The Failure of Abenomics

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Imagine the predicament currently facing a growing number of Japanese men in their early 30s. Despite having spent years cramming in high school and attending good colleges, many can't find a full-time job at a good company. Since Japan's rigid labor laws make it nearly impossible to lay off permanent employees in downtimes, companies now tend to fill open slots with part-time or temporary workers, and they gin up their profits by paying these irregular workers a third less than the regulars. Today, 17% of Japanese men aged 25 to 34 hold such second-class jobs, up from 4% in 1988. Low-paid temps and part-timers now make up 38% of Japanese employees of all ages and both sexes — a stunning figure for a society that once prided itself on equality.

Prime Minister Shinzo Abe promised to revive Japan when he took office in December 2012, and he often boasts of all the jobs he has added since. But all the gains have been for irregular work; regular jobs have seen zero growth as of September 2014. Consequently, the average wage per worker in real terms has fallen by 2% under Abe. No wonder consumer spending is anemic.

Imagine as well the anguish of these irregular workers when a low salary thwarts their natural desire to start a family. Whereas 70% of Japanese men in their 30s with regular jobs are married, among irregular workers in their 30s, that percentage plunges to just 25%.

What counts as a personal tragedy for each worker translates into an economic disaster for Japan as a whole. The country's reliance on irregular workers eats away at its main resource: its human capital, meaning the skills that enable workers to use the most up-to-date

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technology and methods. Because irregular workers don't acquire the skills employers seek — partly because firms don't invest in training them as they do with regular workers — the longer they stay stuck in their dead-end jobs, the harder it becomes for them to ever get a regular one. That, in turn, leads to even more erosion of human capital and lower economic growth.

Meanwhile, the low marriage rate among irregular workers accelerates Japan's population decline. That, in turn, amplifies economic and budgetary strains, such as the shrinking number of workers to produce the GDP and pay the taxes that support the growing ranks of retirees. As recently as 1990, there were almost six workers for every retiree. As of 2010, that was down to 2.5. By 2020, there will be just 1.8.

Given how much these interconnected syndromes lie at the core of Japan's economic malaise, one would think they would also lie at the core of Abe's revival strategy. Yet they merit not a mention. Abe has not even proposed minimal steps to tackle these problems, such as a law requiring companies to offer irregular workers equal pay for equal work. Until Japan reforms its labor practices more thoroughly, the use of so many irregular workers would continue to lend firms the flexibility they need to adjust payrolls as sales rise and fall. At the same time, equal pay for equal work would end the incentive for firms to replace regular jobs with irregular ones simply as a way of cutting wages.

I. A Confidence Game

Instead of tackling real problems, like the rigid labor market, that hold back growth, Abe has advertised an economic program — known as "Abenomics," that is, at its core, a confidence game. Abe and his advisers argue that the root cause of Japan's economic malaise is emotional malaise. If only the Japanese had more faith in their country's prospects, the theory goes, then consumers would spend more and companies would do more investing and hiring. In this view, deflation represents the primary cause of Japan's woes. "For 20 long years of deflation, Japan suffered a deep loss of confidence," Abe said in a speech last year.[1]

To restore confidence, Abe has undertaken a program of what he calls "three arrows": monetary easing to reverse deflation, fiscal stimulus to boost immediate spending, and structural reforms to revive long-term growth. If Abe were really properly implementing all three arrows, there would be reason for bullishness. But, in reality, two of the arrows exist only as words. The fiscal arrow has been turned into a mere dart, flying in the wrong direction: any stimulus from temporary spending has been more than offset by premature tax hikes made to cut government debt. The result has been a decline in consumer spending and GDP. Meanwhile, the prospects for structural reform have not progressed beyond vague sloganeering.

That leaves just one real arrow: monetary easing. But none of the three arrows can work without the other two. Confidence must rest on something more substantive than inflation: meaningful structural reforms to reverse Japanese companies' lagging competitiveness. Otherwise, any temporary economic boost will soon give way to disillusion.

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Abe is willing to do whatever it takes in the effort to boost both economic confidence and his own approval ratings. Since many voters see stock prices as the verdict of the "smart money" on Abenomics, Abe has put a stock monitor in his office and is now gambling with the taxpayers and pensioners' money to boost stock prices. On October 31, the Bank of Japan gave stock prices a big life, not only via another mammoth easing program, but by indirectly financing a scheme by the mammoth government-controlled Government Pension Investment Fund (GPIF) — the world's largest pension fund — to raise the share of domestic stocks in its $1.1 trillion portfolio from 15% to 25%. The BOJ decided to raise the amount of Japan Government Bonds (JGBs) it will buy each year by ¥30 trillion, exactly the amount that the GPIF plans to sell to finance its purchase of Japanese stocks as well as foreign assets. However, in a stock market where prices seem to double and halve every few years — and prices are still lower than they were 20 years ago — how will the government finance pensions if stocks continue to gyrate up and down?

Despite all these efforts, disillusion has already set in. In a December poll, disapproval of Abe's economic policy outranked approval by 51% to 38%. Voters have told the press that, while Abe's policies have benefitted the stock market, they have done little for ordinary people. Abe's own approval rates are sinking along with confidence in Abenomics. In his first six months in power, those approving of him outdistanced those disapproving by a stunning 50 percentage points (70% approval versus 20% disapproval). However, in the past few months his margin of approval has virtually disappeared and some polls even show disapproval greater than approval.

Abe just won what appeared to be a landslide election victory for his Liberal Democratic Party (LDP), but only because turnout was at a record low 52%, down from the previous record low of 59% in 2012. Disillusion with the opposition parties was even greater than disillusion with him. The leading opposition party, the Democratic Party of Japan (DPJ), performed so amateurishly during its one spell in power in 2009-2012 — and passed an unpopular tax hike despite promising in the 2009 election not to do so — that voters are still unwilling to give it another chance despite their dissatisfaction with Abe. So, voters dissatisfied with Abe just stayed home. We don't have the full numbers yet, but, just as in 2012, the LDP may have won with fewer votes than it got when it lost by a landslide in 2009. Moreover, Abe and the LDP carefully avoided even discussing any controversial proposals during the campaign. Abe won four more years with a huge majority, but he neither sought nor obtained a mandate for any important policy moves.

Some optimists believe that Abe will use the election victory to pursue serious economic reforms. It is possible, but does not seem likely, especially if, as we expect, his approval ratings continued to erode. If Abe has been unwilling to take on vested interests to advance reform when his clout was flying high, it is hard to see how he will be able to do so now as his public support diminishes.

II. The International Chimera

When Abe named him the new governor of Japan's central bank in February 2013, Haruhiko Kuroda promised to deliver 2% inflation in just two years and to create all the money needed to meet that goal. Abe and Kuroda claim to be well on their way. After all, in April, consumer prices were up by 1.5% from the year before (not counting the effect of the April 1 hike in the consumption tax).

Unfortunately, most of that increase stemmed from a 23% drop in the value of the Japanese yen, which raised prices on imports of everything from electronic gadgets to food to raw materials, such as oil, as well as on products made from those imports. A private report from the International Monetary Fund stated that, aside from products sensitive to the exchange rate, there has been almost no inflation.[2]

This kind of inflation hurts Japan. The devaluation effectively transfers income from Japanese consumers and firms to foreign oil sheiks, farmers, and manufacturers. As we'll detail below, this kind of inflation hurts Japan more than it helps. Moreover, to keep this kind of inflation going, the yen would have to keep on depreciating at the same rapid rate. However, since the yen began a long plateau in May 2013, it had depreciated only a few more percentage points (to 24% below its November 2012 level), as of October. As a result, the inflationary effect of the depreciation is likely to ebb, and may have already done so; the high point of inflation so far was 1.5% in April. And so another part of the Bank of Japan's second "monetary bazooka" on October 31 was aimed at pushing the yen down further. As of early December, the yen had plunged another notch to 31% below its November 2012 level.

In October 29, out of 33 economists surveyed by *Bloomberg News* said the Bank of Japan (BOJ) would fail to meet its goal of 2% inflation in fiscal 2015 (which runs from April 1, 2015 to March 31, 2016). In fact, when falling oil prices are also added into the mix of factors, a growing number of economists say inflation could fall to a level as low as 0.5% in the first half of 2015. Beyond that, there is increasing skepticism along similar lines even among the nine members of the BOJ's Policy Board. Four of the nine voted against

BOJ's Governor Haruhiko's October 31 plan for a second round of easing.

Suppose, however, that Kuroda were to achieve 2% inflation in by mid- to late-2015. By itself, this would do little to boost growth. Kuroda contends that if consumers see prices rising, they will rush out to buy things so as to avoid paying more in the future, and their spending will lead firms to increase their investment and hiring. Yet, data over the past decade show that when Japanese consumers expected prices to rise, they spent less, not more. The reason is simple: if prices rise faster than incomes, people can't afford to buy as much. But Kuroda, devoted to abstract economic theories as he is, dismisses such evidence. Abe, in turn, likes the theory because it promises him that he can rejuvenate Japan via the easy route of printing money rather than the politically harder route of structural reform.

From 1997 through October 2014, wages in Japan have fallen by 9% in real (i.e., price-adjusted) terms. That includes a 2% point drop since Abe's ascension. They are expected to continue falling, despite highly advertised wage hikes by a few hundred giant firms whose profits from overseas sales have been artificially boosted by the weaker yen. In January 2014, Abe wrote an article promising a big "wage surprise." His reasoning was that wages would rise once workers and firms come to expect inflation, as if inflation were a panacea. He wrote:

> The emerging consensus among the government, business leaders, and trade unions already has led a growing number of companies to promise significantly higher wages and bonuses. This is the essence of the wage surprise. It will be an entirely new phenomenon, one that, together with the massive ¥5 trillion ($US47 billion) fiscal stimulus, will more than offset the potential negative effect of a sales-tax increase [referring to the hike in the consumption tax from 5% to 8% scheduled for three months later on April 1]. Most important, it will continue to put Japan's economy on a sustainable growth trajectory. *Of this I am certain* [emphasis added].[3]

The problem is that sometimes Abe is absolutely certain of things that just aren't so. Contrary to Abe's promise, the small wage increases that occurred were overwhelmed by the combination of price hikes and the tax increase. As a result, real wages in October 2014 were 2.8% below their level of year earlier — the 16th consecutive month of a year-on-year decline in real wages.

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Abe and his team boast that they have pushed down the yen's value vis-à-vis the dollar by 31% as of early December. But here, too, their optimism about the benefits of this achievement is misguided. Currency depreciation can cheapen the price of exports in overseas markets, helping a country export more. But the flip side is that imports become more costly. In Japan's case, the harm suffered by consumers and companies has vastly outweighed the benefits enjoyed by a few exporters. The real volume of exports — tons of steel, number of cars, and so on — has barely risen since the start of Abe's term. Sony's problem is not that the yen is overvalued but that the company is no longer creating the innovative products that people want; its efforts in smartphones and tablets have foundered. Likewise, auto exports are flat because automakers continue to shift production offshore rather than exporting from Japan. Only 22% of Honda's global car production is done within Japan itself; for Nissan, the figure is just 17%. Japan now runs a trade deficit despite a currency exchange rate that, in price-adjusted terms, is the cheapest since the 1970s. This suggests that Japan has suffered a deep loss in underlying competitiveness. This requires a real cure, not a chimerical quick fix.

If fact, yen depreciation has hurt so many more people than it has helped that political opposition to this aspect of Abenomics is rising among some political and business leaders. In October, Toshihiro Nikai, a top leader of Abe's own Liberal Democratic Party (LDP) called for the government to consider changing the direction of BOJ monetary ease on the grounds that the weaker yen is causing more harm than good. Yasuchika Hasegawa, chairman of the influential Japan Association of Corporate Executives (Keizai Doyukai), told a news conference, "The weak yen does not benefit the country or industry."[4] In October, the Japan Chamber of Commerce and Industry (JCCI), which represents small and medium-sized firms, conducted a survey of its members on this issue. Some 39% of member companies saw ¥100-105 per dollar as a desirable rate, and 30% preferred ¥95-100. About 80% considered the ¥109 level prevailing at the time of the survey as "undesirable." The firms complain that they cannot pass on the higher costs of imported energy and materials to customers and that the real wage declines caused by the weaker yen are hurting consumer demand. "The production activities of client companies [i.e., the big multinationals that these SMEs had been supplying—TOE] have shifted overseas, so a weaker yen doesn't lead to increased orders," an official at a Shizuoka Prefecture electronics parts manufacturer told the *Nikkei* newspaper. Meanwhile, he added, "The higher prices of imported parts could squeeze profits."[5]

III. Heavy Foot on the Fiscal Brake, Light on the Gas Pedal

The second arrow, fiscal stimulus, was supposed to give people the money they needed to spend more. Moreover, by injecting purchasing power into the economy, fiscal stimulus would raise demand for labor and thus wage rates. That would have helped lift wages enough to offset inflation.

Either tax cuts or the right kind of spending could do the trick. Yet, while Abe has put one foot on the gas pedal, he has put a heavier foot on the brake. His new spending measures, mostly of the pork-barrel variety, have been more than offset by his raising of the consumption tax from 5% to 8% this past April.

The question that Abe's advisors failed to ask was as a simple one: how can people spend more when Abe leaves them with less money to spend? The economy gave an equally simple answer: they can't. Consumer spending plunged as soon as the tax hike was implemented; in April, real, price-adjusted spending was 5.8% below its level of a year earlier. As early as May, government officials put out the word that the plunge was over and spending had already begun returning to normal. Most of the press dutifully put out puff pieces repeating the same mantra. In reality, spending kept on plunging. From April through September, the latest available, price-adjusted spending averaged a decline of 5.2% from the year before. In fact, the plunge in spending during that period was even worse than the plunge following the 1997 tax hike.

After these dismal August results, some economists, and even some of Abe's personal advisors, warned Abe not to go ahead with the tax hike. A group of around 40 LDP members of the Lower House of the Diet have formed a group to oppose a second tax hike from 8% to 10% scheduled for October 2015.

Then came the news that the tax hike and the inflationary hit to consumer spending power put the economy back into recession. After falling at an annual rate of 7.3% in April-June, GDP fell again at a 1.6% annual clip during July-September. Two days later, Abe announced he was postponing the second tax hike until April 2017 and he called a snap election.

Given the recession following the April 2014 hike, Abe no longer trusts assurances from the Ministry of Finance and Bank of Japan that the economy is strong enough to make any damage from the tax hike minimal. While delaying the tax is the right decision, Abe has avoided the larger question: why was a delay necessary? Healthy economies do not suffer such large damage from a relatively small tax hike.

Moreover, Abe still proposes to retain deficit-cutting by other means while going ahead with a cut in corporate taxes which may please his supporters in big business but will do nothing to stimulate growth.

Abe's team claims that fiscal austerity is necessary to prevent Japan from becoming the next Greek tragedy. But that is nothing but a scare story spread by officials such as Kuroda, who ought to know better. Once again, ideology is overriding evidence, due to the long-standing devotion to fiscal austerity on the part of the Ministry of Finance (where Kuroda spent virtually his entire career). In reality, foreign debt matters just as much as domestic debt in turning a manageable problem into a crisis. In Europe, the financial crisis hit only those countries saddled not just with lots of government debt but also with huge foreign debts caused by years of big trade deficits. These countries saw foreign lenders pull out their money, interest rates spike as a result, and their economies tank. Meanwhile, countries with equally big government debt but little or no foreign debt, such as Belgium, France, and Germany, suffered no crisis.

Unlike Greece and other crisis countries, Japan is not a net international borrower, but a huge net lender. That is due to its long run of current account surpluses (the current account is the combination of the trade surplus and net income on investments overseas) Even though Japan is now running a small trade deficit, it still runs a surplus on its overall current account. And even if the current account were to turn to chronic deficit, Japan has built up massive foreign exchange reserves equal to 60% of its GDP. A third of these are owned by the government. This is more than enough to prevent skittish capital from fleeing.

Precisely because Japan finances its own government debt, the Bank of Japan has proved its ability to keep interest rates down, a fact Kuroda ignores when he counsels Abe that rates will skyrocket without austerity. As of early December, the yield on the Japanese government's ten-year bonds was a near-record low of 0.398% — less than half the 0.86% that yields averaged in the year prior to Abe's ascension, and a record low for all countries going back for the past six or seven centuries for which we have record.

Moreover, as part of its quantitative easing program, the BOJ is already purchasing so many JGBs that the holdings by other investors have actually declined from 154% of GDP before Prime Minster Shinzo Abe returned to power to 142% as of September. That means that the government can continue to run big deficits and still see a decline in the ratio of privately held JGBs to GDP. So, at the very time when the BOJ is screaming that Abe must raise taxes to avoid a debt crisis, it is reducing the cause of that potential crisis by buying up the debt.

While Abe claims that there will be no more tax hike postponements, how can anyone guarantee that the economy will be strong enough in 2017? Why go the route of fiscal austerity when Japan has time to fix its fiscal problems? Success requires not just doing the right things but also doing them at the right time and in the right order. Japan should first restore growth and then work on the deficit.

IV. Third Arrow: Lots of Goals, No Strategy to Achieve Them

In the end, it is Abe's third arrow — structural reform — that will determine whether Japan can raise its long-term real (i.e., price-adjusted) growth rate from the 0.8% average prevailing since 1992 to the 2% the prime minister has promised. Even Japanese government economists admit that without reform, the country's long-term growth rate will never exceed 0.5%-1.0%.

With the working-age population shrinking, the only way to generate more growth is to have each worker produce more. Already, Japan's GDP per hour worked lags about 25% behind the average for rich countries. Yet, the erosion of human capital caused by the rise of irregular workers makes raising productivity even harder.

To lift productivity, Japan needs serious structural changes to promote creative destruction, the process of replacing decaying firms with vibrant ones, and declining industries with rising ones. Many of the sectors of Japan's economy that face international competition, such as the auto industry, enjoy high productivity. But, the lion's share of the economy is domestically oriented, and much of it is shielded from both international and domestic competition by domestic regulations and cartel-like business practices. In these sectors, Japan lags far behind its peers. To take one tiny but characteristic example, regulations currently restrict online sales of nonprescription drugs because if unrestricted, such sales would hurt brick-and-mortar pharmacies; one corporate member of an Abe advisory panel on reform temporarily quit in a huff when bureaucrats emasculated his proposal to lift this regulation.

Or look at Japan's inefficient dairy industry, which the government has refused to open up to foreign competition —

holding up negotiations for the Trans-Pacific Partnership (TPP) a proposed free-trade deal among 12 countries, in the process. Japan's milk market isn't even open to domestic competition. The powerful farm cooperative known as Japan Agriculture (JA) uses its stranglehold on distribution to protect inefficient farmers in the main part of Japan by hindering shipments of milk from the larger, more efficient farms in the northern island of Hokkaido. Tokyo turns a blind eye because Japan Agriculture is a powerful electoral ally of Abe's Liberal Democratic Party (LDP) and because rural voters are disproportionately represented in the Diet. Despite several Supreme Court decisions calling for more equality in voting power, the most rural 50% of Japan's population chooses more than 60% of the Diet members elected in district seats.

A real reformer would scrap JA's exemption from the Antimonopoly Act, a law passed in 1947 designed to encourage competition, and use the act to crack down on the kind of practices of which the milk case is just one example. In fact, an Abe-appointed Council on Regulatory Reform proposed just that. It went even further in curbing JA's power, but Abe rejected its proposal and replaced them with a series of measures that he claimed would curb JA's power but, in reality, would not.

Japan needs an economy in which newcomers can edge out moribund firms, in which workers can move easily from job to job, and in which a solid safety net helps the unemployed through that transition. If reforms to create such an environment were put in place, now-lagging sectors would be propelled to world benchmark levels of efficiency, and productivity-led growth would soar — just as occurred in retail, rust-belt manufacturing, and other traditional sectors in the United States during the productivity revolution that began in the mid-1990s. The United States does so well in information technology today because it boasts a fertile ecosystem for nurturing start-ups. When IBM flagged, Microsoft and Intel were ready to take its place, and when Microsoft started to coast, Google and Apple quickly stepped in. Among the top 21 electronics manufacturers in the US in 2012, eight did not exist in 1970 and just a decade earlier, six were too small to be in the Fortune 500. In Japan, however, there aren't any successors to floundering Sony and Panasonic. The country's list of the top 20 electronics hardware firms has not included a new company since 1946 — nearly 70 years ago.

Rigidities in Japan's labor market, as well as incestuous ties among Japan's entrenched firms, all too often hinder would-be entrepreneurs from gaining the financing, staff, and distribution channels needed to compete. Firm turnover — the exit or downsizing of inferior firms and the rise of better ones — is as vital to economies as Darwinian natural selection is to evolution. And yet, Japan has the lowest rate of firm turnover among rich industrialized countries.

Abe could promote innovation by enforcing laws against anticompetitive practices, promoting genuine labor flexibility (rather than the use of irregular workers), and financing a solid safety net to help workers transition from job to job. Instead, he, like his predecessors, has moved in the opposite direction, promoting ill-fated mergers among troubled firms. Countries such as Sweden spend up to 1.5% of GDP on programs for ongoing adult education, job matching, and the like to help workers shift from job to job, but Abe's fiscal austerity rules out similar steps. This is penny-wise and pound-foolish.

V. The Politics of Productivity

If reform were easy, it would have been accomplished long ago. The problem is that reforms aimed at promoting competition would hurt many entrenched firms and their workers. Since the government-provided social safety net is so thin, a Japanese worker's main safety net is his current job at his current firm. The result is political pressure to protect moribund firms in order to avoid social dislocation. To ease the pain of reform, Tokyo should use fiscal and monetary stimulus as an anesthesia.

It is not the case that Japan is incapable of reform. Over the past two decades, we have seen many cases of successful reforms that helped the overall economy. Some examples include: deregulating the financial market, forcing resistant banks to clean up the massive nonperforming loans that were hamstringing economic growth, ending laws that allowed small stores to block the entry of larger ones into their neighborhoods, and giving new entrants in the cell-phone business equal access to the mobile infrastructure of a previously dominant monopoly. These reforms ushered in huge productivity gains in retail and telecommunications (and for users of telecom), while partially unlocking distribution channels for newcomers. Unfortunately, there just were not enough of these reforms in enough areas of the economy to reach critical mass.

Nothing in Abe's program, however, remotely resembles those past advances. He has named lots of targets for growth, investment, job creation, share of women as managers, and the like — but rarely presented any strategy to achieve them.

His proposed agricultural reform, for example, would merely replace a subsidy focused on production levels with one focused on income, while giving no incentives for tiny inefficient farms to consolidate or for agribusiness to expand sufficiently. His talk of increasing career opportunities for women omits any mention of the main obstacle: that most of them get taken off the promotion track once they become pregnant and many are pressure to quit, a practice that Japanese feminists call "maternity harassment."

And while Abe has raised taxes on consumers, he is talking about cutting taxes on corporations. His claim that this would promote investment is false, as even the Ministry of Finance acknowledges. Japan's corporate giants already have far more cash than they choose to invest at home. The annual excess cash flow now runs to more than 5% of GDP. But a corporate tax cut might raise stock prices and gain Abe more corporate support.

His plans for the electricity sector, meanwhile, would ostensibly allow room for newcomers by separating generation from transmission. In reality, the existing regional electric monopolies will be allowed to form a holding company that controls both parts. He has done nothing to force rectification in the nuclear utilities, some of which falsified their safety records with the connivance of the regulators in the lead-up to the 2011 Fukushima nuclear accident. As a result, a justifiably distrustful population has so far blocked a restart of the reactors that previously supplied a third of the country's electricity. Two reactors may finally restart this winter and perhaps another four sometime in 2015. Out of 48 shut-down reactors, 20 are deemed too old and/or too expensive to refurbish to meet the new safety standards. So, even if the remaining 18 can overcome local objections and be restarted eventually, nuclear power will supply just 10% of Japan's electricity needs. The resulting electricity shortfall and higher energy costs are propelling automakers and other efficient exporters to shift even more of their capacity overseas.

The most obvious litmus test of the third arrow is Abe's handling of the negotiations for the Trans-Pacific Partnership. For month after month, these talks have stalled largely because Abe's team has insisted on keeping tariffs and other barriers high in a few agricultural sectors (such as beef, dairy, and pork) that employ less than 100,000 households but where high prices boost Japan Agriculture's income. Consider that the man Abe allowed to become the new chief of the LDP's Task Force on the TPP is Hiroshi Moriyama, who in 2010 founded a caucus called "Association To Seek An Immediate Withdrawal From TPP Participation" (he changed its name in 2013 in deference to Abe). Its membership includes 63% of the 408 LDPers in both Houses of the Diet.

As of mid-November, a US-Japan bilateral agreement on market access had not been reached — not only because of Japan's farm protectionism, but in large part, because of it — and now the TPP countries are talking about signing the pact in 2015. Because of the time it takes for the ratification process in the US and elsewhere, experts say that, if the TPP is not signed by this coming spring, the likelihood is that looming elections in 2016 in both the US and Japan would likely caused a postponement until at least 2017. There is a real risk of TPP turning into something like the Doha trade talks: a talkfest that goes on forever with no deal ever being signed.

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Even if the TPP is eventually signed and ratified, Abe's capitulation to small interest groups means that it won't be used as a catalyst for domestic reform, unlike the way South Korea used its trade agreements with the United States and Europe, and as reformist officials in the Ministry of Economy, Trade, and Industry (METI) have urged Japan to do as well. The real irony of Abe's capitulation to the farm interests is that it is not America, but Japan, that has the most to gain from liberalizing food trade. Japan's genuine reformers want to open more farming to competition, not because America demands it, but because Japan's economy needs it.

If there were ever a time when a determined Prime Minister could override the farm lobby, that time is now. Abe still enjoys an approval rating around 50%, his party holds an overwhelming majority in parliament, the opposition parties are weak, and he faces no challenger within his own party. Yet it seems impossible to find a single case in which he has truly challenged a powerful domestic constituency. Instead, he is wasting his political capital on denying seven-decade-old war crimes and refusing even to admit that Japan committed aggression, claiming Japanese ownership of islets long controlled by South Korea, and trying to change school textbooks to reflect these retrograde views. Most of the Japanese public regards these views as extreme. Even when Abe's ideas on security are closer to the mainstream within Japan's elite — such as his proposals for Japan to exercise a right to collective self-defense — the need to overcome resistance in the still pacifistic public diverts Abe's energy. Inevitably, this puts the third arrow on the back burner.

The sad fact is that Abe's heart does not beat to the rhythm of reform and revival. Instead, Abenomics is a means to an end: to gain enough popular support to pursue the goals that really move him — security and history issues. But Abe can stay insulated from the political consequences of his economic mismanagement for only so long. Now, 80% of Japanese polled say that his policies have failed to improve their lives at all. In October, for the first time, polls showed that more people

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disapproved of Abenomics than approved. Abe remains more popular that most Prime Ministers in office almost two years partly largely because there is no politically viable alternative. Even so, the failures of Abenomics have become impossible to ignore and his ratings are steadily declining. At some point, Abe will lose the political power to make necessary reforms — even if he somehow gained the desire to genuinely implement them.

Japan will eventually reform and revive. Its tragedy is that it is filled with smart, ambitious, creative individuals who are trapped in once vibrant but now ossified political and economic institutions. The whole is so much less than the sum of its parts. The country will revive when it finally undertakes the necessary institutional overhaul. But that needs a visionary leader; Shinzo Abe is not that leader.

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1 Shinzo Abe, speech, June 5, 2013.

2 "IMF Calculations Show Little or No Inflation Abe Hoped for," *Asahi Evening News*, November 23, 2014.

3 Shinzo Abe, "Japan's Coming Wage Surprise," Project Syndicate, January 6, 2014, available at: http://www.project-syndicate.org/commentary/shinzo-abe-unveils-a-concerted-effort-to-raise-japanese-workers--pay-.

4 *Nihon Keizai Shimbun*. "Once seen as boon, falling yen may now be bane to Japan Inc.," October 1, 2014.

5 *Ibid*.