

How to Achieve a Richer National Life

— From the 1988 Economic White Paper —

By Seiichi Toshida

The Economic White Paper, the government's annual economic report, is an analysis of the current Japanese economy. It is also, however, a statement of policy proposals concerning various problems facing the nation now and in the future. This report, submitted to the Cabinet every August for approval, is aimed at promoting public understanding of the economy and related issues.

This year's white paper is subtitled "Sustaining Growth Led by Domestic Demand and Contributing to the International Community." As the title suggests, the white paper argues that Japan has an international obligation to achieve stable growth without undue dependence on exports. It also takes up such challenges as trade friction, market opening and economic assistance to developing countries. In short, the report stresses the role of "Japan as a global contributor"—a slogan mentioned in the so-called Mae-kawa Report and in Prime Minister Noboru Takeshita's policy speeches.

We writers of the report began drafting our basic plans in January. In this planning stage it was suggested that we analyze how the public, including ourselves, felt about their daily lives—namely, their discontents and anxieties—and propose measures to address common problems. The Japanese economy itself registered double-digit growth until the early 1970s. In the years that followed, it demonstrated remarkable resilience in coping with the oil crises and the sharp appreciation of the yen and achieved higher growth rates than did the other industrialized countries. The Japanese people continue to face serious problems in their day-to-day lives, however, such as the cramped housing still described as "rabbit hutches," worsening traffic problems in big cities, and exorbitant consumer prices that surprise even Japanese returning home from abroad.

These problems may seem irrelevant to Japan's "contributions to the world." Yet in actuality, to state our conclusion

first, the ways in which these problems are addressed are related in large part to the question of how this country can best contribute to the international community. In other words, attempts to enrich our lives will lead to the expansion of domestic demand.

In the following, we will first discuss the problems described in the white paper under the heading "Tasks for Achieving a Richer National Life." These are: (1) correction of disparities between prices at home and those abroad, (2) reduction of working hours, and (3) "decentralization" of Tokyo and regional economic development. We will then explain how the Japanese economy should be restructured in light of these problems.

Correction of high prices

The problem of high prices in Japan may be considered in terms of two questions. The first is whether exchange-rate gains from the recent appreciation of the yen have been passed on adequately to consumers. The second is the generally high prices in Japan compared with those in other major industrialized countries.

Regarding the first question, the an-

swer seems to be that exchange-rate gains have in fact been adequately reflected in consumer prices. This conclusion is based on a comparison between theoretical price reductions caused by lower costs for raw materials and other goods (calculated using an industrial input-output table) and actual price cuts. This comparison shows that the overall level of theoretical price reductions is about the same as that of actual price reductions. On an item-by-item basis, however, actual declines in the prices of such goods as textiles, electrical appliances and agricultural, forestry and fishery products are greater than the theoretical values. For other items, actual values are below the theoretical ones. These results are similar to the findings of a government survey conducted in December 1987, in which 50.2% of the people surveyed replied that "the high yen has been reflected in prices" while 32.9% answered that it "has barely been reflected in prices."

Regarding price levels in Japan, any attempt at an international comparison must take into account the differences in lifestyles among the nations involved and other peculiarities in consumer behavior.

Table 1 Comparison of Private Consumption and Purchasing Power in Japan and U.S.

	1985 PPP (OECD estimate)	CPI in Japan (rate of increase 1985-1987)	CPI in U.S. (rate of increase 1985-1987)	1987 PPP (estimate)
Private consumption expenditures	218.1	0.7	4.0	211.3
Foodstuffs, beverages & tobacco	293.9	-1.1	7.3	271.0
Clothing & footwear	238.2	3.3	4.6	235.2
Rent & utility expenses	157.5	-0.2	2.4	153.5
Furniture & household services	246.6	-0.6	1.3	242.0
Medical expenses	106.8	3.8	14.1	97.2
Transportation & communication expenses	279.7	0.0	0.8	277.5
Recreational & educational expenses	290.5	3.4	8.0	278.1
Miscellaneous goods & services	253.6	2.0	6.9	242.0
Yen-dollar exchange rate (actual)	238.5			144.6

Notes: 1. CPI is consumer price index.

2. PPP is purchasing power parity.

Sources: Supplement to the 1987 edition of "National Accounts; Volume 1", OECD, Monthly Labor Review Management and Coordination Agency "Consumption Price Index"

These make it difficult to obtain the right mix of goods and services to be compared. Such constraints notwithstanding, we used a 1985 study by OECD as the basis for our own study (Table 1), which compares private-sector consumer purchasing power in Japan and the United States in 1987.

As shown in the table, \$1 worth of food in the United States cost ¥271 in Japan, a similar value in transportation and communication cost ¥278, while \$1 worth of recreation and services was ¥263. These prices are more than double the yen's purchasing power in trade—that is, the yen's exchange value to the dollar—despite the fact that consumer prices in this country are far more stable than in the United States. This wide gap between consumer purchasing power and exchange value indicates that price levels in Japan remain quite high.

One conceivable reason for this is low productivity in the non-trade goods sector, which consists of services and other industries outside the domain of foreign trade and certain categories of agricultural products and other items subject to import restrictions. Many goods and services, such as food, transportation and communication, and recreation cited above, belong in this sector and are therefore largely immune from foreign competition. Moreover, various restrictions are imposed on domestic activities in this sector. These conditions tend to retard active competition and productivity improvement in the non-trade goods sector, as compared with the trade-goods sector. For example, labor productivity (manufacturing=100) is 32.4 in primary industries, 85.3 in the construction industry and 63.5 in the distribution industry, compared with 74.9 in U.S. primary industries, 100.4 in the West German construction industry and 134.3 in the West German distribution industry. These comparisons show clearly the extremely low productivity in Japan's non-trade goods sector.

It is absolutely necessary to bring down price levels in Japan and raise consumer purchasing power in order to expand domestic demand and imports. But this cannot be accomplished unless produc-

tivity in the non-trade goods sector is improved through competition and technological innovations.

Reduction of working hours

It has often been pointed out abroad that the Japanese are contributing to trade friction by working too many long hours. Even without such criticism, however, it is essential that we make steady efforts to reduce the number of working hours and increase leisure time in order to bring more relaxation into our lives.

Japanese workers put in about 10% more hours than do American or British workers and about 30% more than in West Germany or France (Fig. 1). At least two reasons may be given for this. The first is that increases in labor productivity have been translated mostly into higher wages and corporate earnings, rather than into shorter working hours. The second is that businesses have tended to increase overtime rather than hire more workers when they wanted to raise production.

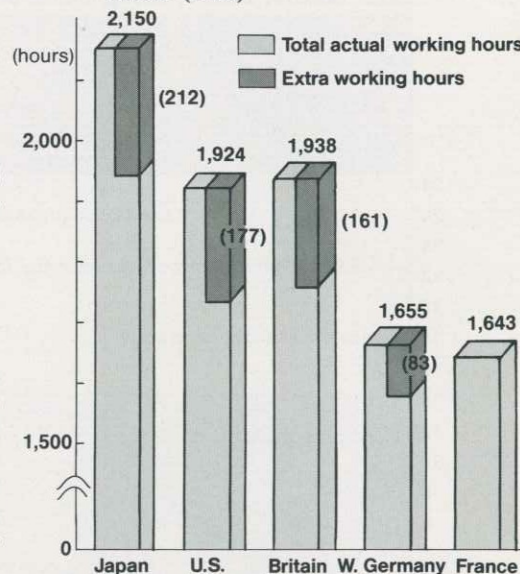
The desirability of reducing working hours is generally taken for granted, but the practicability of doing so is less widely accepted. This is partly because a reduction in working hours could lead to decreases in production, which in turn might generate inflationary pressures unless accompanied by higher productivity; and partly because many workers, particularly blue-collar workers, still prefer higher incomes to shorter working hours.

Consequently, it is necessary to create conditions that would make it easier to reduce the number of working hours. For this purpose, however, efficiency and productivity in all industries, particularly in the non-trade goods sector, should be improved, and the prices of daily necessities reduced.

Concentration in Tokyo and regional economy

About a quarter of the nation's population is concentrated in the Tokyo region, which consists of the Tokyo metropolis and the three neighboring prefectures of

Fig. 1 International Comparison of Working Hours (1986)



Notes: 1. Working hours in principle of workers of manufacturing industries
2. Extra working hours in France not available
Sources: Estimates by Labor Ministry and data filed by countries concerned and EC

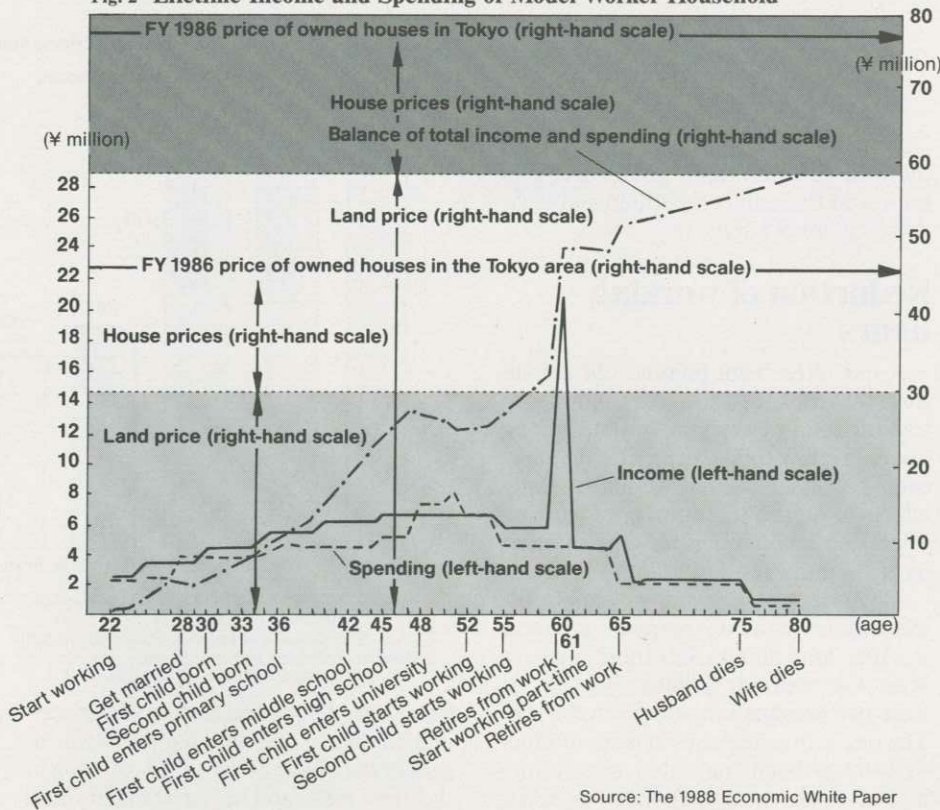
Kanagawa, Chiba and Saitama. The population influx into this region began to slow in the 1960s, but speeded up again in the early 1980s and has accelerated since.

The problem of population concentration in Tokyo may be seen from two angles—first, Tokyo and the provinces; second, the economy and daily life. Concentration brings various benefits to Tokyo, particularly in the economic field, such as increased job opportunities and improvements in the industrial infrastructure. In the area of daily life, however, concentration is more a bane than a blessing, as shown by high prices, housing problems, environmental deterioration, traffic jams and pollution.

For the provinces, the concentration of industries in the Tokyo region means fewer opportunities for regional economic development. On the other hand, people who live in the provinces can enjoy a better living environment, including more spacious and less expensive housing. In the following we will discuss two of the problems stemming from the concentration in Tokyo—namely, the problems of housing and regional economic development.

First, the housing situation in Tokyo. It has long been pointed out that rents in the metropolis are high, that living space is extremely limited, and that commuting times are very long. The housing situation in Tokyo worsened in 1986-87, when land prices more than doubled. It is now im-

Fig. 2 Lifetime Income and Spending of Model Worker Household



possible for the average worker to buy a home in Tokyo even if he obtains a lifetime mortgage loan.

Fig. 2 shows graphically how differences between the income and expenditures of the average worker accumulate over the course of his lifetime and how the cumulative difference compares with the price of a home for fiscal 1986. The cumulative difference between income and expenditure is less than ¥60 million at the time of his wife's death, compared with a home acquisition cost of about ¥70 million in Tokyo and ¥46 million in the Tokyo region. So it is in effect all but impossible for an ordinary salaried worker to own a home in the metropolis. Moreover, it is becoming increasingly difficult to acquire a home in the Tokyo region outside of the city itself, considering that land prices there have also risen sharply since fiscal 1986.

It seems that such land price spirals were caused by rising rents that reflected the growing urban functions of Tokyo as a principal international city, as well as by excessive liquidity. It is also likely that speculative land purchases fueled the inflation in land prices. Yet the primary reason seems to simply be the supply-demand imbalance for land in the Tokyo re-

gion. Land, of course, cannot be supplied as easily as can be goods manufactured in factories. Yet a total of 41,000 hectares of land, an area equivalent to two-thirds of the total area of Tokyo's 23 central wards, is estimated to be potentially available. The total breaks down to 29,000 hectares of farmland in Tokyo urban areas where fixed property tax is exempted, 11,000 hectares now left unused because of rigid urban planning guidelines and 1,000 hectare in the Tokyo Bay area that is expected to become available in connection with waterfront development projects. More effective land use is expected to go a long way to resolving the problems of land shortages and high land prices.

The problem of regional economic development is also formidable. Concentration in Tokyo may hamper the development of regional economies for two reasons. One is that the economic disparities between Tokyo and the provinces may widen as a result of the phenomenal growth of the capital city and the concentration in the metropolis of virtually all industries with a potential impact on regional economic development.

The other reason concerns changes in industrial structure due to the appreciation of the yen. In the Tokyo region, in-

dustries such as services and distribution (retailing and wholesaling) carry relatively large weight, while manufacturing is considerably more important in some other areas. Particularly in regions where manufacturing industries depend heavily on exports, such as Muroran in Hokkaido (steelmaking, shipbuilding) and Tsubame in Niigata (metal flatware), abrupt structural adjustments, along with the concentration of industry in Tokyo, have created deep anxiety over the future of the regional economy.

Manufacturers in these and other outlying production centers appear to be achieving success in their efforts to overcome the difficulties resulting from the yen's rise in value. Such efforts, including strengthening product development and marketing systems geared to the domestic market and diversifying operations, have helped greatly to change the nation's export-dependent industrial structure to one more oriented toward domestic demand. We believe this new industrial structure based on domestic demand must take root if there is to be long-term regional economic development.

Much of the anxiety over the concentration of industry in Tokyo itself, however, stems from structural problems. As a way to alleviate such concern, the white paper proposes improving transportation and communication networks to expand exchanges between Tokyo and the prefectures and between the prefectures themselves.

Yet the fact remains that certain disparities always exist between the principal city and the provinces, not only in Japan but in every country. The concentration of industrial and other activities in Tokyo does not mean that the provinces have been completely depopulated, or that the very existence of regional economies is threatened. The fact is that Tokyo is showing exceptionally rapid growth, while populations and incomes in other areas are rising only moderately. There is no reason why all other areas should grow in the same way as Tokyo. What is important is for each provincial area to establish its own identity by making full use of its advantages and capitalizing on its

uniqueness. In order to achieve this, bold rethinking is in order.

Achieving a "rich cycle"

We have discussed some of the problems with the national life and ways to solve them. On the basis of these discussions, we will next attempt to draw a desirable picture of Japan's future economy.

As is well known, the nation's postwar recovery and its subsequent high economic growth were achieved largely through efforts to improve productivity on the part of private corporations, particularly in manufacturing. In recent years, however, economic imbalances with other industrialized nations have widened, in part because of the chronic surplus in the nation's balance of trade. Uncertainty has grown over the international trade and monetary order. The widening imbalances were caused primarily by the growing U.S. budget deficit and differences in national macroeconomic policy, and the Plaza Accord of September 1985 was an attempt to resolve the situation through exchange rate adjustments—namely, correcting the overvalued dollar.

Following this agreement, the yen began to appreciate steeply against the U.S. currency. Japanese manufacturers tried hard to cope with the rising yen through single-minded efforts to rationalize operations and cut costs. Such corporate efforts were criticized, however, for causing a "poor cycle," in which moves to prevent falling export volume pushed the yen up further and drove less efficient small businesses into bankruptcy. Such criticism was absurd indeed, for it is these manufacturers who have supported Japan's economic growth. The real problem clearly must lie with the nation's economic structure.

As a way to avoid such a vicious cycle, the white paper calls for a shift from an "efficiency cycle in the trade-goods sector" to a "rich cycle in the entire economy." In other words, growth should not be achieved through higher efficiency in the trade-goods sector or by improving the international competitiveness of Japanese industries. Rather, the new way

to achieve growth, the report suggests, is to increase efficiency in the entire economy, including the non-trade goods sector, and to thereby realize a richer national life and expand domestic demand. Only in this way will manufacturers be able to enjoy the fruits of their efforts to adjust, and only in this way will the nation be able to resolve its external imbalances.

The basic way to improve productivity in the non-trade goods sector is to promote competition, as mentioned in our discussion of high prices. And in order to promote competition, further efforts must be made to liberalize the domestic market and reduce government regulation. It needs to be pointed out, however, that the Japanese market is far more open than is generally believed abroad. In the case of merchandise trade, for instance, Japanese tariff levels are the lowest in the world (in 1985, the tariff burden was 2.6%, compared with 3.3% in the U.S. and 2.7% in the EC).

In the non-trade goods sector such as construction and finance, however, it is true that domestic systems have not yet been harmonized with those in other major countries, and experience of Japan is considered an important qualification for foreign companies doing business in this country. Progress has been made, as evidenced by the conclusion of Japan-U.S. talks on the participation of foreign construction companies in the nation's public works market and the liberalization of financial services, while in the agricultural sector it has been decided to liberalize imports of beef and oranges. If these moves are pushed further, domestic businesses will be compelled to try and improve their efficiency. And if efficiency is raised, it will be possible to open the domestic market still wider.

Regarding the problem of deregulation, there is a wide array of government regulations, particularly in such non-trade goods sectors as agriculture, finance, transportation, communication and distribution. One reason is that the principle of self-accountability is not established in Japan—a fact which reflects on national character. This means that the government is easily held accountable by industry and the people for prob-

lems, even accidents, and therefore finds it necessary to keep industries under its strong control. Beyond that, however, it seems that regulations are kept in place because of political pressure from interest groups which want to gain excess profits through restricting competition. Export-oriented manufacturers are currently going ahead with restructuring and, as a step in this direction, are strongly interested in diversifying into the non-trade goods sector. Under these circumstances, regulations on market entry and business activity should be eased or removed to promote competition. This is also a necessary step to facilitate business conversion.

Active competition from imports and foreign firms and improvements in overall industrial efficiency will help sustain the expansion of domestic demand through increases in real income, provided that this greater competition and higher efficiency are passed on to consumers in the form of lower prices for goods and services. Expansion of the internal demand, coupled with further market liberalization, will enable Japan to make a greater contribution to the international community.

The expansion of domestic demand and market opening will also help create conditions conducive not only to greater purchasing power but also to shorter working hours. Moreover, long-term economic growth led by domestic demand will help energize regional economies. At the beginning of this article we said that the way to achieve a richer national life is also the way to make a greater contribution to the global community. The reasons for this should now be clear.

There are many problems that must be tackled in earnest in order to meet the two challenges for Japan—namely, economy. These are problems that must be tackled in earnest in order to meet the two challenges for Japan—namely, achieving a richer national life, and making a larger contribution to the well-being of the world community. ■

Seiichi Toshida is director of the First Domestic Research Division of the Economic Planning Agency's Research Bureau.