

# What Should an “Evolutionary Industrial Policy” for Japan Look Like?

By Masakazu Toyoda

Many countries, including the United States and Europe, are re-evaluating their industrial policies and Japan is no exception. In the case of semiconductors and EVs, for example, many economies are currently offering huge subsidies and tax incentives as part of their new industrial policies.

Japan has been stuck in a low-growth, low-wage situation for more than two decades, and is said to have “lost between 20 to 30 years”. Abenomics succeeded in overcoming deflation but has been ineffective to halt the decline in competitiveness. In Japan, however, the disparity between the rich and the poor is not as wide as in Western countries. With the international community becoming increasingly unstable, as exemplified by the crisis in Ukraine, the greatest security is undoubtedly to strengthen competitiveness. The declining competitiveness of the Japanese industries cannot be allowed to continue. Japan must introduce an “Evolutionary Industrial Policy”.

I believe an “Evolutionary Industrial Policy” for Japan needs to evolve in two ways.

The first way is that industrial competition must be enhanced. After World War II, Japanese industry achieved high productivity gains under a system of lifetime employment and seniority. However, this system was created and functioned very well during high economic growth periods, when it was essential to maintain, enhance and secure employment, with increasing salaries every year. Now, in a low-growth period, the situation is changing drastically. Under the current postwar system, elders are enjoying higher positions and salaries, while the positions and salaries for the younger generation are neither high nor sufficient. The elders, which now represent a large portion of the population, are satisfied with their position and have no incentive to take risks. The young people’s morale, on the other hand, is rather low and that generation is slowly losing the dynamism or enthusiasm that typically generates ideas. The delay in the digital transformation (DX) in Japan is a prime example of a situation where the young generation should be at the forefront, not the elders. Therefore, the seniority system needs to be reexamined. Those with abilities, regardless of age, should be offered higher positions and salaries, while the elderly should be allowed to continue to work, even after the retirement age, but should receive salaries commensurate with their productivity and contribution. International comparisons show that very few Japanese companies invest in capital and human resources in spite of considerable profits. As a result, those companies lose business opportunities and are unable to acquire new technologies. For small and medium-sized enterprises (SMEs), it is important to promote competition and, whenever possible, the SMEs shift their business towards areas with future potential.

I believe the second reason for an “Evolutionary Industrial Policy” is that competition is needed not only in industry, but also

in universities and government.

According to the World University Rankings (2022), the University of Tokyo and the Kyoto University are respectively ranked 35th and 61st, among the Top 100. And those ranks are declining year after year. It is interesting to note that there are remarkably few foreign professors at Japanese universities. If the seniority system was eliminated and salaries differentiated according to merit, both highly qualified Japanese and non-Japanese teachers would be paid appropriately. Otherwise, outstanding Japanese professors teaching abroad would have no financial incentive to return to Japan, while excellent foreign professors do not want to come to Japan. For this purpose, it will be necessary to expand the donation tax system and use it to generate income beyond the budget from the government. It would also be necessary to improve the environment for teaching English as an international language not only to the children of foreigners but to the public in general so it can improve its ability to use English and better compete internationally.

The same logic applies to the government. The number of young graduates who are willing to be civil servants has been decreasing significantly in the last few years and the turnover rate of young civil servants is increasingly high. Here, too, the government should consider eliminating the lifetime employment and the seniority system and should appoint outstanding/ deserving public servants regardless of their age or seniority. Salaries should be comparable to those offered in the private sector. It would also be essential to consider hiring all civil servants through a National Personnel Authority rather than by individual Ministry. Open and “at large” recruitment for strategic posts would eliminate the negative development of vertically divided administrations.

I admit that the introduction of these broad-based competitions will create disparities. It cannot be denied. However, in addition to strengthening Japan’s industrial competitiveness, a shift away from lifetime employment and seniority-based systems in those three sectors (industry, universities, and government) would lead to a radical turnover of the Japanese labor market. It would allow the right person to be hired for the right job and would create a dynamic workplace that is suited to enhance competition. We must optimize the utilization of our human resources.

Of course, to facilitate the introduction of such competition and eliminate its negative effects, an “Evolutionary Industrial Policy” should refrain from providing massive subsidies, while both industry and the government must invest in education and provide a detailed safety net.

**J.S**

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