Growth Strategy of Japan 2017:
The Invisible Third Arrow Needs a New Bow

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JEF-APARC conference at Stanford
June 2, 2017
Takeaways

• Japanese economy as of March (Q1), 2017,
  • The real side of the economy is doing well
  • But, the inflation rate is far below the 2% target

• Challenges
  • Fiscal. High fiscal deficits and debt-to-GDP ratio (240%)
  • Real wages. w are not rising even at π<3% → C is weak
  • Demography → Adverse, aggregate supply and demand
  • Need higher productivity & potential growth (3rd arrow)

• 3rd Arrow (Need Higher productivity and compensations)
  • Need globally competitive workers ← English proficiency & IT skills ← Education reform ← Labor reform
  • Need better allocation of Capital ← Corporate gov reform & pension fund reform
  • Need more FTAs ← agricultural reform ← Introduce market mechanism
  • Need medical and health care ← Medical reform
Japanese Economy
The real side is doing well

• Japanese economy as of March (Q1), 2017,
  • Growing at or above potential (g(2017Q1)=2.2%)  
  • Full employment (u=2.8%)  
  • But, inflation rate is still near 0% (π=0.2%)  
  • Nominal wage increase is around 2% or above (∆w=2%)  
  • Working age pop declining 1% a year (∆L=−1%)  
  • Women and elderly participation rates increasing  
  • Women participation rate (all ages): now Japan>US
Japanese Economy
Challenges

• QQE is reaching at its limit and no inflationary sign
  • Exit problem
• High fiscal deficits and debt-to-GDP ratio (240%)
  • GDP(2016): 537 trillion yen
  • New JGB issues (2017 budget): 34.4 trillion (6.4%)
  • General Gov liability (2015): 1,296 trillion (241%)
• Real wages are not rising even at $\pi<3\% \rightarrow C$ is weak
• Demographic transition $\rightarrow I$ is weak
• Need higher productivity & potential growth ($3^{rd}$ arrow)
Need Growth Strategy: Higher productivity & wages

• Need globally competitive workers
  • ← English proficiency & IT skills
  • ← Education reform
  • ← Labor reform

• Need better allocation of Capital
  • ← Corporate gov reform & pension fund reform

• Need more FTAs
  • ← agricultural reform
  • ← Introduce market mechanism

• Need better medical & health care
  • ← medical reform
Reforms: Why, How and Consequences

- Human capital with English proficiency
- IT-skilled workers
- Education reform for experts
- Labor reform
  - Flexible hiring and firing
- Capital allocation
  - Corporate gov reform & pension fund reform
- FTAs and Agriculture
  - Introduce market mechanism
- Medical & health care