



J A P A N

F O R E S I G H T

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## Understanding Takaichi's fiscal philosophy

### Key takeaways

- Prime Minister Takaichi Sanae has signaled that she is prepared to change budgeting – and reduce the power of the finance ministry – and she seeks to expand her government's ability to spend on her priorities.
- Takaichi's own ideas, the Liberal Democratic Party (LDP) right's embrace of fiscal expansion, and broader public attitudes all suggest that the prime minister is committed to fiscal expansionism and will not be easily deterred.

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*I am pleased to give my clients a first look at an essay I have written to explain the origins of Prime Minister Takaichi's commitment to fiscal expansionism.*

Takaichi Sanae, reaffirmed as prime minister on Wednesday, 18 February, [held](#) a press conference late Wednesday in which she discussed her priorities for “the Takaichi Cabinet 2.0.”

In her remarks, she emphasized that her government's first order of business is passing the FY2026 budget, which she is determined to pass before the end of the fiscal year on 31 March even as some members of the Liberal Democratic Party (LDP) fret that breaking precedent to pass a budget after only one month of deliberation could trigger a backlash.

However, she also discussed her government's broader priorities for the coming year, including “responsible fiscal expansion,” “fundamentally strengthening security policy,” and “strengthening the government's intelligence operations,” as well as pursuing social security and tax reform through a national conference that will take up the question of a consumption tax cut on foodstuffs. But Takaichi was also clear about what she sees as the single most important priority for her government.

“At the heart of the Takaichi government’s policy shifts,” she said, “is responsible fiscal expansion.” As she has repeatedly suggested, she believes that deploying Japan’s fiscal resources to encourage investment – bolstering domestic industrial capacity in the name of both growth and “risk management” – and strengthen Japan’s national defense is the fundamental task for her government.

To achieve this, she, Finance Minister Katayama Satsuki, and other members of her government have suggested that it is not enough to just increase the government’s budget. She wants to change how Japan budgets, shifting to larger general budgets instead of annual supplemental budgets, introducing multi-year appropriations, and relying on long-term funds to support government priorities. She and other members of her government have also repeatedly said that they simultaneously want to (a) change how the Japanese government pursues fiscal balance (aiming for balanced budgets over a multi-year cycle instead of in a single year), (b) downplayed the significance of Japan’s gross debt, and (c) suggested that the Takaichi government’s policies will enable Japan to grow its way out of debt (citing Domar sustainability). These reforms would effectively curb the power of the Ministry of Finance (MOF), which the LDP right in particular has identified as perhaps the single greatest obstacle standing in the way of their vision for Japan.

There is, frankly, little reason to doubt that Takaichi is serious about fiscal expansion. While there is some debate over how her government will handle her campaign pledge to discuss the consumption tax cut – which could exacerbate pressure on government finances on top of the aforementioned priorities – expectations that she might pivot to fiscal restraint after the general election are fundamentally mistaken. Beyond political logic – having campaigned on fiscal expansion (boasting that she successfully convinced the LDP to include it in its manifesto), there is little reason to think she would abandon it, having been vindicated with the LDP’s largest-ever majority – there are three major factors that will push Takaichi to test the limits of what the Japanese government can spend in pursuit of her policy priorities.

First, **Takaichi herself believes in the necessity of fiscal expansion.** To be clear, this is not necessarily a belief that she has held for her entire political career. Indeed, she said little about fiscal policy before her first bid for the LDP leadership in 2021. However, some of this may have been a function of her having served in LDP party posts or cabinet posts for virtually the entire period from 2012 to 2025, with the exceptions of 2017-2019 and 2024-2025, which limited her ability to speak freely on issues outside of her portfolios or at odds with the government line. The positions she staked in her leadership campaigns – and during the year between her 2024 and 2025 leadership bids – provide the clearest indication of her thinking and leave little doubt about her sincere conviction that transforming fiscal policy is the key to strengthening Japan.

It is not difficult to find statements from her leadership campaigns that demonstrate her commitment, but her views were already well articulated when she ran for the LDP

leadership in 2021, the election in which she finished third but allied with Kishida Fumio to prevent Kōno Tarō from winning in a runoff.

In her 2021 campaign book – *Towards a Beautiful, Strong, and Growing Country* (consciously echoing Abe Shinzō's *Towards a Beautiful Country*) – she says that her idea for “Sanaenomics” is to pick up where Abenomics left off. The second arrow of fiscal policy, she writes, was blocked by fiscal authorities who insisted on a primary fiscal surplus, “forcing austerity to continue and make it difficult to achieve the price stability target” (p. 25). However, under Sanaenomics, “flexible fiscal stimulus” is reserved for emergencies and distinct from the third arrow, which she conceives as “large-scale investment in growth and risk management.” “Until the two-percent inflation target is achieved,” she writes, “the ‘primary balance’ rules should be temporarily suspended to prioritize fiscal stimulus aimed at ‘bold crisis management and growth investment’.”

She continues, arguing that issuing debt is not something to be avoided but “as an important source of funds for necessary expenditures.” Not unlike today, she gestures towards fiscal responsibility – it is necessary, she says, to keep an eye on the debt-to-GDP ratio – but she makes similar arguments downplaying the risk of Japan’s national debt, noting the amount held by the Bank of Japan, Japan’s ability to borrow in its own currency, and the opportunity provided by ultra-low-interest rates for growth to outstrip interest rates and shrink the debt burden. She does allow that investments can be “adjusted” if inflation continues and interest rates rise, but she is clear about her priorities.

“A strong economy” contributes to fiscal reconstruction in the medium term and is indispensable for enhancing social security to create peace of mind for all generations, including future generations. It also leads directly to strengthening diplomatic power, military power, science and technology power, and cultural power, as well as realizing a rich education system.

She discusses many of the same points in a 2021 [interview](#) with the conservative journal *Hanada*.

What is also clear – and in this there are signs at her website of wanting greater national investment in self-reliance and resilience dating back at least twenty years – is that her industrial policy priorities were in virtually the same form in 2021 that they are in 2026. Her 2021 book walks through many of the same sectors – AI, semiconductors, next-generation sustainable energy sources, robotics, quantum computing, supply chain resilience, and cybersecurity – that are included in the “priority sectors” under consideration as part of the Takaichi government’s growth strategy this year. The fact that her conduct as prime minister is proceeding exactly as she outlined nearly five years ago suggests a fundamental political commitment to this vision of using government financial resources to strengthen Japan. She did not embrace “responsible fiscal expansion” because she was pressured by opposition parties or felt compelled to do so in order to win a legislative majority.

Indeed, **her commitment to fiscal expansionism is bolstered by the LDP right's commitment to fiscal expansion.** She is by no means alone in believing that strengthening Japan requires more spending. I have previously [written](#) at length on how the LDP's right wing "learned to love deficits." Effectively, in the years since the end of the second Abe administration in 2020, the LDP's conservatives have become increasingly prepared to argue that Japan's fiscal situation is not as dire as it appears, that national priorities (especially defense) require a tolerance for more deficit spending, and MOF is effectively "public enemy number one" standing in the way of a stronger Japan.

The LDP right's embrace of fiscal expansion may be traced at least as far back as the end of the Koizumi government, when the "Koizumi coalition" split between proponents of fiscal orthodoxy – who wanted a primary surplus as soon as possible and favored a consumption tax hike – and the "rising tide" school led by Nakagawa Hidenao, which argued that Japan could achieve fiscal sustainability by prioritizing growth that would raise tax revenues automatically. These debates continued to divide the LDP through the start of the second Abe administration.

The turning point may have been Abe's decision to raise the consumption tax from 5% to 8% in 2013, after he was assured by MOF and other authorities that the economy could withstand the impact of a tax hike. When the hike triggered a recession instead, Abe's distrust of MOF and its approach to fiscal policy would grow, which among other things led him to delay the second consumption tax twice before finally agreeing to implement it. While Abe was still prime minister, conservative backbenchers were increasingly willing to question the "MOF view." For example, in April 2017, LDP lawmaker Andō Hiroshi – now a Sanseitō upper house lawmaker – formed the Study Group for Japan's Future that in meetings with reflationist and heterodox economic thinkers articulated a program for rescinding the longstanding primary surplus target, cutting the consumption tax, and expanding deficit spending to pay for social security and other priorities. This study group joined forces with the Conference to Protect Japan's Dignity and National Interests – a conservative parliamentarians' league to which Takaichi belong – to call for a consumption tax cut in 2020 in response to the Covid-19 shock. The Study Group for Japan's Future dissolved in 2021, but its members – and its ideas – would subsequently be taken up by the Parliamentarians' League for Responsible Fiscal Expansion (note the name), a group of more than 100 younger LDP members that formed in February 2022. The speakers at its first meeting were Abe and his reflationist adviser Honda Etsurō. The cause would also be taken up by the Fiscal Policy Review Headquarters, a group [established](#) in 2021 by then-LDP policy chief Takaichi as a counterweight to the LDP's Fiscal Consolidation Headquarters. With Abe serving as a senior adviser, it was headed by upper house lawmaker Nishida Shōji, a Takaichi ally who is the LDP's most prominent advocate of Modern Monetary Theory. (He lists MMT as one of his interests on his LDP bio.) Nishida [argued](#) that the Fiscal Consolidation Headquarters was dominated by fiscal hawks who were "MOF mouthpieces."

This group gave the conservative fiscal doves a formal institutional base within the LDP, from which they pressured the Kishida government. For example, in 2024, they [delivered](#) a series of [proposals](#) to then-prime minister Kishida that are a useful map to the principles guiding the LDP's fiscal expansionists, principles that can be seen in the Takaichi government's program. This document calls for scrapping the primary fiscal surplus target; relaxing restrictions on bond issuance; downplayed the significance of gross debt issuance due to the Bank of Japan's (BOJ) bondholding; and identified excess saving by the private sector as the most significant problem facing Japan's economy. To rectify this problem, they argue, "Until private investment is activated, the government should expand demand for funds through proactive fiscal management, creating demand that exceeds aggregate supply (high pressure economy), thereby eliminating the private sector savings glut." Among the group delivering these proposals to Kishida were Nishida, current Finance Minister Katayama Satsuki, and current Economic Revitalization Minister Kiuchi Minoru.

As this roster suggests, personnel matters as much as principles. It is not only that Takaichi herself has expressed these beliefs. She is surrounded by veterans of groups that have advocated for a dramatic shift on fiscal policy, including Katayama; Kiuchi, who belonged to the Study Group for Japan's Future and the Fiscal Policy Review Headquarters, and served as a senior adviser to the Parliamentarians' League for Responsible Fiscal Expansion; and Nakamura Hiroyuki, presently vice minister of education, who belonged to the Study Group for Japan's Future and was the leader of the Parliamentarians' League for Responsible Fiscal Expansion. Nakamura was also one of Takaichi's twenty endorsers in 2024 and 2025. Another associate, Akaike Masaaki, is a former upper house lawmaker who still leads the Conservative Unity Association, a group that has named Abe its "eternal adviser," had Takaichi as an adviser, and served as the nucleus for her leadership bids. Akaike recently [shared](#) a photo of Takaichi meeting with the association in December, and, in a tweet [posted](#) at the start of the general election campaign, described the "true purpose" of the general election as a "#DismantleMOF election."

The final piece of the puzzle is Abe's personal conversion on fiscal policy in the years between his resignation and his assassination. After leaving office, Abe reemerged as the LDP's "conservative-in-chief," publicly articulating the direction for Japanese conservatism and supporting LDP groups working towards this end. During this stage of his career, Abe shifted in a more radical direction on fiscal policy. In a speech in December 2021, he attacked a controversial essay by MOF Administrative Vice Minister Yano Kōji published in the *Bungei Shunjū* in October 2021 – during that month's general campaign – that blamed politicians for wasteful spending and warned that Japan was a Titanic headed for a fiscal iceberg.

In response, Abe argued, "If Japan were the Titanic, there would be no people buying bonds issued by the Titanic." Instead, Japan's debt, which surged during the pandemic as the government used deficit spending to finance emergency stimulus, is fine because the Bank of Japan (BOJ) – a "national subsidiary" in his words – holds a majority of the outstanding debt, meaning the government owes money to itself. Abe's hostility to MOF

would become more apparent after his assassination, when the publication of his memoirs revealed the extent of his hostility to the ministry, essentially serving as a warning to his followers – and Takaichi, his successor – that the ministry and its allies within the LDP should be treated as hostile. (For example, he said in his memoirs, “The power of MOF, which controls budgeting, is strong. They will overthrow an administration that does not follow their will unhesitatingly.”)

The reverence with which Abe is treated by the LDP right may only serve to reinforce their commitment to fiscal dovishness and their view that MOF is the greatest obstacle to their achieving their vision for Japan’s future. As two journalists with the conservative *Sankei Shimbun* phrased it in a book on Abe’s adversarial relationship with MOF, the ministry’s commitment to a balanced budget – as mandated in Article IV of the Public Finance Law – are part of the “postwar regime” restricting Japan’s national power that Abe wanted to dismantle. They write:

Article IV of the Public Finance Law restricts the issuance of deficit bonds; it prohibits the issuance of government bonds to prevent the procurement of military funding and therefore ensure that war never happens again. This is part of a package with Article 9 of the Constitution. Therefore, if we want to increase defense spending now, this cannot be ignored. (p. 61)

This is all to show that Takaichi’s embrace of fiscal expansionism is by no means opportunistic or a response to temporary conditions. Rather, it is a fundamental part of the ideological tradition from whence she emerged and the political milieu in which she still moves. This cohort is gleeful with the outcome of the election, believing that Takaichi has not just won a mandate for more spending but a mandate for a more fundamental national renovation that removes MOF as an obstacle to more spending on a program of national self-strengthening.

As this last point suggests, **the Japanese public appears to be broadly supportive of Takaichi’s “responsible fiscal expansionism” and hostility to MOF.**

There are both narrow and broad ways of thinking about the public’s attitudes towards Takaichi’s fiscal policy approach. Narrowly, Takaichi’s rise and the broader institutionalization of fiscal expansionism within the LDP right has coincided with the emergence of a popular movement against MOF that has culminated in regular protests outside the ministry headquarters and across the country that have called for the ministry to be dismantled. These demonstrations, which have been attended by thousands at a time, have been matched by hashtag campaigns that have generated significant web traffic. There is some connectivity with elite opinion. Right-wing columnist and onetime Abe adviser Takahashi Yōichi published a book called *Zaimushō Kaitai* (財務省解体), which serves as the main anti-MOF hashtag, in 2018. Meanwhile, another phrase – *zaimu shinrikyo*, which compares MOF (*Zaimushō*) to the terroristic cult Aum Shinrikyo for its ability to brainwash the Japanese people into believing its fiscal orthodoxy – was coined by Nishida and then popularized by economist Morinaga Takurō in a book by that title that sold more than 260,000 copies and rose to the top of

the bestseller lists following Morinaga's death in January 2025. This trend was also encouraged by Democratic Party for the People (DPFP) leader Tamaki Yūichirō, a former MOF official, in his campaign to raise the income tax threshold, which helped popularize hostility towards MOF among younger people.

It is difficult to say precisely how widespread these views of MOF are, but hostility towards the ministry has clearly been embraced by a sizable subset of the population and are likely over-represented among Takaichi's political base. It is likely that some of her comments about fiscal policy and the ministry were intended as "dog whistles" for this segment of the public.

Public attitudes towards fiscal policy can be harder to discern, varying across pollsters depending on the phrasing of the question. Takaichi's fiscal policy stance broadly has polled well. For example, a poll by the conservative *Yomiuri Shimbun* conducted after the general election found that 77% of respondents approve of her "responsible fiscal expansion" approach, with only 18% opposed. However, polling on specific policies suggests some lingering anxiety about the possibility of larger deficits. Most polls, for example, show that the public is fairly divided on whether to reduce the consumption tax on foodstuffs to zero. Meanwhile, a *Nikkei Shimbun* poll found that only 30% of respondents favor funding higher defense spending with government debt; 25% think it should be backed by tax increases and 32% think it should not be increased at all. A new poll by the *Sankei Shimbun* found that only 33% favor cutting the consumption tax if it means issuing more deficit bonds. The public may be broadly supportive of Takaichi's program, though voters may want some reassurance of her "responsibility." That said, with a larger majority and high overall approval ratings, public opinion is unlikely to serve as a brake on the prime minister unless and until her approach to economic policy drags down her still-high approval ratings.

Ultimately, these factors show that it is imperative to take Takaichi seriously when she says that she wants her government to increase government spending on her policy priorities. To argue that she will pivot to fiscal orthodoxy after the general election would require explaining why she would break with ideas she has advocated for years; why she would break with her closest political allies (and her late mentor), who share these ideas; and why she would reverse course even when the public is broadly tolerant of this approach. Of course, it also means explaining why she would carry out a fiscal u-turn after campaigning on fiscal expansion led the LDP to its largest-ever electoral victory. Perhaps she will yield in the face of financial market pressure, but absent a major shock, her press conference Wednesday suggests that she is gearing up for a campaign to curb MOF's power and structurally alter her government's ability to spend on its priorities.

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