22 November 2024

Stimulus package shows “government by negotiation” at work

Key takeaways

- The Ishiba government approved a new stimulus package with nearly JPY 22tn (USD 141.5bn) in new spending.
- The new fiscal stimulus was made possible with the assent of the Democratic Party for the People (DPFP), which signed on after the ruling parties promised to include the DPFP’s tax proposals in next year’s budget.
- Passing supplemental budget included as part of the stimulus package is the first major test for the minority government.

Prime Minister Ishiba Shigeru, freshly returned from summits in Peru and Brazil, convened a cabinet meeting on Friday, 22 November to finalize an economic stimulus package as the Ishiba government seeks to boost Japan’s economy and improve its political standing.

As expected, the stimulus package was larger than the JPY 13tn (USD 84bn) Ishiba suggested during the general election campaign, as the minority government’s need to secure opposition support for the budget – and Ishiba’s and the Liberal Democratic Party’s (LDP) political vulnerabilities more broadly – will lead the government to rely more on fiscal stimulus. The price tag approved by the government includes JPY 21.9tn (USD 141.5bn) in government outlays, as well as another JPY 39tn (USD 252bn) in private-sector credit measures. Of that, JPY 13.9tn (USD 90bn) will be included in a supplemental budget that will be submitted to the forthcoming extraordinary session of the Diet. The stimulus package will distribute these funds among three pillars, including support for economic growth; measures to support disaster reconstruction and resilience; and subsidies and other policies to help households cope with inflation.

The stimulus package's measures to provide relief for lower-income households – which will include not only direct payments but also the extension of gas and electricity cost curbs, reintroduced over the summer, and gasoline subsidies – will attract the most attention as part of the Ishiba government's bid for opposition party support for the budget's swift passage. But the biggest piece of the stimulus package may be its industrial policies provisions, as it mandates JPY 6tn (USD 39bn) in subsidies through 2030 for research and development and the mass production of advanced semiconductors, supplemented by another JPY 4tn (USD 26bn) in loan guarantees and financing from government financial institutions.

Preparing this stimulus package – the product of extensive negotiations between representatives from the LDP, Kōmeitō, and the Democratic Party for the People (DPFP) – was the first major test of Japan's new policymaking process, as the ruling parties sought to ensure that they can rely on the DPFP's votes once a supplemental budget, as well as the FY 2025 general budget, are submitted to the Diet. The Ishiba cabinet was able to approve the stimulus package on Friday only because the three parties had concluded an agreement on Wednesday, 20 November whereby the ruling parties acceded to the DPFP's demands to lift the "JPY 1.03mn barrier" for income tax exemptions and cut gasoline taxes in the FY2025 budget, with the DPFP's agreeing to the passage of the supplemental budget by the end of the year in exchange. The ruling party tax commissions are still deliberating on FY2025 tax reform plans, meaning that the precise details of these concessions have not yet been decided and will still be subject to multi-party deliberations.

For now, this "government by negotiation" is Japan's new reality. While the agreement between the LDP, Kōmeitō, and the DPFP enabled the Ishiba government to clear the procedural hurdle of cabinet approval, the DPFP was not entirely satisfied with deferring the substance of the tax reform for later. (Furukawa Motohisa, the party's tax policy chief, reportedly likened the LDP's proposal to a manju – a sweet bun filled with bean paste – without the filling.) The income tax exemption barrier – which the DPFP wants to raise to JPY 1.78mn (USD 11,500) – is the main issue but not the only issue between the ruling parties and the DPFP. LDP tax commission chair Miyazawa Yōichi has, for example, stressed that he wants to resolve the question of a tax hike package for defense spending, a proposal that includes an income tax hike, once and for all. The DPFP, opposed to tax hikes for now while households feel squeezed, will likely resist this proposal, adding a wrinkle to the three-party talks. In the meantime, the ruling parties are exploring ways to satisfy the DPFP's demands without significantly increasing the government deficit, with one proposal circulating that would raise the income tax exemption for the national income tax but leave it in place for the municipal tax that goes towards supporting local services.

In general, the DPFP has insisted that the Ishiba government – and the LDP and Kōmeitō – are responsible for figuring out how to pay for its policies, not an opposition party like the DPFP. The DPFP also must be wary as it pursues its policy of positive cooperation with the government. Decisions by the Shizuoka prefecture teachers union to end its support for the DPFP due to its support for the Ishiba government and a separate decision by the Shizuoka chapter of labor federation Rengo to defer a decision on whether to endorse DPFP Secretary-General Shinba Kazuya point to the price the DPFP could pay for getting too close to the government.

Meanwhile, even as the LDP and Kōmeitō have worked with the DPFP to ensure that at least one opposition party will lend its support for the FY2024 supplemental budget and the FY2025 general budget, the government will still have to reckon with the Constitutional Democratic Party's (CDP) control of the budget committee in the House of Representatives. The CDP has resisted negotiations with the government prior to the submission of the supplemental budget to the Diet, in part because it wants the budget committee to play an institutional role in reviewing and possibly revising the government's budget. Meanwhile, Ishin no Kai has said that it wants political reform legislation to proceed before the supplemental budget and could use the committee hearings to press this point.

The upshot is that, in contrast to previous practice, the government's fiscal policies will not be settled until the Diet approves them. The extraordinary session of the Diet, which is scheduled to open on 28 November and run through 21 December, with debate on the supplemental budget scheduled to begin on 9 December, will be a preliminary test of how the minority government and the Diet will interact before the more extensive ordinary session in 2025.