo Abe and I is that both of us are true

believers in Japan's untapped resources. In that regard, call us "an optimistic duo."

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See, for example, what Japan can offer.

High speed train. The Bullet Train between Tokyo and Osaka runs with the average delay time of 30 SECONDS. Not minutes, but seconds. Since its launch in 1964, the service has caused absolutely no human injury, not to mention fatal accident.

They are actually offering you magnetic levitation technology, which could connect New York and DC in 40 minutes.

Next, good food products. In my part of the world, from Singapore, Hong Kong to Guandong, China, Japanese rice,

Japanese apple or Japanese sake and spirits are on high demand.

I have said all the time to the farmers in Japan that they can make another Toyota, a giant export industry.

Also, content industry. Mangas and animes, pop music and so on. Some of you may recall that as Foreign Minister, I introduced the Manga Award to be given to non-Japanese manga creators.

Furthermore, some of the small companies in Japan are amazing.

My favourite one, Okano, in Tokyo, boasts a total monopoly in the market of injection needles. Why? It is the only company that produces injection needles as sharp as the mouth of mosquito. How many employees are there? Only six including its president.

Few other countries have such unknown, yet world-class, craftsman companies.

Only in Japan, you have family businesses whose roots date back to thousand years ago.

So, the real challenge for the government is this: "to let go." We should simply let the companies shine themselves. That must be at the core of our third bazooka.

For further detail, bear with me a couple of months more. We have set up an expert group.

They will give us their proposals about deregulation, innovation and other growth strategies. I am looking forward to the proposals. They are likely to be bold, something that could dramatically change the problems that were at the root of deflation.

In sum, to prevent bad inflation from taking shape, pursuit of growth policies is most important.

Fiscal Prudence

What about the bad interest rate hike, which is the second downside risk?

It is evident that if we pursue only bold monetary easing without putting our fiscal house in order, we would lose your confidence and trust.

After all, in Japan, gross government debt exceeds 200% relative to GDP. Unless we pursue fiscal prudence very much hard, there may be a sudden rise in interest rates. No one will benefit from that, needless to say.

However, you should not be overly anxious. The truth is, there are only a handful of countries that can fund their entire government debt in their own currencies.

Most of the countries must issue bonds denominated in currencies other than their own. Japan can finance its debt by issuing bonds in its own currency. Other such countries include Britain,

Switzerland, and of course the United States.

For them what is most important is first of all to lay out a credible road map for reducing the debt, and second of all to stick to the road map and win confidence from the market.

In that regard, I am proud of the agreement both ruling and opposition parties achieved last year. The agreement has become a bill. The bill enables the government to raise the rate for consumption tax from 5% to 8, and then 8 to 10.

The first increase should take place in a year from now. And the second, in October 2015.

No one wants to see tax rate becoming higher. Tax hike is the most unpopular thing to do for politicians. I think it is the maturity of Japanese democracy that has made it possible for the parliament to pass that bill. And I am proud of that.

I think it is the maturity of Japanese democracy that has made it possible for the parliament to pass that bill. And I am proud of that.

Worth also remembering here is the fact that Governor Kuroda's massive easing was made possible on one condition. The government must pursue fiscal prudence really hard. That is what we promised in the Joint Statement I mentioned earlier.

Within the next two years, the BOJ will buy a huge amount of government bonds in a scale unthinkable only a year ago. The market must become more nervous to see whether or not the government is committed in improving its fiscal situation.

So for us fiscal prudence is not a task for the future. It is a clear and present one that we ought to start tackling now, rather than later. I am determined to facilitate the economic environment, and to raise

consumption tax rate as scheduled, based on the provisions of the Comprehensive Tax Reform Act.

We must also address Japan's own entitlement reform to put the growth of government expenditure in check.

Previously at the Toronto G20 meetings, Japan pledged fiscal consolidation together with other member nations. We stick to it.

We aim at halving the primary balance deficit ratio to GDP by fiscal year 2015 from that in 2010. We also aim at achieving primary balance surplus by 2020. We are going to publish medium-term fiscal consolidation plan around the middle of this year.

The second downside risk of interest rate hike is avoidable. Abenomics should take deep root again in order for the economy to seek sustainable growth.

The sky is the limit

Finally, before conclusion, let me say only a few words about what kind of a country Japan ought to be.

Japan must be a place where reward meets effort. Japan must be a place where risk takers can be given opportunities, not just once, but many times. Both of the ex Prime Ministers represent that there is a chance for second-coming in Japan.

Japan must be a place where animal spirit, in the sense John Maynard Keynes used, invites successes. Japan must be a place for innovation.

Japan is now on the cutting edge of new medical technologies. To cite what Shinya Yamanaka, Nobel Prize winner, said, Japan is the country that is the closest to bringing the stem cell technology to the bedside.

That is about it, ladies and gentlemen.

Once again, we are doing all that not only for the sake of the Japanese but also to make our alliance stronger.

At the end of the day, the U.S. is the biggest democratic economy and Japan still the second. Together, we could do a lot. For us, the sky is the limit.

Thank you so much.