A PRODUCTIVITY REVOLUTION AND JAPAN’S REVITALIZATION

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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”

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THREE MAJOR ISSUES
CONFRONTING JAPAN


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.

TFP Gaps in Manufacturing and Non-Manufacturing during 1955-2012

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

<table>
<thead>
<tr>
<th>Industry</th>
<th>TFP Level Index (US=1.0)</th>
<th>Industry Contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishery</td>
<td>0.53</td>
<td>-1.3</td>
</tr>
<tr>
<td>31. Real Estate</td>
<td>0.86</td>
<td>-1.4</td>
</tr>
<tr>
<td>28. Electricity and Gas</td>
<td>0.56</td>
<td>-1.6</td>
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<tr>
<td>3. Construction</td>
<td>0.85</td>
<td>-1.7</td>
</tr>
<tr>
<td>30. Finance and Insurance</td>
<td>0.79</td>
<td>-2.4</td>
</tr>
<tr>
<td>34. Other Services</td>
<td>0.91</td>
<td>-2.7</td>
</tr>
<tr>
<td>29. Wholesale and Retail</td>
<td>0.67</td>
<td>-6.9</td>
</tr>
</tbody>
</table>

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.