

Stanford Japan Program at S-APARC

The Stanford Japan Program was formally established in November 2011, renewing the Walter H. Shorenstein Asia-Pacific Research Center's commitment to this important field. As an integral component of the Center, SJP facilitates multidisciplinary, social science-oriented research on contemporary Japan, emphasizing both academic scholarship and policy-relevant research. The program aims to become a central platform for Stanford students and the broader community for understanding and engaging with Japan.

Research and Program Activities

Program activities include the Japan Colloquium Series, conferences to further cutting-edge research and address critical contemporary policy issues, and public seminars. The goal of Japan Program is to become an eminent platform to foster intellectual exchange among scholars, experts, top-tier professionals, politicians, and students.

Message from the Director



Everything starts new on April 1 in Japan: new school year, new accounting year, and new fiscal year. This year, prices of goods and services all over Japan were also renewed on April 1, reflecting the increase of the consumption tax rate by 3%. The media reported that many retail stores had trouble updating the computer systems for the new tax rate which forced some stores to close down for the entire day to fix the problem. This should have caused minimal disruption, I guess, because many consumers rushed to stores especially to buy durable goods before the consumption tax rate increased. I am sure all the car salesmen could have taken a day off without any problems.

Department stores reported that the March sales were up by around 30% from a year ago. So, we should expect that the sales in April would go down as much compared with last year. The question is whether the demand can stay low longer and eventually pull the economy down to a recession as it happened when the

consumption tax rate was raised last time in April 1997.

I have been asked the questions many times, and here is what I have been giving as my answer. Japan is not likely to repeat 1997. There are two important differences that we should note. First, in 1997, at the same time as the consumption tax increase, the income tax cut was phased out (resulting in an effective tax increase) and the copayment on medical services under the national health insurance increased. Those additional negative shocks do not exist this time. Second, the government passed the supplemental budget of 5.5 trillion yen to counter such negative demand shock expected from the consumption tax increase. Thus, overall, I do not expect Japan to go into recession as a result of the consumption tax hike. The second quarter growth rate will be down but the economy will recover in the third quarter.

But, something else worries me. The

in this issue

Message from the Director [P.1](#)

Ambassador Ryozo Kato [P.2](#)

S-APARC News [P.3](#)

Recent & Upcoming Events [P.4](#)

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consumption tax rate increase of 3% is expected to increase the tax revenue by about 7.1 trillion yen at most (1.5% of GDP). Given the government is already spending 5.5 trillion yen more in the form of the supplementary budget, the net reduction in the budget deficit will be only 1.6 trillion yen in the first year. From the second year on, the reduction of the deficit can be greater if the 5.5 trillion yen spending increase is only temporary, but some policy makers have been arguing that the increased tax revenues should be used to expand the social security system to support increasing number of the old. More importantly, the consumption tax rate increase to even 10% (after October 2015 under the current plan) is not sufficient to make the Japanese government debt sustainable, as I argued in my paper with Takatoshi Ito that was just published (page 3 of this newsletter). The government has not come up with a credible plan to fix the fiscal problem, yet.

The paper on the Japanese government debt was one of the papers that I presented

during my two weeks visit to EHESS (École des hautes études en sciences sociales) in Paris in March. Sébastien Lechevalier, who is a professor at EHESS and an economist who studies the Japanese economy, invited me as a visiting professor there. Sébastien is also the founder/president of Fondation France-Japon, which promotes the exchanges between Japanese and French scholars in social sciences, and the director of Réseau Asie (French consortium to coordinate Asian Studies in France). I had a chance to meet many researchers (not limited to Japan experts) who are interested in the Japanese economy.

I got back just in time for the new quarter here at Stanford, which started on March 31. The Japan program activities are already in full swing. On April 2, we welcomed Ambassador Ryozo Kato, former ambassador of Japan to the U.S. and former commissioner of Nippon Professional Baseball League, to give a talk on the future of the U.S.-Japan alliance in fully packed seminar room.

- Takeo Hoshi

The Future of the US-Japan Alliance



The US-Japan alliance is the longest and most indispensable alliance in the modern history of East Asia. It has served as the foundation for the region's security structure for over a half-century. However, The United States and Japan are now facing the impact of political change, economic uncertainty, and changes in the global balance of power especially with China's emergence as a rising economic and military power. With territorial disputes involving China, Japan, and South Korea, and fundamental disagreements over historical interpretations of the Pacific War, US-Japan alliance is being questioned of its capability of managing these issues. On April 2, Shorenstein APARC welcomed Ambassador Ryozo Kato to speak on the future of the US-Japan alliance.

Ambassador Kato, former Ambassador of Japan to the United States from 2001- 08, the longest tenure of any Japanese Ambassador to the United States, former Commissioner of Nippon Professional Baseball from 2008 - 2013, as had a long and distinguished career in the Ministry of Foreign Affairs of the Japanese Government. He has been a Director at Mitsubishi Corporation since June 2009. A graduate of Tokyo University Faculty of Law and Yale Law School, he served his country in Australia, Egypt, and the United States, in addition to multiple global assignments within the Ministry in Tokyo.

Takeo Hoshi and Takatoshi Ito (University of Tokyo) analyze Japan's fiscal condition and develop future tax and budget-tightening alternatives in a new journal article entitled "Defying gravity: can Japanese sovereign debt continue to increase without a crises?" in *Economic Policy*, Vol. 29.

Summary

Japan has the highest debt to GDP ratio among advanced countries, and many studies find that the current fiscal regime of Japan is not sustainable. Yet, the Japanese government bond continues to enjoy low and stable interest rates. The most plausible explanation for such an apparent anomaly is that the bonds are predominantly held by the Japanese residents, who are willing to absorb increasing amount of Japanese Government Bonds (JGB) without requiring high yields. Even if the Japanese residents continue to invest their new saving into the government bonds, however, Japan's fiscal situation is not sustainable, which this paper shows through simulations under various scenarios. In all of the

scenarios that assume the fiscal policy stance of the Japanese government does not change in the future, we find that the amount of government debt will exceed the private sector financial assets available for the government debt purchase in the next 10 years or so. The paper also shows that sufficiently large tax increases and/or expenditure cuts in the future would put the government debt on a sustainable path. Thus, if the market believes that Japan will embark on such fiscal consolidation in the next 10 years, at most, the low JGB yields are justifiable. If and when the expectation changes, however, a fiscal crisis can be triggered even before the government debt hits the ceiling of the private sector financial assets.

The article is available online at [Shorenstein APARC](#).



On March 9, **Kenji Kushida** (Takahashi Research Associate in Japanese Studies) spoke at Reischauer Institute of Japanese Studies public symposium at Harvard University. Kushida's talk included "The Fukushima Nuclear Disaster and the Democratic Party of Japan (DJP): Leadership, Structures, and Information Challenges During the Crises" and "The Politics of Commoditization in Global ICT: Lessons From Japan on How to Avoid Leading Without Followers."

Recent public opinion polls in China and Japan expose a "striking degree of hostility," highlighting a clash in narratives between the two countries. Phillip Lipsy (The Thomas Rohlen Center Fellow and Assistant Professor of Political Science) says in an op-ed entitled "Who is East Asia's Voldemort?" in *AlJazeera America* that Japan's conservatives are "misguided in seeking to reinvigorate their country by revising history," and instead should rally the country "around dreams of the future."

The article is available online at [Aljazeera America](#).



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Recent & Upcoming Events

- **April 3 - S-APARC Contemporary Asia Seminar Series**

“The Shadow of History and Sino-Japanese Relations”

Speaker: Ezra Vogul - Henry Form II Professor of Social Sciences, Emeritus at Harvard University

- **April 11 - S-APARC Korea Studies Program Lecture Series**

“Seoul-Tokyo Relations in Peril: Is a ‘Recet’ Possible?”

Speaker: Shin Kak-soo - Former Korean Ambassador to Japan

- **May 6 - S-APARC Japan Colloquium Series**

“The ICT-Enabled Services Tranformation: Towards a New Production Paradigm and Implications for China, Japan, and South Korea”

Speaker: Kenji Kushida - Takahashi Research Associate Fellow, Shorenstein APARC

- **May 13 - S-APARC Japan Colloquium Series**

“Current Situation of the Abe Administration and Liberal Democratic Party of Japan”

Speaker: Hiroshi Hoshi - Senior Political Writer, The Asahishimbun

* Please register for our events at Japan Program website at jsp.stanford.edu *