

# Need for Structural Reform of the Economy

By Yashiro Naohiro



Switching to the market mechanism: Creating a business environment in the medical and welfare fields should vitalize Japan's aging society

The series of failures of financial institutions beginning in the autumn of last year has heightened the unease of business corporations and consumers about economic prospects and deepened their distrust of the handling of the Japanese economy. Pessimism about the long-range prospects for Japan is also prevailing as the aging of the population is feared to cause a shortage of workers and the structurally high cost of running a business in Japan is causing the hollowing-out of industry. In such a situation, the Cabinet finalized the "Program for Economic Structure Reform" in December 1996 and the "Action Plan for Economic Structure Reform" in May 1997. A revised plan which is a follow-up of the action program was formulated in December last year under the initiative of the Ministry of International Trade and Industry.

The "Action Plan" is a concrete ver-

sion of the economic structural reform plan which Prime Minister Hashimoto Ryutaro is carrying out as one of his six major reform plans, and its principal theme is deregulation. Deregulation causes such temporary pains as a rise in the unemployment rate and a decline in corporate profits in existing industries. Some people doubt the wisdom of carrying out rapid deregulation at such a time as the present, when the economy is stagnant. I myself, however, welcome accelerated reform at such a time, because although the present recession is attributable to diverse causes, one major cause is the fact that the socioeconomic systems which once supported the high-rate growth of the Japanese economy after World War II have become obstacles to the betterment of the people's living standard. Various systems and practices that were reasonable in the past have become

impediments and are imposing heavy burdens on Japanese society. Structural reform of the economy to reshape such systems into ones that befit the aging and international society is the most needed reform at present. From this viewpoint, the said revision of the "Action Plan" is in line with this course of action. Moreover, it deserves special mention that MITI, a ministry concerned with economic affairs, has systematically handled the structural reform issue that includes even such problems as the labor market and social security.

In this article, I want to discuss the structural reform of the economy, especially in light of the problems arising from the aging of Japan's population and the decrease in the number of people in the productive age brackets in the future, and from the viewpoint of curbing the public burden and creating a new labor market, which are indispensable to maintaining the vitality of the Japanese economy.

## Reducing the public burden

As shown in Figure 1, the aging of the population threatens to progress in Japan at a speed which has no parallel in the rest of the world, and the consequent increase in such public burdens as taxes and social insurance premiums may weaken the international competitiveness of Japanese business corporations by pushing up wage costs and may eventually hamper the growth of the Japanese economy. Given such prospects, it is a matter of urgency that a system be established which will minimize the public burden. That said, however, other systems which are detrimental to the overall efficiency of the economy remain. For example, the highly progressive rate of the personal income tax hurts the economy's efficiency because it dampens the willingness to work of elderly people who can



choose between working and retiring, and of married women who can either work or become full-time housewives.

Moreover, the present system of uniformly protecting elderly people as the economically weak has spawned the following problems:

(1) It has caused inequalities in income distribution which are unfavorable to those who are really vulnerable, such as the physically handicapped and fatherless households. For example, the average income or the average level of assets of people aged 65 or over is not lower than the overall average of the Japanese population as a whole.

(2) There is considerable difference in the income-earning ability of individuals making up the elderly population,

but the present system tends to benefit elderly people other than the weak who need protection most.

(3) Elderly people naturally tend to adjust their income within a certain limit in order to obtain protection, and this propensity hampers the hiring of elderly people.

With the arrival of an aged society around the corner, Japan should quickly carry out reforms of all its social security schemes. It should lower the national burden rate to the minimum and correct the inter-generation inequalities by revising the public pension scheme. In the course of the follow-up by MITI, the government has clarified the need to carry out a comprehensive, coordinated implementation

of the structural reform of public finances and the reform of social security schemes and showed its determination to adhere to the basic policy of restricting the growth rate of the nation's cost of medicine to the growth rate of national income. It is hoped, however, that the government will clarify the reform policy in more concrete terms.

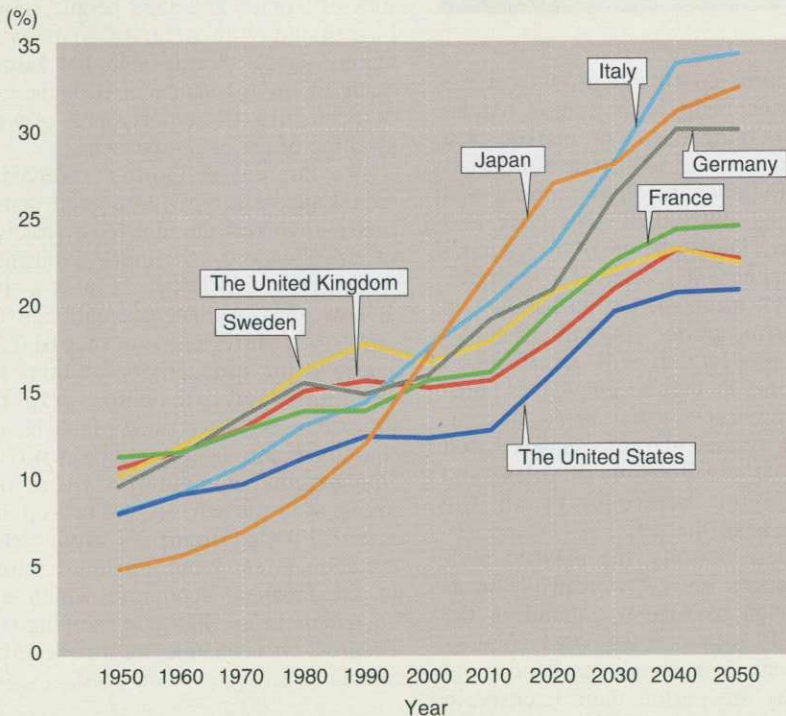
In order to promote and maintain medical services and welfare of high quality while curbing the public burden, the government must actively carry out deregulation in these two areas, where market forces do not work well or at all, and improve their efficiency. It is undeniable that the persistence of the licensing system in the medical world is preventing a decline in the prices of medical and welfare equipment and instruments, which are keeping the costs of medical service higher than they ought to be. Manufacturers of medical and welfare equipment and instruments should be given a strong incentive to introduce mark-downs and improve the quality of their services through exposure to market forces, since these areas are bound to grow with the aging of the Japanese population.

## Creating a competitive labor market

Deregulation of the labor market, too, is most important, as it ensures smooth job mobility for able workers. To counteract the current rise in the unemployment rate, wage adjustments based on the market mechanism, which presupposes free movement of labor, should be carried out instead of unemployment countermeasures such as public-works projects undertaken by the government. Wage adjustments can also help cope with possible labor shortages in the future.

To accelerate the conversion of the industrial structure from one based on declining industries into one supported by growth industries, not only the establishment and promotion of subsidiaries in new industries by big corporations but also a mechanism that

**Figure 1. Changes in the percentages of people aged 65 and over to the total populations in major countries from 1950 to 2050**



Sources: UN, World Population Prospects: 1994

Japan, "The National Census" by the Management and Coordination Agency's Statistics Bureau and "Population Projections for Japan" (January 1995) by the National Institute of Population and Social Security Research





At the crossroads: Expanded vocational training contributes to smooth labor mobility



ensures smooth movements of workers between industries outside the corporate framework is necessary. It is a system that rates the abilities of individuals in the market, and supplies them, as appropriate, to new industries and corporations. This system can prevent mismatching of employees and employers when it functions as intended. At present, however, regulations and systems that prevent free movements of labor do remain.

For example, the employment agency service in the coming age of labor mobility must be an information industry which furnishes information about good workplaces and the quality of individuals' abilities. In order to find jobs that suit individuals of diverse abilities and personalities, employment agencies must have a vocational training function and a consultant's function so as to obtain a greater amount of information about individuals' abilities by giving training to job seekers instead of merely interviewing them. However, the present Employment Security Law, in principle, bans private service that would compete with the government's public employment security offices.

To ensure continued growth of the Japanese economy in the future, regulations governing the labor market must be eased in order to increase the market's efficiency through tapping and promoting individual creativity and ingenuity. Deregulation of the temporary employment service, for example, should not mean merely an increase in low-cost manpower. Instead, if implemented properly, it will contribute to an increase in regular employees' productivity, because it will create in companies a system of professionals based on a clear-cut division of roles, and thus greater heterogeneity in the Japanese labor market.

For these reasons, the planned revision contains several worthwhile measures, such as further expanding the variety of vocations that paid employment exchange agencies can handle and extending the period their licenses in renewals, and compiling a negative list of jobs (job categories that agencies are banned from handling) and introducing internship into the labor dispatching business sector. However, the government should promote easing of the following regulations and eliminate the job

placement categories ban and make job placement and mediation services in the private sector unregulated as a rule:

- The ban on holding a joint company explanation meeting and screening meeting for small and medium-sized enterprises by a private organization;
- The ban on supplying information about vacancies and job applications by means of the Internet;
- The licensing system for free employment agencies;
- The ban on clerical work relating to hiring by people other than employees;
- The ban on applications by high school students on an individual basis (such applications by university students and vocational high school students are permitted);
- The ban on working by the same dispatched worker for three years or more;

An environment to better tap the abilities of women and aged people should be created with priority to provide against labor shortages in the future. Such an environment will curb the cost of protecting the elderly and prevent swelling of the public burden.

The current economic stagnation would appear to provide a good opportunity to correct the high-cost structure of the economy and improve business management efficiency. At such a time as now, the government should actively carry out deregulation in order to improve the productivity of domestic economic activities and scrap the inflexible, exclusive trade practices and thereby bring Japan in line with the international community. From this viewpoint, the current follow-up has revealed the government's strong determination to carry out structural reform of the Japanese economy, which will contribute to its vitality in the long run. Progress in economic reform hereafter should be strongly encouraged. ■

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