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Risk of anti-economics tendency among the LDP leadership contenders

- Criticism of neoliberalism, globalism, and equity capitalism

The LDP presidential election has begun with the election of a leader based on respect for individual autonomy, policy debate, and overcoming the constraints of factionalism. This is a good thing, and Japan's democratic process may set a good example for other countries. The media and the public will be watching closely as the candidates examine the various problems facing Japan and the measures they will take. The LDP is expected to prevail in the general election for the House of Representatives under the new leader elected after the heated debate.

Since the beginning of September, the Nikkei 225 has gained 10% in ten business days, a remarkable increase among the world's indexes. Over the past decade, Japanese stocks have risen sharply after every lower house election, with the Liberal Democratic Party (LDP) winning an overwhelming 118 to 294 seats in the December 2012 general election, sending the Nikkei 225 up a record 85% in six months, from a low of 8600 in November 2012 to a high of 15900 in May 2013. In the December 2014 general election for the House of Representatives, it rose 44% in eight months, from an October 2014 low of 14500 to a June 2015 high of 20900. In the last general election in October 2017, the Liberal Democratic Party (LDP) almost secured a new number of seats in the House of Representatives amid the difficulties of the "Moritomo Gakuen and Kake Gakuen issues" and rose 25% from the September 2017 low of 19200 yen to the January 2018 high of 24100 yen. Applying this, the post-election Nikkei 225 high is calculated to be 34,000 yen, which is a conservative estimate of a 25% increase.

An examination of the economic policies of the candidates reveals that they have uniformly called for revisions to the path of improving the structure of the Japanese economy and strengthening its growth potential based on the two pillars of (1) deregulation and reform with an emphasis on the market economy and (2) reflationary policies, which were inherited from the Abe and Suga administrations. The concern is that the market will not necessarily appreciate such a revision. If the revision becomes a reality and the market perceives it as a policy setback, it could be cold water after the election fever.

Criticism of neoliberalism, from regulatory reform to distribution

Mr. Kishida's criticism of neoliberalism is perhaps the best example of this. Although the content of his criticism of neoliberalism is still unclear, he positions it as anti-reform, arguing that deregulation and structural reforms have created a divide between the haves and have-nots. He also argues that distributional policies will reduce the gap between the rich and the poor, as if he were an opposition party.

While it is true that we are in an era of big government and government discretion is becoming more important, this is not the ideal form, and government functions are only required to contribute as a balancer to economic imbalances during the transition period. It goes without saying that the ultimate economic democracy and liberalism, which respects individual economic activities to the maximum extent possible, would be preferable if the resource allocation function in the market could regain its effectiveness. The historical achievements of the neoliberalism led by Reagan and Thatcher, which broke down the framework of Keynesianism and created a new economic stage, should be fully appreciated.

In the U.S., too, there is a need to correct neoliberalism, but this is because we have temporarily reached a point in history where the allocation of resources cannot be completed by the market economy alone because of technological and economic development, and

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not because the ultimate trust in laissez faire, liberalism, or the market economy has been shaken. The changes in lifestyles, business styles, and increased productivity created by the Internet, AI, and robotics have exceeded the capacity of the market and have only temporarily forced the government to intervene. Once the market can respond to technological changes, we will return to a market-oriented era. Continued deregulation and regulatory reform to allow the market to work more efficiently is essential to maintaining a vibrant economy.

The ultimate denial of the market is the Xi Jinping administration, which has rejected the "first wealth theory" of capitalism that has been accepted since Deng Xiaoping and has launched the communist-style resource allocation "common prosperity. Many people must have intuited that this is the disease that is killing the Chinese economy. Abenomics has tripled stock prices and certainly enriched high-income earners who own stocks, but during this period, the accumulated investment income of pension assets (GPIF) has reached 70 trillion yen, a 47% increase in assets under management. The GPIF has made a significant contribution to increasing the wealth of the people and relieving their anxiety about retirement. It is not correct to blame it on the widening gap brought about by neoliberalism.

Criticism of the emphasis on the market is shared by Ms. Takaichi. Ms. Takaichi claims to be following in the footsteps of Abenomics, but the third arrow of New Abenomics (Sanaenomics), along with the first arrow of monetary easing and the second arrow of flexible fiscal policy, is a major departure from Abenomics. While the third arrow of Abenomics was "deregulation and reform to free up business," Sanaemonomics is "bold investment in crisis management and growth," and its content is not reform-oriented but fiscal stimulus-oriented by freezing the goal of achieving a primary balance surplus. However, we are concerned about the fact that reforms will take a back seat. She praises lifetime employment as an advantage of Japanese management, but this may stifle innovation by fixing the membership-based labor characteristic of Japan and hindering the transition to job-based labor common in the West.

Criticism of Globalism

Although it is impossible to pursue economic nationalism by raising border barriers against the reality of the international division of labor, international capital markets, and international capital movement, the arguments of each candidates show a tendency toward anti-globalism. If we turn our backs on the international division of labor and the international movement of capital, we are sure to become an isolated economy and a loser in international competition. Promoting the cross-border division of labor, capital movement, human mobility, and business development is the minimum requirement for Japan to win. While there is no denying the need to build barriers in the event of an emergency evacuation, such as a trade war between the U.S. and China, a response to dumping by China and other countries, or the purchase of assets due to the unprotected inflow of foreign capital. However, lowering international barriers and introducing beneficial resources from abroad (risk capital, skilled human resources, technology, know-how, and brands), and (2) promoting the erosion of overseas markets by Japanese companies is essential for Japan, which depends on foreign countries for resources, food, international infrastructure such as Internet platforms, and international public goods. The maximization of shareholder profits demanded by global investors should be considered as an essential whip of love to increase capital efficiency and win the international capitalist competition.

Criticism of equity capitalism

Equity capitalism, which is advancing in the United States with rising stock prices as its core engine, is the latest type of capitalist financial system. Instead of credit creation by banks, a new financial mechanism (equity capitalism) has begun in which rising stock prices generate purchasing power. While in the past the goal of the Central Bank was to create purchasing power through maximum sustainable money supply (credit creation), it is no exaggeration to say that the goal of the Central Bank now is to maintain the highest sustainable stock prices. That is the reality, before we start arguing whether we like it or not, right or wrong.

The fact that the Bank of Japan undermined and denied the foundations of equity capitalism and created an unjustified decline in asset prices (i.e., a negative bubble) was a major cause of the Japanese economy's worst defeat in the world from 1990 until the advent of Abenomics in 2012. On the other hand, the success of the U.S., where stock prices increased sixfold in the 11 years after the GFC, was due to the successful functioning of equity capitalism.

Different from the U.S., where the stock market is overvalued that P/B ratio is reaching 4.3 times Japan can be described as a negative bubble, as the P/B ratio is 1.3 times. Japan's stock market has sunk to one-third of the U.S. level. It is an argument that will kill the bull by taking the bull by the horns, either on behalf of the bureaucrats in the finance ministry who are bloodily searching for tax sources or on behalf of the leftist distributionism who are trying to cover up their jealousy with a sense of justice.

Ms. Takaichi advocates raising the financial income tax from 20% to 30% on the condition that the 2% inflation target is achieved. Mr. Kishida is also likely to target financial income as the source of his distributional argument. Mr. Kono has also stated in his book that financial income should be taxed more heavily.

While there are many elements that are highly commendable, such as security in response to the rise of China (Takaichi) and the promotion of digitalization (Kono, Takaichi, and Kishida), the only thing that needs to be corrected is the retreat from market reforms and reflationary policies.