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Japan Candidates Debate Policy by Sekiguchi, Toko; Martin, Alexander

The Wall Street Journal Asia [Hong Kong] 30 Nov 2012: 4.

The article discusses how elections in Japan are focusing on the current economy and deflation. Opposition leader Shinzo Abe of the Liberal Democratic Party wants to focus more on increasing consumer demand and spending instead of on the heavy government debt. If he were to win, he promises a ¥200 trillion ($2.5 trillion) public-works package as well considering to stop the increase in sales-tax that the current government had approved. To try to end deflation, Mr. Abe has pushed the Bank of Japan to take extreme steps to expand the money supply. This has resulted in the yen falling to a seven-month low against the dollar and a 7% rise in stock prices. He has currently set a 2% inflation target, which he hopes to achieve by encouraging the BOJ to consider "unlimited easing". He says that adjusting monetary policy is not enough to tackle the issue of deflation; fiscal policy needs to play its part too. The current Prime Minister, Yoshihiko Noda, has rebutted his rival's plan as being unrealistic and not conducive to solving the nation's heavy debt. Credit rating agencies had said that the tax hikes and commitment to restrain new borrowing were the first, necessary steps to contain Japan's record public debt and avoid credit downgrades.

Deflation causes a vicious cycle. When prices fall, businesses experience plunging profits, which leads to them laying people off or making pay cuts. This results in rising unemployment and eventually, lower consumer demand, which leads to more deflation. Lower consumer demand causes over-production of consumer goods. This affects industries that rely on

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domestic demand as well as the financial sector as demand for loans decreases. Business expectations, and therefore investments, decrease. Rise in interest rates also cause deflation. Japan has interest rates that are almost zero, yet deflation still persists for them. This may be because their interest rates were consistently low for a long period of time, which hurt consumer and business confidence.

Monetary policy alone cannot fix the problem of deflation. Low growth has deepened deflation in Japan. High unemployment, rising debts and defaults, and low aggregate demand can lower GDP and growth. This is why Mr. Abe's plan to encourage growth and demand through a large public-works project and lower taxes has gained such immense support from the public. He is pushing the BOJ for unlimited quantitative easing, which is when central banks inject more money into the economy by purchasing securities like government bonds. By putting more money into the financial system, banks can lend to businesses and consumers to invest and spend more. Also, the value of currency is lowered by putting more money into the economy, thus pushing prices higher and creating inflation. The appreciation of yen against the dollar resulted in Japanese companies cutting costs because they were burdened with expenses that were much higher than in other countries. Also, the high value of the yen forced Japanese exporters to lose their competitiveness in the global trade market. This cut in exports also lowered their GDP. In addition, the appreciation of yen resulted in lower stock prices, which hurt business confisdence and investment.

World News: Asia: Japan Candidates Debate Policy

Sekiguchi, Toko; Martin, Alexander. **The Wall Street Journal Asia** [Hong Kong] 30 Nov 2012: 4.

TOKYO -- Appearing in their first debate ahead of a general election, Japanese Prime Minister Yoshihiko Noda and opposition leader Shinzo Abe stressed the need to work with the Bank of Japan to beat deflation, in a sign of how monetary policy has come to the forefront of campaign issues as the economy continues to suffer from falling prices and a strong yen.

"In order to get out of deflation, we will set an inflation target of 2% and forge an accord with the BOJ," Mr. Abe, head of the largest opposition Liberal Democratic Party, told a debate among party leaders Thursday, adding that the policy also will push down the yen.

Mr. Abe said that if the LDP returns to power, he will put in place an economic policy "on a different scale" from when the party last governed, adding that it also will implement a ¥200 trillion ($2.5 trillion) public-works projects to boost economic growth.

Recent surveys show the LDP leading in voter support, meaning that Mr. Abe has the strongest chance at this stage of becoming the next prime minister after the Dec. 16 general election.

Prime Minister Noda, speaking after Mr. Abe, also said he would "collaborate" with the central bank to overcome deflation, but stopped short of seeking a policy accord with the central bank that Mr. Abe has advocated.

Mr. Abe's call on the BOJ to take more aggressive and "nontraditional" steps, including "unlimited easing" to achieve the 2% price rise, has pushed down the yen and lifted stock prices.

Mr. Noda has rebutted his rival's plan as being unrealistic and said it would cast doubts on Japan's fiscal discipline. With outstanding public debt more than twice the size of its economy, Japan is the most heavily indebted industrialized nation.

Other parties also have turned up the heat on the BOJ to do more to end more than 15 years of deflation, turning monetary policy into one of the top campaign issues, a phenomenon unseen in Japanese politics in recent years.

Earlier Thursday, a small but popular upstart party that could hold the casting vote after the December election echoed Mr. Abe's proposals in its campaign platform, calling for an accord between the government and the BOJ on price stability.

Founded by the popular and outspoken Osaka mayor Toru Hashimoto, the Japan Restoration Party also proposed a change in the law that would weaken the central bank's independence. Recent polls have shown voter support for the JRP edging out that of the ruling Democratic Party of Japan, putting it comfortably in second place after Mr. Abe's LDP.

While the JRP wasn't present, Mr. Noda and Mr. Abe were attending a debate with other party leaders hosted by an online streaming site. The event had made headlines even before it was held on expectations that it might turn out to be a one-on-one debate between the two party leaders, much in the same style as the U.S. presidential election debates.

But after days of bickering between Messrs. Noda and Abe over where and how the debate should be held, in the end, it became open to all parties, resulting in 10 party leaders appearing on the hour-and-a-half program.

In response to Mr. Noda's challenge to a face-off, Mr. Abe proposed that it be held on online video-streaming service Nico Nico Douga, stressing that hosting the debate on the Internet would be "interactive and open to the world." Mr. Noda's aides protested, saying that Nico Nico Douga's system where viewer comments are overlaid directly onto footage could create bias.

In the end, Mr. Noda consented, although it had become open to all parties. Nico Nico said some 1.1 million viewers watched the event.