

Daiwa's View

Fiscal policies of Mr. Kishida and Ms. Takaichi

- Dovish hawk and hawkish dove

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On the 8th, Mr. Fumio Kishida and Ms. Sanae Takaichi each held press conferences, the former regarding economic policies and the latter regarding her announcement to run in the presidential election of the Liberal Democratic Party of Japan (LDP). Both explained their fiscal policies, as well, for which Mr. Kishida is known as a hawk despite including many dovish programs, and Ms. Takaichi is known as a dove despite also including hawkish programs.

Arguing that fiscal policy was the foundation of the nation's credibility, Mr. Kishida said he would not abandon fiscal reconstruction. However, he also said that he would consider engaging in fiscal reconstruction while aiming to normalize the economy because fiscal policy could not be sustained without economic growth. He stated that the pillar of economic policy was the shift from new liberalism made since the Koizumi administration, insisting that there will be no allocations without growth, and no new growth without allocations. It can be said that he is steering towards 'large government.'

For example, the four pillars in Mr. Kishida's allocation policy, which were announced alongside the four pillars in his growth strategy, include support for housing/education expenses for the child-rearing generation and higher wages for doctors, nurses, careworkers, kindergarten teachers, and childcare workers through thoroughgoing reform of public prices. Meanwhile, measures for disaster prevention/mitigation and stronger national resilience, as well as the establishment of transportation and logistics infrastructure are public works.

He said that he would not abandon fiscal reconstruction, but he did not make specific references to financial resources for this. He also stated that he would not touch the consumption tax, intending to neither cut nor raise it.

In that sense, it would appear that Mr. Kishida's policy would not entail a major change in policy. Thus far, the ruling parties have been aiming to reach the goal of achieving a primary balance surplus without abandoning fiscal reconstruction. However, they have not taken enough austerity measures to actually achieve that goal. Fiscal conditions are continuing to worsen due to sluggish tax revenues accompanying the economic downturn, the increasing cost of social security resulting from the aging society, and additional expenses for occasional economic measures.

As is well known, Ms. Takaichi is dovish about fiscal policy. In her press conference, as well, she stated that she would temporarily freeze the goal of achieving a primary balance surplus until inflation has reached a stable 2%. She mentioned that she would prioritize fiscal spending, but flexibly adjust the annual investment amount if there were signs of excessive inflation, which appears to be based on Modern Monetary Theory. In order to address major catastrophes due to natural disasters, she announced a medium-term investment plan worth Y100tn over a ten-year period, for which annual spending is calculated at Y10tn. This is three times the pace of the Y15tn over a five-year period for disaster prevention/mitigation and stronger national resilience that was approved by the government Cabinet in December 2020. Annual expenses for public works are usually about Y6-7tn, so this would be more than double that.

That said, while news outlets have been reporting that the supplementary budget would be Y30tn, Ms. Takaichi was not particularly aggressive regarding increasing the size of the supplementary budget, saying that she would focus on what is really needed and increase the size after accumulating spending for insufficient areas. She stated that she had no intention of lowering the consumption tax. As previously reported, in the online version of the *Monthly Hanada*, she announced plans to introduce a carbon tax and raise taxes on financial income, although these were not major topics at the press conference. Given this, I think she is putting the brakes on her dovish stance. As I suspected, she may not be a dove through and through.

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