RESOLVED
Abenomics Is a Viable Growth Strategy for Japan

Since his re-election in 2012, Prime Minister Shinzo Abe has focused his efforts to revitalize the Japanese economy on a three-pronged strategy of monetary easing, fiscal spending and structural reform, commonly referred to as “Abenomics.” In the seven years since it has been implemented, there has been a vibrant debate about whether Abenomics is a recipe for steady growth and meaningful structural reform. Considering Shinzo Abe just became Japan’s longest-serving Prime Minister, this is an opportune time to assess his economic growth strategy and its viability as a growth engine for Japan moving forward.

In this eleventh issue of the Debating Japan newsletter series, the CSIS Japan Chair invited Ms. Kathy Matsui, vice chair and chief strategist at Goldman Sachs Japan, and Dr. Steven K. Vogel, professor of political science at the University of California Berkeley, to share their perspectives on Abenomics—especially as it concerns structural reform—through the lenses of Womenomics and deregulation.

Photo: John Moore/Getty Images
Since assuming power in 2012, Prime Minister Shinzo Abe has leveraged his strong political capital to pursue a series of economic reforms, dubbed “Abenomics,” to revitalize the Japanese economy. One of Abe’s signature initiatives under that umbrella is “Womenomics”—that increasing the economic outcomes of women in the workforce could lift the Japanese economy from decades of stagnation and provide a path toward sustainable growth.

Two decades have passed since Goldman Sachs published its first report on “Womenomics” but has anything really changed with Japan’s gender diversity? After all, based on the World Economic Forum’s latest Global Gender Gap ranking, Japan stands at a measly 110 out of 149 countries, and the systematic docking of female applicants’ exam scores for Tokyo Medical University suggest that the country is moving backward, rather than forward.

However, there has been progress. Thanks to widespread labor shortages and Prime Minister Abe’s declaration that “Abenomics is Womenomics,” Japan’s female labor participation rate—previously among the lowest in the Organization for Economic Cooperation and Development (OECD)—has soared to a record 71 percent, surpassing both the United States and Europe. Japan also boasts one of the most generous parental leave benefits globally; companies are now required to disclose their gender diversity statistics along with detailed action plans; and labor reforms now mandate limits on overtime hours and equal pay for equal work.

Despite such progress, Japan continues to face a severe demographic tsunami, where one out of three citizens are already elderly, and by mid-century, Japan’s workforce will shrink by 40 percent from 75 million to 45 million. Japan remains one of the few countries where the number of registered pets (dogs and cats only) outnumber children under the age of 15. Indeed, the International Monetary Fund (IMF) recently warned that in the absence of meaningful structural reforms, demographic headwinds could cause the level

The conventional wisdom on Abenomics—especially in the foreign press—is that it succeeded with the first two arrows, monetary easing and fiscal stimulus, but faltered with the third, structural reform, due to political constraints. And if only the Japanese government could overcome political obstacles and boldly deregulate its economy—then it would recover its dynamism.

This is wrong on both counts. The Japanese government has enacted many structural reforms. Yet structural reform of a deregulatory nature will not deliver a boom in productivity and growth.

The first two arrows hit their target. Monetary easing and fiscal stimulus provided a needed boost for the economy after Prime Minister Shinzo Abe returned to power in 2012. In fact, the government should have been even more aggressive. Yet monetary and fiscal expansion are primarily short-term stimulus measures, not longer-term growth strategies.

This brings us to the third arrow, which the Abe administration itself touts as its growth strategy. The third arrow has focused primarily on measures of a deregulatory nature, such as regional deregulation zones and the liberalization of agriculture, pharmaceuticals, electricity, and labor markets. A viable growth strategy would need to be more proactive. It would have to transform market governance to promote competition, give workers more flexibility, and channel investments into productive uses. It would have to boost public investment in education and training for the digital age, the diffusion of information technology, research and development, social programs, and environmental sustainability.

In fact, Takeo Hoshi and Anil Kashyap have shown that deregulation in the 1995-2005 period did not correlate with any improvement in total factor productivity. I would expect the same to be true for the current period. Why is that? The answer is both deceptively simple and infinitely complex. In essence, markets require governance, meaning everything from
of Japan’s real GDP to decline by over 25 percent in 40 years.

Averting such a scenario requires a three-pronged approach involving government, corporations, and society. Government policies should be aimed at 1) creating more flexible labor contracts to eliminate the rigid duality of full-time vs. part-time workers (the latter now accounts for 40 percent of all workers and women account for 70 percent of all part-timers), 2) requiring gender pay gap disclosures at 25 percent (Japan’s gap is the largest of the G7), 3) rectifying tax disincentives, which discourage married women from working full-time, 4) introducing parliamentary gender quotas (since Japan’s female representation in the Diet is lower than Saudi Arabia and Libya), 5) promoting female entrepreneurship, and 6) loosening immigration rules to allow more foreign child/elder caregivers, especially since Japanese fathers typically spend less than 1.5 hours per day on childcare and household chores—half that of fathers in the United Kingdom, Germany, and the United States.

Companies should help their managers become more sensitive to gender differences through unconscious bias training, create more flexible work environments, shift from seniority- to performance-based evaluations, and engage male diversity champions. Society needs to dispel myths such as “the more women work, the lower the birth rate” (when the opposite is true—both globally and inside Japan), correct gender role stereotypes in the media, and encourage more girls and women to pursue STEM education and careers. (Despite the fact that Japanese women hold more university degrees than men, Japan’s ratio of female researchers/scientists is the lowest in the OECD.)

While the wish list is long, the potential rewards are massive. Closing the gender employment gap could lift Japan’s GDP by 10 percent, and in a "blue-sky scenario," which also assumes the ratio of female vs. male working hours rises to the OECD average, the GDP boost could expand further to 15 percent. For businesses, Japanese listed firms with higher female manager ratios tend to deliver higher return on equities (ROEs) and sales growth.

How Japan chooses to manage its demographic headwinds over the next several years will serve as an important template (or not) for how other countries should cope with their own aging societies. The good

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news is that there are two important tailwinds today that were absent in 1999 that should help advance the “Womenomics” agenda over the next 20 years: namely, the explosion of environmental, social and corporate governance (ESG) investing and shifting attitudes of younger-generation Japanese males.

Since 2011, Japan has seen 23 percent compound annual growth rate (CAGR) in the number of domestic signatories to the UN’s Principles of Responsible Investing, and the world’s largest pension fund, the Government Pension Investment Fund or GPIF, has begun allocating funds to firms that demonstrate progressive diversity practices. Notably, proxy adviser, Glass-Lewis, recently revised its Japan voting guidelines and will now generally recommend voting against the chair of a company that does not have any incumbent of proposed female members on its board.

Thirty years ago, more single Japanese men preferred their future spouses to be full-time housewives than working outside the home, but this has since reversed, with the majority now preferring their spouses to work. This suggests the desire for work-life balance is growing among men as well as women.

But within the Japanese stock market context, the million-yen question is: does gender diversity actually impact share price performance? Based on a screening of 50 Japanese firms that are industry leaders on gender diversity metrics such as management/board diversity and flexible work conditions, this group has outperformed TOPIX by 116 percent since 2010 (as of July 10, 2019).

If Abenomics really is “Womenomics,” as Prime Minister Abe suggested, there is some evidence of progress, but more reforms are necessary for sustainable growth. It is safe to say the Abe administration’s policy measures will be scrutinized for years to come.

This leaves one final big question: what does “growth” mean after all? The Abe administration, like most governments, is too focused on GDP growth as a metric of success. Many scholars now recognize that GDP is a poor indicator of public welfare, and they are devising various alternative indices. As the world faces the existential crisis of climate change, we will have to incorporate sustainability into our very definition of growth. And that too would mean moving beyond the Abenomics agenda to a more proactive role for the government in the economy.
ABOUT THE AUTHORS

KATHY MATSUI is vice chair of Goldman Sachs Japan, co-head of Macro Research in Asia and chief Japan equity strategist. She is a member of the Asia Pacific Management Committee and Goldman Sachs Japan Co., Ltd. Executive Committee. Kathy joined Goldman Sachs in 1994 and was named managing director in 1998 and partner in 2000.

Kathy was ranked No. 1 in Japan Equity Strategy by Institutional Investor magazine in multiple years, she was chosen by The Wall Street Journal newspaper as one of the "10 Women to Watch in Asia" for her work on the "Womenomics" theme, and she was also named to Bloomberg Markets magazine’s “50 Most Influential” list in 2014.

Kathy has served on numerous government committees aimed at promoting gender diversity in Japan. Kathy is a board member of the Asian University for Women (AUW) Support Foundation, chair of the Board of Councilors (Japan) of the US-Japan Council, director of the Fast Retailing Foundation, member of the Council on Foreign Relations, member of The Nature Conservancy-Asia Pacific Council, and member of Keizai Doyukai. She also serves on the Advisory Council for the Japan Society Fund Against Breast Cancer.

Kathy earned an AB, magna cum laude, in Social Studies from Harvard University and an MA from Johns Hopkins University, School of Advanced International Studies.

STEVEN K. VOGEL is chair of the Political Economy program, the Il Han New Professor of Asian Studies, and a professor of political science at the University of California, Berkeley. He is the author of Marketcraft: How Governments Make Markets Work (2018), Japan Remodeled: How Government and Industry Are Reforming Japanese Capitalism (2006), and Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries (1996). He has worked as a reporter for the Japan Times in Tokyo and as a freelance journalist in France. He has taught previously at the University of California, Irvine, and Harvard University. He has a B.A. from Princeton University and a Ph.D. in political science from the University of California, Berkeley.

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