Saito Renho on Japanese economic growth, ‘Abenomics’, redistribution, and future innovation in Japan

(Image from Twitter @renho_sha)

March 2022. Harvard Kennedy School fellow Richard Yarrow and Harvard students Tasuku Ono and Candice Yang recently interviewed Saito Renho, a longtime leader in Japan’s opposition Constitutional Democratic Party. Renho, who is popularly known by her given name, first entered Japan’s national legislature in 2004 and served as president of the Democratic Party of Japan from 2016 to 2017. Here we present the parts of the discussion in which they focus on issues of Japanese economic growth and reform, the effects of ‘Abenomics’, redistribution, East Asian demographics, as well as technology, research and facilitating future innovation in Japan.

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As a leader in the Democratic Party, you have spoken about positive aspects of “Abenomics,” while also criticizing the program as insufficient for stimulating growth. Do you think Prime Minister Abe had a correct approach that was not implemented well enough, for instance, in raising consumption taxes, or do you think the approach had conceptual flaws from the beginning? How do you evaluate the current administration’s focus on “redistribution” and “new capitalism”?

Renho: In regards to Abenomics, we would of course support different policies to improve the Japanese economy. The Bank of Japan for many years had not implemented the kind of monetary easing policies that [the BoJ could have] implemented. There was certainly some expectation from the Japanese people that Abenomics policies could address the long stagnant situation of the economy.

However, unfortunately, I believe the result was a failure.

The idea of Abenomics was to improve the economy by a trickle-down effect, by enriching the "haves" within society, the richer and the large corporations. The improvement for the rich would then improve labor conditions throughout society and raise the economic growth of Japan as a whole.

As a result, the rich – the large shareholders and the large corporations – did indeed become richer throughout this process. However, this did not lead to any kind of increase in the wages for workers, and it led to greater revenues just turning into large corporations' capital as retained earnings. It did not lead to the kinds of improvements on the broader scale that were sought.

This has led to further gaps within society. If we look at the data, this is very clear. We see that there has been a continued drop in real wages, and a significant increase in the number of people who are working in irregular employment. Over the last 30 years, the percentage of people in irregular employment has doubled to around 40 percent of the total number of people employed. If we look at women in particular, this figure is even more than 50 percent, often in unstable or less secure working positions. So we can see indeed that there is a broadening of gaps and divisions within society.

If Abenomics policies were implemented during the Showa period when there was rapid economic growth and when Japan was more prosperous, we might have seen a different result. That is, in the situation where people were guaranteed lifetime employment, where they would have received different promotions year to year and increases in wages year to year, such policies might have then led to improvements in consumption and the broader effects in society which were hoped for through Abenomics. However, while that policy mechanism might have functioned during the Showa era, it certainly does not function now in the Reiwa era, and Abenomics has made that very clear.

Regarding Mr. Kishida's "new capitalism," I think that this [new phrase] recognizes the fact that Abenomics performed below expectations. However, it is very unfortunate that he is still committed to this growth scenario as a precondition for his redistribution plan. I see no significant change from the prior Abenomics approach.

For us, we believe that rather than having this [redistribution] rely on economic growth, in order to bridge and shrink the wealth disparities within society which have widened during Abenomics, we should start by redistributing to the most-needed, ensuring that those who are not wealthy can have a better situation. This can stimulate consumption, for which we need to have these structural changes. These include looking at structural improvements in the employment situation, for example, or looking at how to address the issue of unstable employment or workplace conditions for women–ensuring that they can balance work and families. We need to have these fundamental, structural changes in order to address these issues fully.

How would you characterize what has stymied Japanese economic reform in the direction of redistribution and consumption over the last 30 years? Is Japan held back by "special interests" limiting political will for reform? Is Japan limited by a need for a new intellectual framework around economic growth? How would you explain the long-term impediment to redistribution?

Renho: I think there were political impediments in that, for a long time, we were just seeing the chasing of past policies and trying to follow up on things which had been done in the past.

If we look at the large export companies which have played a significant role in Japan's economic growth for a long time, some companies have taken advantage of the lack of political change to protect subsidies or protect against different regulatory reforms.

If we look at the employment situations as I mentioned, we are seeing the decrease of those who are in full-time regular employment and an increase in irregular workers. However, the different systems for social welfare or employment insurance are still very much based on the precept that there is full-time employment as the norm, as the standard. Therefore, we have continued to propose and advocate for major structural reform for these kinds of situations and policies.

Many politicians– in China and across the West– have focused on exports and manufacturing as the basis of growth and national strength. Do you think this idea is holding Japan back, and do you think Japan needs to reorient resources from exports in favor of resources for households and the consumer economy? Is Japan's national savings rate too high, and the proportion of household consumption in the economy too low?

Renho: Japan is of course a large exporter, in line with other states such as the United States, China, and Germany. I would not deny from the outset the importance of these imports and exports and the fact of trade as an economic stimulus.

We recently saw, for example, the announcement by the leadership of Toyota to shift a very strong focus towards EVs [electric vehicles] by the year 2030, which I believe is good news. We also had the news recently, announced by the Ministry of Agriculture, that Japan's agricultural exports in this past year exceeded for the first time one trillion yen. This shows that the "Japan brand," for example, in high-class beef and sake and so on, is indeed still strong. They are not behind in this international context.

At the same time, we see that within Japanese GDP, around 60 percent is from individual consumption. Therefore, at the same time as having this importance on exports, we do need to look at what policies we can have towards stimulating more consumption.

Given your previous experiences as a minister focused on Japan's birth rates, how do you interpret the declining birth rates and demographic trends across East Asia and especially in Japan? What should the Japanese government do to improve the demographic outlook?

Renho: This issue is of extreme importance for East Asia. There is this rapid decrease in birth rates, which is being experienced in Taiwan, in the Republic of Korea, and in China as well, even to the point of China making revisions to the One Child Policy and seeing the demographic issue as really an existential issue for the state. But I think, unfortunately, in Japan, this sense of urgency was not necessarily recognized as much as it should have been.

Since even 30 years ago, government studies have identified or expected these issues of the declining birth rate. But unfortunately, the government had not taken this issue seriously.

It's somewhat unbelievable, but I think there was an understanding that if you just leave young people to be, they will go and get married. They will have children. They will be able to have a family and there will be no problem there. You just need to let them go ahead and do that, which is a very naive way of looking at it.

However, we see the [demographic] changes which have ensued. We can see the aging in rural areas, which has meant that even if young people are living in these places, there are no jobs for them. The lack of employment leads young people from rural areas, from regional areas of Japan, to come to Tokyo. After seeking work, however, in Tokyo, then they encounter a very large population with insufficient childcare services, meaning that it is extremely difficult to balance having a job and having a family at the same time. These are very fundamental, structural problems behind Japan's birth rates.

A major reason that married couples are not able to have their ideal number of children is the enormous cost involved in childcare and education. Therefore, in order to support child rearing and the demographic situation, we need to quickly implement policies such as direct benefits for childcare as well as employment policies to improve wages for those who work while raising children, and measures to enhance public childcare services.

Under the Democratic Party administration in 2009, we implemented policies to improve these conditions. For example, we worked on expanding child allowances and providing free high school education and interest-free scholarships for higher education. In these ways, we aimed to support many kinds of childcare expenses. Many different policies which were implemented to address this situation, however, were all revised by the new administration in 2012. This policy change is extremely unfortunate.

How do you see Japanese policy on science, technology, and innovation, and especially in comparison with China and the United States?

Renho: I am very concerned about this. If you look at the funds available for these areas, not only from government funds, but also looking at private and university sectors, Japan is the third in the world in terms of the overall amount, following the United States and China. However, there is still a huge difference between each country in how much funding is invested in these areas. The most recent numbers on funding levels, I believe, are from 2018, and we saw in Japanese yen the US was at around 60.7 trillion yen, China at 58 trillion, and Japan only at 17.9 trillion yen.

I think there is an issue of the funding for research and development, but this is not the only issue. For many university researchers and graduate students, the amount of time that they can focus on their research is strained with so much time spent on grant proposals, university administrative work, and similar tasks.

I believe that we need to have dedicated efforts to ensure that there is an environment in which people can truly focus on their research for a long period of time, recognizing that you will not see results in a lot of basic research in just one or two years. There needs to be much more long term sustained support, in an environment which can allow that kind of research.

Dr. Manabe Syukuro was recently awarded the Nobel Prize for his research on models on global warming. His first model was created in 1969, so he spent around 50 years focusing on this research in the same field. This formed the basis of indices which the whole international community is using.

The words that Dr. Manabe shared upon the announcement of his Nobel Prize left a great impression on me. He said that his research into global warming was something which is so fun, so that for five decades he enjoyed every step along the way. This left a deep impression, and also left me feeling somewhat envious!

I believe that what is most important is to ensure that the younger generation can have this experience of being able to dedicate themselves, to enjoy themselves within their research, and to have the support in place to be able to show their results, and that is something which becomes a treasure for the nation. This is why, in our policy platform in the recent election, we proposed active support for developing digital communications, the “internet of things” (IoT), artificial intelligence, robotics, big data, and blockchain technologies, and in ways that they can be applied and achieve concrete results for people’s lives.

This text has been translated from Japanese. It has been edited and condensed for clarity.

Saito Renho – Member of the House of Councillors of Japan

Richard Yarrow – Fellow at Harvard Kennedy School and Visiting Fellow at the National University of Singapore – Harvard Profile

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