

Data: June 3, 2026

Will the Prime Minister Takaichi's Economic Policies Rejuvenate the Japanese Economy and Enrich the Lives of the Japanese People?

Toshihiro Nagahama, Executive Chief Economist
Economic Research Department, Daiichi Life Research Institute Co., Ltd.

(Executive Summary)

- "Sanaenomics" diverges from conventional economic stimulus measures, anchoring itself on "Crisis Management Investment" and "Growth Investment" to elevate Japan's supply-side capacity. Crisis Management Investment aims to secure provisions against contingencies through enhancing food and energy self-sufficiency and national resilience, while simultaneously generating domestic demand. Meanwhile, Growth Investment targets 17 strategic sectors, such as AI, semiconductors, and quantum technology, with long-term government commitments acting as a "catalyst" to mobilize corporate cash reserves and boost the potential growth rate through technological innovation.
- To counteract declining real wages caused by inflation, tax reforms directly increasing the disposable income of the working-generation—such as temporary consumption tax cuts and refundable tax credits—are being discussed. Conversely, while experts raise concerns regarding fiscal health, the policy stance is grounded in the logic that economic growth is the shortest path to achieving fiscal soundness.
- Sanaenomics explicitly rejects fixating on the primary balance (PB) surplus target and instead introduces a new metric. Specifically, rather than reducing the nominal amount of debt, the policy establishes the "stable reduction of the debt-to-GDP ratio" as its new fiscal pillar, relative lowering the burden of debt through economic growth. The key to this virtuous cycle scenario hinges on whether this world-standard, growth-oriented logic—where strategic investment raises the potential growth rate, expanding tax revenue and subsequently stabilizing fiscal health—will be accepted by the market.
- Sanaenomics represents a bold endeavor for Japan to break free from the trap of "diminishing equilibrium," seeking to unify the dual challenges of fiscal sustainability and economic growth via a "growth-driven solution". The specific institutional design within the "Basic Policy on Economic and Fiscal Management and Reform 2026" (Honebuto no Hoshin) will serve as a concrete litmus test.

1. Introduction

The economic policy framework championed by the administration of Prime Minister Sanae Takaichi, colloquially dubbed "Sanaenomics," presents an exceptionally ambitious prescription for the structural challenges of "deflationary mindset" and "underinvestment"

that Japan has long endured. The core of this framework lies in “responsible proactive fiscal policy,” which seeks to boldly redefine conventional fiscal discipline frameworks.

Will this policy successfully revitalize the Japanese economy and restore prosperity to national life? This paper explores future outlooks from the perspective of macroeconomic consistency, examining the key debates surrounding the upcoming “Basic Policy 2026” and the merits of consumption tax cuts.

2. “Responsible Proactive Fiscal Policy” and the Two Pillars of Investment

The foundation of Sanaenomics rests on two strategic capital injections: “Crisis Management Investment” and “Growth Investment.” Setting themselves apart from ordinary public works used as mere economic stimuli, these pillars aim to fundamentally upgrade Japan’s supply capacity.

First, **Crisis Management Investment** focuses on strengthening national resilience. This encompasses boosting food and energy self-sufficiency, reinforcing cybersecurity, and advancing national land toughening. While preparing the nation for contingencies, these initiatives act as a catalyst to generate massive domestic demand. Given the current climate where soaring energy prices strain household budgets, intensive investment in next-generation innovative nuclear reactors and renewable energy directly alleviates fundamental anxieties by ensuring long-term price stability and energy security.

Second, **Growth Investment** channels resources into 17 strategic sectors. By showing long-term government commitment to cutting-edge areas poised to dominate 21st-century hegemony—including AI, semiconductors, nuclear fusion, and quantum technology—the administration intends to trigger a “crowding-in” effect for private capital. During the “Lost 30 Years,” Japanese corporations routinely suppressed investments and hoarded cash due to future uncertainty. Therefore, this approach of establishing a “resolute government investment” stance to foster demand-driven growth paired with technological innovation can be considered the orthodox path to raising the potential growth rate.

3. Debates over Consumption Tax Cuts and Maximizing “Take-Home Pay”

While Sanaenomics garners immense expectation from the public, the proposed tax reforms—including a reevaluation of the consumption tax—simultaneously draw heavy skepticism from experts.

To offset the erosion of real wages caused by high inflation, Prime Minister Takaichi has put forward discussions for temporary consumption tax cuts targeting daily necessities like food and beverages. Additionally, proposals for refundable tax credits are expected to directly boost the disposable income (“take-home pay”) of low- and middle-income working demographics.

However, experts have expressed strong caution regarding these measures, primarily citing three risks:

1. **Accelerating Inflation:** Over-stimulating demand could further exacerbate ongoing inflationary pressures.
2. **Fiscal Credibility:** Permanent or prolonged tax cuts risk causing shortfalls in future social security funding, potentially damaging market confidence.
3. **Impact on Interest Rates:** An expanding fiscal deficit could trigger higher interest rates, which risks driving up housing loans and corporate borrowing costs.

In response, Sanaenomics introduces a new definition of fiscal discipline, detailed below. To secure long-term fiscal sustainability, it is indispensable to steadily lower the debt-to-GDP ratio, and robust economic growth undeniably offers the shortest path toward that goal.

4. "Basic Policy 2026" and the New Definition of Fiscal Discipline

In the currently evolving "Basic Policy 2026," considerable attention centers on how the primary balance (PB) surplus target will be treated. Sanaenomics explicitly rejects making the realization of a PB surplus an end in itself.

In its stead, the administration champions the "**stable reduction of the debt-to-GDP ratio.**" Rather than focusing on shrinking the absolute volume of nominal debt, this approach seeks to reduce the relative "weight" of the debt through economic growth (expanding the GDP)—a growth-oriented metric aligned with global standards.

If this virtuous cycle of investment and growth succeeds, the reduction in the debt ratio will not be a fleeting anomaly but will instead establish a dependable growth trajectory. Put simply, strategic investments will raise the potential growth rate, which drives up tax revenues, ultimately leading to fiscal health. How persuasively this logic of "investment and growth" can be articulated in dialogues with the market and the Bank of Japan during the 2026 Basic Policy formulation will split the fate of the Japanese economy.

5. Economic Outlook for Japan: Scenarios Toward Prosperity

Moving forward, the Japanese economy will test the authenticity of this achieved "prosperity" through three distinct phases:

- **Phase 1: Shift in Mindset (2026-2027)** Through debates on responsible proactive fiscal policy and tax reductions, the nation will break the pervasive defeatism that "Japan can no longer grow." The critical milestones here will be whether domestic corporate investment takes off in earnest and whether positive real wage growth becomes normalized.

-
-
- **Phase 2: Reinforcing Supply Capacity (2028-2030)** As crisis management and growth investments bear fruit, tangible results will appear via reduced energy costs and productivity gains driven by digitalization. This will establish an “endogenous growth” model that does not overly rely on foreign imports.
 - **Phase 3: Enhancing Quality of Life (QOL)** Increased take-home pay and mitigated anxieties regarding the future (such as social security and disaster risks) will shift individual consumer behavior toward proactive spending. The ultimate goal of Sanaenomics is not merely numeric GDP expansion, but a state where every single citizen can harbor genuine hope for the future.

6. Conclusion

Sanaenomics represents a bold attempt—and perhaps a final opportunity—for Japan to escape the trap of “diminishing equilibrium.” It seeks to synthesize two seemingly contradictory objectives—ensuring fiscal sustainability and driving economic growth through proactive investment—into a single path of “growth-driven resolution.”

The crucial steering ahead involves how rapidly the administration can increase “citizens’ take-home pay” while maintaining market confidence, and how effectively those funds can be channeled into the seeds of next-generation growth industries. If this navigation succeeds, the Japanese economy will finally emerge from its prolonged tunnel and enter a brand-new phase of genuine prosperity.

The concrete numerical targets and institutional frameworks to be embedded in the “Basic Policy 2026” constitute the first step. We must monitor the progress of this policy closely—not merely as a tool for political disputes, but as a grand economic experiment determining the very future of Japan.