

Revitalising the Japanese Economy: The Way Forward

Remarks by Angel Gurría, OECD Secretary-General, delivered at a seminar organised by the Research Institute of Economy, Trade and Industry (RIETI)

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Minister Edano, Chairman Nakajima, Ladies and Gentlemen,

It is a great pleasure to visit the Research Institute of Economy, Trade and Industry (RIETI), one of Japan's leading policy research institutes. I am honoured to be addressing this distinguished audience together with you, Minister Edano.

The world economy is still facing challenging times. The global recovery remains fragile, in many countries public finances are in a dire state, unemployment levels are still unacceptably high, while inequalities keep growing, both in developed and developing economies. We need to restore stability and confidence, we need to strengthen growth by making it durable and sustainable, both environmentally and socially. To do this we need a strong Japan, with all its wisdom and economic strength.

Revitalising Japan!

Japan is in a special situation, having to cope not only with the consequences of the global crisis but also with the tremendous reconstruction challenges resulting from the Great East Japan Earthquake.

This tragic event took a heavy toll of human lives and inflicted a massive economic damage, estimated at 3½ per cent of GDP. Consequences of such magnitude require considerable time and a nation-wide effort of reconstruction. This is indeed the first component of Prime Minister Noda's "Strategies to Revitalise Japan", which we very much welcome and support.

A second pillar of the "Strategies to Revitalise Japan" is to achieve both economic growth and fiscal health. Japan's fiscal problem has currently reached a critical point, with public debt at around 200% of GDP— the highest in the OECD area—and rising.

We have long stressed the need for a credible medium-term plan to achieve primary budget surplus by 2020. Prime Minister Noda's proposal to double the consumption tax rate is an important part of such a plan. It is crucial to have it implemented by 2014, if not before, in order to remedy Japan's vulnerable fiscal situation.

Changes in the social security system also need to accompany the tax reform in order to limit spending

pressure due to population ageing and thus ensure financial sustainability. Bringing an end to 15 years of deflation would help to resolve the fiscal problem and to unleash Japan's growth potential.

Implementing and enhancing the New Growth Strategy.

The “Strategies for Revitalising Japan” call for implementing and enhancing the New Growth Strategy launched in 2010. A focus on growth is indeed necessary to close the gap in standards of living, which has been increasing in the last twenty years: Japan's per capita income is now 15% below the top half of OECD countries.

Let me focus on two key aspects of the New Growth Strategy which we consider crucial: increased global economic integration and green growth.

In spite of the globalisation process that most economies have experienced throughout the past decades, Japan is still relatively isolated from the world economy, with the lowest level of imports and inward foreign direct investment as a share of GDP among OECD countries, and the lowest share of foreign workers in its labour force.

The New Growth Strategy sets an ambitious objective of doubling the inflow of people, goods and capital by 2020, reducing barriers to trade, foreign investment and the movement of people into Japan. Increased openness is to be accomplished in part by negotiating Economic Partnership Agreements with key trading partners. Japan's decision last November to participate in the discussions for a Trans-Pacific Partnership—or TPP—is a major step forward to an economic strategy based on “Made by Japan” rather than “Made in Japan”, as suggested by Keidanren nearly a decade ago.

Participation in the TPP has raised concerns about its potential impact on certain sectors, such as agriculture. But Japan's farm sector has a strong growth potential and the capacity to produce new, higher-value products. Importantly, this is dependent on reforms to reduce the most market-distorting forms of support that impede farmers from fully exploiting this potential.

A second goal of the New Growth Strategy is to create 50 trillion yen (or more than 10% of GDP) of new demand through the development of green technologies. As suggested by the [OECD Green Growth Strategy](#), to encourage innovation and investment, Japan needs market-based instruments—such as a cap-and-trade emissions trading system or a carbon tax—to put a clear and credible price on carbon. This would create the price signal needed to jump-start private-sector innovation in green growth and would generate revenue for the budget in support of fiscal consolidation.

These are two crucial sources of growth for Japan, but there is a third one that we consider essential:

Boosting labour productivity.

Japan's productivity per hour of work is today about 30% below the top half of OECD countries. The experience of OECD countries and our Skills Strategy, to be released next month at our Ministerial Council Meeting, show that human capital is key for innovation and productivity.

Japan, for example, can do more to boost knowledge and skills. Let's be clear: education is outstanding in Japan, both in terms of quantity and quality. Japan is the second OECD country with more adult population with a higher education degree, at around 43% of total population.

However, there is still room for improvement. Integrating childcare and kindergarten could yield positive results for the very young. Investment in early education pays off: better educational outcomes earlier in life improve performance later on. Universities could be upgraded through stronger competition and greater internationalisation. Stronger co-operation among universities, government and research institutes would also enable higher education to make a greater contribution to innovation.

Another important challenge for Japan is to improve the currently relatively low productivity in the services sector through pro-competition reform. This could be done by reducing exemptions to the Anti-Monopoly Act, increasing administrative fines and phasing out the special treatment of small and medium-sized enterprises.

Finally, there is one last element that can make a remarkable contribution to revitalising Japan:
Lifting employment through greater women's participation

Japan needs to address strong demographic headwinds. Rapid population ageing will lead to a decline of Japan's working-age population by nearly 40% by 2050, reducing the number of working-age persons per elderly person to only 1.3.

To limit the decline in the labour force, the participation of underemployed individuals, notably women, will need to rise. Indeed, the New Growth Strategy sets an objective of boosting the employment rate of women in the 25-44 age group from 66% in 2010 to 73% by 2020. Improving opportunities for women is an important objective Japan shares with many OECD countries.

The question is how can employment become more attractive to women? Reducing the share of non-regular workers, of which 70% are women, would promote job stability and encourage on-the-job training, thus increasing human capital. Moreover, it would lessen income inequality and relative poverty by reducing inequality in wages. Indeed, the gender wage gap in Japan is the second highest in the OECD area.

Japan also needs to make a greater effort to introduce family-friendly policies in order to help women combine work and family life. Aspects of the tax and social security systems that discourage work by secondary earners should be reformed, while child-care should be improved and made more affordable.

But women are not the only the only segment of the population whose labour resources are underutilised. The human capital of older workers should also be used to its full potential through more flexible employment and wage systems that raise the age at which workers leave firms. Attracting high-skilled foreign workers could be another way to limit the impact of a shrinking Japanese labour force on the country's long-term growth potential.

Ladies and Gentlemen,

Japan faces difficult challenges. But your response to the Great East Japan Earthquake showed once again that Japan is able to rise to very difficult tasks.

Japan's key strengths - a very well educated and hard-working population and a leading role in research and development - should play a key role in turning today's challenges into opportunities for a better tomorrow. We look forward to joining forces with you in this historic moment.

Thank you!

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