

# **Demand and Supply: Learning from the United States and Japan**

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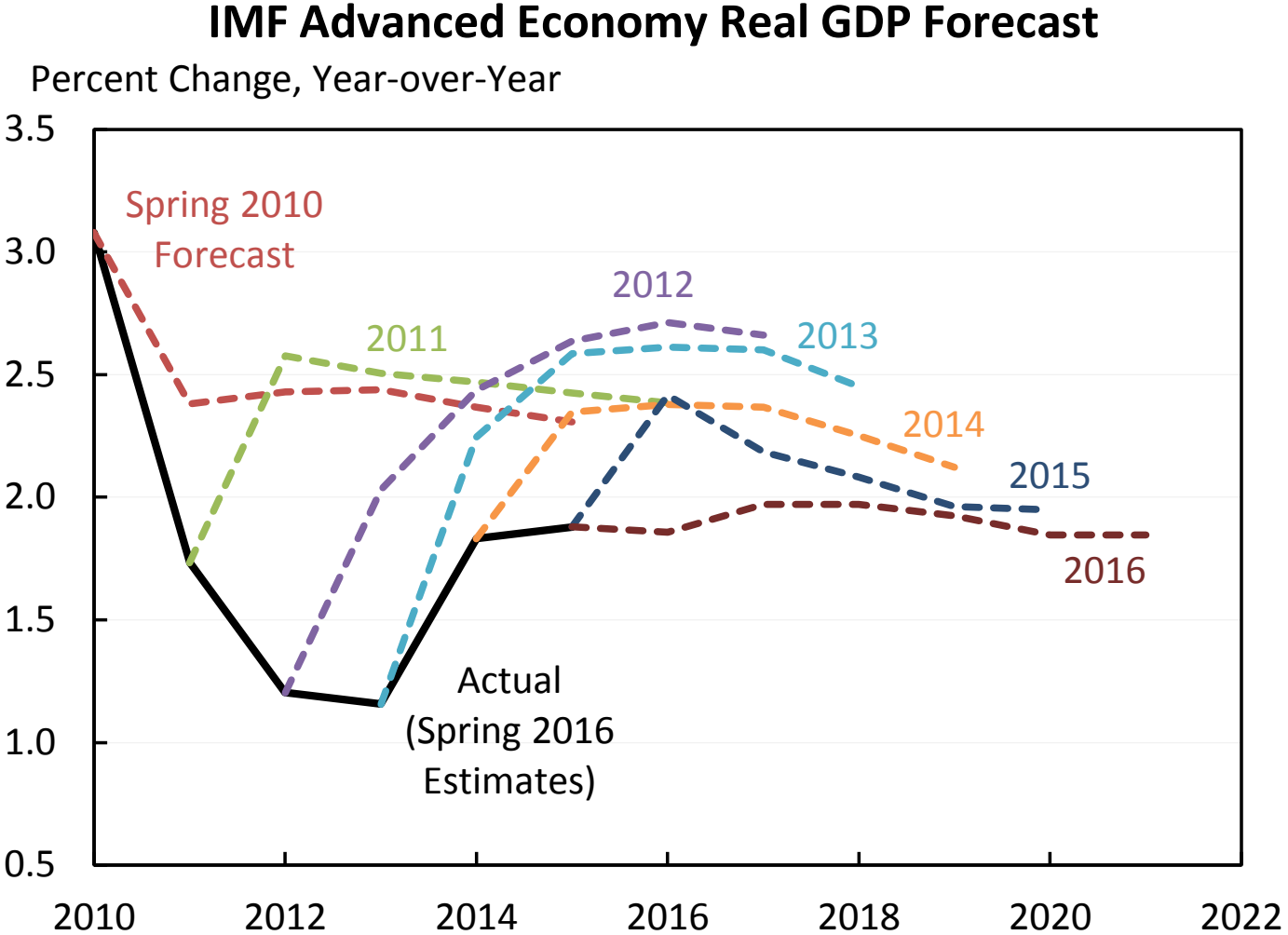
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- 1. Divergent Recoveries from the Economic Crises**
- 2. Fiscal Policy**
- 3. Productivity Growth**
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# Since 2010, Advanced Economies Have Consistently Grown More Slowly Than Expected—But Growth Rates Have Picked Up Somewhat

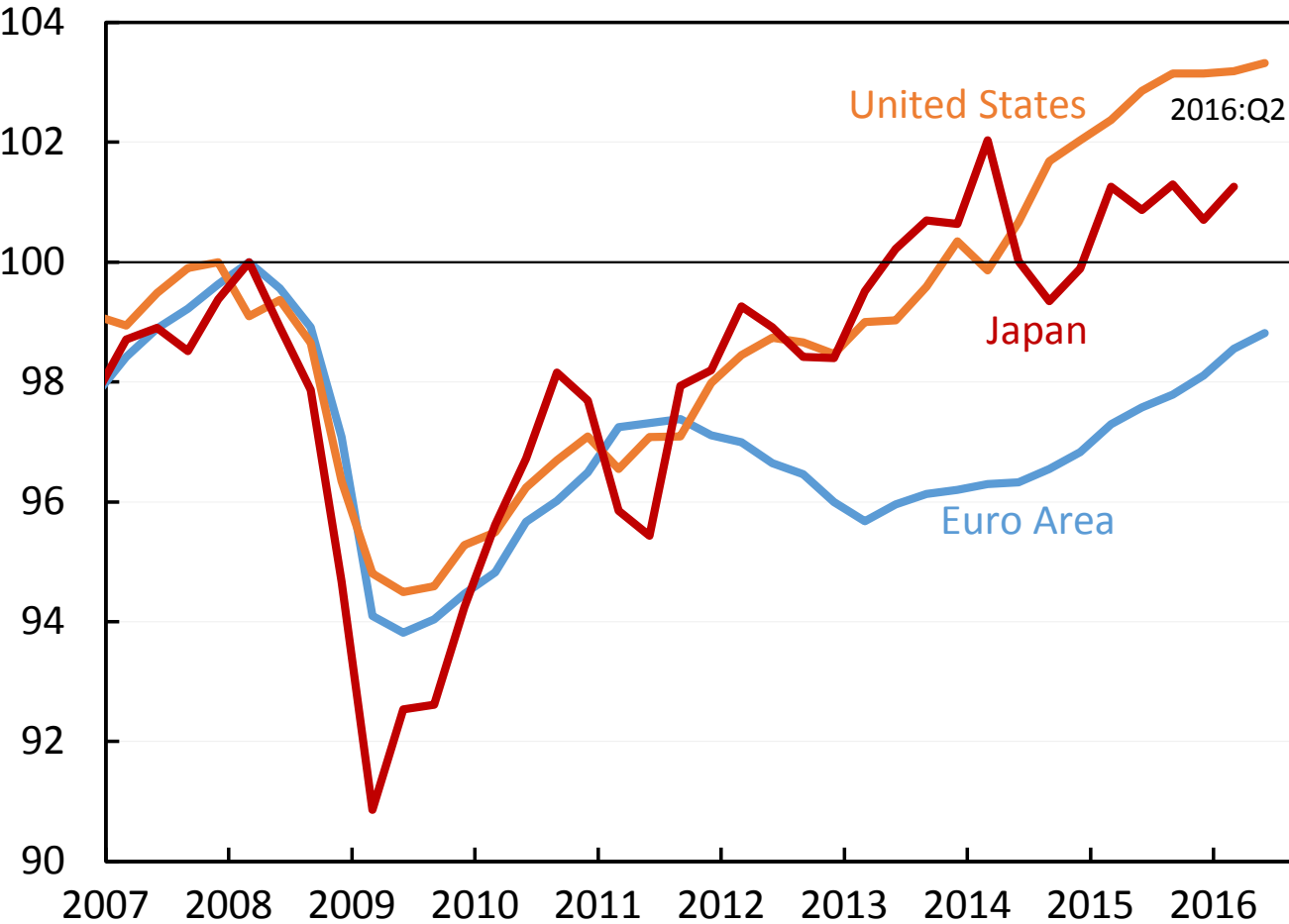


Source: International Monetary Fund, *World Economic Outlook*.

# In Part Due to Different Policy Responses to the Crisis, the United States, the Euro Area, and Japan Have Seen Divergent Output Paths

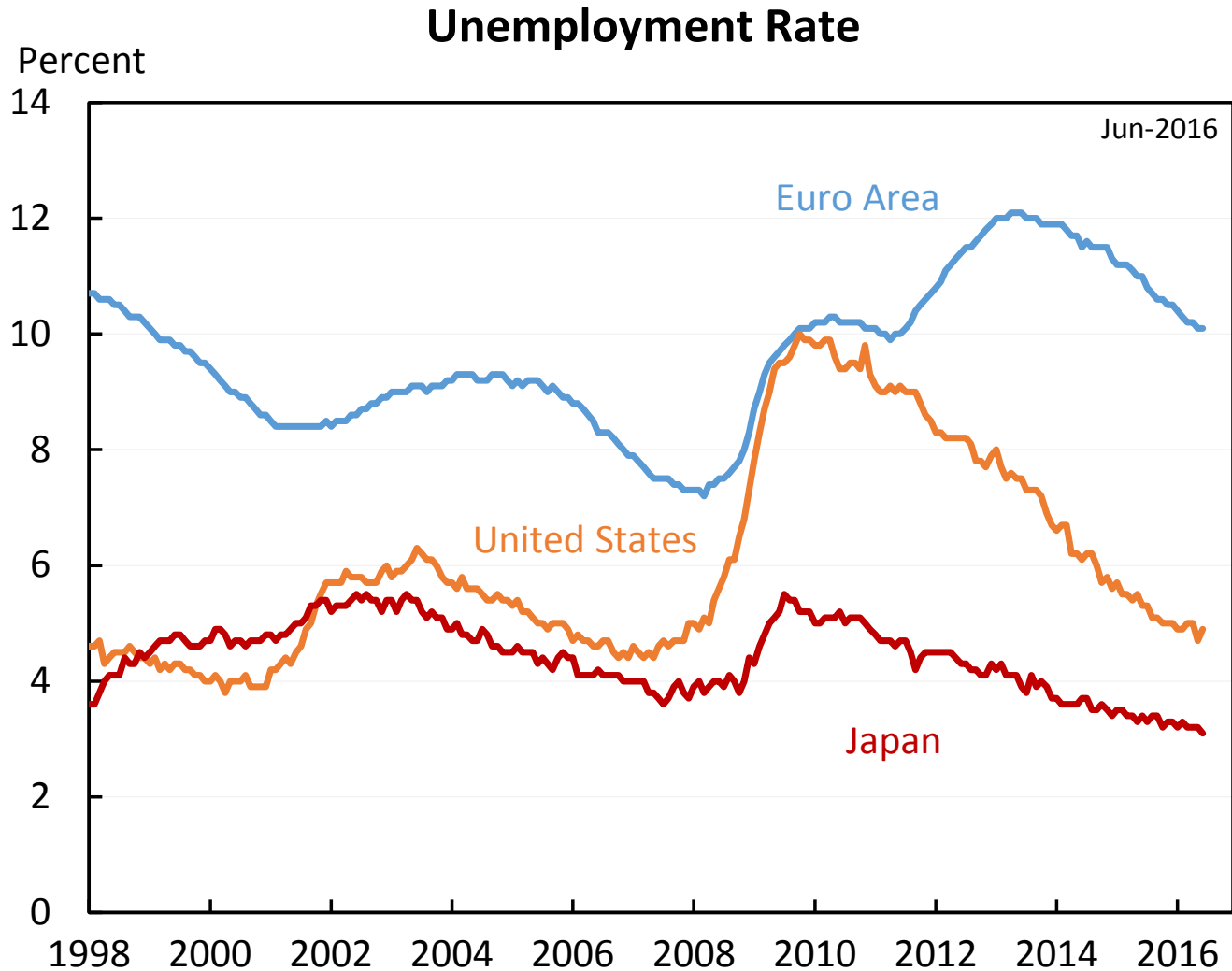
## Real GDP per Capita: Euro Area, United States, and Japan

Index (Pre-Crisis Peak = 100)

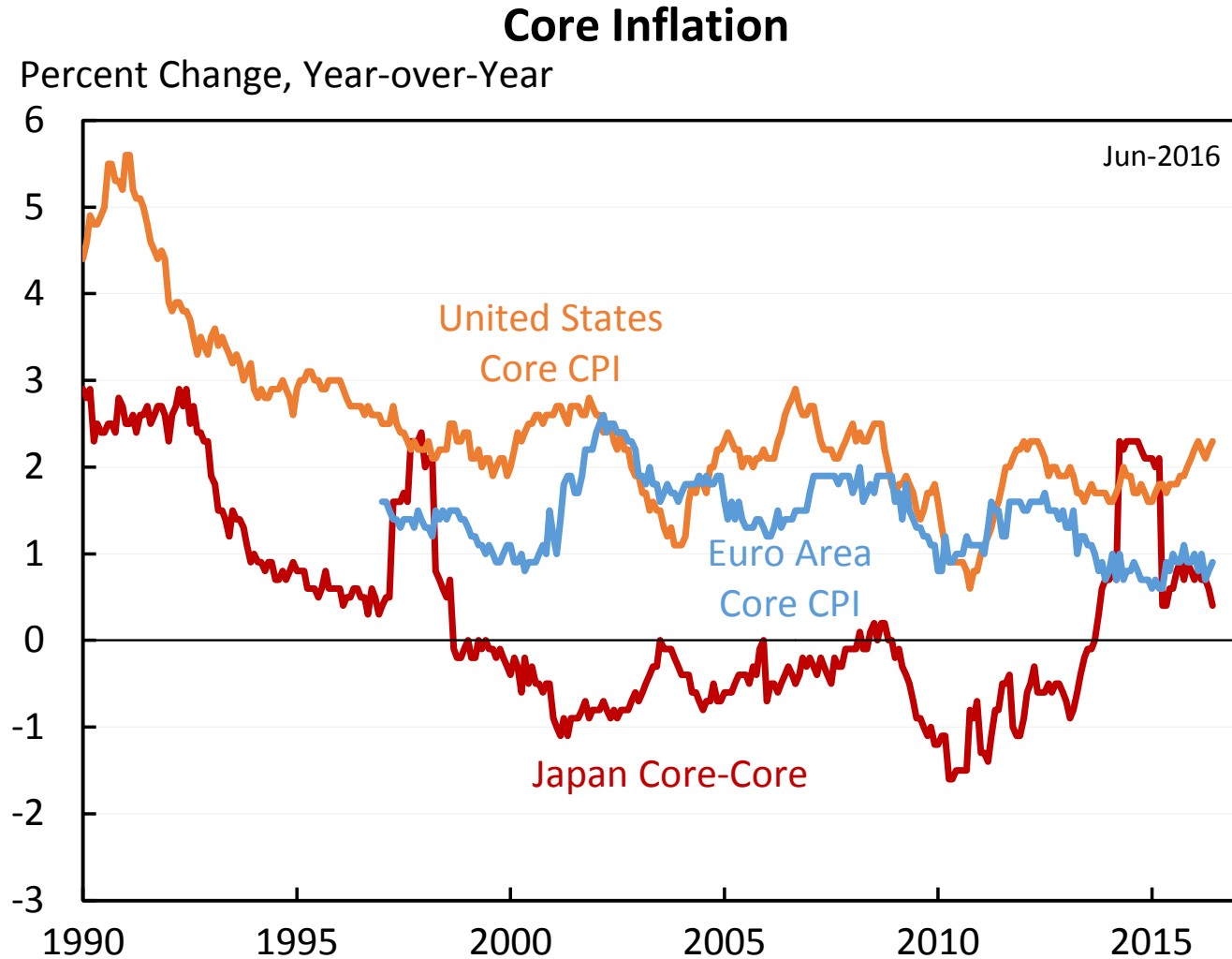


Note: Data for Japan and euro area through 2016:Q1. Population data for euro area are quarterly interpolations of annual data.  
Source: National sources via Haver Analytics; CEA calculations.

# Unemployment Rates Have Also Diverged



# Japan Has Also Faced Struggles Boosting Inflation Above Zero

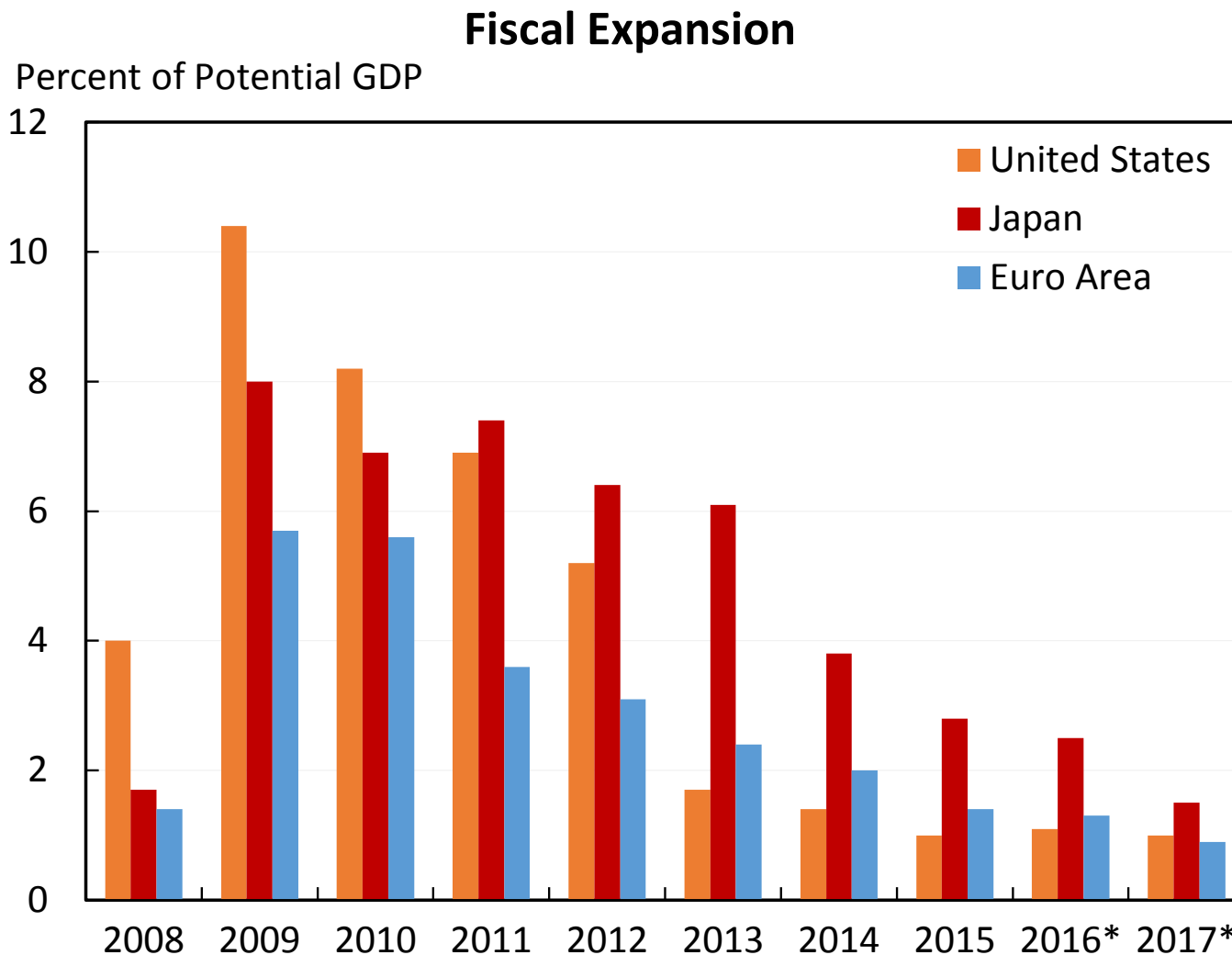


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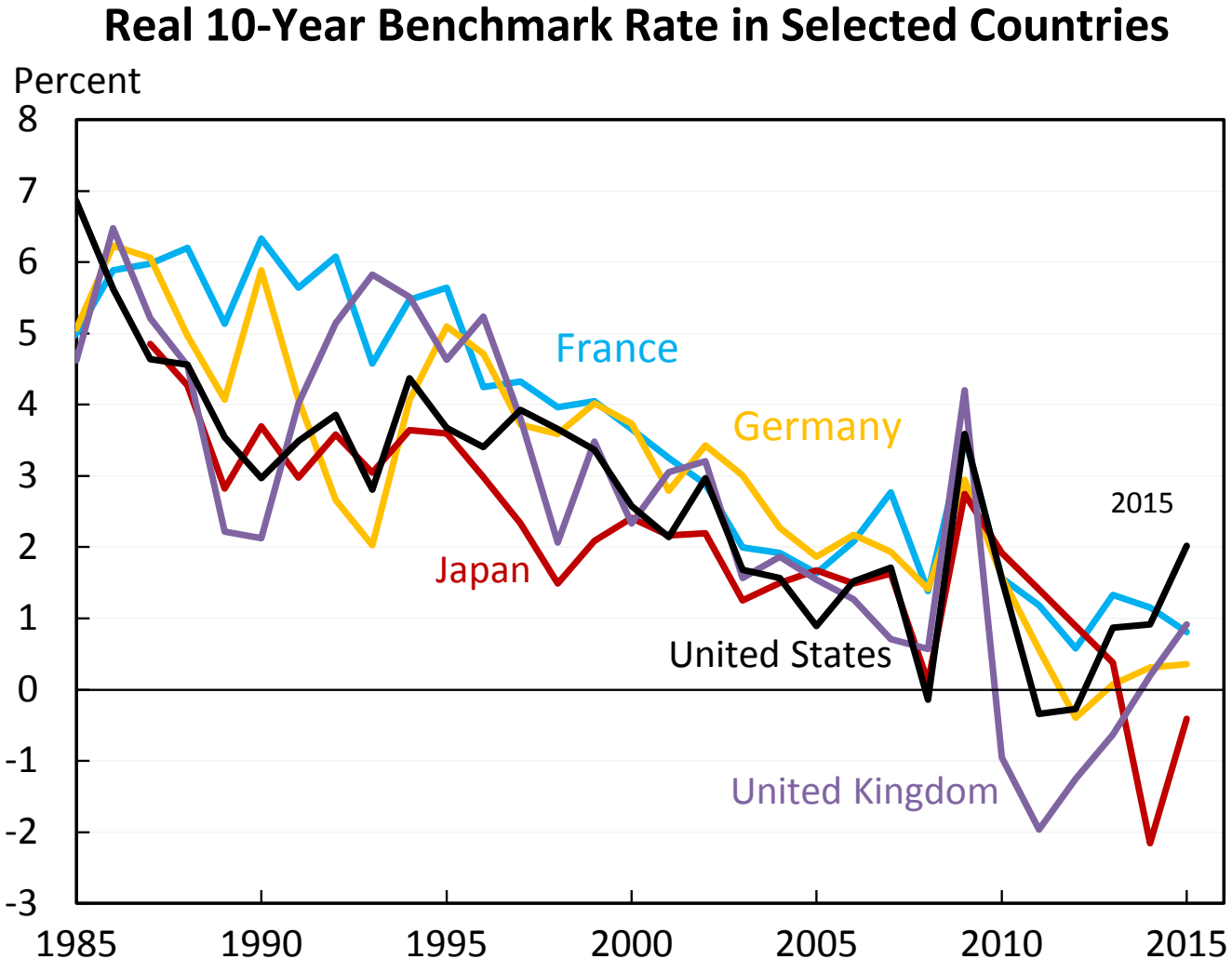
# In Both the United States and Japan, Robust Fiscal Stimulus in the Early Years of the Crisis Was Followed by Consolidation



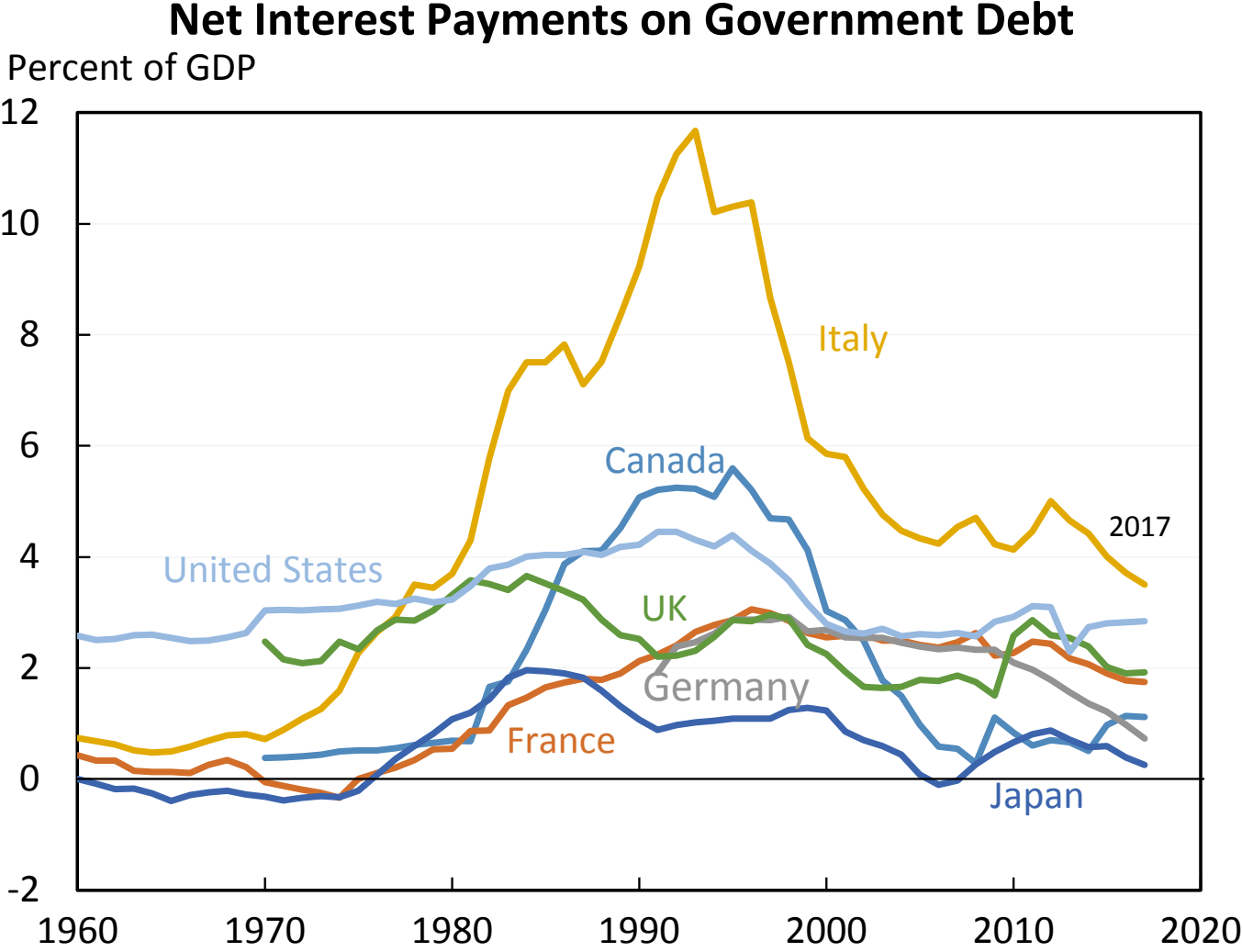
Note: Fiscal expansion calculated as the difference between the primary fiscal balance compared to 2007. Asterisks (\*) indicate projections.

Source: International Monetary Fund, *Fiscal Monitor* (April 2016).

# Real Interest Rates Have Been Falling Since the 1980s and Have Remained Low Since the Crisis



# Japan Pays Less in Net Interest on Government Debt as a Share of GDP Than Any Other G-7 Country



Source: Organisation for Economic Co-operation and Development.

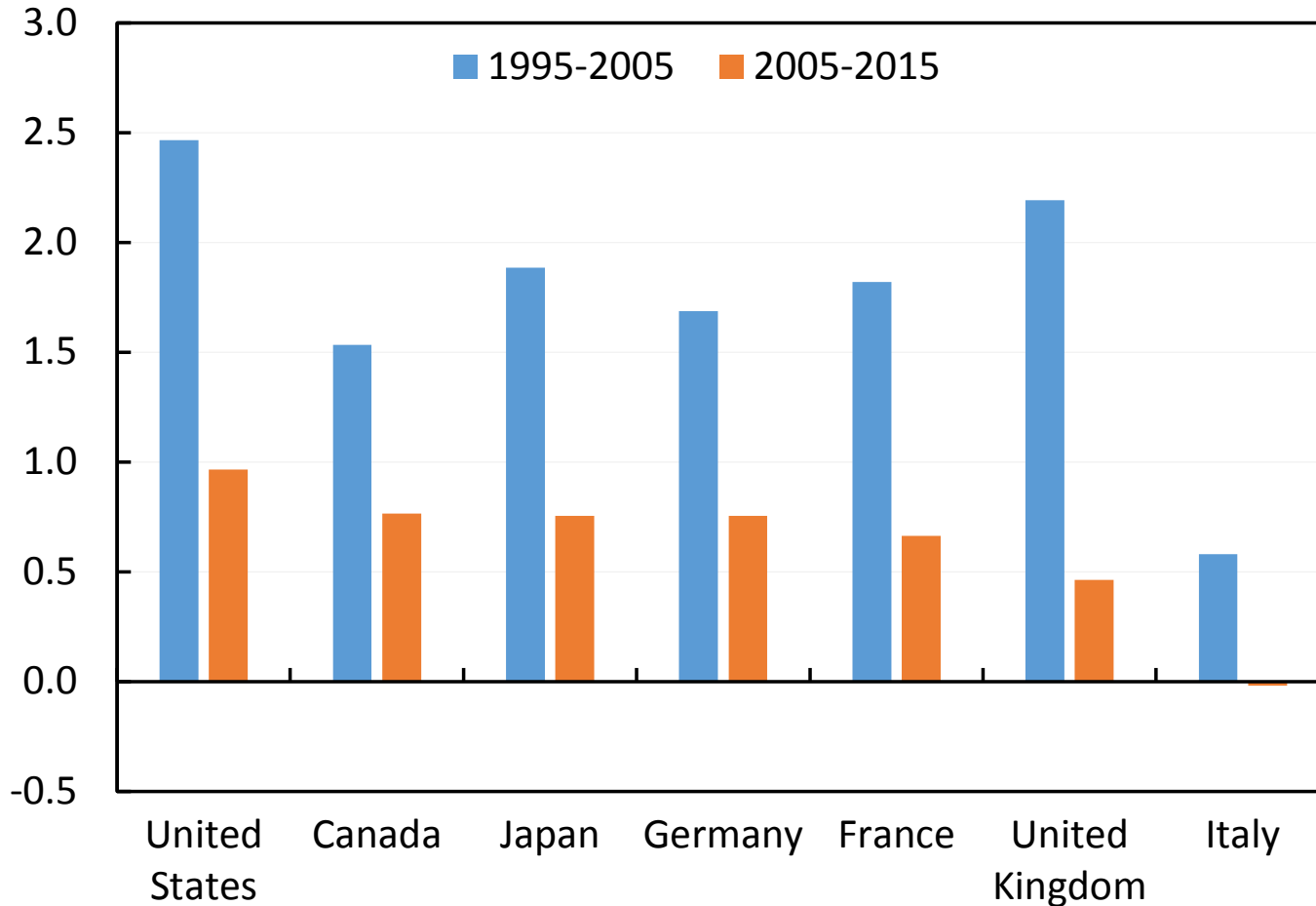
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# Average Annual Productivity Growth Has Slowed in All of the G-7 Economies

## Labor Productivity Growth, G-7 Countries

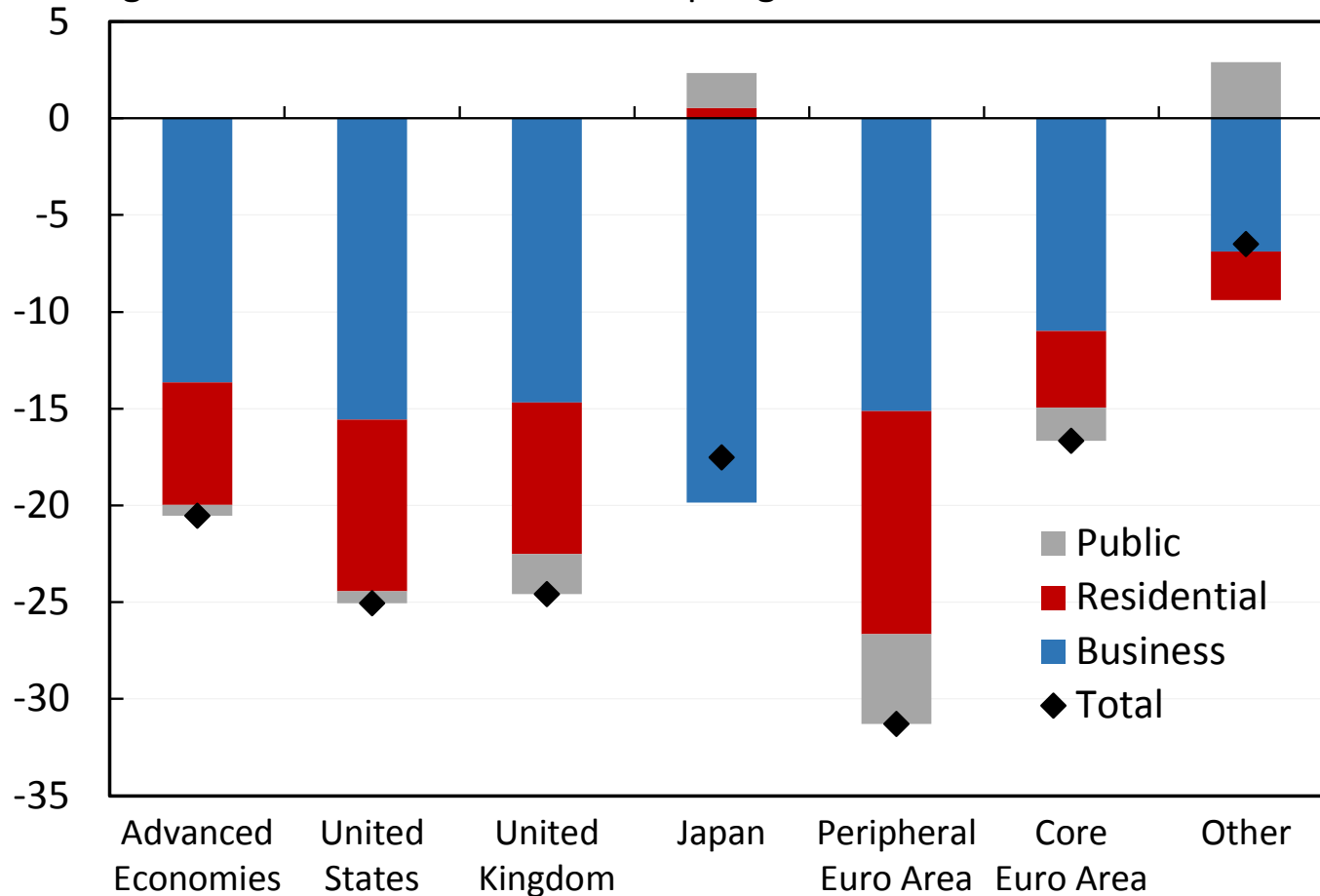
Percent, Annual Rate



# Inadequate Demand Has Contributed to a Shortfall in Investment

## Decomposition of the Investment Slowdown, 2008-2014

Average Percent Deviation from IMF Spring 2007 Forecasts



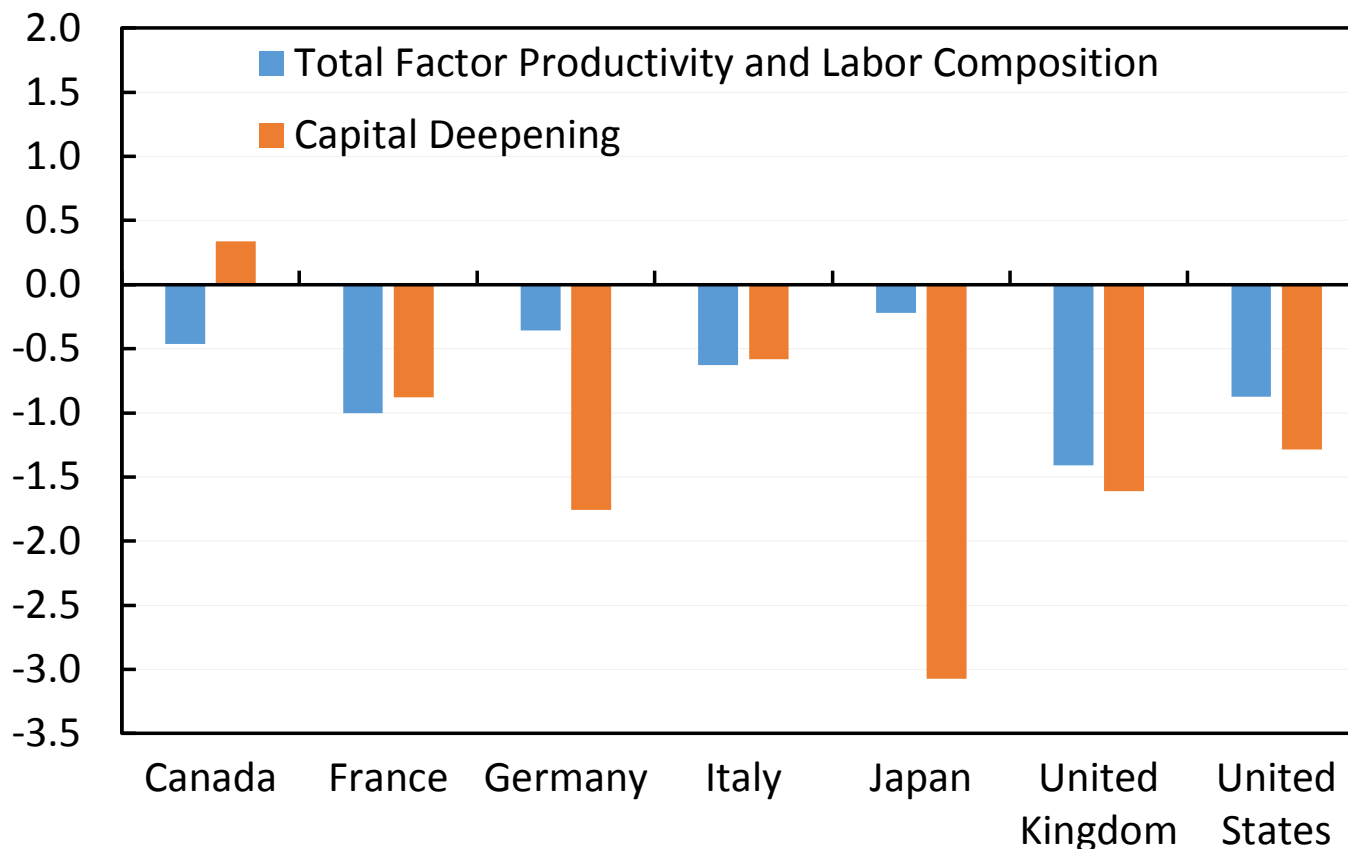
Note: The figure shows the deviation of investment between 2008 and 2014 from forecasts made in the spring of 2007. Black diamonds indicate the average percent deviation of total investment. Colored segments show the contribution of the components of investment—business, residential, and public—to the deviation. Public-sector contributions to residential and nonresidential investment are excluded from these categories when data for these contributions are available. Peripheral Euro Area category includes Greece, Ireland, Italy, Portugal, and Spain. Core Euro Area category includes Austria, Estonia, Finland, France, Germany, Latvia, Luxembourg, Malta, the Netherlands, Slovakia, and Slovenia.

Source: International Monetary Fund, Fiscal Monitor Database; Consensus Economics; national sources via Haver Analytics.

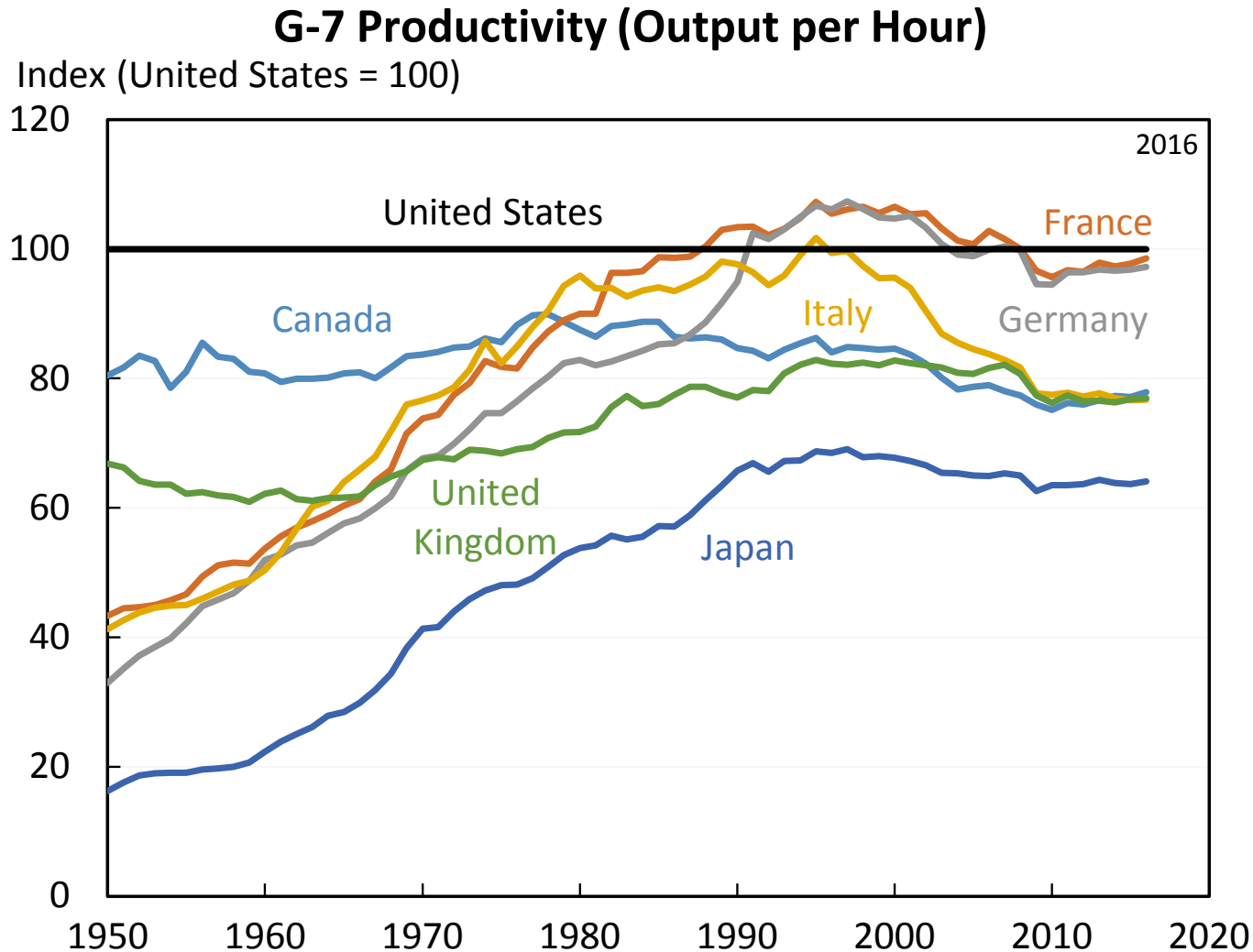
# The Sources of the Productivity Slowdown Vary—But Lack of Investment is Particularly Notable in Japan

## Change in Growth in Components of Productivity in the G-7, 1994-2004 to 2004-2014

Change in Average Annual Growth Rate, Percentage Points

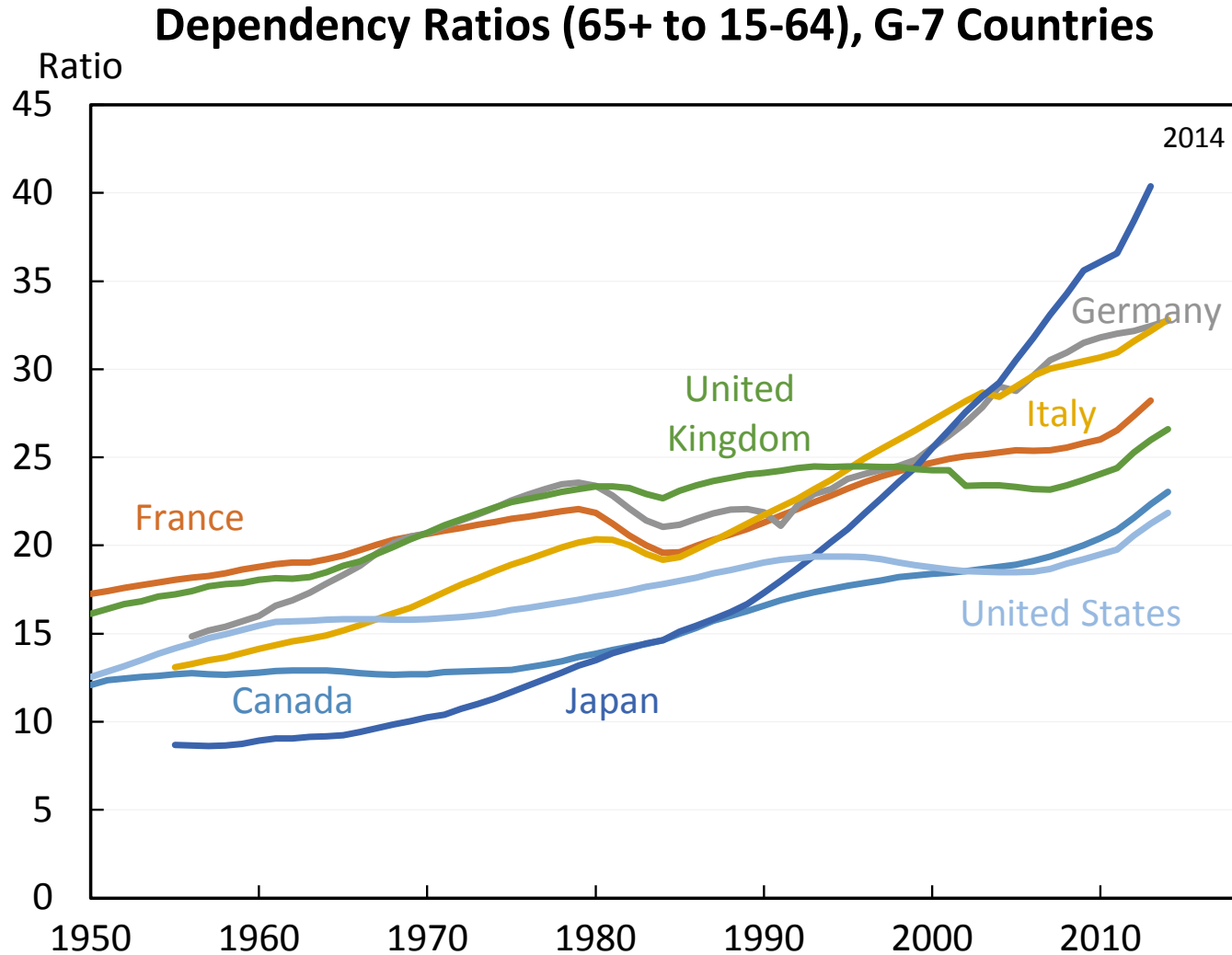


# This Comes On Top of a Longer-Term Challenge for Japanese Productivity Growth



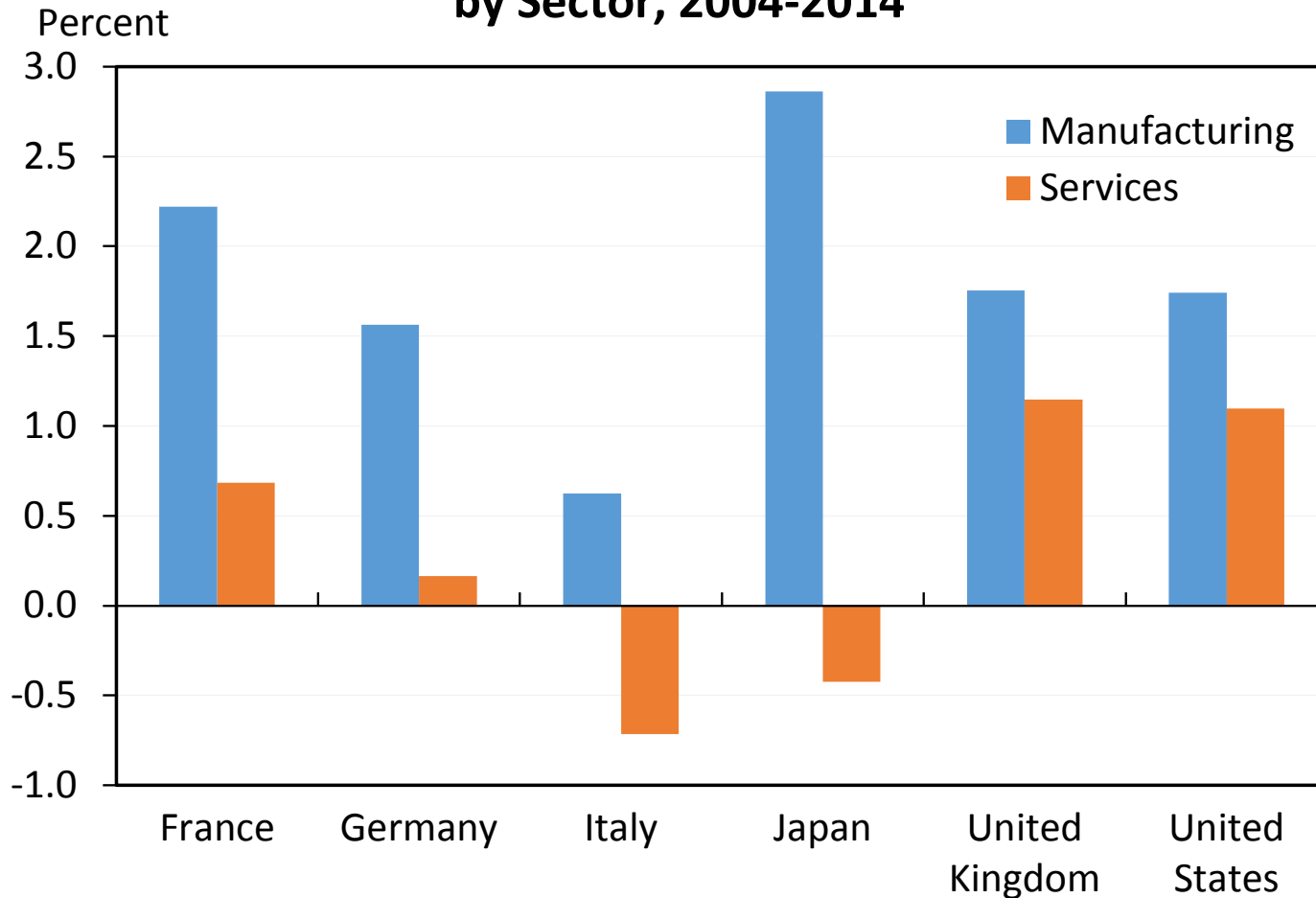


# One Challenge Facing Productivity Growth: Aging Populations



# Another Challenge Facing Productivity Growth: The Shift from Manufacturing to Services

## Average Annual Growth of Labor Productivity by Sector, 2004-2014

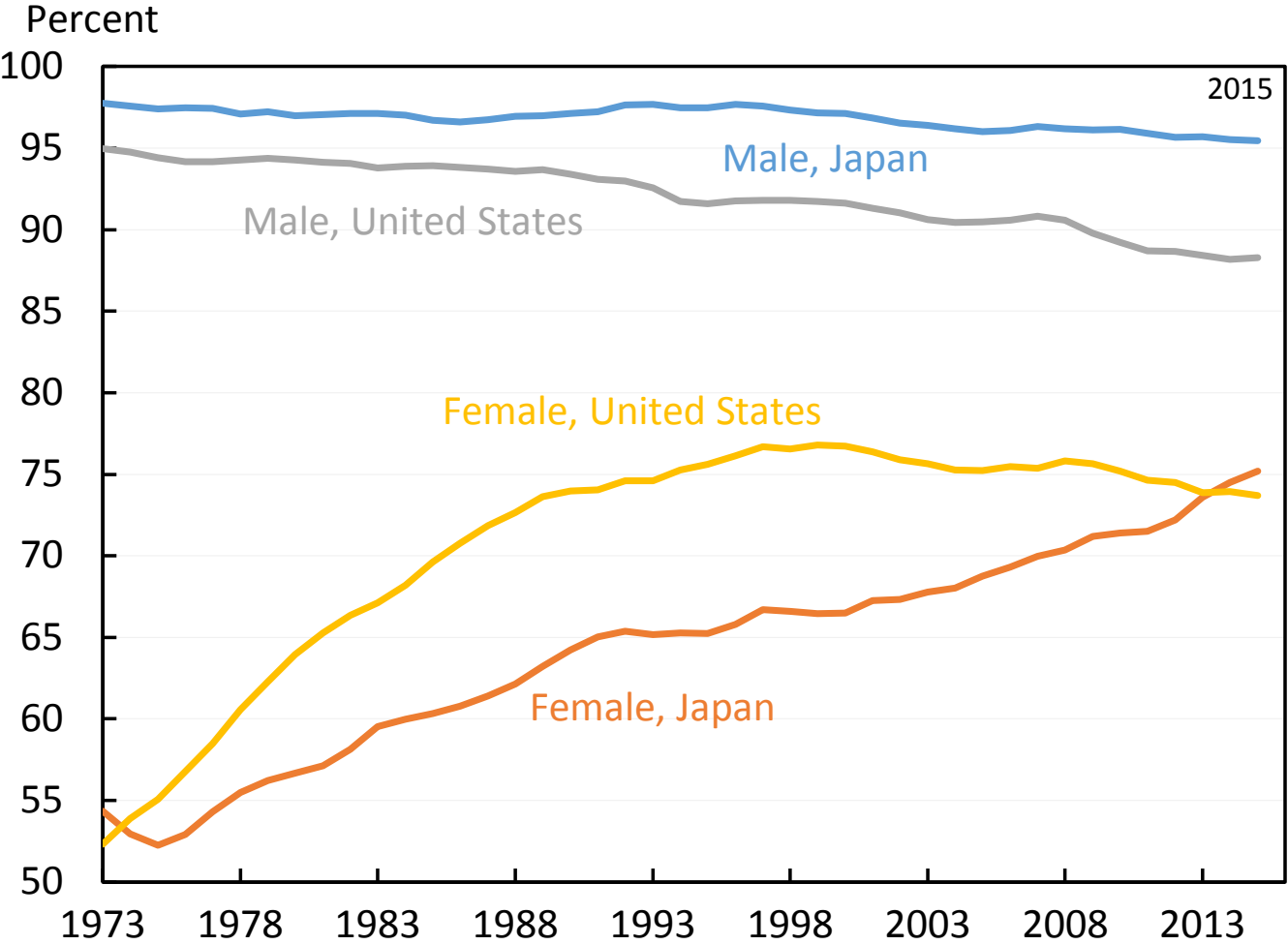


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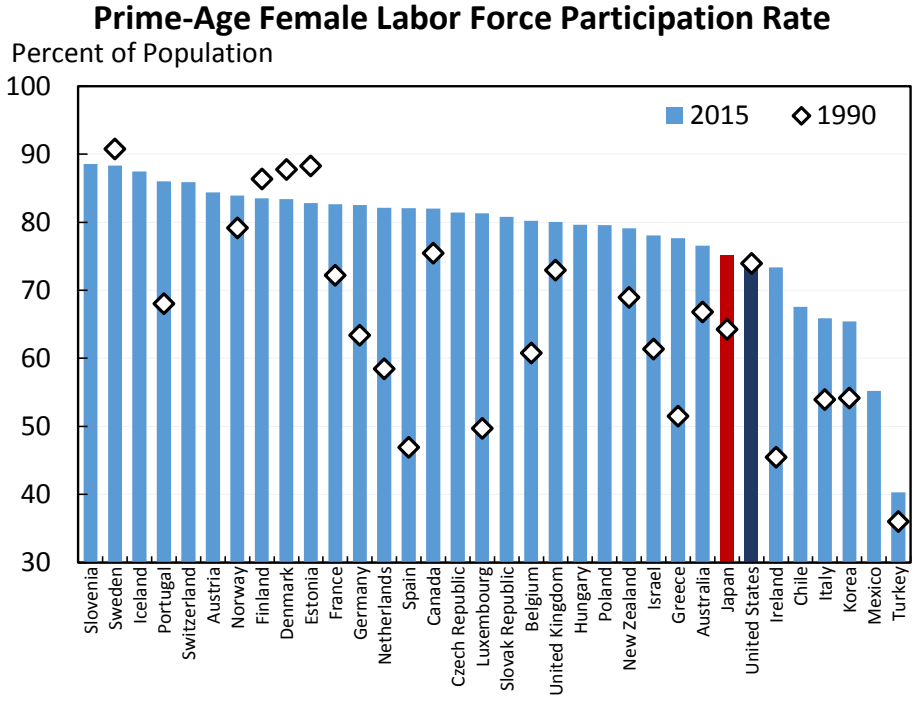
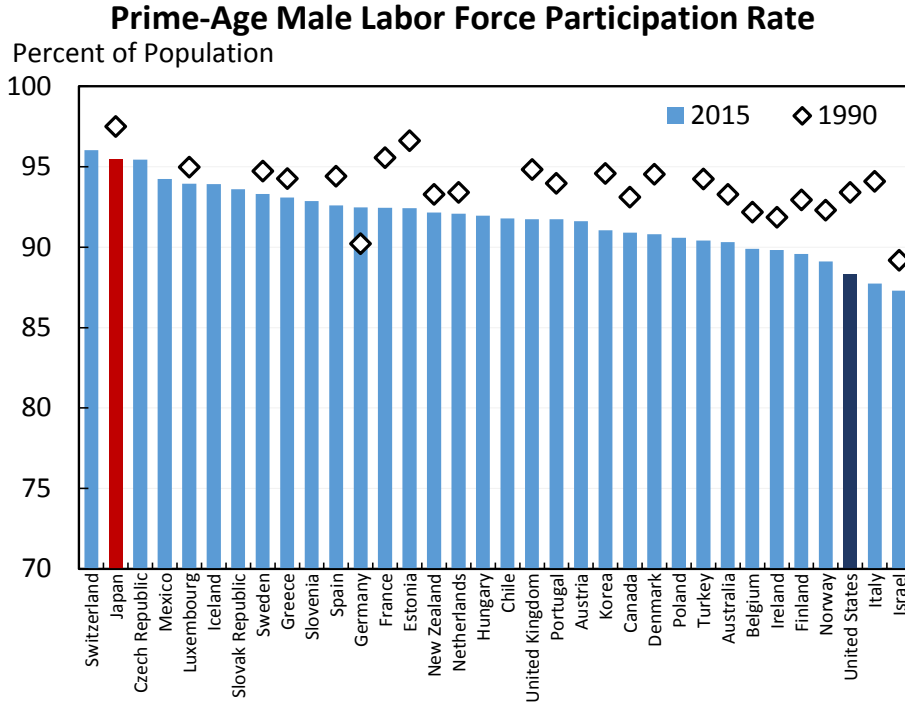
# Prime-Age Male Participation Has Declined More Slowly in Japan Than in the United States, While Female Participation Has Diverged Noticeably

## Prime-Age Labor Force Participation, Japan and United States



Source: U.S. Bureau of Labor Statistics, Current Population Survey; Statistics Bureau, Japan Ministry of Internal Affairs and Communications, Labor Force Survey; CEA calculations.

# Despite Flexible Labor Markets, the United States Ranks Towards the Bottom of the OECD in the Share of Prime-Age Men and Women in the Labor Force



Source: Organisation for Economic Co-operation and Development.

# U.S. Labor Market Has High Flexibility But Low Supportiveness According to OECD's *Going for Growth* Indicators

## OECD *Going for Growth* Indicators

	Percentile Rank (100 = Most Flexible/Most Supportive)	
	United States	Japan
<i>Measures of Labor Market Flexibility</i>		
Overall Labor Market Regulation (2014)	100	91
Employment Protection for Regular Employment (2013)	100	80
Minimum Cost of Labor (2014)	96	92
Coverage of Collective Bargaining Agreements (2013)	94	82
<i>Measures of Institutional Labor Market Support</i>		
Expenditure on Active Labor Market Policies per Unemployed (2013)	6	39
Net Childcare Costs, Couples (2012)	10	33
Implicit Tax on Returning to Work, Second Earner (2012)	10	67

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# **Selected Policies for Faster Productivity and Labor Force Growth (Part 1)**

- 1. Expanding aggregate demand**
- 2. Expanding trade, including passing the Trans-Pacific Partnership (TPP)**
- 3. Increasing public investment**
- 4. Strengthening education and training**
- 5. Reforming the tax system**
- 6. Reducing the medium- and long-run deficit**



# **Selected Policies for Faster Productivity and Labor Force Growth (Part 2)**

- 7. Fostering technology**
- 8. Increasing competition and making sensible regulatory reforms**
- 9. Increasing labor force participation**
- 10. Boosting wages**
- 11. Increasing immigration**

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