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Rintaro Tamaki, former vice minister of Japan's Ministry of Finance

A Voyage Beyond Uncertainty

The OECD's Search for Truth on a Chartless Sea

By Japan SPOTLIGHT Editorial Section

The OECD is the largest think tank in the world and has undertaken a wide range of economic and social analyses by using its great expertise and capacity to pursue interdisciplinary work, thereby contributing enormously to the advancement of global knowledge. In particular, the OECD has remarkable strength in the analysis of economic growth.

On Feb. 7, 2012, Japan SPOTLIGHT had an interview with its distinguished deputy secretary general, Rintaro Tamaki, who had an exceptionally distinguished career as a Japanese bureaucrat and also has rich international experience. He talks about his views on some crucial questions regarding the recent Japanese economy and the OECD's recent study on "well-being" as an important complement to the existing concept of economic growth. We will have a much better concept of economic growth and welfare thanks to this study.

Economic Outlook for Japan in 2012

I would like to ask you a few questions first about the short-term outlook for the Japanese economy. The Japanese economy is now in the process of recovery from a supply-side shock provoked by the Great East Japan Earthquake on 3.11, 2011. However, many economists point out that the economy will not get back to its original growth track before the disaster, since external demand will be very stagnant due to the uncertainties surrounding the global economy, such as the euro crisis. In this case the outlook for the Japanese economy in 2012 would be somewhat negative.

What is your view on this point?

Tamaki: As you said, the recovery of the Japanese economy is led by public expenditure on reconstruction from the disaster and its growth over the previous period has been rapid. On the other hand, one year after the disaster, its external environment, not only external demand but also the structure of the global economy, has changed. Therefore, you are right in saying that the Japanese economy is not in the same situation as a year ago, whether the disaster happened or not.

However, it is too much to say that Japanese economic growth is



Rintaro Tamaki, deputy secretary general of the OECD

dependent upon external demand. We should take note that Japan is third from bottom in terms of the percentage of exports to GDP among G20 countries and second from bottom in terms of the percentage of imports to GDP. The US, Japan and Brazil: these three countries are in the lowest group in terms of their economy's dependence upon external demand.

The Japanese domestic economy is so large that you may not necessarily think an increase or decrease in exports would be a key to the whole economy's performance, in the same way that you might consider the impact of export growth upon the whole economy of small European countries. We need to have a more well-balanced approach.

Furthermore, from now on the impact of growth in external demand upon the overall growth of Japan will be largely

dependent upon the economic policies of Japan's major trading partners, in particular the Europeans' policies. For the US as well, we cannot be optimistic about its future, since there is still uncertainty over political discussions concerning the tightening of fiscal policy in Congress, though there is certainly a positive outcome in employment statistics. It would be difficult to make a relevant prediction on the impact of the global economy upon Japan's economy through the effects on Japan's external demand in 2012 without waiting and seeing exactly what specific policies will be taken by such major countries.

Japan's exports to Asia are in a more stable economic situation than to the EU, or to the US. However, even in the case of Asia, it will be affected as a part of the globalised world by the policies of the EU

and the US. Then the answer to our question about how great the impact on Japanese external demand will be from the global economy will eventually be influenced by those countries' macropolicies on the whole. Therefore, I would say that Japanese economic performance in 2012 will be determined by the increasing speed of restoration of the supply side of the economy and the uncertainty of the global economic environment.

Japan's enormous fiscal deficit should be a great concern for the economy in the long run. As Rogoff and Reinhart point out in *This Time Is Different* (2009), mainstream economists seem to be advocating a reduction of fiscal deficit as a means of achieving economic growth through a modification of uncertainty. What do you think about this?

Tamaki: It depends upon the economic situation at the time. It may not be true that a reduction of fiscal deficit on any occasion by a tax increase could always lead to economic growth. However, during these past several years in Japan, government debt has grown to twice the size of GDP itself with repeated fiscal stimulating policies, and people have started to be suspicious of the sustainability of the public sector. This is certainly negative for economic growth, since Japanese people worry about their own future and have started to believe they cannot depend upon the public sector for their future security.

This would lead to less consumption and more savings, thus discouraging economic growth. I believe that in this regard continuing a fiscal deficit at such a high level for a long time is certainly undesirable for growth and it would be necessary to make a commitment to reduce the fiscal deficit and implement it.

Meanwhile, we should make a distinction between a short-term fiscal stimulus, such as budget expenditure for reconstruction of disaster-hit areas or a possible fiscal stimulus somewhere else rather than Japan to cope with a rapid deceleration of economic growth, and a long-term commitment to restore the health of public finances.

It is very important to have a macropolicy structure with a strong long-term political commitment to maintaining the sustainability of the public sector while responding flexibly to short-term needs.

We currently have a trade deficit and it is said that in the future if the current balance turns to a deficit, the price of national bonds would fall drastically. Will it happen in the future?

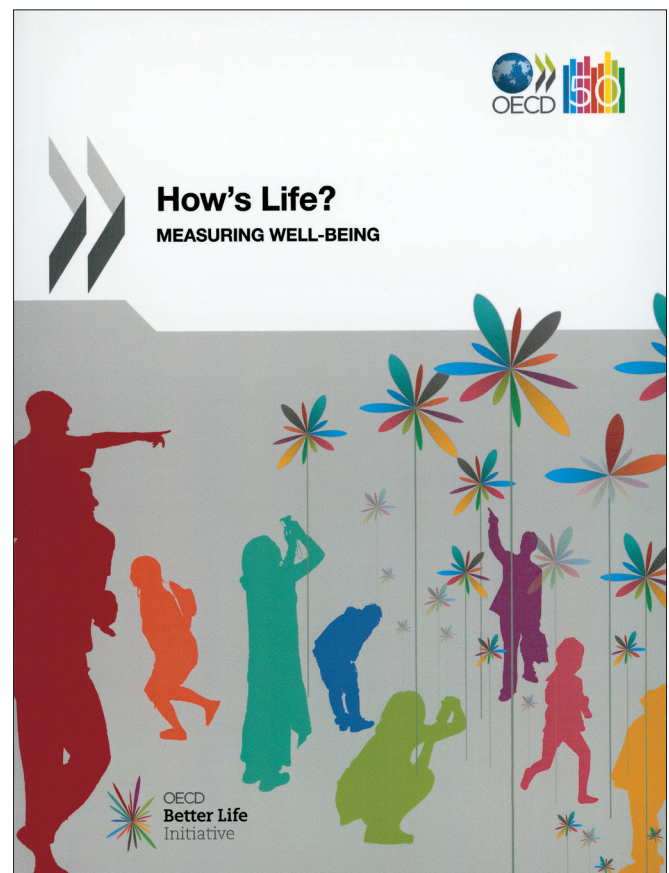
Tamaki: A current balance deficit means a shortage of domestic savings, and therefore, in principle, it would be difficult to finance a fiscal deficit, namely, a shortage of savings in the public sector. However, whether the current balance is in surplus or deficit may not necessarily be very important. As I said, whether you have a confirmed and clear political commitment for reduction of a fiscal deficit is much more crucial. Even with a current surplus, if there is no clear commitment for a deficit reduction, a crisis will definitely follow.

OECD's Search for Measures for "Well-being"

With its strong expertise in economic growth, the OECD has been working on measuring well-being, which could supplement GNP. This is another important issue in current topics relating to the global economy. Is this attracting great attention among OECD countries?

Tamaki: Yes. Many discussions about well-being have already been held among OECD countries such as France, the UK, Italy and Norway. We define well-being as including both objective and subjective dimensions. We started with the question of what people are concerned about and what they feel it is necessary to improve and if society can meet such concerns. To measure such concerns or how much those concerns are fulfilled, we believe that we would need new statistics to supplement GNP. In other words, we are attempting to create measures for the development of people's life. We are not trying to measure spiritual values such as religious ones, as these are subjective, though one of our measures touches upon how satisfied people are with their daily economic life, which is a fairly subjective issue.

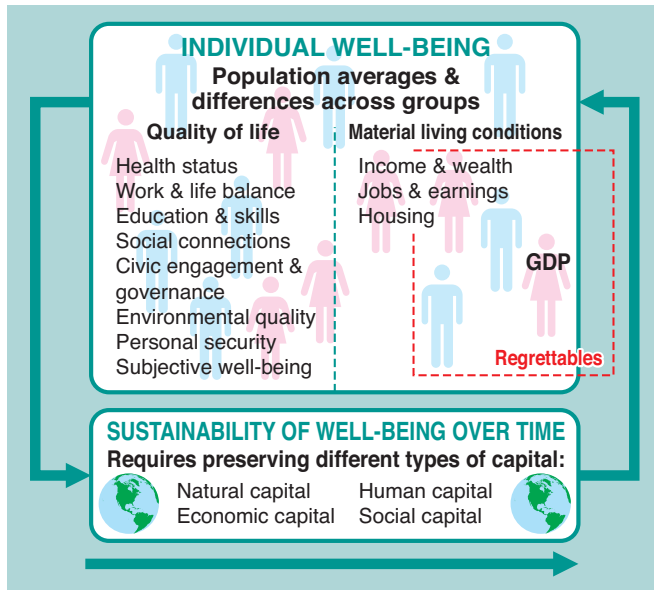
It is to be understood as a supplementary measure to GNP and to be considered as an objective tool for policy discussions.



How's Life? MEASURING WELL-BEING, OECD publishing, 2011

CHART 1

The “How’s Life?” framework for measuring well-being & progress



Source: OECD

Are you trying to replace GNP with this new concept, “Well-being”?

Tamaki: No. This is not to be considered as an anti-GNP attempt but on the contrary an attempt to supplement it. There is an argument that we should stop pursuing producer-oriented economic growth symbolized by GNP and instead create a society pursuing “Gross National Happiness” like Bhutan. However, in Bhutan now, they are trying to achieve something similar to the OECD, namely, to find out specifically what policy goals are necessary by assessing people’s daily concerns in their economic life and how much they feel those concerns can be improved by policies.

We do not consider people’s spiritual values in our study and I believe that our project is meaningful as a statistical attempt to supplement GNP.

We often hear recently that capitalism is wrong and we should pursue a new socio-economic system to replace it. Your plan would not support such an opinion but can it be considered an attempt to develop a statistical measure to supplement market-oriented capitalism, while respecting whatever outcome it brings about?

Tamaki: It is certainly true that there is an argument that “Capitalism is in crisis.” But I think nobody would say that market-oriented capitalism should be replaced by state capitalism. The current financial crisis was caused by a market failure in pricing risk and such a failure destabilized the economy. Another recent development in our capitalism is the increasing income gap between the rich and the poor

in our affluent society. These two seem to have shown us clearly the demerits of market capitalism and mark a distinction between our period and 20 to 30 years ago when the Cold War ended and optimism in democracy and market-oriented capitalism abounded.

We should pursue more sustainability in the economy and also more inclusive growth with much less inequality.

Our idea is not against market capitalism. Any attempt to create a mechanism rather than a market has continuously failed so far in human history. However, we believe a statistical measure to supplement GNP will be necessary to pursue improvements in people’s daily life. GNP is not enough to achieve that purpose.

This argument was first put forward by European countries?

Tamaki: The OECD covers a wide range of policy issues and can be compared to a department store of policies, and thus there is competitiveness in dealing with any horizontal issue such as corporate governance or human development, whereas other international organizations like the IMF and the World Bank specialize in some specific areas like international finance or economic development. We have taken advantage of our strengths to deliver policy advice to the member countries, among which European countries have a large presence. Meanwhile the OECD has been working on in-depth statistical analyses since its foundation. This measuring “well-being” project was spontaneously started 10 years ago without any specific member country’s strong initiative as an attempt to reflect the OECD’s capacity to deal with a horizontal issue like this. (*Chart 1* shows us how well-being is to be measured and thus it is a very horizontal concept.) There was no specific incident such as a Lehman shock which triggered this project.

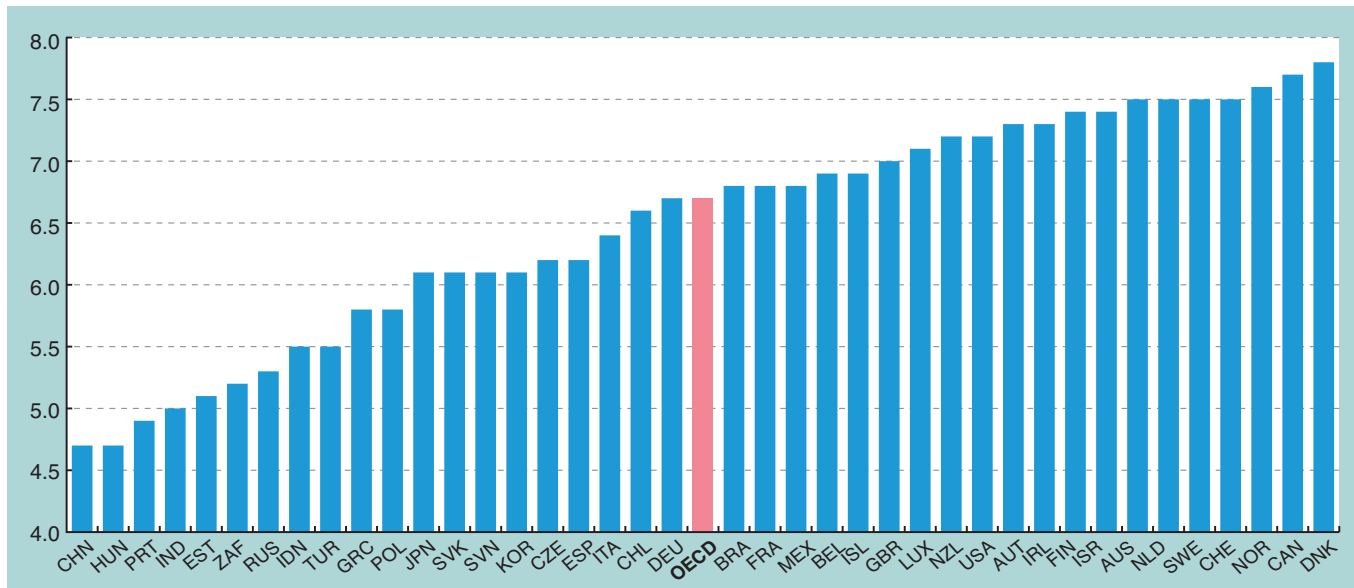
“Well-being” of Japan According to OECD

According to the OECD report on “well-being,” the well-being of Japan is higher than the average among OECD countries in the objective measures such as income, jobs, quality of education and health. However, subjective well-being is lower than the average (*Chart 2*).

Do you think that the question of the sustainability of the economy, due to such things as increasing uncertainty about the future or income inequality, would lower this subjective well-being?

Tamaki: Though there are so many factors behind the low subjective well-being of Japan, I can clearly point out that in Asia subjective well-being generally tends to be lower, not only now but also in the 1980s. This means Japanese subjective well-being has been consistently low ever since the midst of the high-growth period when there was little

CHART 2

Life satisfaction Cantril ladder, mean value in 2010

Note: The Cantril ladder is measured on a scale from 0 to 10. Data refer to 2008 for Iceland and Norway; and to 2009 for Estonia, Israel, Switzerland and South Africa.
Source: Gallup World Poll.

concern about pensions or other aspects of future security. In the 1980s, there might have been other concerns in Japan such as long working or commuting hours or difficulty in owning a house due to expensive land prices, rather than the current concerns about pensions or health care. Therefore, I would hesitate to say clearly that a lack of sustainability leads to low subjective well-being.

It might be due to a cultural factor, distinctive in Asia, namely that people tend to be reluctant to say they are happy. If we ask them further about what they regard as an impediment to their well-being, an aspect of sustainability may emerge in our research.

What do you think the measures for sustainability are?

Tamaki: There are some measures of well-being related to sustainability. Income equality is a crucial element, since the increasing gap between rich and poor would be seriously detrimental to maintaining social cohesion. The environment and personal security are also related to sustainability. It is a useful concept in maintaining a horizontal view on the question of well-being.

Future Plan of OECD “Well-being” Project

This is an interdisciplinary project and should involve quite a few directorates in the OECD Secretariat. Could you please let us know your future plans for this project?

Tamaki: The OECD is an organization that takes full advantage of various inputs from member countries and non-member partners. This project is therefore proceeding in cooperation with them. We are planning to

integrate some additional statistics and functionalities in the new version of the “Your Better Life Index” before the summer this year.

This autumn we will organize a conference for its dissemination in India after several regional consultations such as in Latin America, Asia and the Middle East and Africa.

Next year, we are planning to issue a revised version of our report. We are also using this for our outreach activities, since newly emerging economies such as India, Brazil, South Africa and Indonesia are very keen on this project in their urgent interest to clarify their policy goals to raise the quality of their people's lives while they are enjoying high economic growth. Among OECD members, Israel and Mexico are working hard on this.

OECD members are also very interested in the Japanese Cabinet Office's work on integrating this into Japan's New Growth Strategy. I hope their work will go well. **JS**

