

Daiwa's Economic View

Takaichi coalition government: Accelerator, brake roles for proactive fiscal policy

- Launch of Takaichi administration; new prime minister favors proactive fiscal policy
- Proactive fiscal policy accelerator/brake roles for both Cabinet (compiles budget) and LDP (decides budget alongside Cabinet)
- Coalition partner JIP restored Osaka Prefecture's financial health through stringent administrative and fiscal reforms
- Overall, prioritizing economy over fiscal policy to remain in place with focus on strengthening expansion of supply capacity

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On 21 October, an extraordinary session of the Diet was held to inaugurate the new administration led by Sanae Takaichi, which was formed by a coalition consisting of the Liberal Democratic Party (LDP) and the Japan Innovation Party (JIP). Prime Minister Takaichi is known for her proactive fiscal policies. However, there are now proactive fiscal policy accelerator and brake roles for both the Cabinet (compiles budget) and the LDP (decides budget alongside Cabinet). The aim of this approach is to maintain the proper balance. Furthermore, coalition partner JIP originated from the Osaka Restoration Association, which restored Osaka Prefecture's finances through thorough administrative and fiscal reforms. In general, the economic and fiscal policies of previous administrations, which had prioritized the economy over public finances, will remain in place, with a focus on strengthening the expansion of supply capacity.

Accelerator/brake roles for Cabinet's proactive fiscal policy ~ Minister of Economic and Fiscal Policy Kiuchi and Minister of Finance Katayama

Japan's Constitution stipulates that the Cabinet holds the authority to formulate budgets.

The minister in charge of economic and fiscal policy is responsible for compiling economic countermeasures within the Cabinet. Minoru Kiuchi has now assumed this role under the Takaichi administration. He is known as an advocate of proactive fiscal policy and serves as an advisor and finance director for the LDP's "Parliamentary Association for Promoting Responsible Expansionary Fiscal Policy."

The Minister of Finance is responsible for reviewing budget requests for economic measures and compiling budget proposals. Satsuki Katayama has now assumed that office under the Takaichi administration. She endorsed Takaichi during the LDP presidential election. Takaichi promised to increase the number of female Cabinet members, of which Katayama is one. Katayama is a former MOF official and is well-versed in formulating budgets.

Katayama was MOF's first female Budget Director and during her tenure she gained attention for drastically cutting the defense budget. However, after becoming a politician, her stances changed. For example, during the October 2021 Diet member testimony amid the COVID-19 pandemic, she pressed then-Prime Minister Fumio Kishida to formulate a large-scale economic stimulus package.

In 2023, she published the book "Plan for Doubling Wages and Achieving Nominal GDP of 1,000 Trillion Yen!" Her emphasis on growth investment is in line with Takaichi's views. However, she places greater emphasis on deregulation than on fiscal stimulus. She is unlikely to take a stance that would not hesitate to issue massive amounts of JGBs for the sake of economic growth.

Accelerator/brake roles for LDP's proactive fiscal policy ~ Policy Research Council Kobayashi and LDP Secretary-General Suzuki

Japan operates under a parliamentary Cabinet system, so the government advances budget formulation while coordinating with the ruling parties in advance. This is because budgets that are not approved by the ruling parties are not passed by the Diet.

The person responsible for compiling economic measures within the LDP is the Policy Research Council Chairman. Takayuki Kobayashi, who ran in the LDP's presidential election, has now assumed that office under the Takaichi administration. Kobayashi is a former MOF official, but he is known for pledging to promote expansionary fiscal policies in the 2024 and 2025 LDP presidential elections.

Shunichi Suzuki, the brother-in-law of Taro Aso, was appointed as Secretary-General, a position with substantive responsibility for party operations. Aso was instrumental in Takaichi's dramatic come-from-behind victory in the LDP leadership election and he has once again become Vice-President. Both are former Finance Ministers and are widely known for their emphasis on fiscal discipline.

Administrative/fiscal reforms as key policies for coalition partner JIP ~ Exact opposite of proactive fiscal policy

JIP, which formed a new coalition with the LDP under the Takaichi administration, is a political party that places great emphasis on promoting thorough administrative and fiscal reforms. This stance is fundamentally the opposite of proactive fiscal policy.

In 2010, Osaka Governor Toru Hashimoto and local assembly members from Osaka Prefecture and Osaka City formed the Osaka Restoration Association. This association implemented stringent administrative and fiscal reforms to restore Osaka Prefecture's financial health. Not only did Osaka realize financial soundness, but it also improved resident services through various reforms.

Pushing through stringent administrative and fiscal reforms will inevitably impose hardships on residents, such as reduced administrative services and increased taxes and user fees. The Osaka Restoration Association implemented reforms ensuring that burdens were not solely placed on residents. For example, lawmaker salaries were cut and the number of assembly seats were reduced. Such activities have spread to municipalities within Osaka Prefecture, including Osaka City, achieving results and earning the trust of residents.

JIP is the national political party that emerged from the Osaka Restoration Association. Their basic approach to policy is essentially the same. The inclusion of reducing the number of Diet members and social security expenditures as conditions for the coalition with the LDP were also based on the same idea.

Basically, with JIP joining the Takaichi administration, it is unlikely that fiscal spending will become even larger. Rather, we expect a portion of the fiscal expansion to be offset by the administrative and fiscal reforms pursued by JIP. This can be seen in the prompt decision to implement a comprehensive review of special tax measures included in the 12 items JIP requested as conditions for forging a coalition with the LDP.

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