

What We Have Seen from the Campaign Promises of Japan's Lower House Elections

15 November 2024

- ▶ Noteworthy aspects of each party's Campaign Promises in Japan's Lower House election include: (1) continued measures against high prices through benefits and subsidies, (2) a focus on promoting wage increases, though opposition parties in particular have not taken any measures to improve labor productivity, (3) the tax measure has been focused on raising the minimum taxable amount in light of rising nominal wages, but actually also includes strengthening the taxation of financial income.
- ▶ There are concerns that a government run by minority ruling parties may have a weak base and be easily destabilized. At the same time, we believe that a cooperative relationship that transcends the boundaries of the ruling and opposition parties will provide an opportunity to engage in fundamental reforms from a medium- to long-term perspective.

Opportunity for Policy Coordination between Ruling and Opposition Parties

The ruling parties of the Liberal Democratic Party (LDP) and the Komeito have lost their majority in the October 2024 Lower House election, and it is almost certain that a second Ishiba administration will be formed as a ruling minority party that cannot pass a budget or bills without the approval of the opposition parties. In the future, it will be necessary to incorporate the policies of the opposition parties in order to win their approval. In particular, the Democratic Party For the People (DPFP), which has quadrupled its seats, has not shown any intention of joining either the coalition government or a united opposition for the time being, and is strengthening its bargaining power, claiming that it will negotiate on a policy-by-policy basis.



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With the high rate of wage increases achieved in the Shunto, literally meaning spring battle, annual wage negotiations between major labor unions and large corporations that take place in spring, for the past two years, it remains to be seen whether this trend will take root. With the pace of decline in the working-age population expected to accelerate around the beginning of the 2030s, the next few years represent the last chance to transform the structure of our economy and society toward a sustainable one.

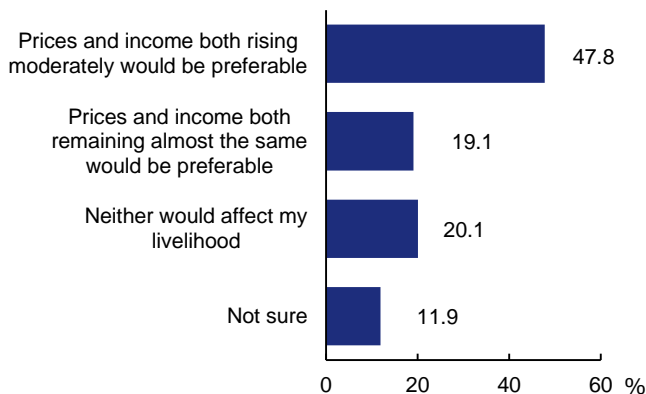
The results of the Lower House election have drawn attention to the possibility of instability in policy management due to the ruling minority party and the ease with which the fiscal scale can be expanded by incorporating the policies of the opposition parties. If the parties take a long time to coordinate their policies, there is a concern that this may lead to stagnation of economic activities through deterioration of consumer and business sentiment.

On the other hand, while the ruling and opposition parties have traditionally been locked in a confrontational dynamic, we now believe that a cooperative relationship that transcends the boundaries of the ruling and opposition parties could provide an opportunity to work on reforms from a medium- to long-term perspective.

Notable Policies in Campaign Promises (1) Measures against High Prices

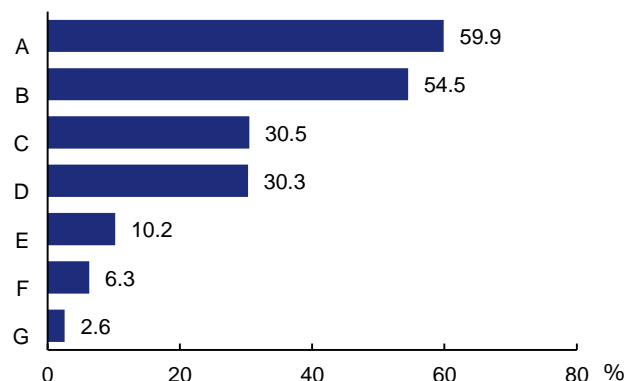
Policies such as benefits for households and subsidies for electricity, gas, and gasoline, which were effective at a stage when wage increases lagged behind price increases, were front and center in the pledges of all parties in this Lower House election. In addition, the campaign pledge of the Constitutional Democratic Party of Japan (CDPJ) states that “the Bank of Japan (BoJ)'s price stability target will be changed from ‘2%’ to ‘over 0%’ and that the government and the BoJ will set ‘real wage growth’ as a joint target,” indicating a policy that at first glance could be perceived as an attempt to increase real wages by curbing the rate of price increases. According to the BoJ's Opinion Survey on the General Public's Views and Behavior, about half of the respondents prefer “a state in which both prices and income rise moderately” to “a state in which both prices and income hardly change at all” (Figure 1). The top reasons given for this were “easier to increase income and make ends meet” and “economic activity is stimulated” (Figure 2). Consumers do not necessarily want immediate price and cost-of-living controls, but rather they perceive the stimulation of economic activity through higher prices to be positive.

Figure1 : View on Prices and Livelihood



Source: BoJ
Note: Survey Period from 8 August to 3 September 2024

Figure2 : Why Do You Prefer Prices and Income Both Rising Moderately?



- A: My income would likely increase, making it easier to manage the household budget
- B: It would boost economic activity
- C: I could expect a better future and thus be positive about, for example, consumption and home purchases rather than saving
- D: A smaller price differential between Japan and abroad would stabilize foreign exchange rates
- E: It would be easier to repay my existing loans
- F: It would make room for interest rates to decline in times of economic downturn
- G: Other

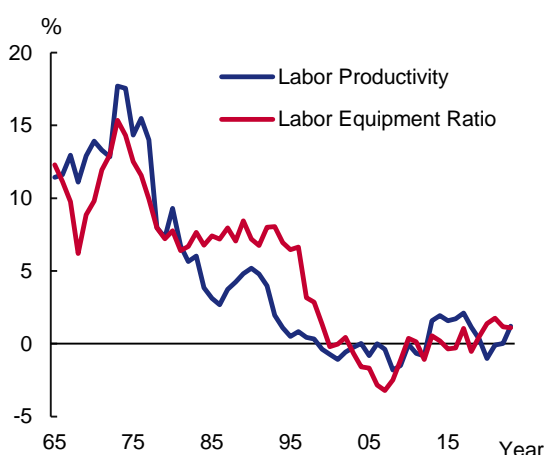
Source: BoJ
Note: Survey Period from 8 August to 3 September 2024

Notable Policies in Campaign Promises (2) Labor Productivity

With regard to wage increases, based on former Prime Minister Kishida’s goal of raising the national average hourly minimum wage to 1,500 yen by the mid-2030s, both the ruling and opposition parties have proposed policies to accelerate the timing of this objective during this Lower House Elections. If the wage is to be raised to 1,500 yen in the 2020s, it is calculated that an increase of more than 7% would be required each year. Continued wage increases, including minimum wage increases, will require action, especially by small and medium-sized enterprises (SMEs). If such a substantial wage increase is the goal, support measures will attract attention, but the opposition parties’ pledges are still biased toward “Ensuring price pass-through”. While the importance of price pass-through by SMEs remains, we believe that improving labor productivity is more important to make wage increases sustainable. Based on the perspective of increasing the “labor equipment ratio (capital equipment per capita)” (Figure 3), we believe the LDP’s pledge to support investment for efficiency and labor saving is important.

According to the Survey on Wage Increase (2024), looking at the factors most important in determining wage revisions, with the exception of “Corporate Performance”, which has the largest percentage, “Securing and Retaining Labor (Securing New Workers)” and “Maintaining Employment (Preventing Outflow of Existing Workers)” have increased in recent years, reflecting the labor shortage. By size, relatively large companies tend to focus on new employment, while smaller companies tend to focus on maintaining existing employment. It is necessary for SMEs to raise labor productivity through labor-saving investments, taking into account the perspective of preventing the outflow of existing workers (Figure 4).

Figure3 : Labor Productivity and Labor Equipment Ratio



Source: Ministry of Finance Japan

Note: 1. Annual data from FY1965 to FY2023

2. The survey subject of 2024

3. 5-year moving average of annual data

4. All sizes, all industries

(excluding finance and insurance)

5. Labor productivity is Value-added per employee

Figure4 : Percentage of Firms by Size of Firm, by Factor Most Important in Deciding to Revise Wages

	%				
	Corporate Performance	Securing and Retaining Labor	Maintaining Employment	Price Trends	Market Trends
Total	35.2	14.3	12.8	7.8	7.6
Over 5,000 ppl.	35.4	19.8	6.4	8.0	12.2
1,000 - 4,999	29.5	20.2	12.1	10.3	10.9
300 - 999	32.2	20.6	7.8	10.8	9.2
100 - 299	36.8	11.5	14.8	6.5	6.7

Source: Japan Ministry of Health, Labor and Welfare

Note: 1. Survey period from 20 July to 10 August 2024

2. Excerpts of the top five factors

Notable Policies in Campaign Promises (3) Taxation of Financial Income

While much attention has been focused on the DPFP's pledge to expand income tax deductions (the so-called "increase 1.03 million yen annual income barrier"), the DPFP's pledge actually includes strengthening the taxation of financial income as well. During the election campaign, there was also talk about the inclusion of a similar pledge by the CDPJ. Strengthening the taxation of financial income was mentioned by Prime Minister Ishiba during the LDP presidential election, and was dropped after a negative reaction from the stock market. The fact that the income tax burden rate declines as annual income exceeds 100 million yen, where financial income can be relatively high, has long been an issue. With the negative reaction of the stock market and the trend of individuals from saving to investing, the taxation of financial income has become difficult to even discuss.

However, there are many misconceptions about the taxation system. Specifically, with regard to income tax deductions, the tax is imposed if annual income exceeds 1.03 million yen, but this does not mean a decrease in take-home pay. Also, if annual income exceeds 1.06 million yen or 1.3 million yen, the amount of take-home pay would decrease due to the burden of social insurance premiums, but we believe that it is necessary to inform the public that measures have already been taken to ensure that social insurance premiums do not reduce take-home pay as the number of dual-earner households increase, and the benefits of increased pension benefits in the future are greater than the burden of social insurance premiums. With regard to the taxation of financial income, it is necessary to demonstrate that the trend of "supporting households' financial asset formation through the expansion of tax exemption programs such as NISA" and "Asset management oriented nation" will not change, and to discuss the design of a system that does not hinder economic activities.

Focus on Medium- to Long-Term Perspectives

A ruling minority government has a weak and potentially unstable base, and its fiscal size can easily expand by incorporating the policies of the opposition parties. However, there are no major differences between the ruling and opposition parties in their recognition of the issues facing Japan, and we believe that the discussion of issues that both parties have tended to turn a blind eye to in the course of their cooperative relationship will provide an opportunity to promote fundamental reform from a medium- to long-term perspective.

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