

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

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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 $\pi < 3\%$ → 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% ($\pi=0.2\%$)
 - Nominal wage increase is around 2% or above ($\Delta w=2\%$)
 - Working age pop declining 1% a year ($\Delta L=-1\%$)
 - 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 (3rd 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