

# THE SECOND PHASE OF ABENOMICS

by

**Dale W. Jorgenson**

Samuel W. Morris University Professor, Harvard University

*<http://scholar.harvard.edu/jorgenson/>*

*RIETI International Symposium*

*Tokyo, Japan*

*August 1, 2017*



Research Institute of Economy, Trade and Industry



Japan, Sharing tomorrow.

# ABENOMICS

Published in July 2017

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

We should look to the future, rather than  
worry about the present. Japan may be aging.  
Japan may be losing its population. But, these  
are incentives for us.

– Prime Minister Shinzo Abe



THE GOVERNMENT OF JAPAN

# **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.

# **FIRST PHASE OF ABENOMICS**

First Arrow: Aggressive Monetary Policy

Second Arrow: Flexible Fiscal Policy

Third Arrow: Growth Strategy

# GROWTH STRATEGY

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 THE GROWTH STRATEGY

Reform Agriculture by Diminishing the Influence of Agricultural Cooperatives and Participating in Free Trade Agreements

Increase Competitiveness for Current Energy Sources While Exploring New Energy Sources

Stimulate Competition by Eliminating “Bedrock” Regulations for Wholesale and Retail Trade, Other Services, and Finance and Insurance

# PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.

## Closing the TFP Gaps

- Closing the gaps in five nonmanufacturing industries would eliminate the gap of 15% in the aggregate level for 2015



Source: Jorgenson, Nomura and Samuels (2017)

# SUMMARY OF THE FIRST PHASE OF ABENOMICS

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 an inefficient allocation of a shrinking labor force.

Trade agreements reduce protection and increase incoming and outgoing foreign investment.



# A PRODUCTIVITY REVOLUTION AND JAPAN'S REVITALIZATION

by  
Dale W. Jorgenson  
Harvard University

*<http://scholar.harvard.edu/jorgenson/>*

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*

 **Japan Center for Economic Research**



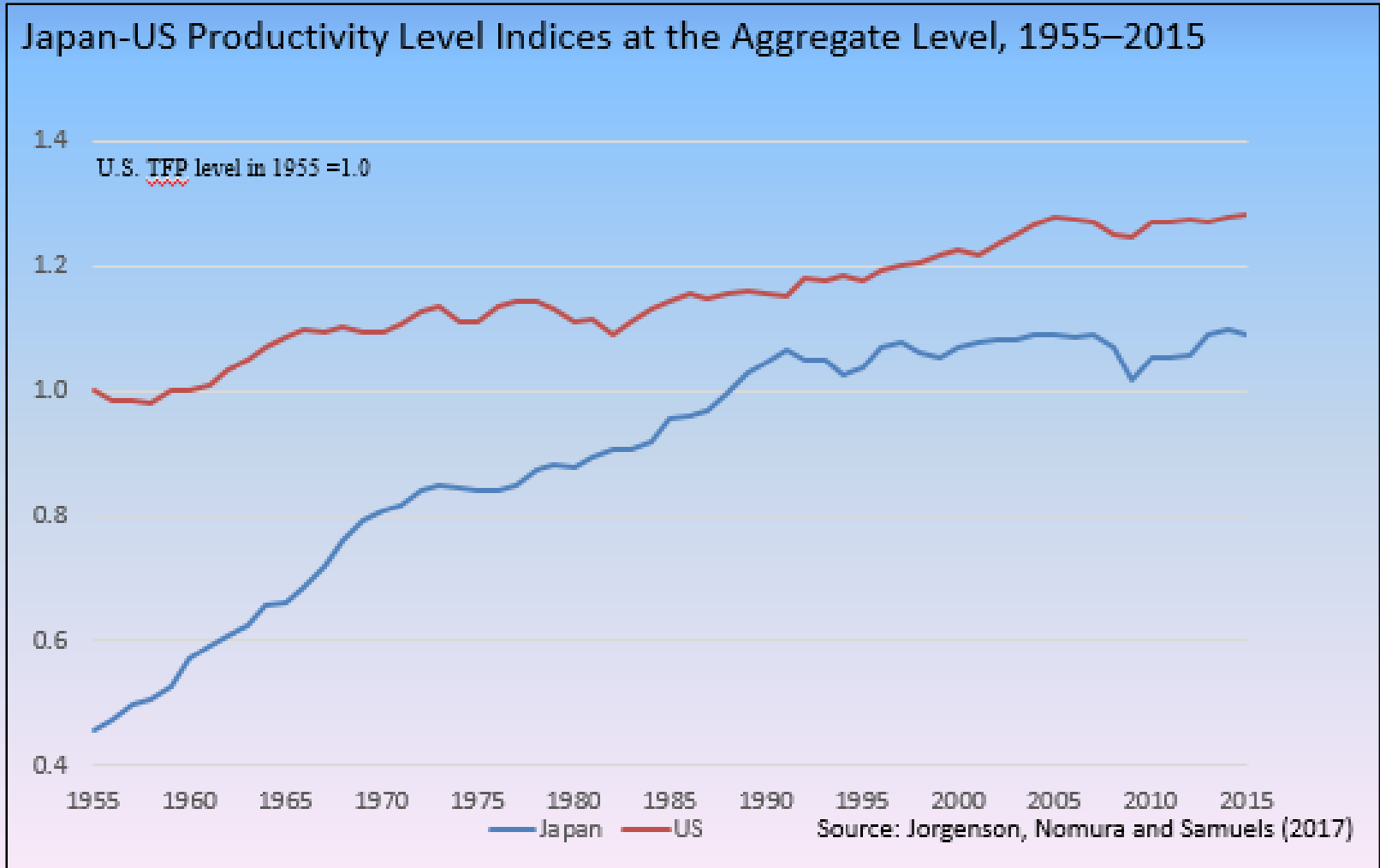


# **GROWTH STRATEGY 2017**

Adopted June 9, 2017

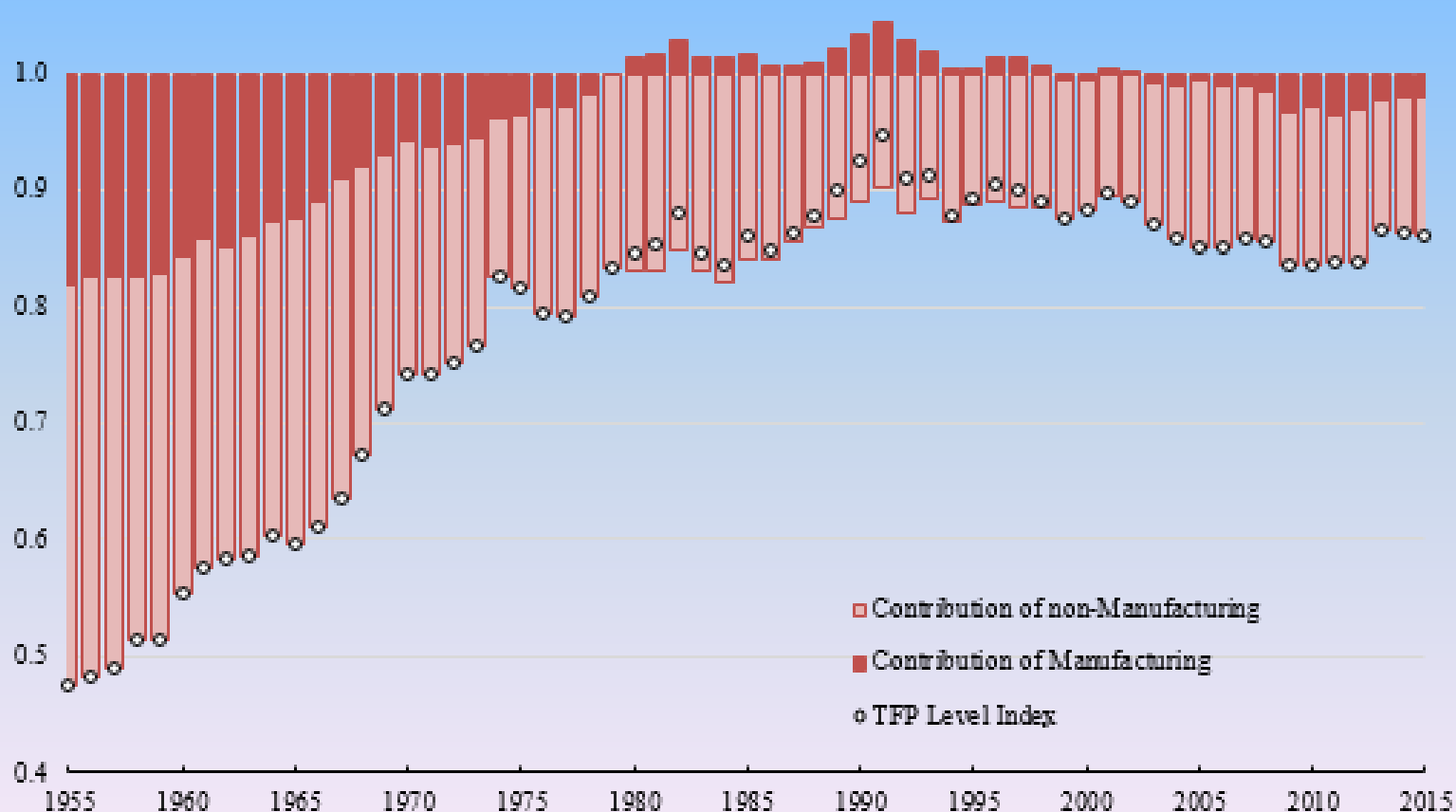
1. Boost Productivity.
2. Drive Innovation and Trade.
3. Energize Corporate Activities

# PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.



# PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.

Japan-US TFP Gaps in Manufacturing and Non-Manufacturing, 1955–2015



Source: Jorgenson, Nomura and Samuels (2017)

# **BOOST PRODUCTIVITY**

Reform the Traditional Work Style

Invest in Human Resources

Embrace Diversity in the Labor Force

# **DRIVE INNOVATION AND TRADE**

Provide Personalized Medical Care

Provide Faster Distribution Services for Business

Increase Productivity in the Infrastructure Business

Promote Development of Financial Technology  
in Japan



# **ENERGIZE CORPORATE ACTIVITIES**

Corporate Tax Reduction

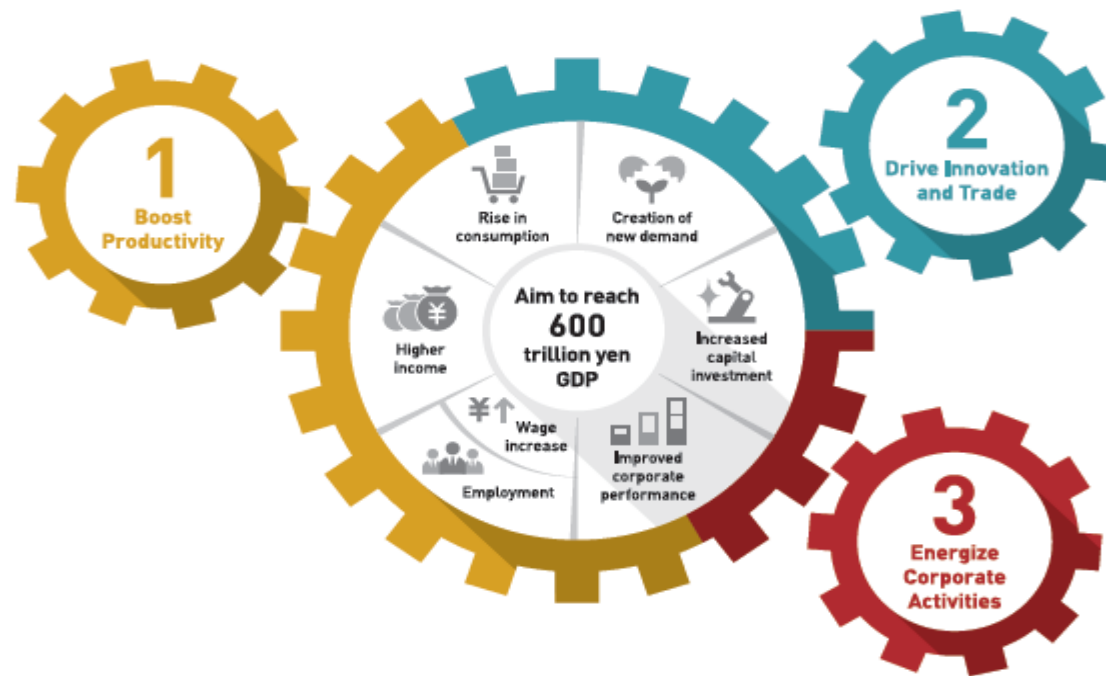
Strengthen Investor Confidence in  
Corporate Governance

Drive Inward Foreign Direct Investment

# SUMMARY OF THE SECOND PHASE OF ABENOMICS

## How Abenomics 2.0 works

In order to achieve sustainable growth and reach a nominal GDP of 600 trillion yen, we will accelerate our efforts towards comprehensive reforms in three vital areas: ①boosting productivity, ②driving innovation and trade, and ③energizing corporate activities. Through these efforts, we will strive to create a positive environment for the private sector to boost their creativity and speed in economic activities, and to keep the virtuous economic cycle going.



# **The World Economy:**

Growth or Stagnation?

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

