

# A PRODUCTIVITY REVOLUTION AND JAPAN'S REVITALIZATION

by

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Presentation at the Agenda for the Second Stage of Abenomics Productivity Improvement and Working Style Reform: Key Policy Measures to Realize “the Dynamic Engagement of All Citizens”

*Tokyo, Japan – March 16, 2016*

# THREE MAJOR ISSUES CONFRONTING JAPAN

Productivity Growth In Japan Has Stagnated since 1995 with a Brief Revival from 2004-2008 Before the Financial and Economic Crisis.

Japan's Labor Force Has Fallen in Size since 1999 and the Japanese Population Began to Decline in 2010.

Government Revenues Will Rise in Relation to the GDP to Finance Needed Expenditure and Support an Aging Population.

# THREE NEW ARROWS OF ABENOMICS

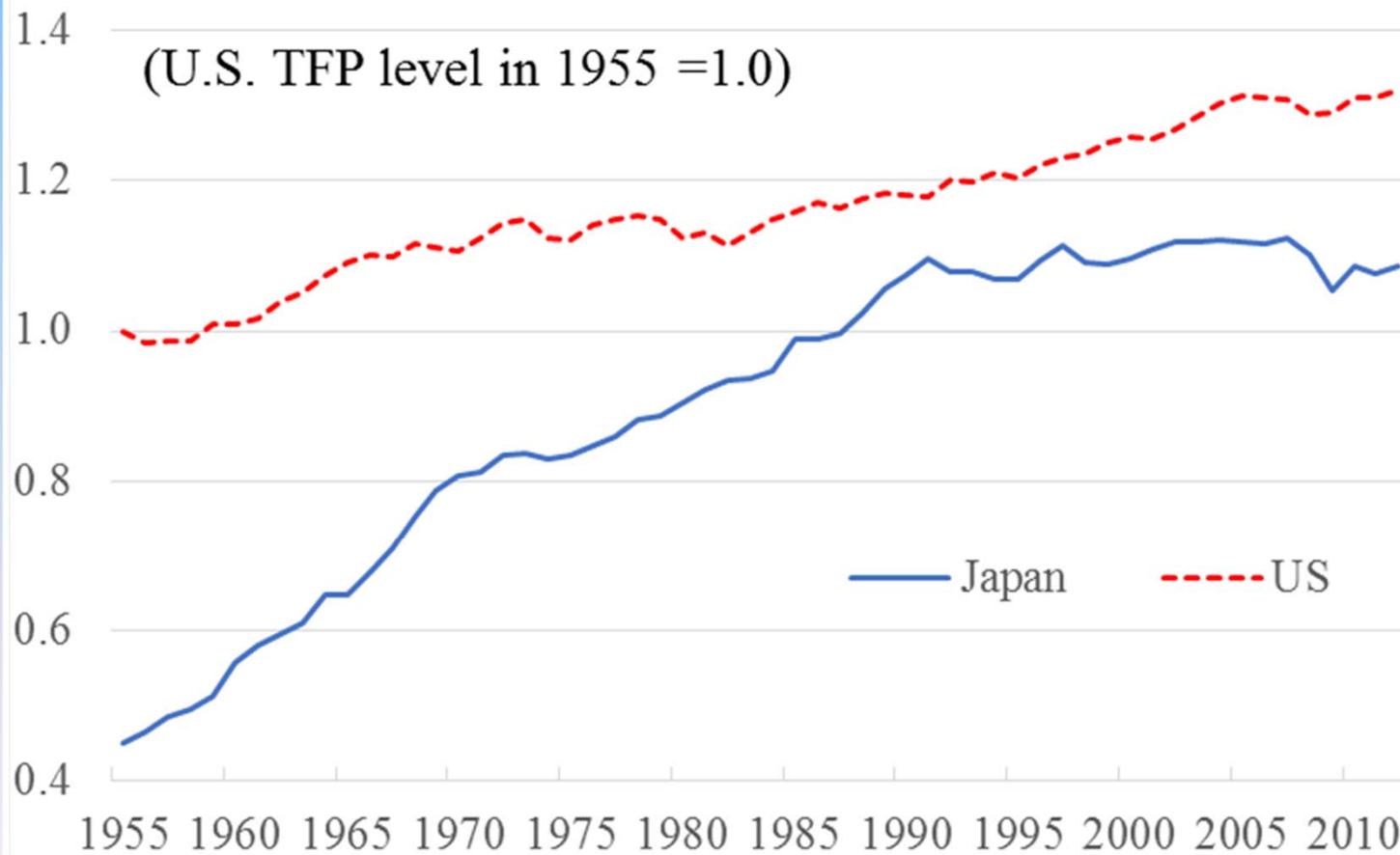
First Arrow: Create a Revolution in Productivity  
and a Robust Economy.

Second Arrow: Stabilize the Population at 100  
Million and Raise the Fertility Rate to 1.8.

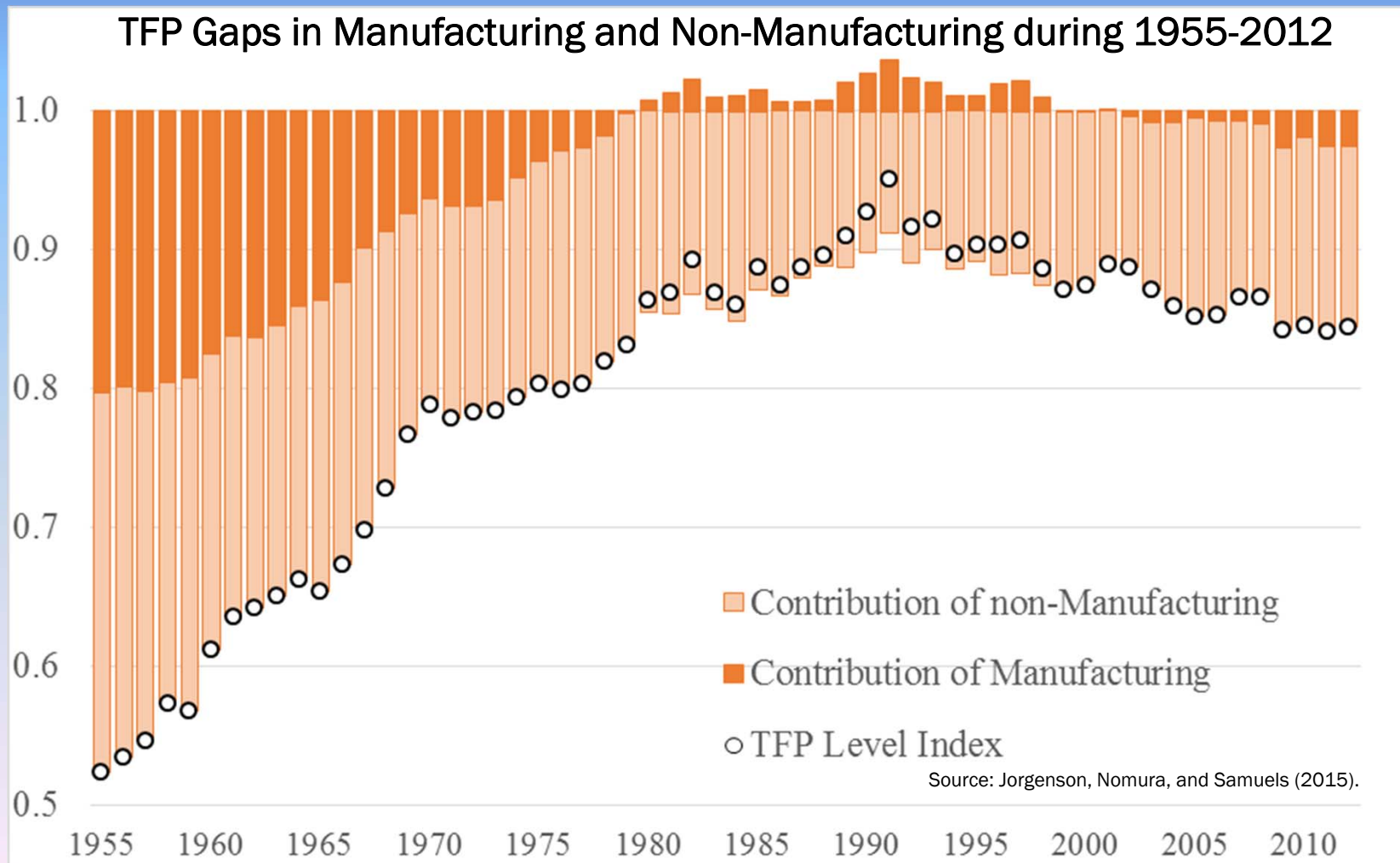
Third Arrow: Adopt a Sustainable Long-Run Fiscal  
Policy that Meets Social Insurance Obligations.

# PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.

Japan-US Productivity Level Indices at the Aggregate Level, 1955-2012  
(U.S. TFP level in 1955 = 1.0)



# PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.



# A PRODUCTIVITY REVOLUTION IN JAPAN

The Traditional Approach to Growth Strategy in Japan Is to Subsidize Favored Industries.

When Industries Mature They Try to Block Competition through Government Regulations.

The New Industrial Policy Is to Drill through “Bedrock” Regulations to Stimulate Competition.

# **IMPLEMENTING A NEW INDUSTRIAL POLICY**

Reform Agriculture by Diminishing the Influence of Agricultural Cooperatives and Participating in the Trans-Pacific Partnership (TPP).

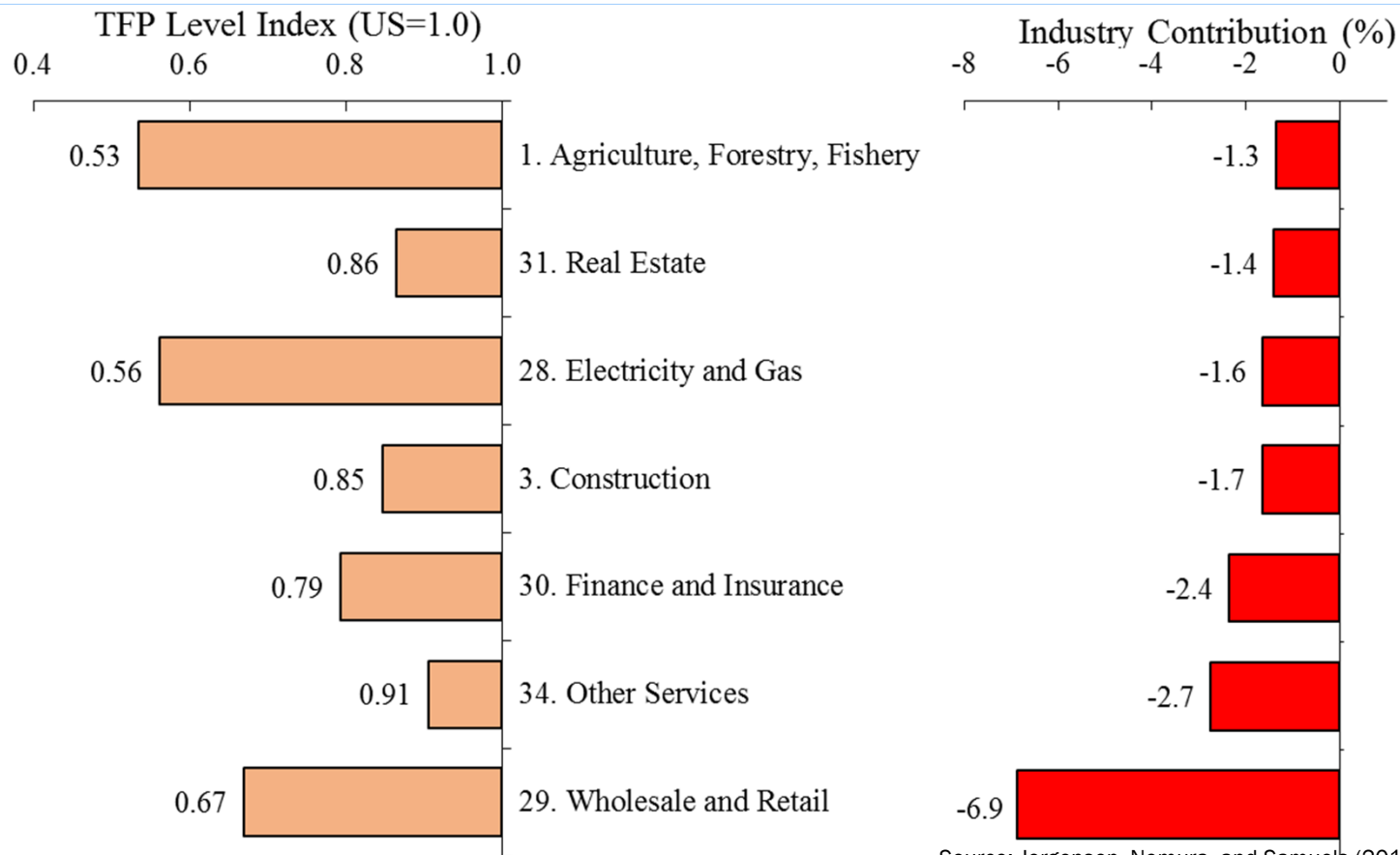
Liberalize the Electricity Market by Creating a National Grid and Promoting Competition in the Generation of Electricity and Retail Distribution.

Stimulate Competition by Eliminating “Bedrock” Regulations for Trade, Other Services, Finance and Insurance, Construction, and Real Estate.

# PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.

## Closing the TFP Gaps

- Closing the gaps in seven nonmanufacturing industries would eliminate the gap of 18% at the aggregate level for 2005



Source: Jorgenson, Nomura, and Samuels (2015).



# **WORKING-STYLE REFORM TO PROMOTE EFFICIENCY**

The Traditional Japanese Employment System Freezes Labor Mobility in Japan through Salaries Based on Seniority and Lifetime Employment.

The Efficient Deployment of Japan's High-Quality Labor Force Is Undercut by Wages that Do Not Reflect Productivity.

Incentives for Women to Postpone Marriage to Pursue a Career and for Families to Postpone Having Children Reduce Fertility.

# **ADOPTING A SUSTAINABLE FISCAL POLICY**

Financing of Social Insurance Obligations, Especially Support of the Elderly, Will Require an Increase in Government Revenue in Relation to the GDP.

A Shift in the Tax Burden from Investment to Consumption Will Stimulate Private Investment and Promote More Rapid Productivity Growth.

Revenue Enhancements Must Be Introduced Gradually to Maintain Aggregate Demand as the Growth Rate of the Japanese Economy Accelerates.

# **SUMMARY OF PRODUCTIVITY AND JAPAN'S REVITALIZATION**

Eliminate Bedrock Regulations to Promote  
Productivity Growth and Create a Robust Economy.

Reform the Traditional Employment System to  
Enhance Efficiency and Raise Fertility.

Reform Taxation to Stimulate Private Investment  
and Meet Social Insurance Obligations.