

Abenomics Lives On

Shinzo Abe's policies had a substantial impact both in Japan and around the world.

By Carl Tannenbaum



It's not often that a person gets an economic movement named after them. The most prominent example is the "Reaganomics" of the 1980s, which had a lasting effect in both the United States and overseas.

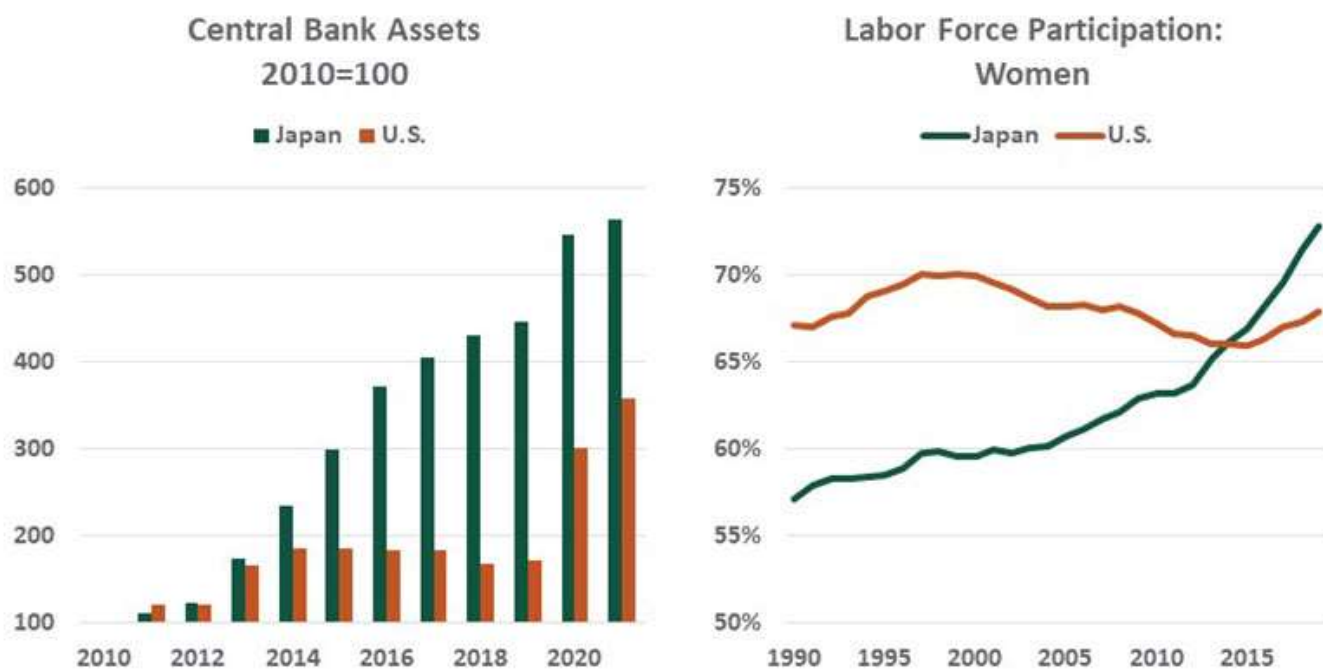
More recently, the practice of "Abenomics" has had a substantial impact in both Japan and around the world. The effort was named after Japanese Prime Minister Shinzo Abe, who was tragically killed by a gunman last week. The ideas that Abe espoused, however, are still very much alive.

It's hard to fathom today, but Japan was the world's ascendent economy forty years ago. It had become a dominant manufacturer and housed six of the top ten banks in the world. Japanese investors actively purchased overseas assets.

But in 1990, the bottom fell out, and Japan has never fully recovered. Weighed down by debt, demographics and deflation, its rate of real economic growth has averaged only 0.7% over the past thirty years. The benchmark Nikkei stock index is still more than 30% lower than its peak of 33 years ago.

Abe was not resigned to Japan's economic fate.

A succession of Japanese leaders attempted to breathe life into the economy, without much success. But Shinzo Abe took a very aggressive approach. His strategy involved three "arrows": loose monetary policy, expansionary fiscal policy and a series of structural reforms. A variant of Modern Monetary Theory was put into operation: government debt expanded rapidly, and the Bank of Japan was called on to finance it.



Sources: Haver Analytics, World Bank

Among the prominent structural reforms were a series of measures designed to allow women to participate more actively in the labor force. Interestingly, female labor force participation in Japan is now well above what it is in the United States.

Skeptics will note that Japan's rate of economic growth is still anemic, and core inflation is still less than 1%. But those results would likely have been much worse in the absence of Abenomics.

What lessons does Abenomics offer to other countries? A number of other large economies have aging populations, sluggish long-term growth prospects and rising debt levels. They may find themselves adding some of Japan's arrows to their quivers.

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