



# **JAPANESE POLITICS LOOKING AHEAD 2018**



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## Introduction

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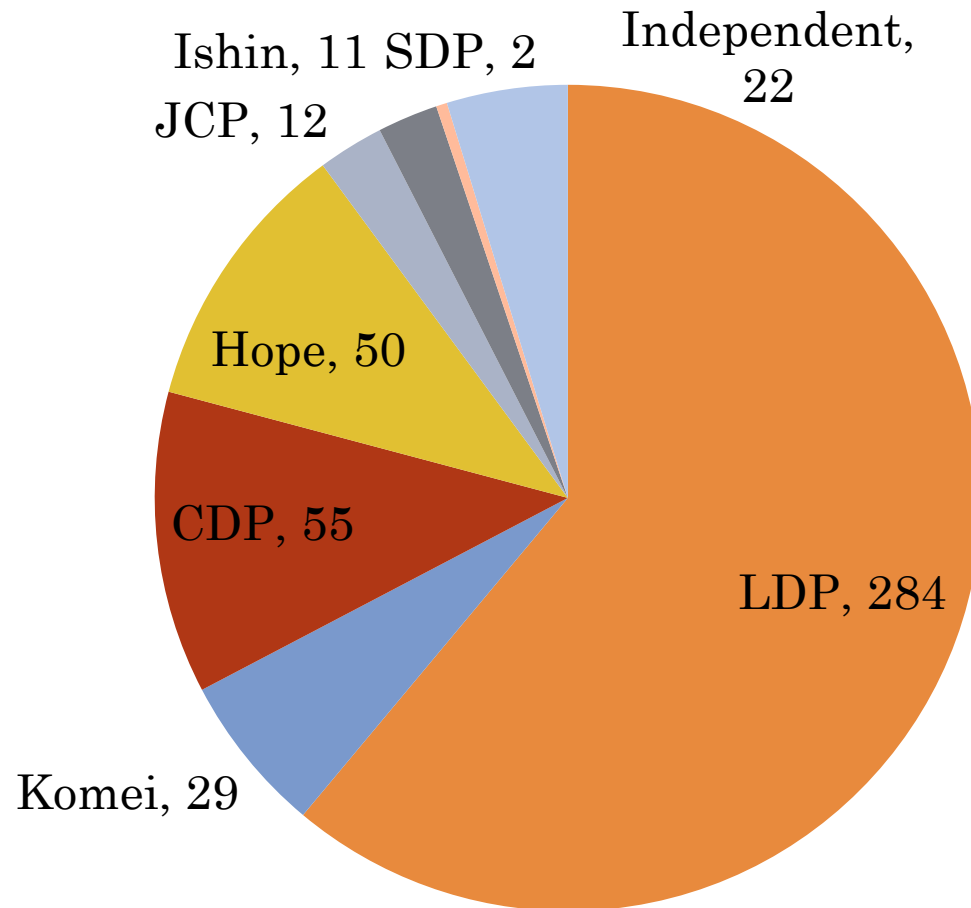
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# INTRODUCTION

## Result of 2017 election



## Agendas for 2018

Jan. Diet Session convenes (Budget and Tax Reform )

Apr. Appointment of next BOJ governor.

Apr. Diet begins deliberation on labor reform bills.

Sep. LDP presidential election

Oct. Diet re-convenes (Constitutional amendment proposed?)

Dec. Okinawa governor election.

# I. TRANSFORMATION OF THE JAPANESE PARLIAMENTARY SYSTEM AND PRIME MINISTER'S POWER

1. Shift from 55 system to a “new” system in 2000s
2. 55 System (1955-1993)
  - 1) Formation of LDP and Social Democratic Party in 1955.
  - 2) Prime Minister with weak political clout.
  - 3) LDP government as a coalition government of between 1955 and 1993.
  - 4) SNTV= One electoral district electing 3 to 5 politicians.
    - a) Several LDP candidates from the same district.
    - b) For LDP candidates party label has almost no value.
    - c) Easy to get elected as an independent candidate.
    - d) Provides room for factions -> Dominance of factions within the LDP

### 3. 55 System (1955-1993) as a Consensus Model

	Consensus Model	1955 system
Executive power	Coalition cabinet = power sharing	LDP cabinets = coalition cabinets of factions
Executive-legislative relationship	Balance of power	Independent Diet
Party System	Multi-party system	Multi-party system
Electoral System	PR	SNTV
Bicameralism	Strong	Strong

#### 4. Shift toward a Westminster Model

- 1) Prime Minister with more political clout
- 2) Closer to a single party cabinet = No more coalition cabinet of LDP factions.
- 3) Electoral system FPTP + PR → closer to FPTP.
- 4) Party system conducive to two party system.

	Westminster Model	Current system
Executive power	Single party cabinet = concentration of power	<b>Single party cabinet= Concentration of power</b>
Executive-legislative relationship	Cabinet dominance	Independent Diet
Party System	Two-party system	<b>Now fluid</b>
Electoral System	FPTP	<b>FPTP+PR (more seats allocated to FPTP)</b>
Bicameralism	Weak	Strong

## 5. Sources of change

### 1) Electoral reform of 1994

- a) Increased importance of party endorsement
  - (1) More difficult to get elected as independent
  - (2) one candidate in one constituency
- b) Concentration of political funds to parties

### 2) Administrative reform of 2001

More legal authority to the PM for policy formulation



## II. PRIME MINISTER'S POWER UNDER THE SECOND ABE ADMINISTRATION (2012-

### 1. Further Increase in Prime Ministerial Power

- 1) PM power in the party
- 2) PM power in the government



## 2. PM power increase in the party

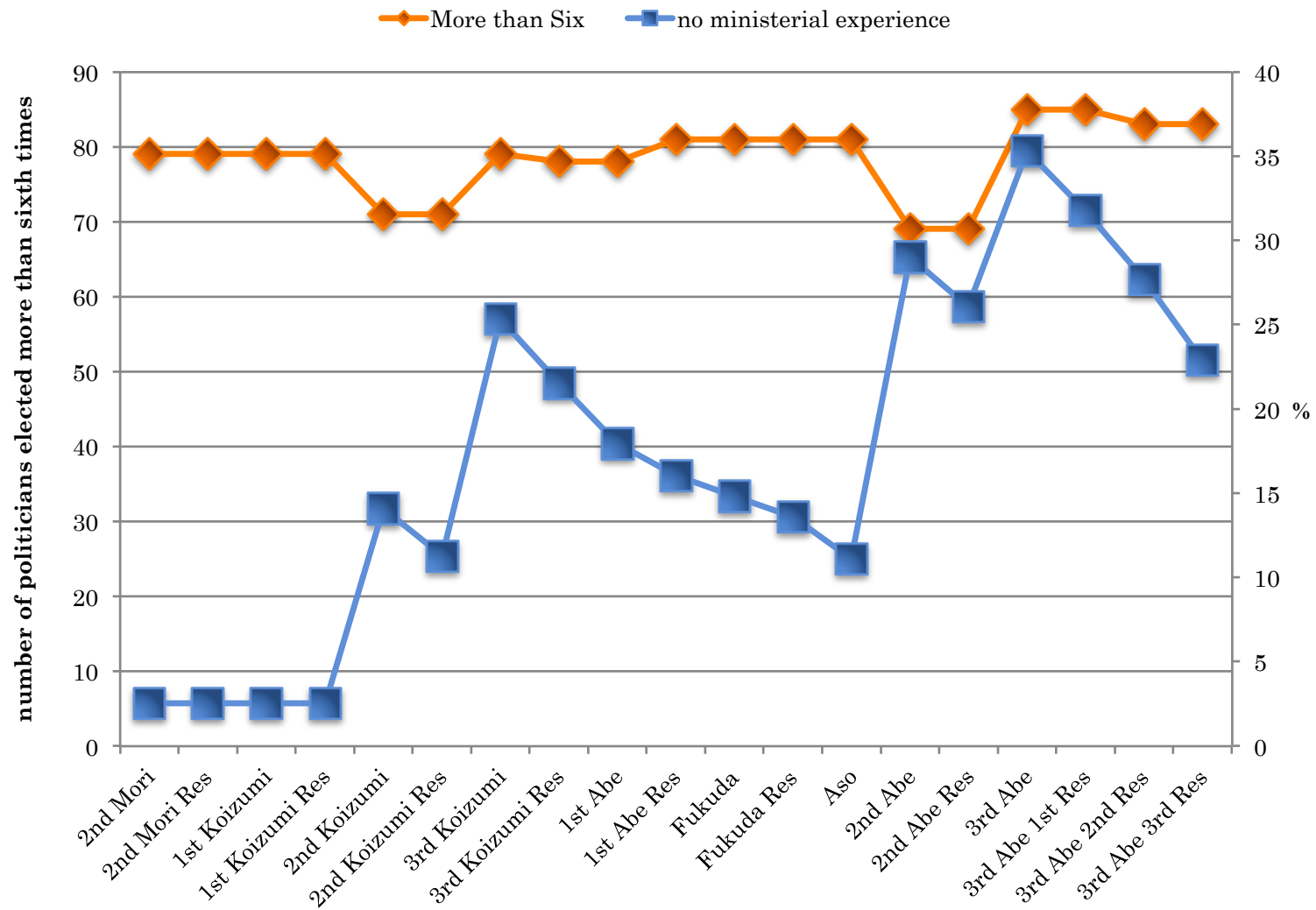
1) Norm of “Elected 6 times, then you are a minister” **broken!** (Cf Nakakita (2017))

a) In the past most LDP back benchers who have got elected 6 times could expect to be appointed ministers -> **Almost 100%**

b) Under the Abe administration this figure has gone down to around **70%**

2) Long serving ministers

## Ratio of Politicians without Ministerial Experience



3) Any implications for PM power?

Prime minister can now resist pressure from backbenchers for promotion.

4) Where does this power come from? PM's leverage over endorsement

### 3. PM power increase in the cabinet and enhanced role of the Cabinet Secretariat

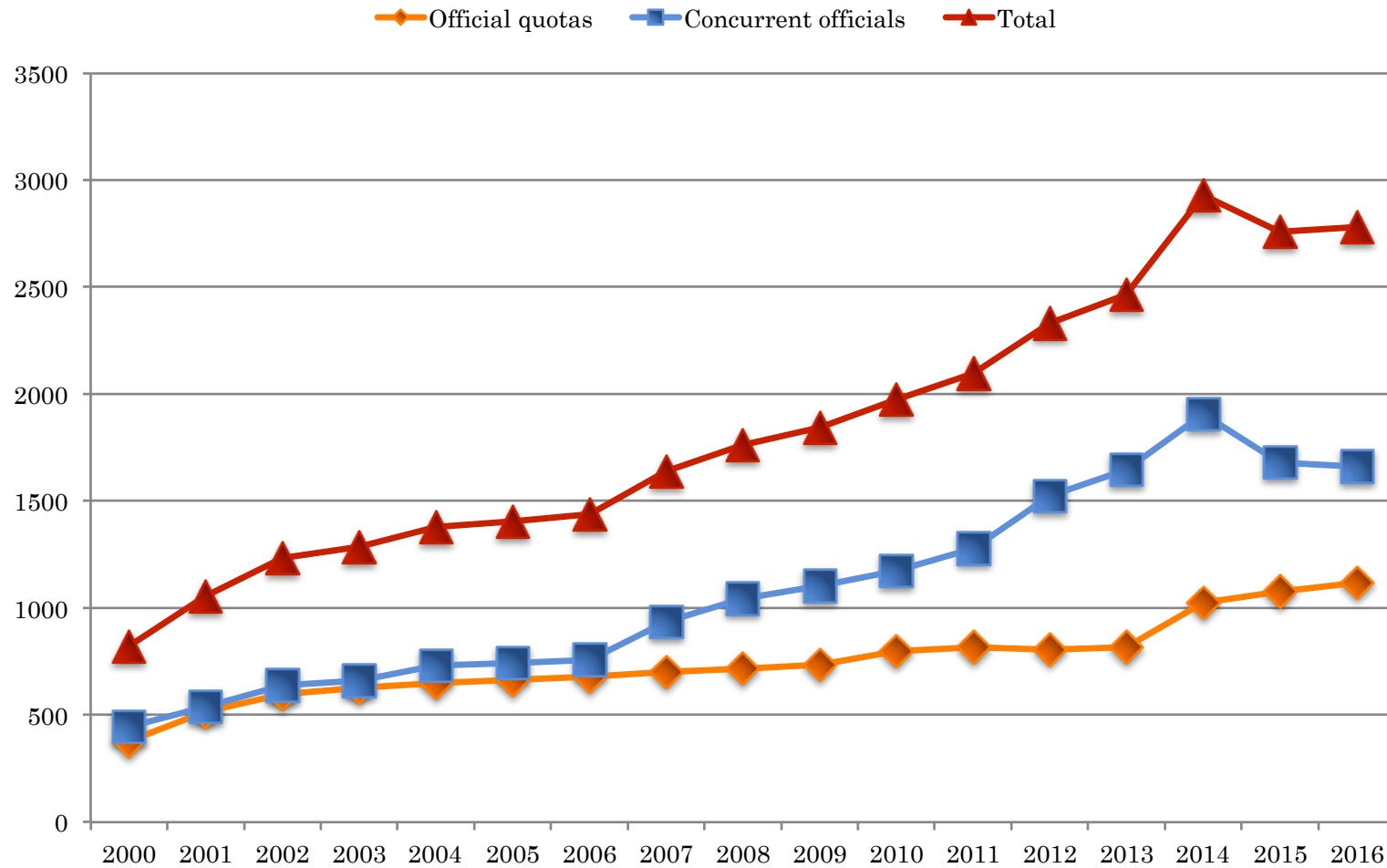
#### 1) Cabinet Secretariat

- a) Originally set up to deal with routine work
- b) Gradually enhanced responsibilities over coordination of policies involving various ministries.
- c) 2001 reform increased its authority to support prime minister's policy formulation

#### 2) Important policies prepared by the cabinet secretariat

- a) Key economic policies and intl. economic negotiations
- b) Security related bills of 2015 to enhance role of SDF in international military confrontations.

### 3) Number of Officers in the Cabinet Secretariat



#### 4. Further Institutional Reforms Increasing PM power

1) Introduction of **National Security Council** (2013. 12) and Security Bureau in the Cabinet Secretariat (2014.1)

-> Enhances prime minister's power over security policy.

2) Creation of **Cabinet Bureau of Personnel Affairs** (2014.4)

a) Increased the prime minister's power on appointment of high ranking officials in the ministries.

b) Before the reform the PM had power of veto.

After the reform the PM now can have more substantive power as the ministers have to make **pre-appointment consultations** with the PM.

### III. 2018 AGENDAS ①:POLITICS

1. September 2018. LDP presidential election.

1) PM Abe is likely to be re-elected.

2) Who will run?

Will PARC chairman Fumio Kishida run?

2. March 2018. Appointment of BOJ

Will Haruhiko Kuroda continue?





## IV. 2018 AGENDAS ②: BUDGET AND TAX

### 1. FY 2018 Budget

1) 97.7 trillion yen (Deficit 33.6 trillion yen (34.5%))

2) This is more **austere** than FY 2017 (FY 2017 Budget 97.4 trillion yen)

3) Real FY 2018 Budget is even **more austere**

a) FY 2018 Budget + FY 2017 Supplementary Budget.

→ **99.4 trillion yen**

b) Real FY 2017 Budget (FY 2017 Budget + FY 2016 Supplementary Budget) : **101.0 trillion**

## 2. Tax Reform

- 1) **Income Tax Hike** for those with more than income of 8.5 million yen → 90 billion yen
- 2) Creation of Tourism Tax (1000 yen/person going out of Japan) → 40 billion yen
- 3) Corporate Tax Reform (Temporal measures for three years)(Current Effective Corporate Tax Rate 29.74%)
  - a) Raise Wages by 3% → 4.6% reduction
  - b) Investment in ICT related technologies for innovation → 4.6% reduction

# V. AGENDAS 2018③: LDP GOING SDP? LABOR (NOT MARKET!) REFORM AND REVOLUTION IN HUMAN RESOURCES DEVELOPMENT

## 1. Labor Reform

1) Reform bills to **submitted** during this ordinary Diet session.

### 2) Development

a) Sep 2016 Council on Labor Reform

b) Mar 2017 Action Plan for Labor Reform

### 3) The same wage for same work

a) You have to provide explanations when differentiating wages for the same work

b) Have to offer the same level of social welfare for regular workforce and non-regular work force

- 3) No more long overtime working hours
  - a) In principle overtime working hours should not exceed 45hours/month.
  - b) Over working hours must not go **beyond 100 hours/month** without exception
  - c) Before the reform
    - (1) Officially overtime working hours should not exceed 40 hours/week on average
    - (2) Yet, if there was agreement with labor union there was no restriction on overtime working hours.
- 4) Minimum wage:1000yen/hour

5) No more hourly wage reform bill submitted as well.

a) exempt some professions earning more than annual income of 10.75 million yen from labor regulations.

b) originally submitted in 2015 but has been tabled.

## 2. Revolution in Human Resources Development

### 1) Development

- a) Sep 2017. Council for Designing 100 year life society.
- b) PM makes a commitment to use some revenue (1.7 trillion yen) from tax consumption hike in October 2019 to **make education free**.

### 2) Policies under discussion to be implemented in 2019

- a) Liberalization of child care for kids who are 3 and 5 years old (800billion yen)
- b) Liberalization of child care for 0 and 2 years old children for some household
- c) more child care facilities for 0 and 2 years old children.
- d) Increase in scholarship for university education (800billion yen)
- e) Increase in wages for the elderly care (100billion yen)
- f) University reform

### 3) Effect on economic disparity

#### a) two pillars

(1) more social security spending for younger generations.

(2) adjustment through income tax reform

b) while economic disparity is not considered to be expanding if we take all generations into account, economic disparity is **becoming larger** among the younger generation -> this will be adjusted.

## VI. REVIEW OF PAST POLICIES①: THREE ARROWS

### 1. The First Arrow: Bold Monetary Policy

- 1) March 2013. Appointment of Governor Kuroda
- 2) April 2013. Quantitative and Qualitative Monetary Easing
- 3) October 2014. Additional Easing
- 4) August 2016. QQME with negative interest rate
- 5) September 2016, QQME with operations on Long term and Short term interest rate

### 2. The Second Arrow: Flexible Fiscal Policy

- 1) Real FY 2013 Budget:¥105.7 trillion (FY2012 Sup Budget (¥13.1 trillion) +FY2013 Budget (¥92.6 trillion))
- 2) Real FY 2014 Budget:¥100.3 trillion
- 3) Real FY 2015 Budget:¥99.4 trillion
- 4) Real FY 2016 Budget:¥100 trillion
- 5) Real FY 2017 Budget:¥101 trillion

### 3. The Third Arrow: Structural Reform (Growth Strategy)



## VII. REVIEW OF PAST POLICIES: THE THIRD ARROW

### 1. Tax Reforms

- 1) FY 2014. Reduction of Effective Corporate Tax Rate from 38.01% to 35.6
- 2) FY 2015. 32.11%
- 3) FY 2016. 29.77%

### 2. Electric Service Liberalizations

- 1) FY 2016. Liberalization of retail market.
- 2) FY 2020. Complete liberalization -> separation of generating companies and transmission companies

### 3. Agricultural Reforms to increase competitiveness

1) FY 2014 Introduction of Farmland Management Organization

2) FY 2015 Reduction of Central Union of Agricultural Co-operatives over regional agricultural co-operatives.

3) FY 2016 (LDP proposal) JA (National Association of Agricultural Cooperatives) Reform (the target year of implementation not specified)

a) No more selling of farm machineries and fertilizers to farmers

b) More selling of agricultural products purchased from farmers instead of selling as “agents” of farmers.

3) FY 2018 Repeal of forced reduction of rice production.

## 4. Corporate Governance Reforms

- 1) FY 2015 Defacto mandatory introduction of external directors.
- 2) FY 2014 Introduction of Japanese stewardship code
- 3) FY 2015 Introduction of Japanese governance code  
(At least 2 external directors strongly recommended)
- 4) FY 2016 Guideline on Corporate Governance
  - a) Disclosure for the status of advisors and councilors
  - b) Ex CEO's expected to act as external directors
- 5) FY 2017 Revised stewardship code
  - Institutional investors expected to disclose their voting records on individual agendas

6) FY 2017 TSE Revises requirements for corporate governance report

→ Enlisted companies have disclose status of former presidents who serve as advisors or councilors

## 5. Inviting more foreign visitors

- 1) FY 2013 10.3 million, FY 2014 13.4 million, FY 2015 19.7 million, FY2016 24.0 million
- 2) FY 2014 Expansion of Haneda Intl Airport Capacity (0.45 million landing and takeoffs)
- 3) FY 2014 Expansion of Narita Intl Airport Capacity (0.3 million landing and takeoffs)
- 4) FY 2016 Daytime Flights from Haneda Airport to the US
- 5) FY 2020 (Target) 40.0 million visitors

## 6. National Strategic Zone

- 1) Deregulation on qualification for directors of organizations of agricultural production (FY 2013)
- 2) Permission for foreign doctors to practice (FY 2013)
- 3) Foreign household assistants allowed (FY 2015)
- 4) AirBnB (Initial deregulation 7 to 10 days FY 2013, further deregulation 2 to 3 days FY 2016, further deregulation FY 2018 permitted national wide for 180 days)

## 7. Labor Market Reforms

- 1) FY 2014 Deregulation for maximum term for limited term workers from 5yrs to 10yrs.
- 2) FY 2015 Deregulation on hiring temporary workers

## VIII. AGENDA 2018 ③: CONSTITUTIONAL AMENDMENT

### 1. Development before the current Abe administration.

- 1) LDP committed to amending constitution since its formation in 1955.
- 2) LDP had been referring to constitutional amendment since 2000 general elections.
- 3) April 2012. LDP proposes draft for Constitutional Amendment

### 2. Abe administration

- 1) PM Abe has been **eager to amend constitution**.
- 2) LDP made a commitment to amend constitution in 14 general election and 16 HOC election
- 3) May 2017, PM Abe proposes to **amend Article 9** and to refer to the SDF in the constitution.

3. In the Oct 2017 election, LDP proposes to amend constitution in the following areas

- 1) Specific reference to the SDF
- 2) Free and enrichment of education
- 3) Responses to emergency situation
- 4) Elimination of “merged district” in the HOC election.





#### 4. Caveats

- 1) **2/3 majority** of both chambers have to agree to propose amending the constitution.  
→ Political parties and politicians willing to “**discuss changing constitution**” share more than 2/3 majority in both chambers.
- 2) **Constitution Examining Council** discusses and proposes amendment.
- 3) It is considered “desirable” that the leading opposition party supports amending constitution.

5. Will PM Abe go ahead with the amendment?

1) Probably seeking to make a reference to the SDF in the constitution.

2) LDP divided on the revision of Article 9 as of December 2017.

a) keep clause 1 and 2 and add a new clause on SDF.

b) delete clause 2 and add a clause on SDF with its character and missions specified.

3) Function of cabinet approval rate. If he can keep it high, he may go ahead (and have LDP propose amendment to the Diet in the fall of 2018) and may call a election double in 2019?