

# Strategy for Revitalizing the Japanese Economy

By Aoki Masahiro

Revitalization of the Japanese economy is much hoped for not only by our country but also by the rest of the world as one of the engines for global economic growth. The Japanese Government has taken a variety of short-term and long-term measures to achieve this goal. Here I would like to comment on the government's plan to revitalize Japanese industry from a long-range viewpoint, with an emphasis on supply-side factors.

Roughly speaking, the current woes facing the Japanese economy can be put into two major categories — erosion of the real economy and a decline in the functioning of the nation's financial system. Against this background, the government last fall implemented a set of measures for financial system reform, as well as another emergency package of measures aimed at supporting the economy by increasing public-sector demand.

However, it must be noted that the key to long-term economic recovery lies in the growth of gross domestic product (GDP) as seen from the supply side. Japan's potential



Prime Minister Obuchi Keizo speaks at the first meeting of the Competitiveness Commission on March 29

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GDP growth rate has remained low ever since the collapse of the Bubble economy and boosting the supply side is essential. Potential GDP growth is determined by three factors — labor capital and productivity that takes into account all other elements.

The decline in the working-age population and working hours suggest that growth in labor input will

continue to be sluggish. Nor can we expect a major contribution from capital stock, which has slowed since 1994 to an average growth rate of about 4%, down from 6% in 1988.

As for total factor productivity (TFP), average annual growth between 1994 and 1996 was a mere 0.5%, 0.8 of a percentage point lower than the average of 1.3% during the pre-Bubble years (1978-89). According to statistics compiled by the Organization for Economic Cooperation and Development (OECD), Japan's average growth in TFP (Productivity) between 1987 and 1998 represented a historic low and was even below the average of OECD member states. On the one hand, TFP productivity is determined by internal business factors, such as human resource improvement and innovations that bring about a rise in capital stock. On the other hand, external factors such as upgraded industrial infrastructures and economic system reforms play significant roles. Through deregulation and other steps,

## Outline of Measures in Strategy for Revitalizing Industry

### 1. Creation of New Business and Employment

- (a) New enterprises and support for their growth
- (b) Activation of industries and support for the creation of new business within existing companies
- (c) Accelerating the implementation of "Program for the 15 New and Growing Fields"
- (d) Improvement of labor mobility

### 2. Increasing Intellectual Assets

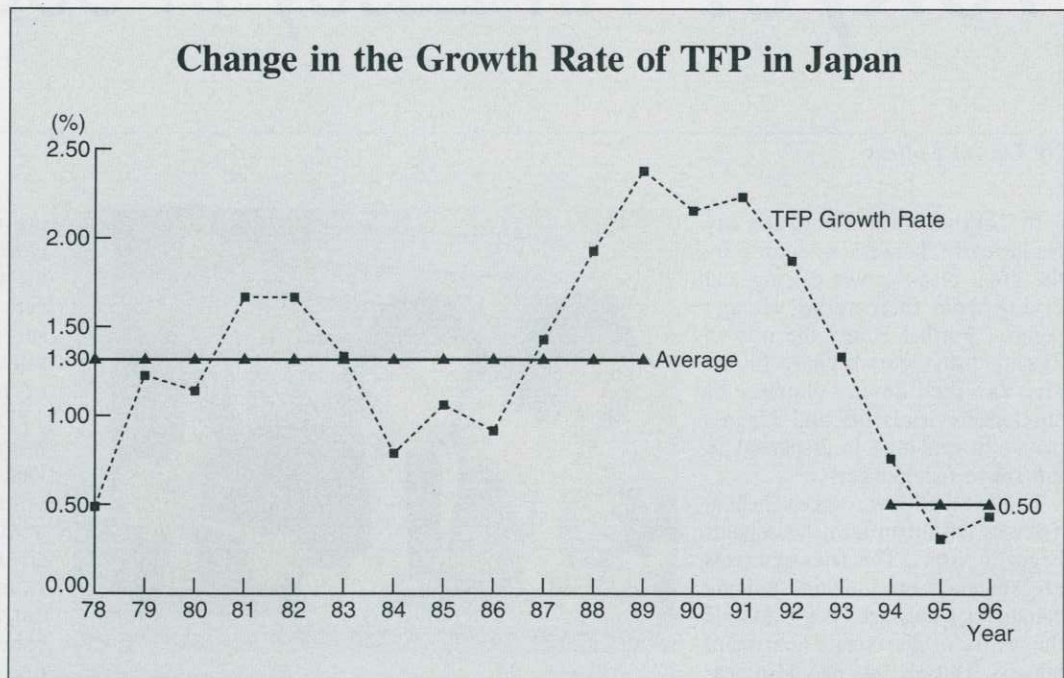
- (a) Investments towards the development and spread of creative technologies
- (b) Investments in the information-oriented society
- (c) Investments for increasing the sophistication of distribution systems

the government aims to secure a better environment for Japan's industrial sectors to enable them to maintain a competitive edge.

In January 1999, the government adopted a strategy for revitalizing industry. The strategy calls for creating new businesses and jobs and doubling intellectual assets. Personally, I feel that the government has managed to adopt a set of bold initiatives such as reducing corporate tax rates to internationally prevalent standards among major developed countries, holding talks on introducing a defined-contribution pension scheme, and easing restrictions on temporary-labor businesses, within a very short period of time.

Still, the real key lies in the self-help efforts of the firms themselves. The situation varies in each sector, but it is undeniable that some of them are still plagued by low productivity and distorted output-profit structures that can be traced back to the overly optimistic business outlooks and bountiful low-cost funding of the Bubble years. Those industries need to make efforts on the supply side to better utilize the management resources stockpiled in our country. A number of companies have already launched bold reforms and


### Change in the Growth Rate of TFP in Japan



restructuring plans to increase profitability and I hope such initiatives will spread to many others.

In order to develop a business environment to promote such streamlining efforts, a Competitiveness Commission was established, which is comprised of the relevant ministers and representatives of industry under the chair of the Prime Minister, as a vehicle for government and private-sector cooperation in comprehensive considerations in line with their respective roles in order to enhance industrial competitiveness through greater productivity. The first meeting of the Competitiveness Commission was held on March 29,

and participants exchanged views on the current status of industrial competitiveness and basic directions for industrial revitalization, deriving common understandings on the importance and urgency of supply-side measures, government/private-sector roles, and themes for further discussions. This Commission will be convened approximately once a month, giving priority in terms of the agenda for discussion to those areas where an urgent response is needed. Required measures will be taken if necessary based on proposals resulting from this Commission.

Financial system reform and demand stimuli aimed at positive GDP growth in the near future, plus long-term efforts to improve supply-side elements, are expected to put Japan back on a path toward sustainable growth. 

### International Comparison for "Productivity" (%)

Year	Japan	U.S.	Germany	France	U.K.	Average of OECD
1950-73	4.6	1.5	2.5	3.8	2.5	2.7
1973-87	1.1	-0.2	1.0	1.3	1.0	0.8
1987-93	0.8	0.6	1.0	1.4	1.5	0.9

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