

**Memorandum: A PRODUCTIVITY REVOLUTION AND JAPAN'S REVITALIZATION.**

**Dale W. Jorgenson, Samuel W. Morris University Professor, Harvard University.**  
(<http://scholar.harvard.edu/jorgenson/>).

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**Three Major Issues Confronting Japan:** Productivity growth in Japan has stagnated since 1995. The Japanese labor force has fallen in size since 1999 and the Japanese population began to decline in 2010. Government revenues will rise in relation to the GDP to finance needed expenditure and support an aging population.

**Three New Arrows of Abenomics:** First Arrow: Create a revolution in productivity and a robust economy. Second Arrow: Stabilize the population at 100 million and raise the fertility rate to 1.8. Third Arrow: Adopt a sustainable fiscal policy that meets social insurance obligations.

**A Productivity Revolution in Japan.** The traditional approach to growth strategy in Japan is to subsidize favored industries. When industries mature they try to block competition through government regulations. The new industrial policy is to drill through “bedrock” regulations to stimulate competition.

**Implementing a New Industrial Policy.** Reform agriculture by diminishing the influence of agricultural cooperatives and participating in the Trans-Pacific Partnership (TPP). Liberalize the electricity market by creating a national grid and promote competition in the generation of electricity and retail distribution. Stimulate competition by eliminating “bedrock” regulations for trade, other services, finance and insurance, construction, and real estate.

**Working-Style Reform to Promote Efficiency.** The traditional Japanese employment system freezes labor mobility in Japan through salaries based on seniority and lifetime employment. Efficient deployment of Japan's high-quality labor force is undercut by wages that do not reflect productivity. Incentives for women to postpone marriage to pursue a career and for families to postpone having children reduce fertility.

**Adopting a Sustainable Fiscal Policy.** Financing of social insurance obligations, especially support of the elderly, will require an increase in government revenue in relation to the GDP. A shift in the tax burden from investment to consumption will stimulate private investment and promote more rapid growth. Revenue increases must be introduced gradually to maintain aggregate demand as the growth rate of the Japanese economy accelerates.

**Summary of Productivity and Japan's Revitalization.** Eliminate “bedrock” regulations to promote productivity growth and create a robust economy. Reform the traditional employment system to enhance efficiency and raise fertility. Reform taxation to stimulate private investment and meet social insurance obligations.

Charts: CLOSING THE PRODUCTIVITY GAPS BETWEEN JAPAN AND THE U.S.

