

Talking points for Abenomics

Designing policies for shared and sustainable prosperity

Japan has actually been –performing well, in many dimensions, in recent years

- There are problems on both the demand and supply side. Coordinated approaches to dealing with both simultaneously are those that are most likely to be successful
- Japan has actually performed relatively well, once one takes into account its demographics
- A full percentage point difference in population growth. Japan grew at an average annual rate of .08% from 1999 to 2011, as compared to .64% for the OECD, .94% for the United States, and 1.21% for the world. (see OECD data, [click here](#).)
- Unemployment has remained low, far lower than Europe and America. Japan's (annual) unemployment rate has averaged 4.5% from 2007-2012; 7.7% for the United States (using 2012 estimated figure); 9.4% for Euro area. (IMF WEO figures)
- Productivity increases have been strong. Average annual rate of labor productivity growth for Japan from 1999-2011 was 1.8%, as compared to 1.0% for the Euro area and 1.8% for United States (OECD data)
- And while in the United States, workers over the past two to three decades have not shared in increases in prosperity—with income of the median full time male worker at the same level that they were forty decades, and median household income is the same as it was in 1996. While the Gini coefficient has increased far less than it has in the United States over the last 30 or so years, movements in median income have been disappointing.
- There are other indicators showing that Japan is doing well—life expectancy (83.6 years at birth – highest in the world in 2012),
- education
 - percentage of population that has attained tertiary education is second only to Korea, (<http://www.uis.unesco.org/Education/Documents/oecd-eag-2012-en.pdf>)
 - 8th in the world for reading scores, 9th in mathematics, well ahead of OECD average and United States (<http://wwoecd.org/pisa/46643496.pdf>)
 - and especially female education (unlike in the United States, girls score better in science, gender gap in math scores is also better) (but in other areas, gender gaps are not much if any better than in other OECD countries)

The objectives of economic policy

- The fact that there is a widespread perception that Japan is not doing well—a perception that many Japanese share—means I should dwell some on the objectives of economic policy.
- It is not to increase GDP or the rate of growth of GDP. GDP is not a good measure of well-being
- It is to improve the well-being of all citizens of the country. It is to promote shared prosperity, rightly understood. This means valuing not just the consumption of material goods, but all of those things that make life meaningful. It means treasuring our environment.
- There are policies that could increase growth as measured by gdp that would not increase living standards, policies that would increase insecurity, increase inequality, degrade the environment. I believe such policies are a mistake. Some of the policies that I shall mention later that increase growth would simultaneously improve equality and standards of living. There are others that I will mention where there is a need for a national debate, aware of the trade-offs that they might entail.
- Before turning to these, I want to mention a couple of worrying trends—significant increases in inequality, though not as bad as US. Increases in poverty, especially among the aged. Poverty level among elderly was 21.1% in 2000, as compared to 13.9% OECD average (OECD source [here](#)). Promoted by fact that Japan's elderly dependency ratio is the highest in the OECD and is projected to remain so through 2050 (OECD).
- Japan is also distinctive among the advanced industrial countries in having a relatively low labor force participation rate of women (49% according to World Bank, as compared to 58 percent for the US, 60 percent for Denmark), low participation of women in senior positions in management (just 7%, one of the lowest in the world, according to one estimate), etc. It is particularly unusual given the high level of female education and the low fertility rate.
- To the extent that this reflects that the talents of a large fraction of the labor force are not being fully utilized, and the aspirations of large numbers are not being realized, this is a cause of concern.
- I should add, however, a note reinforcing the observation made earlier, what matters is not measured gdp but the quality of life
- 75 years ago, Keynes asked how would we spend the productivity dividend.
- In America, hours worked in many households have gone up. In poor families, out of necessity, in the struggle to stay ahead, with stagnant wages.
- In upper income families, in a rat race, that often leaves family lives destroyed.
- Europe and America took different courses. Europe has taken more of the productivity dividend in leisure, with longer vacations.
- While economic theory cannot say which of these is better, from the perspective of the planet, we will not survive if others follow the American route, unless we succeed in restructuring our economy in ways which impose fewer demands on the environment.

Prescriptions

- There is weak global demand, caused by a number of factors—A flawed European structure, austerity, financial sectors problems in many countries, the legacy of the bubble, and, importantly, inequality
- In a globalized economy, it is global demand that matters.
- Japan cannot solve the problem of weak global demand
- It can make sure that it gets an appropriate share of that global demand, through competitive exchange rates
- It can promote greater efficiency in its export and import competing sectors, to make them more competitive
- And it can stimulate domestic demand for non-traded goods
- That's why the policies to stimulate demand, both monetary and fiscal policies, are so important.
- But it's also why the third arrow, structural policies, are also so important.
- Government spending should be directed at helping restructure the economy.
- All economies are constantly in the process of restructuring
- But this is a time when it is especially important
- And especially important in Japan
- 1. Where it has long been recognized that there is a major gap between productivity in manufacturing and other sectors
- (There is some subtlety in how these policies need to be pursued—improving sectoral efficiency, but moving low productivity workers into still lower unemployment doesn't improve overall economic efficiency. Jobs have to be created as old jobs get destroyed. And the market doesn't do this well on its own. Japan's government played a key role in its restructuring after the Meiji restoration, and again after the war. It will now have to play a similar role in restructuring into the service sector economy.
- 2. Research and development/universities; more broadly, doing more to create a learning society. Essential in the 21st century knowledge economy. have to remain on knowledge frontier.
- 3. Exploiting synergies between its proven manufacturing capacities and its service sector, e.g. in health care, new diagnostics
- 4. Further immersing itself in globalization, e.g. through better command of English, sending young students abroad for a year or more of education—returning better equipped to compete in a globalized economy
- 5. Most controversially, measures to increase labor supply. Raise questions: would Japan benefit from higher growth per se, not just higher productivity? In US, measures have had an ambiguous effect on well-being—more hours worked per household, some would argue lead to the deterioration in quality of family life; large immigration, overall increase in labor hours of unskilled, semi-skilled may have contributed to adverse changes in distribution
- Two areas more likely to be positive

- Increased effective inclusion of women—improve equity, tap into an underutilized resource
- Later retirement age, at least for those not engaged in manual labor, reflecting greater health, ability to contribute later in life, might help in addressing concerns over poverty among the aged, improve government's fiscal position, might even improve quality of life of aged

Return to basic theme

One should not be pursuing growth for its own sake, but for impact on quality of life, well-being

Sensitive to distribution

In terms of growth, adjusted for demographics, Japan has been doing far better than is generally realized

In terms of inequality, compared to other countries, not doing badly

But compared to Japan of the past, there are causes for concern

The government's three pronged attack is the right approach, and compares favorably with approaches taken by so many governments around the world which have relied on a single arrow.

All three are essential, especially in this era of weak global demand and in which traditional monetary instruments have reached their limit