

5 October 2026

Policy speech shows Takaichi's unwavering vision

Key takeaways

- Prime Minister Takaichi Sanae used her policy speech to restate her fundamental policy vision – using the state's financial resources to guide industrial transformation – even as she and her ministers have denied that they are pursuing a "reflationary policy."
- The fact, despite US pressure and rising long-term interest rates, she has not deviated from the approach she has articulated since before taking office last year shows that she will not – and perhaps even cannot – reverse course.

Senior members of the Takaichi government, including not only Prime Minister Takaichi Sanae herself but also Finance Minister Katayama Satsuki and Economic Revitalization Minister Kiuchi Minoru spent last week using media appearances to make the case that "the age of reflationary policy is over." This messaging appears to have been a direct response to US Treasury Secretary Scott Bessent – who has used precisely the same language in encouraging Japan to pursue policies aimed at strengthening the yen – as well as a reflection of the prime minister's determination to improve "communication" with the market about the government's policies.

However, in her address to the Diet on 5 October to open the extraordinary session that is scheduled to run until 12 December, Prime Minister Takaichi made clear that whatever the government's message she and her ministers want to send to markets and Washington, the government's fundamental approach to policymaking is unchanged. Indeed, in her speech Takaichi may have given a clearer explication of the logic of her program than ever before. She opened the address – after a brief message expressing her sympathy for a woman robbed and murdered by a US Marine in Okinawa (and demanding that the US take steps to prevent these incidents from occurring) – by outlining the "transformation of the international order" through the

competition among governments to use industrial policy for control of the emerging technologies of the future. With other countries investing heavily in advanced industrial sectors, Japan risks falling behind its rivals in the race of industrial competitiveness. “If Japan alone stagnates,” she said, “businesses, jobs, and investments will flow overseas, and the country may revert to an era of stagnation once again.” The implication of Takaichi’s approach is that if Japan fails to keep pace, it will not only experience slower growth but it will be dependent on other countries for the basic components of prosperity in the twenty-first century, which could in turn leave it vulnerable to economic coercion or other supply disruptions that could leave the Japanese people at risk. It may be possible to summarize her program as “growth through security, security through growth.”

Accordingly, this is the essential framework for thinking about her government’s “responsible fiscal expansion.” While she talks about fiscal responsibility and fiscal sustainability, these will be assessed by her government’s favored metrics – which entail moving away from pursuing a primary fiscal surplus over a single year and “gradually” reducing the debt-to-GDP ratio – rather than more traditional measures of fiscal responsibility. She is virtually explicit about trying to tailor her message to what she thinks investors want to hear. For example, regarding the funding for the consumption tax cut being pushed by her government as an anti-inflation measure, she repeated Monday “we have decided to secure it without relying on special government bonds in order to gain the confidence of the market, so there is no need to worry.” But nothing that has happened over the past year has altered the prime minister’s approach, only how she and her ministers communicate her approach. As she said Monday, “The government will take a step forward to systematically plan large-scale, long-term, and highly predictable fiscal spending as a catalyst for domestic investment, thereby powerfully drawing out bold domestic investment.” In fact, apart from the consumption tax cut legislation that will be the primary issue under consideration during this legislative session, the bulk of her speech simply summarized the government’s economic policy documents that were finalized over the summer.

Ultimately, Takaichi’s policy speech is another illustration of her fundamental commitment to deploying state power to save Japan from a severe national crisis and hand down a “strong and prosperous Japan” to future generations. If investors and foreign governments expect that she will carry out a fiscal U-turn if she faces enough pressure in face-to-face meetings or from market movements, they will likely be disappointed, insofar as she is convinced that her way is the only way to save Japan from being left behind by the other advanced industrial powers and reduced to a state of outright dependence and irrelevance. In this sense, it may be easier to imagine her being forced from office by external factors – a spike in inflation or interest rates, a yen selloff, a bilateral crisis with the United States – than her abandoning her vision in order to cling to power. In the meantime, it is appropriate to expect that Takaichi will do whatever it takes – whether that means adjusting the government’s rhetoric to reassure investors and the Trump administration, intervening in foreign exchange markets to keep the yen from weakening too much, tolerating monetary policy normalization at a not-too-aggressive pace, or, for that matter, pushing the consumption tax cut forward

over not inconsiderable opposition even within the Liberal Democratic Party (LDP) – to buy her government time to translate her vision of state-led industrial transformation into policy through the 2027 budget.

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