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Policy Recommendations for the Takaichi Administration: Toward a Strong and Prosperous Economy – Perspectives on Diplomacy, Economic and Fiscal Management, and Structural Reform

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The ruling parties recently achieved a landslide victory in the House of Representatives election. With the government enjoying broad public support and a stable foundation, we expect reforms to accelerate and for a strong and prosperous economy to be realized. The key points to note are, firstly, in diplomacy, that Japan should build favorable trade and investment relationships based on an accurate understanding of international circumstances. Domestically, given the severe fiscal situation, it is essential to conduct targeted fiscal management rather than pork barrel spending, and ensure that necessary reforms are not delayed. From these perspectives, the most important tasks ahead are: (1) robust diplomatic and trade initiatives suitable for Japan as a resource-scarce, trade-and-investment-oriented country; (2) inflation control and fiscal discipline, which are crucial for responsible fiscal management; and (3) pursuing structural reforms that are indispensable for achieving sustainable economic growth. Policies should be advanced in accordance with the following viewpoints.

1. Diplomatic Strategy in Response to Changes in the Global Environment

The international situation is changing rapidly. For Japan, establishing stable diplomatic relations is a fundamental prerequisite for policy management. The new administration should maintain the Japan-U.S. alliance as a cornerstone of these relations while also striving to improve relations with China. It should equally urgently strengthen cooperation with middle powers and the Global South, whose importance has been increasing in recent years. Along with diversifying trade and investment partners, policies to increase investment into Japan from these countries should be promoted to enhance domestic supply capacity. Moreover, diversifying supply sources for rare earths is an urgent issue that must be addressed promptly.

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2. Appropriate Fiscal and Monetary Policies under Inflation

The new administration should recognize “structural inflation control” as a shared challenge with the Bank of Japan and promote appropriate fiscal and monetary policies under inflationary conditions. The Bank of Japan is expected to increase policy transparency through careful communication with the market and to proceed with monetary policy normalization at a suitable pace. The administration, in pursuit of improved fiscal discipline essential for responsible policy management, should coordinate with the ruling parties and present concrete proposals for an independent fiscal institution. Furthermore, policy focus should shift from stimulating demand to strengthening supply capacity, and budget system reform should be advanced to enable multi-year management of public and private investment in priority sectors.

3. Sustainable and Effective Social Security Policy

With population decline showing no signs of stopping, the social security system should be made more sustainable. This requires sharing the burden of costs related to benefits broadly among the public according to their ability to pay. Social security funding should be secured through contributions based on financial capacity, including assets, and a consumption tax that ensures elderly people also bear an appropriate share, rather than placing the load solely on the working generation. The forthcoming national council should thoroughly discuss and reach conclusions on securing resources for social security.

A consumption tax cut in response to rising prices, as pledged in the election campaign, would undermine fiscal discipline and shift current burdens onto future generations. If implemented, such a tax cut should be strictly temporary. The government should respond to rising prices by increasing disposable income, reforming high-cost structures, and providing tax credits with benefits.

Tax credits with benefits are an important way to avoid pork barrel spending and enhance support for low-income groups such as the working poor. To fully realize their function, existing income deductions and social security benefits should be reviewed to secure resources, and total assets, as well as income, should be accurately grasped to ensure benefits reach those truly in need.

4. Energy Policy for Regional Industry Amid Geopolitical Risks

In order to realize a strong Japanese economy, it is essential to overcome challenges such as rising resource costs, yen depreciation exerting downward pressure on corporate profits, and rising geopolitical risks. As a flagship project symbolizing the strong economy targeted by the new administration, we propose creating an “Ocean Industry Complex.”

The “Ocean Industry Complex” envisions the establishment of a new industrial supply chain in which energy, resource development, and material production share a platform, leading to ripple effects in sectors such as automobiles, electronics, medical care, and food. This would convert profits and income into domestic circulation, strengthen economic security, revitalize regions, and turn Japan’s economic weaknesses into strengths.

It is hoped that the “Ocean Industry Complex,” incorporating next-generation offshore power generation such as offshore wind, fusion energy, space-based solar power, and wave energy, will become the core infrastructure for regional industry development through deployment at several locations nationwide.

5. Strong and Attractive Regional Revitalization Unbound by Existing Administrative Districts and Systems

Looking toward 2040, when regional challenges will become more acute, a fundamental redesign of the local government system is necessary. Prefectures, major cities, and broad-based local governments should be positioned as the main providers of residential services, greatly improving efficiency. Municipalities and local businesses should undertake regional revitalization by developing creative projects through collaboration across administrative boundaries, under stable service provision.

The 34th Local Government System Council will begin discussion on the division of roles among national, prefectural, and municipal governments, administrative systems in metropolitan areas, and other necessary local system reforms. In addition to introducing “human capital management” in administration, a thorough review of the challenges facing current wide-area local government projects and bottom-up discussions are expected.

To strengthen national resilience, it is necessary to boldly review the current framework, not just present the current level of investment. This includes designing integrated medium- to long-term fiscal plans including renewal needs, asset management involving infrastructure concentration and reorganization, and developing and securing personnel to support execution.

6. Addressing Labor Shortages and Industrial Restructuring for a Strong Japan

To realize a “strong economy,” bold crisis management and growth investment will be crucial. To this end, rapid and proactive investment in strategic sectors through public-private collaboration will be important. In regions experiencing significant population decline, economies of scale are needed to address labor shortages and advance regional revitalization. This calls for financial reforms and accelerated policy support for reforming and reorganizing the business models of regional banks to strengthen local financial capabilities.

Strengthening supply capacity, especially in strategic sectors contributing to economic security, is an urgent issue, requiring prompt and proactive investment through public-private collaboration. From this perspective, appropriate government involvement in industrial policy and industrial restructuring are essential. For example, it will be crucial to promptly implement the national shipyard plan, provide government support enabling large-scale capital investment in other sectors, respond rapidly to the upcoming revision of the Economic Security Promotion Act from 2026 onward, and ease regulations under the Antimonopoly Act, the Companies Act and related laws to facilitate restructuring from a financial perspective.

- This is a English version of “【自律協生社会シリーズ⑦～衆院選後の高市政権に望む】強く豊かな経済に向けて～外交、経済 財政運営、構造改革の観点から” in JRI Research Focus (The original version is available at <https://www.jri.co.jp/report/viewpoint/detail/16460/>)

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