Comment on “Labour Productivity: Are Diverging Trends between Developed Countries Durable?”
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December 5, 2008
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Main Findings of the Paper

• Many European countries and Japan experienced a significant slowdown of their labour productivity (LP) growth in the 1990s. In contrast, the US experienced an acceleration in LP growth.

• The slowdown of LP growth in Europe was mainly caused by a slowdown of multi-factor productivity (MFP) growth, not by a slowdown of capital accumulation, such as ICT investment.

• It seems that the slowdown of MFP growth was partly caused by the creation of new jobs in Europe. (Adjustment costs, costs of training workers, etc.)
Can we apply the same logic to Japan’s case?

Figure 2-1 Growth Accounting for the Market Sector in Japan, the US, and the Major EU Economies

Source: EU KLEMS Database, March 2008.
Figure 3. Contribution of Capital Input Growth: Japan, the US and the Major EU Economies

Source: EU KLEMS Database, March 2007.
Figure 2. Contribution of Labor Input Growth: Japan, the US and the Major EU Economies

1980–95

- Japan 80–95
- Germany 80–95
- France 80–95
- UK 80–95
- Italy 80–95
- US 80–95

annual average, %

of which: Labor composition
of which: Total hours worked
Contribution of labor input growth

1995–04

- Japan 95–04
- Germany 95–04
- France 95–04
- UK 95–04
- Italy 95–04
- US 95–04

annual average, %
Can we apply the same logic to Japan’s case?

• The slowdown of LP growth in Japan was caused not only by a slowdown of MFP growth but also by a slowdown of capital accumulation. The cause of this seems to be the continuous decline of the rate of return to capital.

• In the case of Japan, we can not explain the slowdown of MFP growth by the creation of new jobs. Probably, we can partly explain the stagnation of MFP by low ICT and intangible investment.
Can we apply the same logic to Japan’s case?

The gross rate of return to capital in Japan (and Korea) declined continuously from the 1970s.
• It seems that Japan did not experience an “ICT revolution,” partly because of the stagnation of ICT investment.

Figure 3-2 ICT Investment/GDP Ratio in the Major Developed Countries

Source: EU KLEMS Database March 2008, JIP Database 2008, KIP Database
Intangible Investment in Japan

- The intangible investment/output ratio in Japan is much smaller than that in the US.

Japan invests a lot in R&D but very little in economic competencies.

The intangible investment/GDP ratios of European countries are even lower than that of Japan.

<table>
<thead>
<tr>
<th>Private and Public Spending on Intangibles: France, Germany, the Netherlands, and Japan</th>
<th>(% of GDP)</th>
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<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Computerized information</td>
<td>0.90</td>
</tr>
<tr>
<td>Innovative property</td>
<td>3.76</td>
</tr>
<tr>
<td>Economic competencies</td>
<td>5.40</td>
</tr>
<tr>
<td>Total Investment</td>
<td>8.26</td>
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</tbody>
</table>

Sources: France and Germany: Hao, Manole and van Ark (2008)
Japan: Fukao et al. (2008)
Japan’s MFP growth has recovered since 2000.

In the 2000s, the most important source of Japan’s economic growth was MFP growth.