Japanese Finance Minister Taro Aso said the government is imitating his Depression-era predecessor, Korekiyo Takahashi, who told the Bank of Japan (8301) to underwrite government debt to fund deficit spending.

"There is no one in the government, the bureaucracy or the BOJ who has experience in anti-deflation policy," Aso said yesterday in an interview on NHK television. "We can only learn from history," he said, adding that the new administration is looking to Takahashi's example.

Emulating Takahashi's policies of monetary expansion and government-financed spending has a chance of helping Japan beat deflation, said Masaaki Kanno, chief economist at JPMorgan Securities Japan Co., who used to work at the central bank. Yet lobbying by interest groups empowered by increased spending, such as the construction industry, could make it difficult for leaders to tighten policy once growth is achieved, he said.

"If it is just a one-off and temporary, then it's OK," Kanno said. "But if the government loses fiscal discipline, then it will distort politics."

The yen fell to a 2 1/2 year low on Feb. 1 amid bets Prime Minister Shinzo Abe will select a new BOJ governor who will boost monetary stimulus. The currency was little changed at 92.77 per dollar as of 1:04 p.m. in Tokyo. The Nikkei 225 Stock Average was 0.7 percent higher, heading for a five-day advance.

The yield on benchmark 10-year government bonds rose to a three-week high of 0.795 percent.

‘Brilliantly Rescued’

As finance minister in 1932, Takahashi increased fiscal spending by 34 percent, doubled bond issuance and instructed the BOJ to underwrite government debt, according to a report by the Japan Center for Economic Research. While the effort helped end deflation and boost growth, Takahashi made enemies in the military when he later attempted to rein in spending. He was assassinated in 1936.

Takahashi “brilliantly rescued Japan from the Great Depression through reflatory policies,” Federal Reserve Chairman Ben S. Bernanke said in a speech in 2003. His policy package increased the fiscal deficit, depreciated the currency and expanded the money stock, with robust growth and mild inflation for the five years from 1933, according to a research paper co-authored by Masato.
Shizume, an economist working for the BOJ.

“If a central bank starts to underwrite government bonds, there may be no problems at first, but it would lead to a limitless expansion of currency issuance, spur sharp inflation and yield a big blow to people’s lives” and the economy, as has happened in the past, BOJ Governor Masaaki Shirakawa said in 2011. The central bank took the step in the 1930s because the debt market was “very immature,” Shirakawa said.

**Bond Buying**

Under Takahashi’s initiative, the BOJ’s underwriting continued for 14 years until the end of World War II, with the ratio of bonds bought by the central bank peaking in 1933 at 89.6 percent, according to a 2001 paper by the central bank.

Now, the BOJ purchases government bonds through the secondary market, and includes the securities in its 76-trillion yen asset-purchase program.

Since taking office in December, Abe’s government has announced fiscal stimulus to boost an economy in recession, with the BOJ agreeing to a 2 percent inflation target requested by the government and announcing open-ended asset purchases in a bid to stop more than a decade of falling prices.

Aso told lawmakers in Parliament today that the government will try to maintain trust in its fiscal management.

**Public Approval**

Abe’s approval rating rose 11 percentage points from December when he took office to 63 percent, according to a Mainichi newspaper poll published today. Almost seven in 10 voters have positive expectations for his administration’s economic policy, according to the poll. The newspaper surveyed 921 people and gave no margin of error.

The government is not aiming to depreciate the yen, and weakness in the currency is a result of policies aimed at getting Japan out of a deflationary recession, Aso also said on the TV program yesterday. The currency has depreciated more than 13 percent against the dollar in the past three months.

The challenge for Abe’s government is to fund growth without worsening Japan’s fiscal position. The nation’s public debt will expand to 245 percent of gross domestic product this year from 237 percent in 2012, according to International Monetary Fund estimates.

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