

Examining the 2026 Budget Proposal: Takaichi's "Proactive Fiscal Policy" Destroying People's Livelihoods

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The fiscal policy of the TAKAICHI Sanae administration is said to be a revival of "Abenomics" by the former prime minister ABE Shinzo, but the situation has changed significantly. Abenomics was built on the "three arrows"—monetary easing, fiscal stimulus, and growth strategy—but the arrow that ran through the entire policy was "unprecedented monetary easing." Interest rates, which even recorded negative values, are now rising, primarily for long-term government bonds. Under the second Abe administration, banks purchased government bonds amounting to 80 trillion yen (US\$516 billion @JPY155/\$ rate) annually, which the Bank of Japan (BOJ) then bought at a higher price, effectively absorbing them. This mechanism allowed for the de facto unlimited issuance of government bonds. While the issuance of these deficit bonds will continue through fiscal year 2026, starting in April, Abenomics also included stock price rescue measures through the Bank of Japan's stock purchases. High stock prices are the lifeline of Japan's government and monopolies. In September 2025, the BOJ announced it would sell approximately ¥330 billion (\$2.13 billion) worth of listed investment trusts (ETFs) it had purchased annually. The remaining balance, valued at approximately ¥37 trillion (\$240 billion) based on acquisition cost, would take over 100 years to amortize. Now that policy has shifted back to relying on interest-bearing markets from Abenomics' extraordinary stock market and monetary easing, the strategy of maintaining high stock prices through BOJ purchases is no longer viable.

So what exactly is the "responsible proactive fiscal policy" that Takaichi Sanae refers to? I believe it involves increasing military spending, providing fiscal support to the military-industrial complex and related advanced technologies such as semiconductors, forming a military-industrial-academic complex, and building a militarized state—this is the substance of a "strong economy," which she advocates. Here, focusing on the FY2026 budget proposal, I would clarify the reality of fiscal militarization and the destruction of people's livelihoods.

On December 26, 2025, the Cabinet approved the FY2026 budget proposal and the outline of tax reforms. Interest payments on national debt, assuming a 3% interest rate, reached ¥13.1 trillion (\$85 billion). Combined with the ¥18.2 trillion in bond redemption costs, the total reaches ¥31.3 trillion (\$202 billion). The national debt balance reached ¥1,145.4 trillion (\$7.39 trillion), a figure far exceeding that of any other G7 nation. While the BOJ had hesitated to raise interest rates due to concerns over worsening fiscal conditions caused by the massive debt, it decided on December 19 to raise rates to 0.75%. This rate still falls short of the U.S. policy rate of 3.0–3.75%, and the weak yen, hovering around 150 yen per dollar, shows no sign of abating, continuing to drive up import prices. In the final stages of the recent election campaign, Takaichi made a speech stating that the weak yen was "a great opportunity for export industries," completely disregarding the suffering of the people caused by rising prices.

Fiscal Year 2026 Military Spending and Defense Industry Development

Fiscal year 2026 "defense spending" reached ¥9.0353 trillion (\$58.3 billion) exceeding ¥9 trillion

(\$58 billion) threshold for the first time. The 2025 supplementary budget allocated ¥1.1 trillion (7 billion) including related expenses, pushing fiscal year 2025 military spending above 2% of GDP. The U.S. is exerting pressure through its “National Defense Strategy” to increase Japan's defense spending to 3.5% of GDP, and ultimately to 5% (about ¥30 trillion i.e. \$194 billion).

The content of FY2026's military buildup can be summarized in four points:

- ① Japan’s “Missile Archipelago” strategy. Deployment is advancing for the improved Type 12 surface-to-ship missiles, island defense missiles, and U.S.-made Tomahawk missiles. Hypersonic missiles will also be developed. Simultaneously, ammunition depots will be constructed at 18 facilities. At the Ground Self-Defense Force’s Camp Kengun in Kumamoto pref., targeted for the initial deployment of the improved Type 12 surface-to-ship missile, a protest rally drew over 1,000 citizens.
- ② Establish a coastal defense system (SHIELD) deploying unmanned aerial, surface, and underwater vehicles, acquiring a total of 10 types of attack drones, unmanned surface vessels, and unmanned submarines.
- ③ The Maritime SDF will also build new-type escort vessels and submarines.
- ④ In the space domain, new military communications satellites for information and communications will be developed.

Budgets from other ministries are also incorporated into military spending. These include research and development costs, public infrastructure, cyber security, international cooperation with “like-minded nations,” the Japan Coast Guard, and United Nations peacekeeping operations (PKO).

The increase in military spending is revitalizing the defense industry. Contract amounts announced in July 2025 for fiscal year 2024 were: Mitsubishi Heavy Industries, ¥1.4 trillion (\$9 billion) for Aegis-equipped ships, long-range missiles, island defense missiles, and next-generation fighters; Kawasaki Heavy Industries, ¥0.6 trillion (\$3.9 billion); Mitsubishi Electric, ¥0.5 trillion (\$3.2 billion); and NEC, ¥0.3 trillion (\$1.9 billion). Furthermore, based on the policy announced at the start of the administration to fully lift the ban on weapons exports in the first half of FY2026, confidential talks with the Philippines regarding missile exports (Ground SDF Type03 medium-range surface-to-air guided missiles) began in 2025.

The aim is to expand arms exports and foster the military-industrial complex. The government has already provided ¥1.7 trillion (\$11 billion) in support to Rapidus Corp., which aims to mass-produce next-generation semiconductors in Chitose City, and plans to provide an additional ¥0.9 trillion (\$6 billion) in support for fiscal years 2026-2027. The problem is that the latest semiconductors are indispensable for weapons production. The government’s fiscal spending on the military-industrial complex and the cutting-edge industries supporting it form the core of what Takaichi calls “responsible proactive fiscal policy.” The industries driving the stock market rally are primarily the military-industrial complex, cutting-edge technology industries like semiconductors, and the automotive industry benefiting from the weak yen.

Social Security Under Constant Attack

Meanwhile, cuts to social security spending continue. Pensions rose by only 1.9%, failing to keep pace with inflation exceeding 3%. Furthermore, the copayment for medical expenses for those aged 75 and over with incomes above a certain threshold increased from 10% to 20%. A further increase

to 30% for the elderly is being targeted.

Looking at the increased burdens for fiscal year 2026: One is the removal of OTC-like medications from insurance coverage. This affects 1,100 items across 77 ingredients, including the fever reducer/pain reliever Loxonin, anti-allergy drugs used for hay fever treatment, medicated plasters, antacids, the laxative Magmitt tablets, and general cold remedies. Currently, three-quarters are covered by insurance and one-quarter is self-paid, but the goal is to make them fully self-paid. The other change is a deterioration of the high-cost medical expense system. This system sets an upper limit on out-of-pocket expenses based on annual income when high medical costs are incurred. However, the upper limit for out-of-pocket expenses will be raised by 7 to 38% over three years, depending on income.

The healthcare system faces imminent collapse. Insufficient increases in medical fees (0.88% in fiscal year 2024) have deepened hospital deficits, resulting in 41 bankruptcies and 436 suspensions of operations in 2025. On December 19, 2025, the government decided to revise medical fees for FY2026, raising the core portion covering physician technical fees and personnel costs by 3.09%. This increase in medical fees is still far from sufficient. Furthermore, the Ministry of Health, Labour and Welfare (MHLW) allocated ¥350 billion (\$2.26 billion) in the FY2025 supplementary budget to cover costs for reducing 110,000 hospital beds. This guarantees ¥4.1 million (\$25 thousand) per bed based on the reduction count. A shortage of hospital beds during emergencies is clearly foreseeable.

Regarding welfare benefits, the Supreme Court ruled that the government's 4.78% reduction from 2013 to 2015 was illegal. The MHLW included in the FY2025 supplementary budget a 2.49% reduction, stating it would pay the difference and a special allowance to the plaintiffs. The full amount of the reduction should be paid to all eligible recipients, including the plaintiffs. As stated by 99-year-old welfare recipient YAGI Akira, "Degrading welfare is the path to war."

Resisting Fascism

The report "Current Status and Challenges of Japan's Public Finances" (August 2024) by the Deputy Director-General of the Budget Bureau at the Ministry of Finance expresses concern over the rapid surge in the national debt. The section titled "Comparing with Past History" compares the ratio of national debt to GDP (Gross Domestic Product) during the postwar period and from 1890 to 1944. The government debt balance for fiscal year 2024 stands at 236.7% of GDP, exceeding the 204.0% recorded in 1944. Amid postwar hyperinflation caused by unchecked wartime bond issuance, a deposit freeze occurred in February 1946. People were forced into a "bamboo shoot" existence, selling kimonos and other clothing to buy food with the new 500-yen notes. My family lost even our bamboo shoots in an air raid. We survived on rationed barley rice infested with black weevils and vegetables grown in our field. I was in fifth grade. I never want anyone to experience such a life again.

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