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THE OUTLOOK

For Some in Japan, Another Day Older and Deeper in Debt Doesn't Sound So Bad

The IMF puts Japan's debt at roughly 240% of GDP, but an antiausterity movement there argues now is the time to borrow more



An employee examines a Japanese national flag at a manufacturing facility in Numata in February. With local elections looming across Japan, there is a push for an end to tight government budgets and the introduction of new welfare spending. PHOTO: NORIKO HAYASHI/BLOOMBERG NEWS

By Megumi Fujikawa and Kosaku Narioka

March 30, 2019 8:00 a.m. ET

TOKYO—In Japan, a country with \$10 trillion in government debt and an economy half that size, some people think the best policy is to borrow more.

The case for more aggressive deficit spending in the world's third-largest economy rests on some confounding facts. Japan is issuing 10-year government bonds at a negative interest rate, meaning it gets paid by its lenders. Thanks in part to a long period of low rates, only about 5% of central and local government revenue is going to interest payments. Inflation is also very low.

Conventional economics holds that large doses of government borrowing lead to higher rates, rising interest burdens and more inflation.

“There are many people in Japan and around the world who are suffering from the results of tight budgets,” said Akiko Oishi, one of dozens of candidates backed by an antiausterity group

in local elections to be held across Japan on April 7. Ms. Oishi, who is campaigning in a yellow jacket in Osaka for the equivalent of a state legislator's position, is calling for more than \$100 billion in new national spending for welfare improvements such as better pay for elderly-care workers.

Fiscal hawks in Japan agree that, contrary to perceptions of the country as another Greece, its finances are beginning to turn around. But they say that should serve as encouragement to shrink deficits more. Prime Minister Shinzo Abe has pledged to carry through with a sales-tax increase in October designed to trim the deficit—a move denounced by Ms. Oishi and her allies.

Mr. Abe twice postponed the consumption tax increase after the previous increase to 8% from 5% in April 2014 dampened consumption and hurt growth. The government has repeatedly pushed back its deadline for achieving a primary budget surplus due to ballooning social security costs and sluggish growth.

The debate in Japan comes in the context of a global wave of antiausterity movements, including the yellow-vest protests in France that forced the government to halt a fuel-tax increase and lift minimum wages. In the U.S., left-wing Democrats such as Rep. Alexandria Ocasio-Cortez are calling for major expansions of government programs like Medicare and in some cases citing unorthodox monetary theories to suggest the government needn't worry about issuing more debt to pay for them.



Akiko Oishi, a candidate in Japan's local elections who is backed by an antiausterity group, campaigning in Osaka in February.
PHOTO: OFFICE OF AKIKO OISHI

As has often been the case for the past quarter-century, Japan offers an instructive example because it stands at the extreme end of developed economies, many of which have high debt and low interest rates by historical standards. Japanese central and local government debt is

estimated to stand at ¥1.1 quadrillion—about \$10 trillion—as of March 31, according to the Ministry of Finance, twice the size of gross domestic product.

The International Monetary Fund, which uses a broader definition of government debt, puts Japan's debt at roughly 240% of GDP, compared with 106% in the U.S. by the same broad measure. Even Greece is more austere than Japan by this measure.

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But with the help of heavy bond buying by the Bank of Japan and large domestic savings, Japan currently has an interest rate on 10-year bonds of minus 0.095% , so it can borrow now and pay back less later. The ratio of debt to GDP has stopped

rising.

Former International Monetary Fund chief economist Olivier Blanchard said chronically low domestic demand in Japan required an aggressive government response, and low rates made it possible.

Now a senior fellow at the Peterson Institute for International Economics, he wrote in a recent paper that in Japan, extra borrowing every year beyond what the country needs to pay off old debts “might be needed to sustain output and may have no fiscal or welfare cost,” meaning it wouldn't lead to higher taxes or deprive businesses of capital.

“In a deflationary period, when the economy isn't doing very well and inflation isn't rising very much, the government should spend more,” said Tadasu Matsuo, an economics professor at Ritsumeikan University and leader of the antiausterity group that has endorsed Ms. Oishi.

That position isn't far from what Mr. Abe advocated when taking office in December 2012. More government spending was the second of the “three arrows” of Abenomics, alongside monetary easing and structural changes to the economy.

Companies don't want to invest in Japan due to a fear that the country may collapse one day.

—Naoki Tanaka, economics commentator and chairman of a Ministry of Finance panel on debt management

Some of Mr. Abe's supporters on the right believe in the power of lower taxes and more government spending to jolt Japan's economy. The prime minister himself has tacked in recent years closer to the position advocated by the Ministry of Finance and the big-business establishment, which want a higher sales tax and a lid on government welfare spending.

Defenders of that position say that just because Japan can borrow more doesn't mean it should. Naoki Tanaka, a longtime economics commentator who is chairman of a Ministry of Finance panel on debt management, says the huge overhang of debt depresses long-term growth by hurting confidence, and the situation could worsen if the government is seen as having lost discipline.

"Companies don't want to invest in Japan due to a fear that the country may collapse one day," he said.

Others say Japan has benefited in the past few years from an unusually favorable global environment, including a surge in demand for high-tech goods from China—though that is beginning to reverse.

"The worst of Japan's fiscal deterioration is yet to come," said Izuru Kato, chief economist at the Totan Research Co.

He favors the tax increase in October and says that in the long run further tax increases and cuts in health-care spending are necessary. But the deficit hawks in Japan no longer dominate this debate.

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