Why Did Japan’s Economic Growth Slow Down? (Contid.)

- According to a growth accounting analysis of the major six developed countries, only the US accomplished an exceptional acceleration in TFP growth after 1995.
- The EU countries maintained their rate of growth through the accumulation of capital and an increase in labor input.
- In Japan, all growth factors declined after 1995.
Growth Accounting for the Market Sector in Japan, the US, and the Major EU Economies

Source: EU KLEMS Database, March 2007.
Why Did Japan’s Economic Growth Slow Down? (Contd.)

- TFP growth in Japan’s ICT industry registered the highest rate of TFP growth among the major developed economies for the period from 1995 to 2004.
- However, this TFP growth in the ICT industry did not contribute much to total TFP growth, because the labor input share of the ICT industry in the economy as a whole is only about 5%.
Figure 4. TFP Growth in the Market Sector: by Sector and by Country

Electrical machinery, post and communication

Manufacturing, excluding electrical machinery

Other goods-producing industries

Finance and business services

Distribution services

Personal and social services

Source: EU KLEMS Database, March 2007.
Contribution of ICT Capital Input to Economic Growth

We compare ICT investment of the six major developed countries using the EU KLEMS database.

We found that the six countries can be categorized into the following three groups:

2. Intermediate group: Germany and France → 12% growth per annum from 1995 to 2004.
3. Laggards: Japan and Italy → ICT capital service input level in 2004 was less than twice as high as the 1995 level → Japan did not catch up the trend of downsizing in the 90s.

The contribution of ICT capital service input to economic growth in Japan was lower than in the other countries except Italy.