

A PRODUCTIVITY REVOLUTION AND JAPAN'S REVITALIZATION

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The World Economy:

Growth or Stagnation?

Edited by Dale W. Jorgenson,
Kyoji Fukao, and Marcel P. Timmer



SUGGESTED READING

Dale W. Jorgenson, Koji Nomura, and Jon D. Samuels (2016), “A Half Century of Trans-Pacific Competition: Price Level Indices and Productivity Gaps for Japanese and U.S. Industries, 1955-2012,” Ch. 13 in Dale W. Jorgenson, Kyoji Fukao, and Marcel P. Timmer, eds., *The World Economy: Growth or Stagnation?*, Cambridge, UK, Cambridge University Press, pp. 469-507.

Government of Japan (2017), *Abenomics*, Tokyo, Cabinet Office, January 20, 2017. See:

http://www.japan.go.jp/_userdata/abenomics/pdf/170116_abenomics.pdf

Mary Brinton (2015). *Japanese Low Fertility and the Labor Force Participation of Married Women: The Role of Rigid Labor Markets and Workplace Norms*. Tokyo, Research Institute for Economy, Trade and Industry, October. See: http://www.rieti.go.jp/en/special/p_a_w/056.html

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.

THE THREE ARROWS OF ABENOMICS

First Arrow: Aggressive Monetary Policy.

Second Arrow: Flexible Fiscal Policy.

Third Arrow: Growth Strategy that Promotes
Private Investment.

HATTA's VIEW OF THE THIRD ARROW OF ABENOMICS

When a country forges its growth strategy, there are usually two approaches. One is to provide subsidies to the particular industries discretionarily chosen by the government to promote their growth. The other is to reform regulations to boost the metabolism of the economy. Prime Minister Abe has adopted the second approach. The decision is extremely significant for Japan's economy.

When economic growth has advanced to a certain stage, matured industries often seek to stop the growth of new industries in a bid to protect their vested interests. Thus, industries with vested interests present various plausible reasons for the enactment of legislation that aims at blocking the entry of newcomers. Such industries often employ the influence of politicians to arrange things to their advantage. Regulations to block new market entrants are the most significant impediments of economic growth. Abolishing such regulations, therefore, is the "top-priority item" of Abe's growth strategy.

THE THIRD ARROW OF ABENOMICS: SUMMARY

Deregulation of entry in trade and services is necessary to stimulate innovation and investment in information technology.

Japan already has the highest quality labor force in the world in terms of workplace skills measured by literacy and numeracy.

Japanese labor laws for employment protection have resulted in enormously inefficient allocation of a shrinking labor force.

The Trans-Pacific Partnership may reduce protection and increase incoming and outgoing foreign investment.

Abenomics is a work in progress and is intended to build political support for more thorough-going economic reforms.





THREE NEW ARROWS OF ABENOMICS

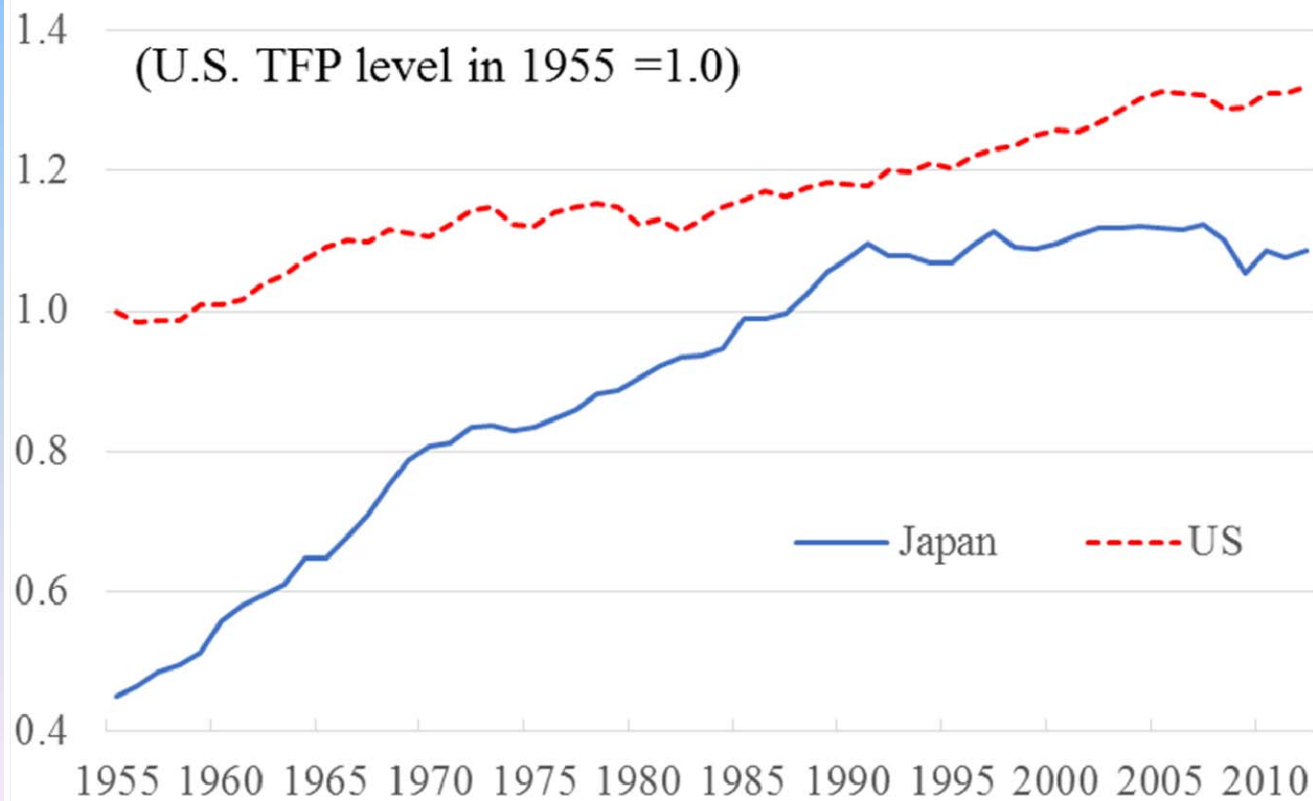
First Arrow: Create a Revolution in Productivity and a Robust Economy.

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

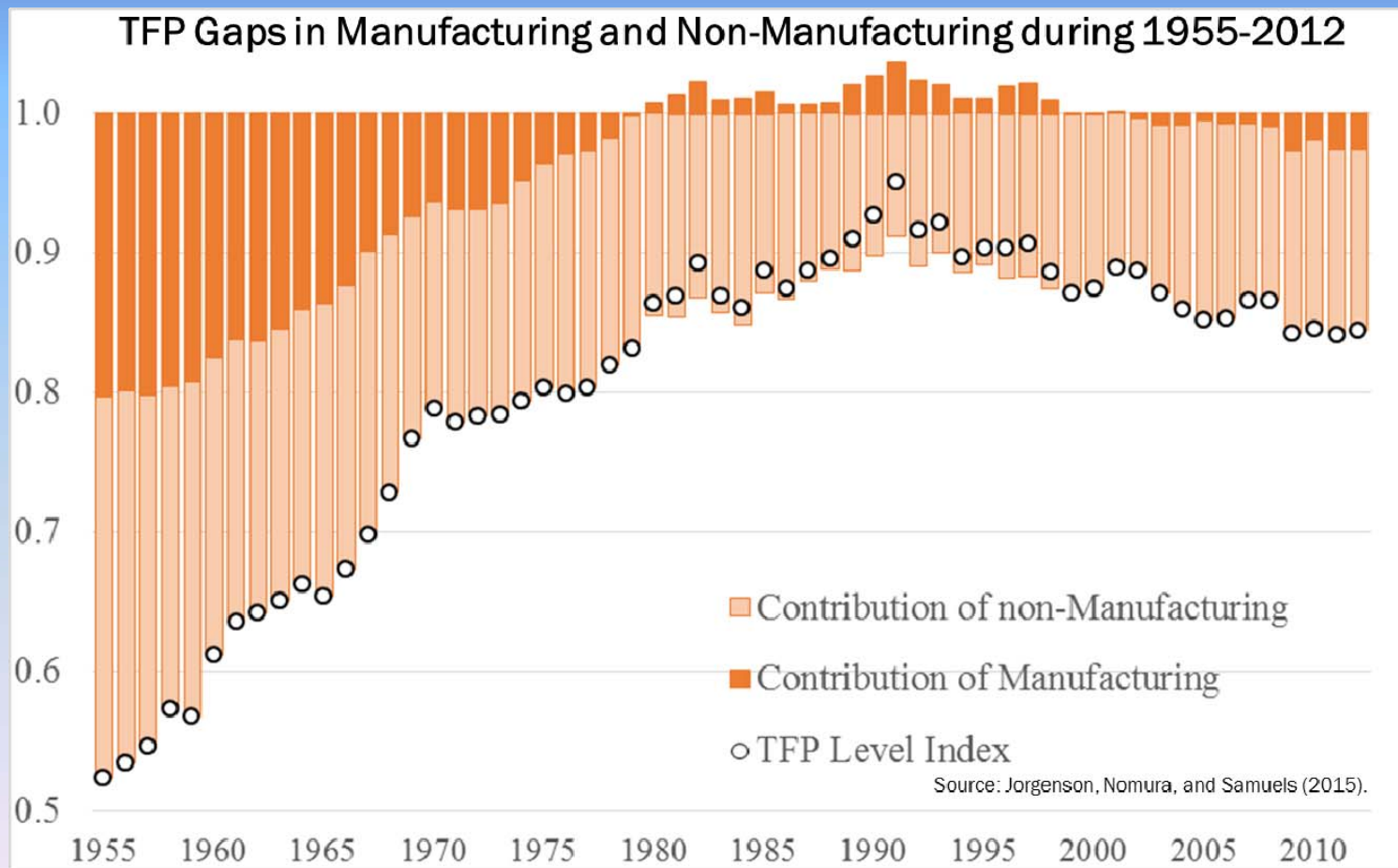
Third Arrow: Adopt a Sustainable Long-Run Fiscal Policy that Meets Social Insurance Obligations.

PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.

Japan-US Productivity Level Indices at the Aggregate Level,
1955-2012



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)

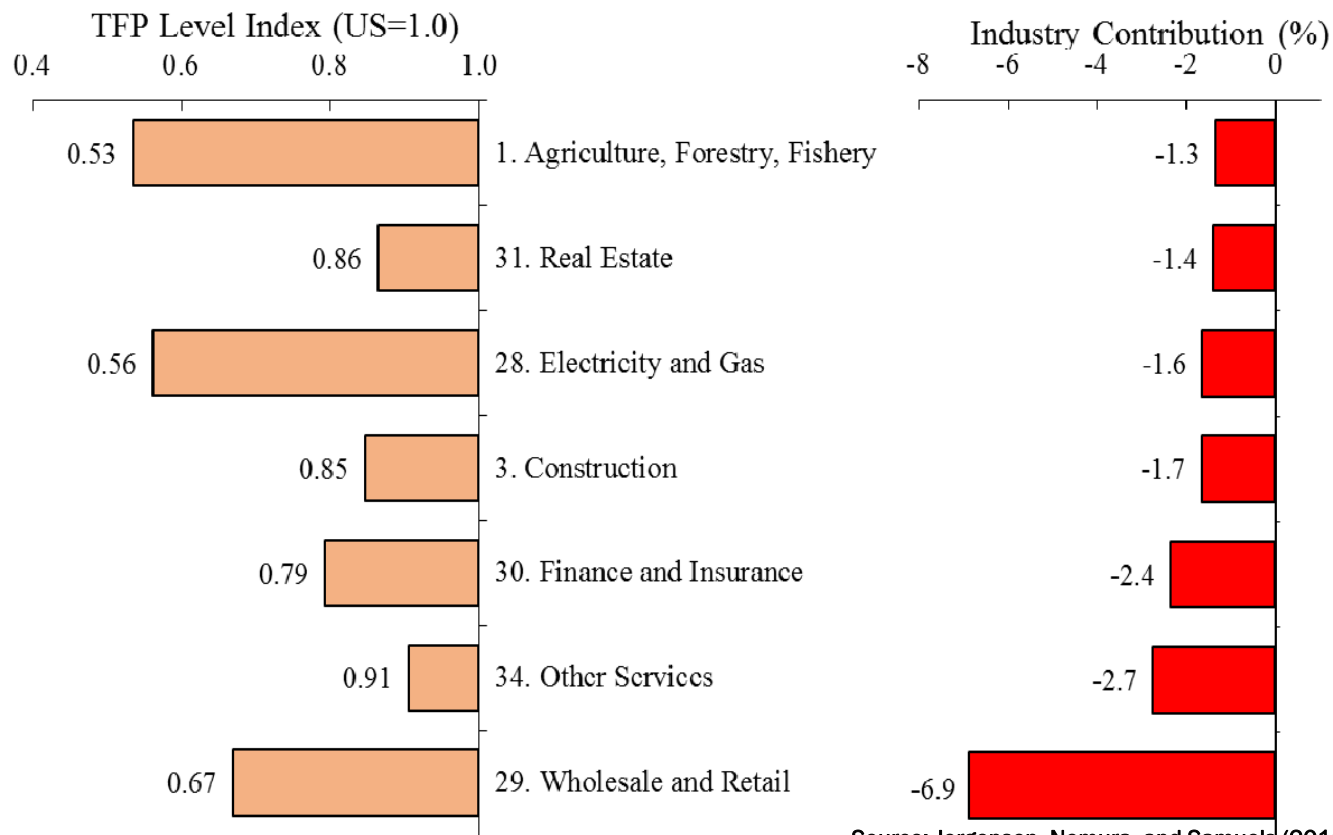
Liberalize the Electricity Market by Creating a National Grid and Promoting Competition in the Generation of Electricity and Retail Distribution

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

ABENOMICS

For future growth, for future generations,
and for a future Japan that is robust.

