

Are Pro-Productivity Policies Fit for Purpose?

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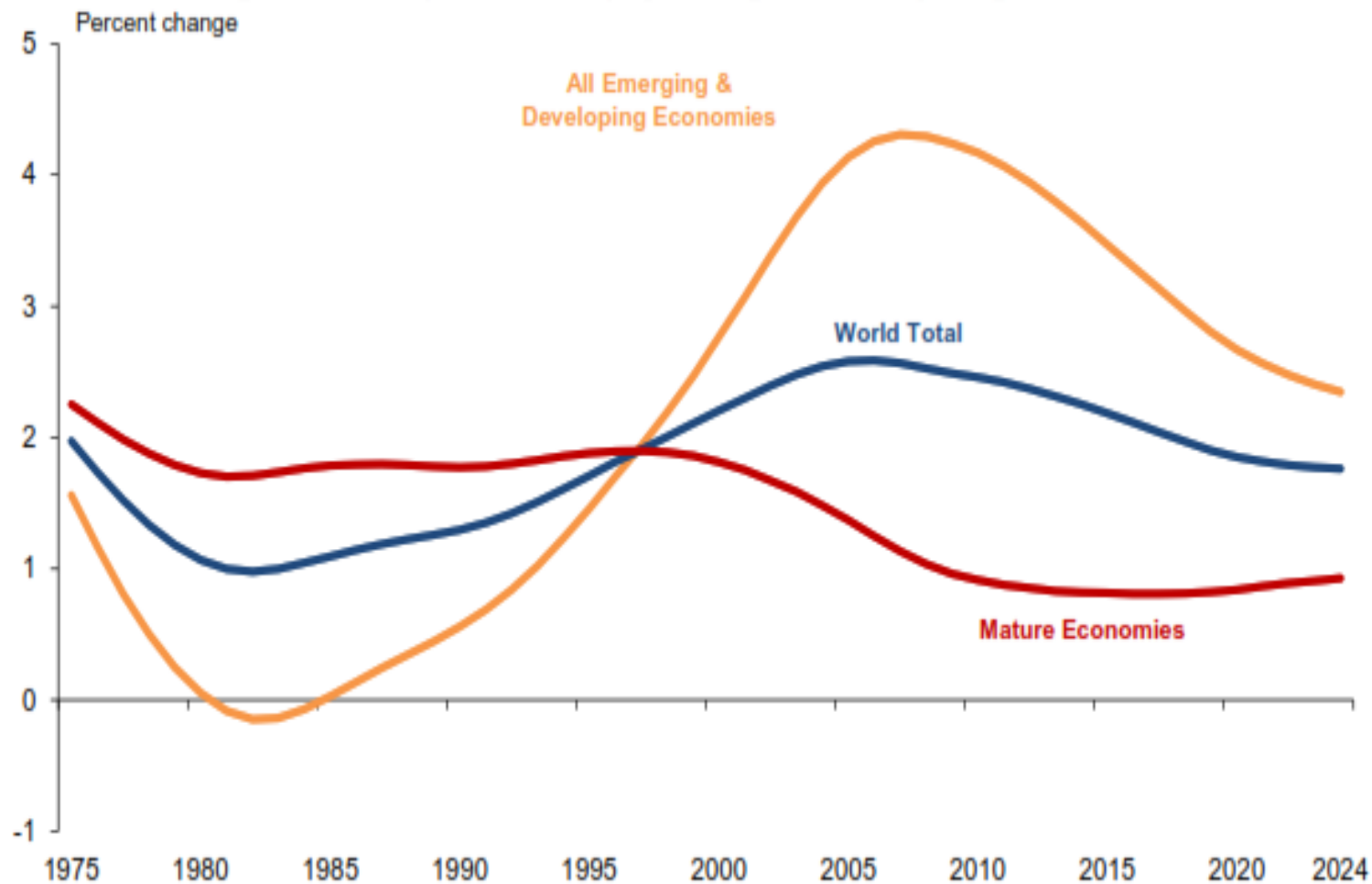
WHY PRODUCTIVITY MATTERS

HOW ITS CONTRIBUTION TO GROWTH IS CHANGING

- With limited growth in hours worked, labour productivity will be the main driver of future growth
- Are we reliving Solow's productivity paradox: "We see computers everywhere except in the productivity statistics?" (1987)
- Are we again in a world of rapid technological progress but slowing productivity growth?
- Or will it be different this time: demographics, climate, deglobalisation, and the negative sides of technology?
- Can a reset of a pro-productivity policies framework reverse the productivity slowdown, and make growth more inclusive and sustainable?
- Can a new approach to industrial strategy contribute to the recovery in productivity?

THE GLOBAL ECONOMY IS FACING LARGE PRODUCTIVITY CHALLENGES ALL AROUND

Growth in Labour Productivity (GDP per hour worked) by Major G-20 group, annual average growth rates



Note: Trend growth rates are obtained using HP filtering method.
Source: The Conference Board, Total Economy Database, 2024

G20 AGGREGATE PRODUCTIVITY GROWTH TREND HIDES THAT ALMOST ALL INDIVIDUAL COUNTRIES SLOWING ...

Growth in Labour Productivity (GDP per unit of labour input) by Major G-20 group, annual average growth rates

		1970s	1980s	1990s	2000s	2010s	2020s*
G20	Total	2.8	1.6	1.9	2.9	2.8	2.1
<i>Leading but slowing</i>	Total	2.9	2.0	1.9	1.5	0.9	0.7
	Japan	4.7	3.6	2.3	1.0	1.1	0.9
	United States	1.7	1.4	1.7	2.2	0.8	0.9
	United Kingdom	3.0	2.0	2.0	1.3	0.6	0.2
	France	4.1	2.9	1.8	1.0	0.9	-0.7
	Germany	3.9	2.3	2.2	0.9	1.2	0.5
	Australia	1.8	1.2	2.2	1.2	1.2	1.9
	Italy	3.9	1.7	1.4	0.0	0.4	0.4
	Canada	1.9	0.9	1.4	1.1	1.0	0.9
<i>Lagging but growing</i>	Total	2.9	4.2	5.1	6.9	6.2	4.0
	China	4.1	6.2	7.8	9.2	7.1	5.5
	India	0.4	3.2	3.9	5.7	6.6	1.6
	Turkey	4.1	3.3	1.7	3.5	3.4	3.0
	Indonesia	3.6	2.4	1.7	3.1	3.4	1.6
	South Korea	5.9	5.4	6.4	4.7	2.9	1.6
<i>Muddling through</i>	Total	2.7	-0.6	-0.6	1.9	0.9	0.2
	Russian Federation	2.5	0.9	-3.1	4.7	2.0	0.9
	Brazil	4.7	0.1	0.5	1.1	0.9	-0.1
	South Africa	2.4	-0.6	-0.7	2.7	0.5	1.4
	Argentina	2.0	-1.8	2.1	1.1	0.9	0.7
	Mexico	1.4	-1.5	0.6	0.3	0.7	-1.3
	Saudi Arabia	2.8	-8.3	0.9	-0.6	-1.5	0.2

- Eight developed G-20 members (G7: Japan, US, UK, France, Germany, Italy and Canada + Australia) in the **“leading levels but slowing growth”**-group.
- Five G-20 members (China, India, Turkey, Indonesia, and South Korea) are in the **“lagging levels but accelerating growth”**-group
- Remaining six G-20 members (Russia, Argentina, Brazil, South Africa, Mexico and Saudi Arabia) are in the **“muddling through”**-group showing neither much growth in productivity nor any sizeable improvement in productivity levels relative to the leading group.

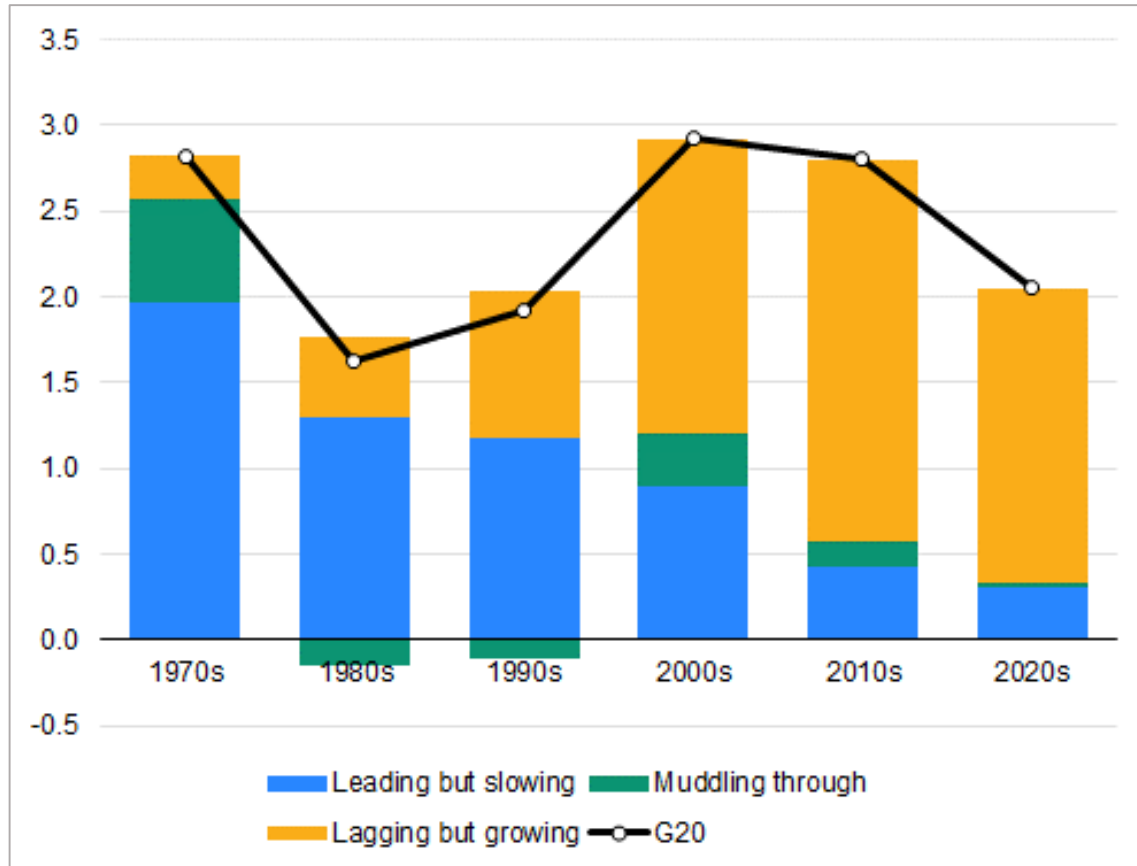
Note: Analysis is for 19 individual members of G-20, excluding European Union aggregate;

* 2020s includes projection for 2023.

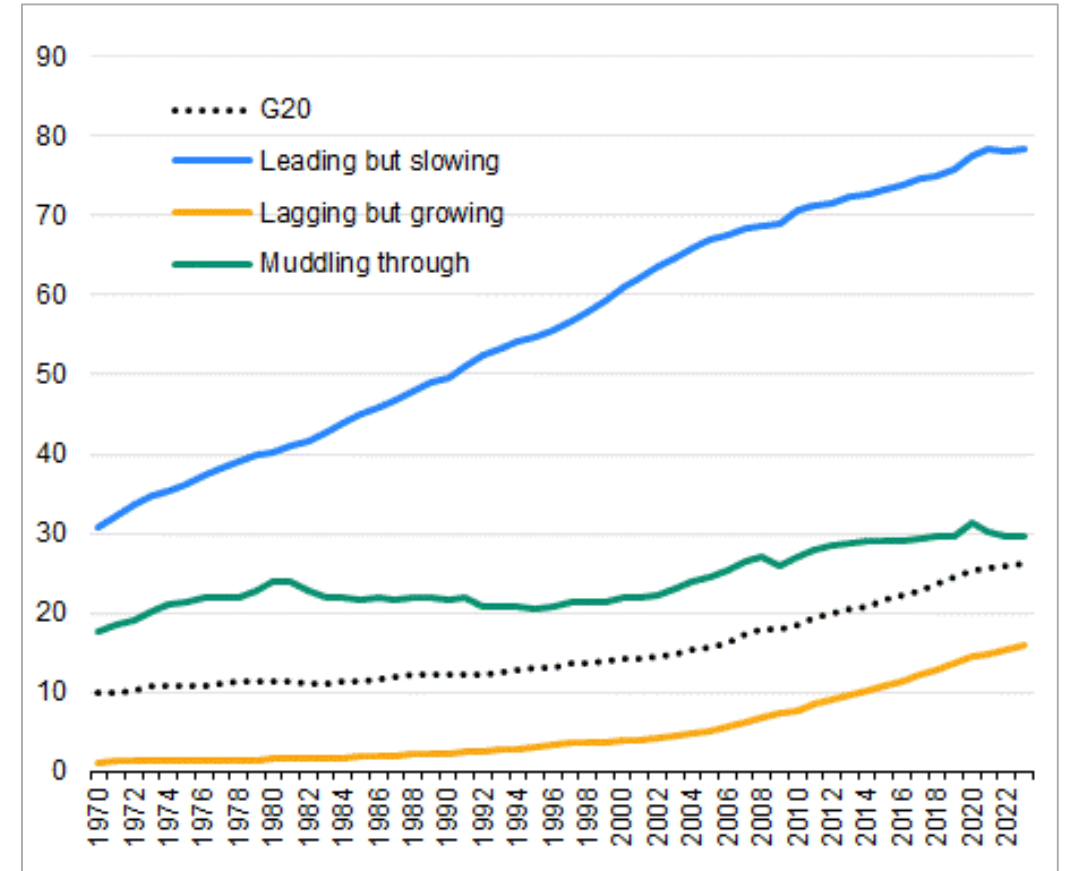
Source: Van Ark, De Vries and Pilat (2024), based on The Conference Board, Total Economy Database, April 2023.

... BUT MATURE ECONOMIES ARE AT THE HEART OF THE PROBLEM

**G20 Labour Productivity levels
(in 2022 prices in US\$ PPP terms)**

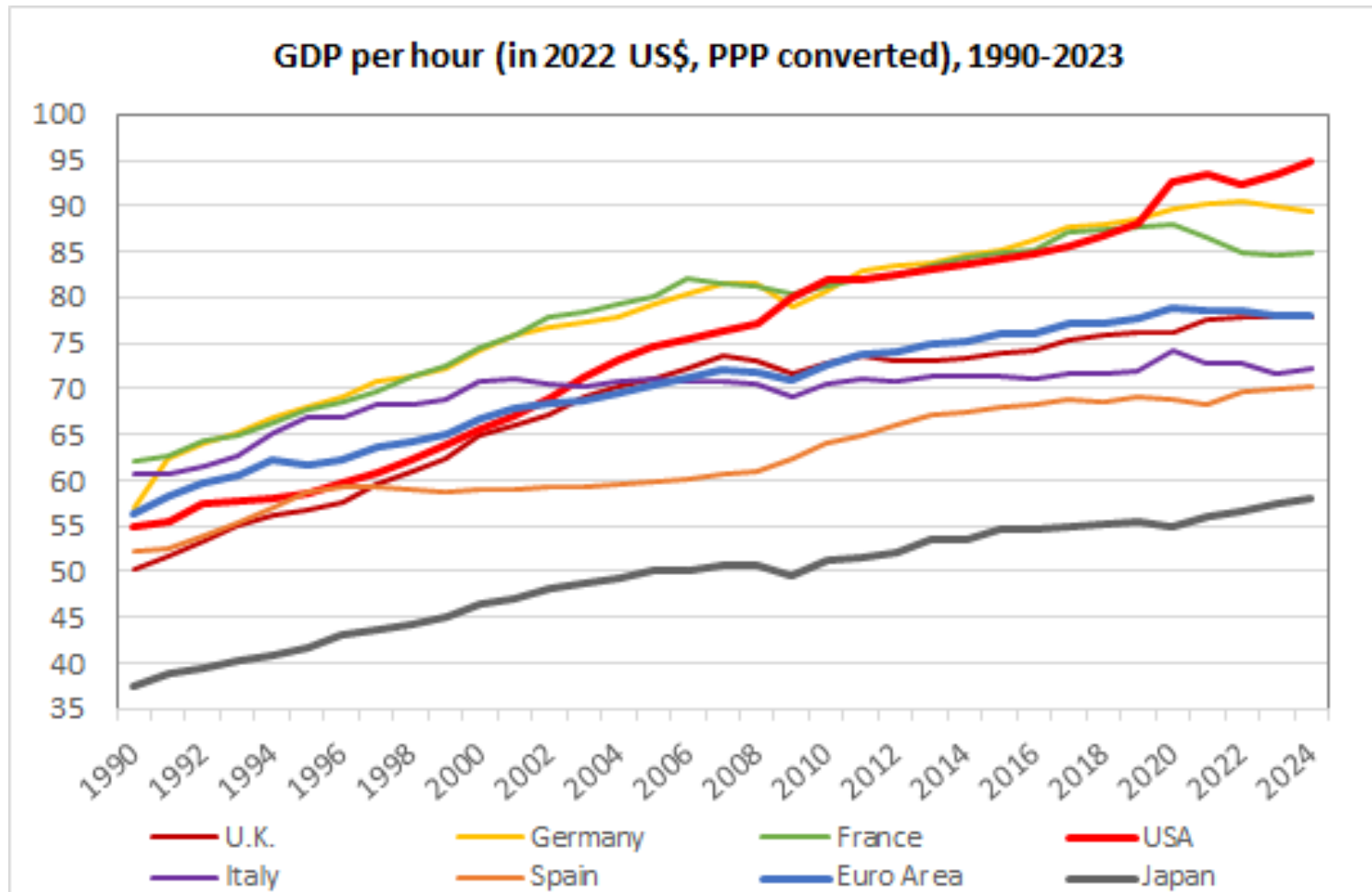


**G20 Labour Productivity levels, per hour
(in 2022 prices in US\$ PPP terms)**



Source: Van Ark, De Vries and Pilat (2024), based on The Conference Board, Total Economy Database, April 2023.

WEAK PRODUCTIVITY CREATES VULNERABILITIES AND LACK OF RESILIENCE

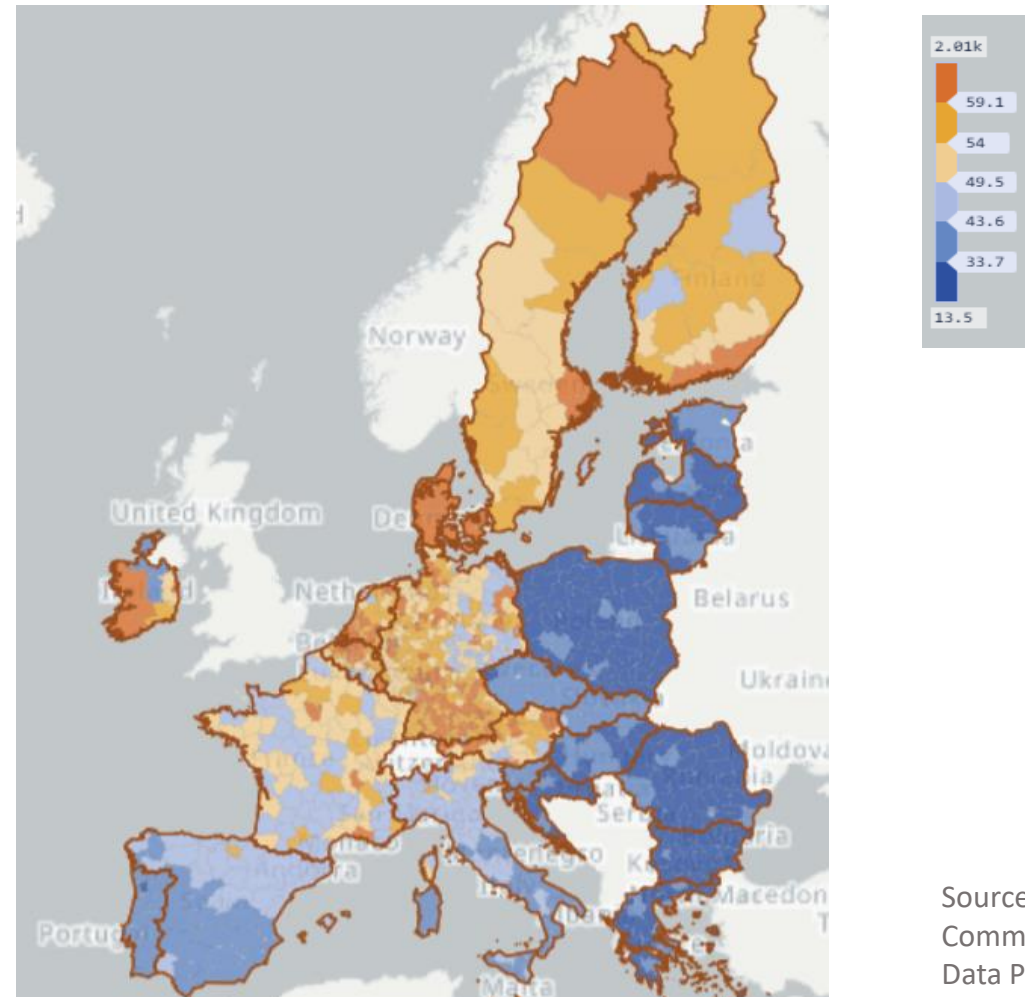
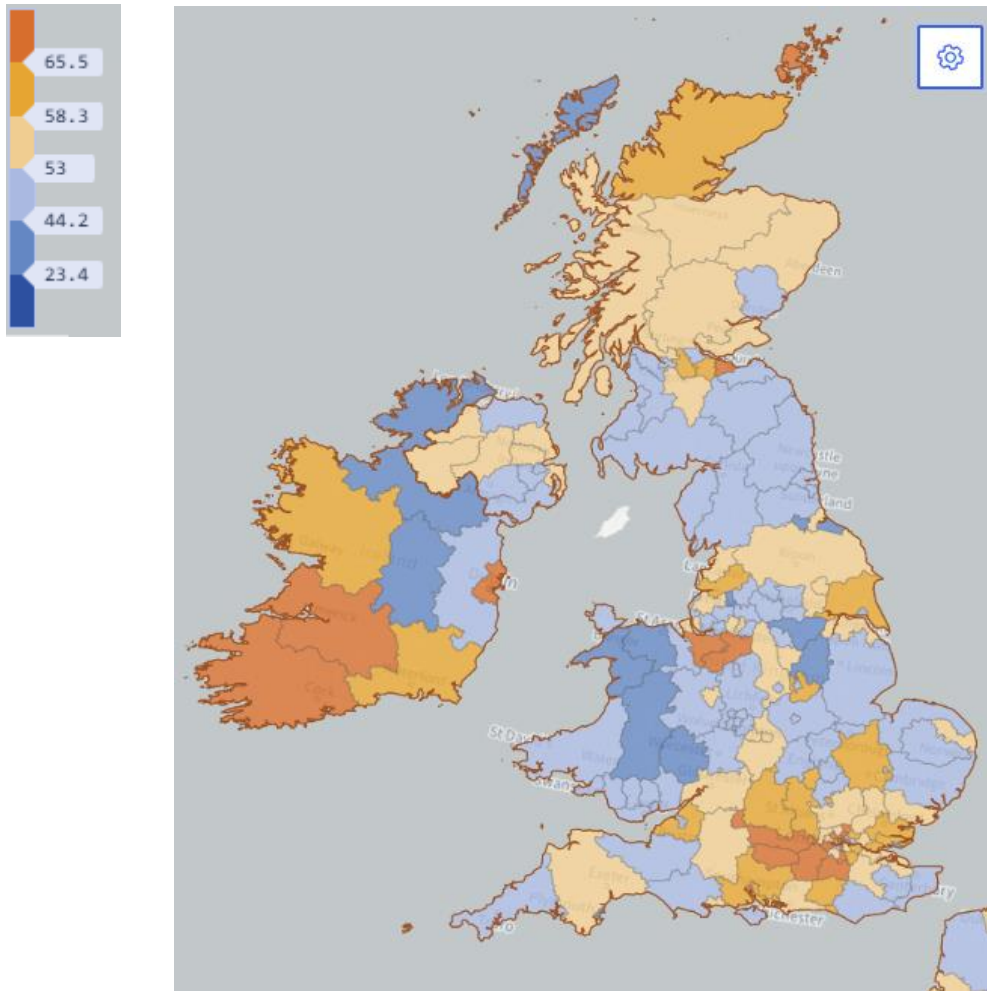


Slow productivity growth affects dynamic process of innovation, slows structural change and weakens competitiveness

Low productivity levels affect resilience to absorb shocks and create vulnerabilities, and create low performance traps especially at a place-based levels

STAGNANT PRODUCTIVITY MEANS LONG TAIL OF REGIONS IN LOW PRODUCTIVITY TRAPS

Value added per hour worked by region NUTS3 region, 2023, current euros (*unadjusted for sector structure*)

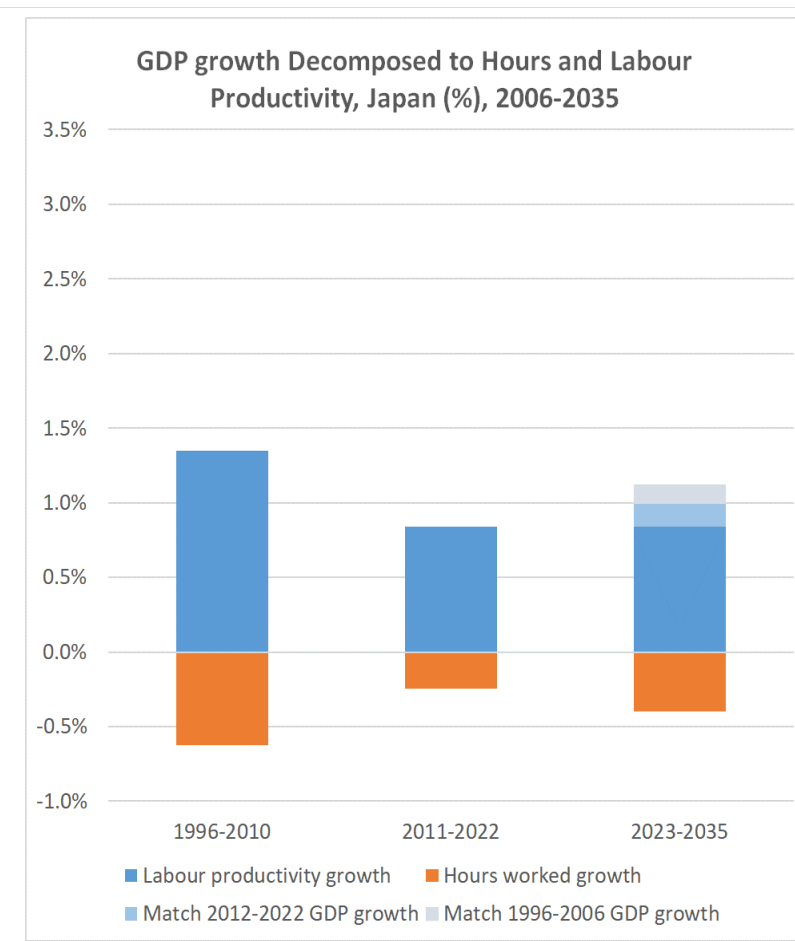
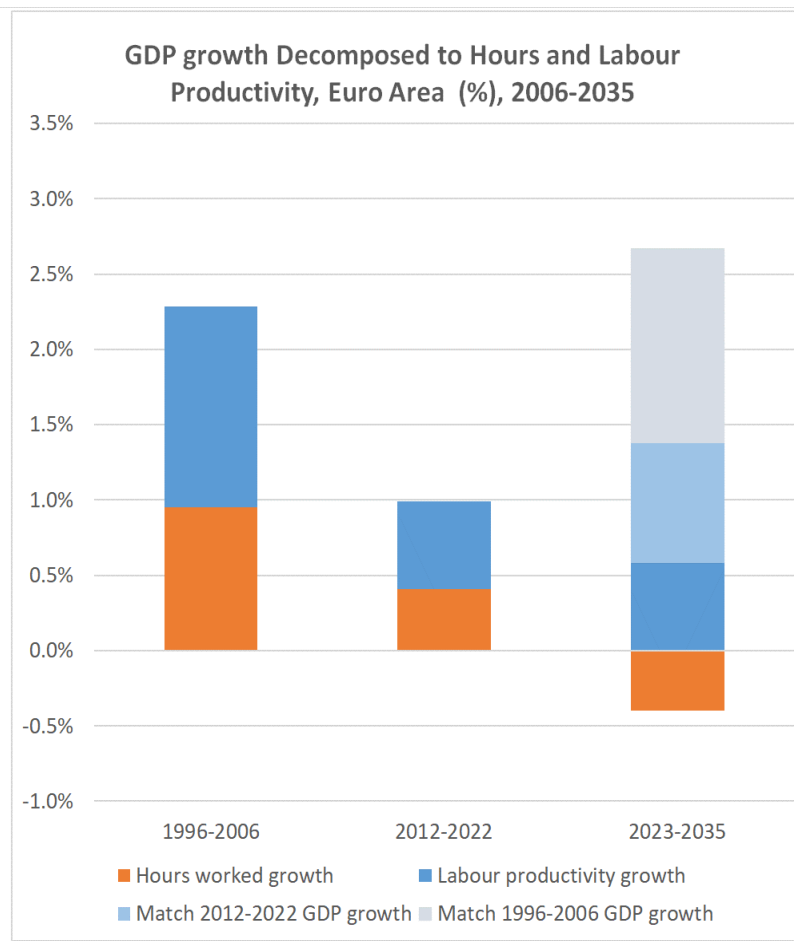
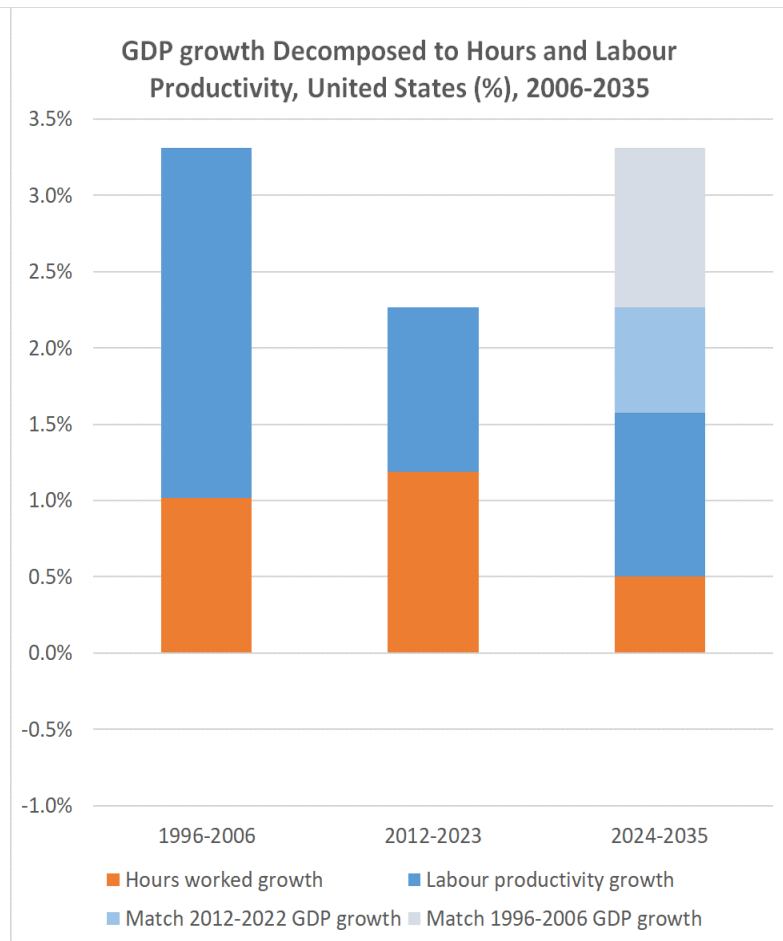


Source: European
Commission, Urban
Data Platform Plus

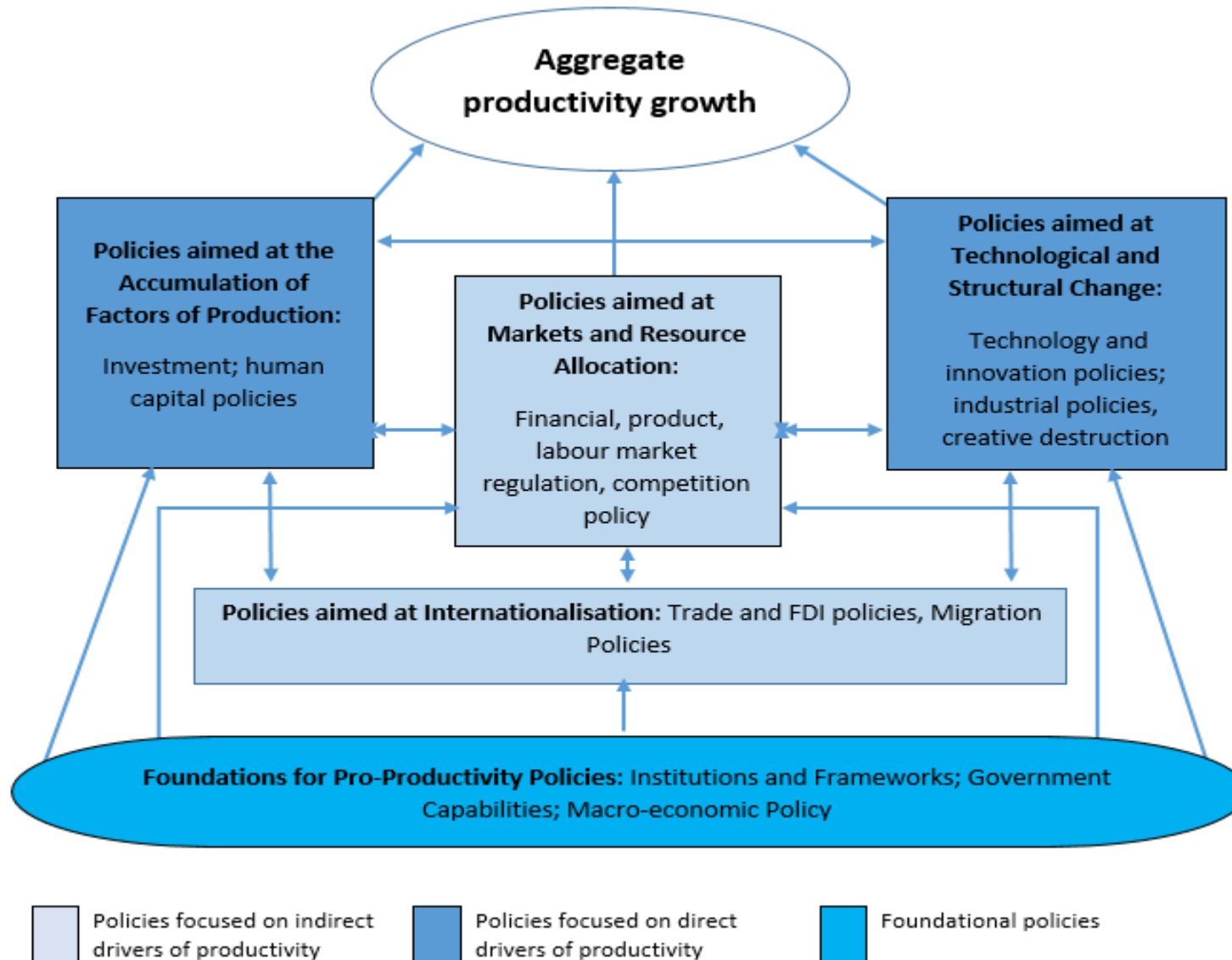
NOT ONE REASON FOR THE PRODUCTIVITY SLOWDOWN

- **Demand-side issues:**
 - **Short-term:** weak productive investment (e.g. aftermath of global financial crisis or interest rate increases), weak consumption (e.g. aftermath of pandemic, inflation and cost of living crisis)
 - **Long-term:** more low-productivity personal and public services (incl. Baumol effect); “forced” public expenditure on climate, defense, etc.
- **Supply-side issues:**
 - **Short-term:** Supply-side “shocks”, incl. pandemic, supply chain disruptions, stagflation, political uncertainty
 - **Long-term:** End of catch-up potential of emerging markets, demographics (ageing, mobility, labour shortages), climate change
- **Counter-productive policies:** excessive regulations, taxes, competition laws, protectionism
- **Weaker diffusion and slower adoption of technology (*the productivity paradox*)**
 - Time lag between adoption and productivity impact (Productivity J-curve)
 - “Winner takes all” effects and “superstar firms”
 - Weaker diffusion and slower adoption of (digital) technologies
- **Measurement issues** within and beyond the boundaries of the national accounts

FUTURE GDP GROWTH WILL NEED TO COME IN FULL FROM LABOUR PRODUCTIVITY GROWTH



A FRAMEWORK FOR PRO-PRODUCTIVITY POLICIES



Source: B. van Ark, K. de Vries, D. Pilat (2023) Are Pro-Productivity Policies Fit for Purpose? Working Paper No. 038, The Productivity Institute (<https://www.productivity.ac.uk/research/are-pro-productivity-policies-fit-for-purpose-productivity-drivers-and-policies-in-g-20-economies/>)

The Accumulation of Productive Factors

Table 2: Policies aimed at the accumulation of productive factors by development stage

	Early stage (low-income, start of development process)	Middle stage (middle-income, overcoming middle-income trap)	Advanced Stage (highly developed and internationalised)
Investment	Increase Business Investment, Attract FDI, Infrastructure	Quality of Investment, Expansion of Infrastructure	Intangibles, Advanced Infrastructure, Equity Financing, Reallocation of Capital
Human capital	Primary, Secondary & Vocational Education, Basic Skills, Some Tertiary Education	Access to Education, Tertiary Education, More Advanced Skills	Quality of Education, Advanced Skills, Life-Long Learning, Skills Allocation & Mismatch

Source: Authors elaboration.

Technological and Structural Change

Table 3: Policies for technological and structural change by development stage

	Early stage (low-income, start of development process)	Middle stage (middle-income, overcoming middle-income trap)	Advanced stage (highly developed and internationalised)
Innovation & technology policies	Development of absorptive capacity, use of local knowledge, investment in public R&D, fostering private R&D	Development of own strengths, tapping into foreign knowledge, greater private and public investment in R&D, innovation system	Deepening of strengths, specialisation and greater regional, national and international collaboration in innovation system
Industrial policies	Support for potential high-growth areas, Industrialisation Policies, structural change, sector-specific policies	More advanced industrial policies, focused on more advanced stages of production & services, diversification	Facilitating structural change, foster new growth areas, balance with competition, sectoral policies, regional policy
Policies to foster creative destruction and business dynamics	Improve relevant institutional frameworks, remove barriers to firm entry and growth	Remove barriers to firm entry, growth and exit	Facilitate growth and change, address new and unnecessary barriers to entry, exit and growth

Table 4: Policies for markets and resource allocation by development stage

	Early stage (low-income, start of development process)	Middle stage (middle-income, overcoming middle-income trap)	Advanced stage (highly developed and internationalised)
Financial market policies and regulation	Development of financial and banking system, financial regulation, scope for e-banking	Evolution of financial system, equity financing	Financing for intangible assets, VC financing, ESG financing
Product market policies and regulation	Reduce regulatory and administrative barriers (e.g., red tape), assess state ownership	Reducing state ownership, removal of regulatory barriers, opening to (international) competition	Innovation-friendly regulation, regulation of new markets, local and regional barriers
Labour market policies and regulation	Labour market frameworks and regulations, workers' rights	Labour market regulation and flexibility, policies to address informality	Labour market mobility, increase participation, migration policies
Competition Policies	Assessing competition in domestic markets; basic competition policy	More advanced competition policy	Competition policy for digital markets, market assessments, international dimensions

Table 5: Policies for internationalisation by development stage

	Early stage (low-income, start of development process)	Middle stage (middle-income, overcoming middle-income trap)	Advanced stage (highly developed and internationalised)
Trade policies	Trade Openness; Export Promotion (sometimes with import substitution)	Upgrading Engagement in GVCs, Trade in Services	Growing complexity of trade and engagement in GVCs; trade in services, digital trade
FDI	Attracting FDI for Export-led Growth, Engaging in GVCs	Upgrading FDI; Build Linkages between Domestic and Foreign Sector	Attractiveness to Advanced FDI; Increasing Benefits of FDI, Outward FDI, Security
Immigration	Facilitate Migration, Remittances	Facilitate returnees and immigration, more advanced migration policy	Immigration aimed at attracting high-end skills and addressing skills gaps

Table 6: Policies for institutions and frameworks by development stage

	Early stage (low-income, start of development process)	Middle stage (middle-income, overcoming middle-income trap)	Advanced stage (highly developed and internationalised)
Institutions	Institution building	Deepening of institutions	Advanced frameworks, new institutions, protecting institutions
Government capabilities	Training of civil servants, development of frameworks and processes, salaries civil servants	Support for full policy cycle, including evaluation, policies to address corruption	More integrated policies, advanced skills and tools to support policy, e.g., procurement
Macroeconomic policy	Control of inflation, stability of exchange rates, budget stability	Extending tax base, stability of policies	Stable and well-established policies

Country applications (UK and South Korea)

Table 10: Stylised pro-productivity policies for the UK, 1960s-1970s, 1980s-1990s and 2010s-2020s

	1960s-1970s	1980s-early 1990s	2010s-2020s
Institutions & frameworks			
Institution building			Fragmented institution building without joined up growth strategy
Government capabilities			Political instability, exacerbated by Brexit vote (2016)
Macroeconomic policy	Cycles of expansionary fiscal stance putting pressure on exchange rate causing monetary tightness	Restoration of macro-economic stability	Independence of Bank of England (2007)
Factor Accumulation			
Investment		Privatisation of public services to improve customer performance	National Infrastructure Commission (2015) to strengthen infrastructure
Education & skills	Failure to introduce adequate vocational training	Rapid expansion of higher education system	Introduction of Local Skills Improvement Plans (LSIPs) to better meet local skill needs
Resources			Implementation of Net-Zero Policy and Climate Change Commission
Technology			
Innovation & technology		Failure to modernise innovation policies (R&D and diffusion)	Introduction of R&D Tax Credit (2000) Introduction of Catapult Centres (2011) to accelerate diffusion
Industrial policy	National Economic Development Office to develop growth and investment strategy Attempts at state-led industrialisation stranded in lack of unity between government, unions and employers		Introduction of Industrial Strategy Council (2017) Industrial Strategy Council abolished (2021)
Creative destruction		Reduction in inefficiencies through higher churning of inefficient firms	Creation of long tail of inefficient firms because of low wage levels relative to cost of investment
Markets			
Financial markets		Big Bang reforms (1986) deregulating the London Stock Exchange and Deregulation of financial services	British Business Bank (2014) to facilitate SME finance Revision of Financial Services and Markets Bill to respond to new developments in financial markets, incl. fintech (2023)
Product markets		Product market deregulation Rapid increase in ICT investment especially in services	Failure of reform in land-use planning
Labour markets	Rigidly demarcated labour market policies	Deregulation of labour markets and reform of industrial relations	
Competition policy		Privatisation of State-Owned Assets incl. utilities and transport	Establishment of Competition and Market Authority
Internationalisation			
Trade	Too slow reorientation of Commonwealth to EC trade Entry into the EEC (1973)		Brexit vote (2016) EU-UK Trade and Cooperation Agreement (2021) complicating trade relationships
FDI	Failure to attract new FDI		
Migration			Expansion of liberal migration policy (as of 2004)
Inclusion			Levelling up of disadvantaged regions

Notes: 1. The colours point to pro-productivity policies typical for different levels of economic development, as follows:

Stylised policies low-income economy
 Stylised policy middle-income economy
 Stylised policy advanced economy
 Potential anti-productivity effects

Table 8: Stylised pro-productivity policies for Korea, 1960s and 2020s

	1960s	Late 1990s to early 2000s	Late 2010 to early 2020s
Institutions & frameworks			
Institution building	Development of state institutions aimed at planning and implementation		Establishment of independent anti-corruption agency
Government capabilities	Development civil service as professional & meritocratic institution		
Macroeconomic policy	Stable macroeconomic policies		
Factor Accumulation			
Investment	Strong public investment in infrastructure	Reforms to corporate governance frameworks	Reforms to corporate governance, strategic investment in selected industries
Education & skills	Rapid expansion of secondary and tertiary education	Expansion of training following economic crisis	
Resources		Development of national planning and land-use system	Green New Deal with focus on transition to low-carbon and green economy
Technology			
Innovation & technology	Encouragement of up-to-date technology from abroad	Promotion of knowledge-based economy and information infrastructure, strengthening of R&D frameworks	Increase in R&D budget
Industrial policy	Aggressive export promotion combined with protection domestic market		Strategic investment in (4) strategic areas and support to (8) key industries
Creative destruction	Large enterprise (chaebol) creation encouraged by state, selection linked to export success	Significant corporate restructuring: reforms to bankruptcy system to facilitate exit; some reductions in protection of SMEs	Reform of SME support policies, tax reductions and exemptions for start-ups, creation of venture and start-up eco-system
Markets			
Financial markets	State control of financial system with focus on risk sharing	Financial sector restructuring programme, including privatisation of commercial banks, range of other reforms to financial markets	Reforms of corporate governance
Product markets	Protection infant industries, promotion export industries	Privatisation, liberalisation of trade and FDI, range of regulatory reforms	Introduction of regulatory sandboxes and regulation-free special zones
Labour markets	Little labour unrest, low union activity	Expansion of employment insurance and social welfare schemes	Expansion of public employment, increase in minimum wage, focus on labour market participation under-represented groups, expansion of training and social insurance, reduction in working hours
Competition policy	Competition in context of export promotion strategy, but also focus on concentration	Privatisation programme of several state-owned enterprises, strengthening of competition	
Internationalisation			
Trade	Export promotion strategy	Trade liberalisation, including abolition of most quotas, first FTA (with Chile), No liberalisation in services and agriculture	Conclusion of Regional Comprehensive Economic Partnership
FDI	No liberalisation	Reduced barriers to FDI and incentives to encourage FDI inflows	
Migration	Policy of reverse brain drain from 1966		
Inclusion	Build on relatively egalitarian society, investment in education		Core focus of government policy from 2017-2022

Notes: 1. The colours point to pro-productivity policies typical for different levels of economic development, as follows:

Stylised policies early development stage
 Stylised policy middle development stage
 Stylised policy advanced development stage
 Potential anti-productivity effects

MAKING PRO-PRODUCTIVITY POLICIES FIT FOR PURPOSE

- Science and innovation policies need to better **balance technological progress with the diffusion of knowledge** and stronger **absorptive capacity of firms and ecosystems**.
- **Greater attention to investment-related policies consistent with sustainable growth**, notably as regards to intangibles and role of public investment.
- It cannot happen without **competition to allocate resources to most productive uses**.
- **Stronger institutions and capabilities** should allow for continuous and dynamic learning about pro-productivity policies across countries and over time.
- Need for a **new paradigm for innovation and industrial policies** that can support productivity and inclusive and sustainable growth in the future.

INDUSTRIAL STRATEGY CAN BE PART OF THE PRO-PRODUCTIVITY POLICIES FRAMEWORK



*Improve competitiveness, protect economy security,
and deliver the green and digital transitions*

1. **Energy:** Emphasizing the need for sustainable and competitive energy solutions
2. **Clean Technologies:** Focusing on green technologies to align with the EU's climate goals
3. **Key Raw Materials:** Ensuring a stable supply of essential materials for various industries
4. **Automotive:** Supporting the transition to electric vehicles and sustainable transport solutions
5. **Pharmaceuticals:** Enhancing innovation and competitiveness in the healthcare sector
6. **Transport:** Improving infrastructure and connectivity across the EU
7. **Aerospace:** Maintaining Europe's competitive edge in aerospace technology
8. **High-Tech Sectors:** Investing in advanced technologies and digital innovation



*Drive sustainable, inclusive, and resilient growth by
focusing on high-potential sectors and regions*

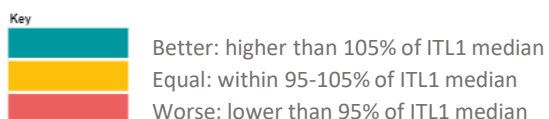
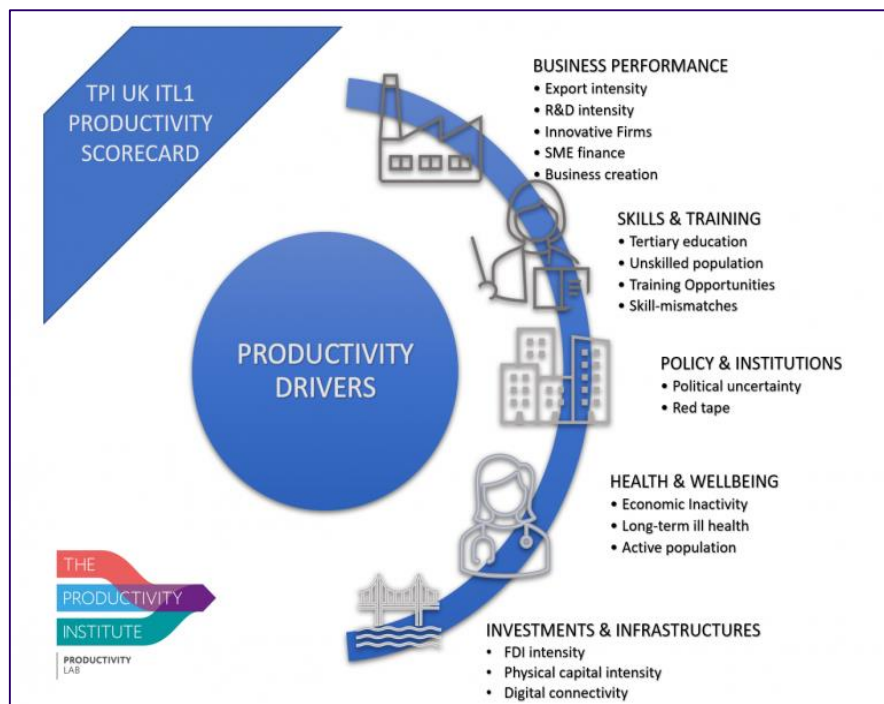
1. **Advanced Manufacturing:** Emphasizing high-tech and precision manufacturing processes.
2. **Clean Energy Industries:** Focusing on renewable energy sources and sustainable energy solutions.
3. **Creative Industries:** Covering areas like media, entertainment, and design.
4. **Defence:** Enhancing capabilities in national security and defence technologies.
5. **Digital Technologies:** Including IT, software development, and emerging technologies like AI & blockchain.
6. **Financial Services:** Strengthening the UK's position as a global financial hub.
7. **Life Sciences:** Advancing medical research, biotechnology, and pharmaceuticals.
8. **Professional & Business Services:** Supporting a wide range of activities, from consulting to legal services

... BUT ONLY WHEN INTEGRATED WITH A BROADER AGENDA FOR INCLUSIVE GROWTH



Productivity for inclusive growth is created by: (1) providing broad based access to all resources; (2) transforming resources into outcomes in an efficient and sustainable way; (3) distributing the gains widely across society

PRODUCTIVITY DRIVERS ARE BROAD-BASED IN A STRONGLY PLACE-BASED CONTEXT

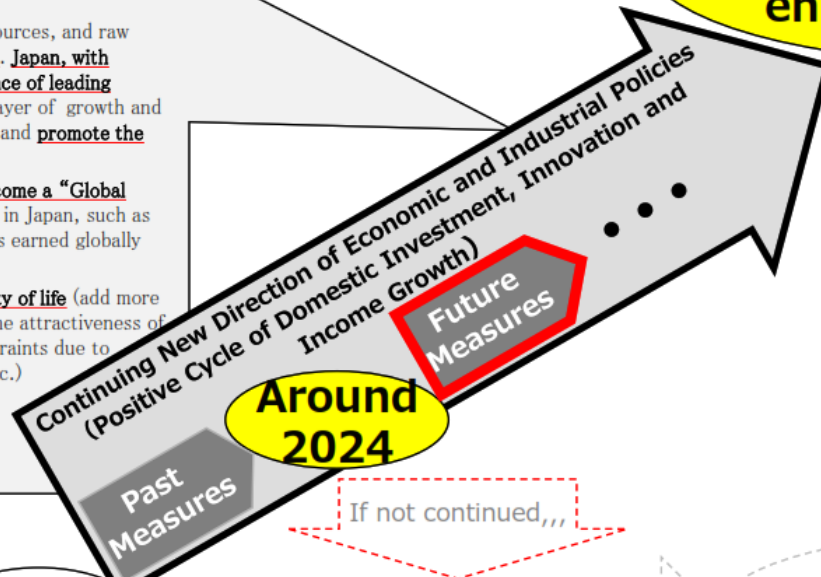


Category	Productivity driver	ITL1 median	London (1st)	South East (2nd)	Scotland (3rd)	East of England (4th)	North West (5th)	South West (6th)	West Midland (7th)	East Midland (8th)	North East (9th)	Yorks & The Humber (10th)	Wales (11th)	Northern Ireland (12th)
Business performance	Export Intensity	24.2%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Business performance	R&D Intensity	£631.55	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Business performance	Innovative Firms	45.3%	Red	Yellow	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Business performance	SME Finance	8.0%	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Business performance	Business Creation	11.6%	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Skills & training	Tertiary Education	39.3%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Skills & training	Unskilled population	17.5%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Skills & training	Training Opportunities	50.0%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Skills & training	Skill-mismatches	5.0%	Yellow	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Policy & institutions	Political Uncertainty	24.0%	Red	Red	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Policy & institutions	Red Tape	21.0%	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Health & wellbeing	Economic Inactivity	21.6%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Health & wellbeing	Long-term ill Health	24.6%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Health & wellbeing	Active Population	62.0%	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Investments & infrastructure	FDI Intensity	£30,856	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Investments & infrastructure	Physical Capital Intensity	£10,122	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow

JAPAN'S "NEW DIRECTION OF ECONOMIC AND INDUSTRIAL POLICIES" HAS MANY OF THE KEY INGREDIENTS

- In the current pessimistic perception with declining population and other factors, it is necessary to draw **"A Future Outlook around 2040"** in which each individual can lead to enhance well-being even with a declining population, which can be **fully realized** if **"New Direction of Economic and Industrial Policies"** that have been implemented for the **past several years continue**, rather than a vision of what the future should be like discontinuously. In line with this, it is **necessary to strengthen future measures that are needed now and in the future.**

- Global demand will expand through solving social issues (GX, etc.) and data-driven new value creation (DX, etc.). In regions with declining populations, including Japan, although the quantity of goods will decrease, demand will expand due to rising prices, high value-added products, and the development of new demand, as "good products and services come at a price".
- Japan, which has no choice but to import food, resources, and raw materials, will earn in the world through innovation. Japan, with advanced issues, has an opportunity. The importance of leading medium enterprises, SMEs and startups as main player of growth and change will increase, which will serve as a stimulus and promote the transformation of large companies.
- ⇒ Changes in industry (1) Competing globally and become a "Global Creative Base" (strengthen headquarters functions in Japan, such as the most important research centers, so that profits earned globally can be channeled domestically.)
- ⇒ Changes in industry (2) Challenge to improve quality of life (add more value by making full use of digital technology and the attractiveness of lifestyle, culture, and content; resolve supply constraints due to labor shortages through utilization of AI, robots, etc.)
- ⇒ The government continues industrial policies as national strategic investment that will make both domestic and foreign companies select Japan as the investment destination.



**Around 2040
Individuals will
enhance well-being**

- Each person gets income increase, disposable time increase, customizing services provided with less manpower, and a new, smoother, more comfortable lifestyle.
- Continued wage increases comparable to those in major developed countries. (e.g., continuation of nominal wage increases in Japan over the last two years)
- On the IS balance, private corporate will eliminate their excess savings through increased domestic investment, resulting in excess investment, while households will maintain their excess savings and the current account surplus structure will be maintained, and the government will eliminate its excess investment on the back of increased tax revenues from economic growth, etc.

Japan
Around 1990

Neo-liberal
Industrial
Policy

Around 2021

Continuing Neo-liberal Industrial Policy

Around 2040
Stable but stagnant society

The world

- World Economic Order : Globalization
- Global Demographics : Only Japan declining

- ⇒ Increasing Uncertainty
- ⇒ China, EU and Korea declining. The labor force participant rate in Japan at its peak

ARE ALL ELEMENTS OF THE PRO-PRODUCTIVITY POLICY FRAMEWORK IN PLACE? IS THERE TOO MUCH?

	From Second Report to Now	After Third Report	Long-term goal
Investment	<ul style="list-style-type: none"> ● Increased willingness for investment <u>World-class, long-term, large-scale support for strategic areas</u> (Domestic investment promotion package, including the determination of 13 trillion yen in GX Economic Transition Bonds and the establishment of a tax system to promote domestic production in strategic sectors) <u>Leading Medium Enterprises Growth Promotion Package, promotion of labor-saving investment as a measure against labor shortages</u> 	<p>→ ¥115T investment in FY2027, and higher</p> <p>Expanding domestic investment-Increasing Inward Direct Investment : Developing production bases for <u>advanced semiconductors</u>, practical application of <u>next-generation batteries</u>, expanding development and <u>manufacturing bases for biopharmaceuticals</u>, etc., <u>investment support for risk analysis and acquisition of technological superiority in the economic security</u> field, support for overseas upstream development of <u>copper resources</u>, etc., effective utilization and development of <u>industrial water and industrial sites</u>, and <u>response to supply constraints such as labor shortages</u>.</p>	<p>Expanding domestic investment (e.g., FY2027 More than 115 trillion yen investment expansion speed to achieve)</p> <p>Promoting private investment based on future growth expectations</p> <p>+</p> <p>Revitalizing the domestic economy and develop overseas demand by adding high value, developing new demand, and thoroughly saving labor, even in declining population and the volume of goods is decreasing</p>
Innovation	<ul style="list-style-type: none"> ● Signs of labor shortage and industry replacement <u>Start-up: Promote/strengthen the 5-year development plan</u> (Extending JIC operation deadline, expanding LPS investment targets and relaxing of requirements for foreign investment restrictions) <u>World-class support for innovation in strategic areas</u> (innovation box system) <u>World-class support for innovation in strategic areas</u> (GX, semiconductors, AI, quantum, space, biotechnology, health) <u>Reform business structure for value creation, promote replacement of industries</u>(Tax incentives for multiple M&As, Spin-offs, etc.) 	<p>→ Promote inflow of labor and capital into growth areas, Domestic repatriation of overseas earning</p> <p>→ Startup investment: ¥10T in FY2027</p> <p>Competing on the world stage (World Creation Hub) : <u>Securing computing resources to improve AI performance</u>, etc., study of AI safety standards and rules, study of <u>ETS</u>, strategic initiatives with <u>Global South</u>.</p> <p>Strengthening the innovation ecosystem, including Startups: Support for <u>biotechnology, quantum, and space</u>; Development of a market environment for <u>M&A, secondaries</u>, etc. to encourage the creation of global startups; Consider of the <u>legislation on a pre-insolvency proceeding</u> and review the corporate reorganization tax system including <u>tax treatment on partial spin-offs</u> to promote <u>companies' replacement of businesses</u>.</p> <p>Challenge to improve the QoL: Review the budget and taxation system in the direction of strengthening <u>growth-oriented SMEs</u>, develop <u>PHR</u>, promote <u>strategic overseas expansion of creative industries</u>, foster <u>creators</u>, and strengthen earning power of <u>tourism and inbound travel</u>.</p>	<p>Simultaneous Realization</p> <p>Progress toward solving social issues</p> <ul style="list-style-type: none"> • GX: Carbon neutral in 2050 • DX: Realization of a Digital Society • Achieving Economic Security • Extension of healthy life expectancy • Resilient Society to Natural Disasters • Resource autonomy: Freedom from resource constraints • Reversal of the declining birthrate trend: recovery of the desired birthrate to 1.8, and further improvement of the desired birthrate in the future. <p>Continuing wage increases (e.g., continuation of nominal wage increases in Japan over the last two years)</p>
Income Growth	<ul style="list-style-type: none"> ● Largest wage increase in 30 years Improvement of the wage increase environment (<u>price pass-through measures for SMEs, expansion of tax measures to promote wage increase</u>, support for business restructuring, etc.) 	<p>→ A positive cycle of rising prices and wages</p> <p>Raising wages and providing a sense of fulfillment: Fostering local SMEs that can <u>provide quality employment</u>, strengthening <u>enforcement of the Subcontract Act</u>, thorough <u>price shifting of labor costs</u>, and mechanisms to promote <u>nursing care businesses according to local characteristics</u>.</p>	<p>Individual will be well-being</p>

Source: METI, Third Report of the Committee on New Direction of Economic and Industrial Policies, 2024.

THE MIX OF PRODUCTIVITY POLICIES CHANGES OVER TIME AND BETWEEN COUNTRIES

- Pro-productivity policies are **not separate from core policy areas** including macroeconomic, structural and reform policies, trade, science & innovation, etc.
- The **policy mix changes over time** depending on level of development, changes in technology & innovation regimes, thinking about pro-growth and structural policies and government capabilities.
- Detailed analysis of individual countries shows that while stylised policies are characteristic for a certain level of economic development, there is **no single pathway to productivity growth**.
- **Comparisons and learnings from experiences** in different countries can help to design the pathway forward

UNDERLYING RESEARCH PAPER AND ARTICLE

Bart van Ark, Klaas de Vries, Dirk Pilat (2023), “Are pro-productivity policies fit for purpose? Productivity Drivers and Policies in G-20 Economies”, *Working Paper No. 038*, The Productivity Institute.

<https://www.productivity.ac.uk/research/are-pro-productivity-policies-fit-for-purpose-productivity-drivers-and-policies-in-g-20-economies/>



Bart van Ark, Klaas de Vries, Dirk Pilat (2024), “Are pro-productivity policies fit for purpose?”, *Manchester School*, Vol. 92, Issue 2, pp. 191-208.

<https://onlinelibrary.wiley.com/doi/10.1111/manc.12464>





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