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Three Barriers on the Road to Prosperity[1]

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Population demographics, energy and government debt are among the structural problems which Japan must overcome in the coming decades. We have worked out an independent long-term forecast for Japan through 2050 with a view to considering what steps the nation must take to maintain vitality into the future.

In formulating our picture of the future, we have kept three considerations in mind, namely whether Japanese workers will have a diversity of job opportunities enabling them to secure adequate income without regard to age or gender, whether it will be possible to restore the government debt and the social security system to sound footing despite the falling population and aging of Japanese society, and whether the nation can maintain its global status in the face of even more extensive globalization. Achieving these goals will require sound economic growth.

Growth requires a diversity of constant innovations and improvements to productivity. The viability of this growth depends on the shape of institutions, including whether markets are open and the talents of women are fully exploited. Accordingly, our global outlook is based on institutional parameters for different countries as released by international organizations and bodies.

Japan has three possible futures. One of these is a "Growth Scenario" under which Japan would carry out bold reforms with a view to doubling the nation's per capita gross national income by the middle of the twenty-first century

Table　Outlook of GNI per capita

(Nominal, 10 thousand US$)

Rank	2010		2050	
1	Norway	8.7	Norway	14.2
2	Switzerland	7.5	Switzerland	11.4
3	Denmark	6.0	Japan(Growth scenario)	8.8
4	Sweden	5.1	Sweden	8.7
5	Netherlands	4.9	Denmark	8.1
6	United States	4.7	Canada	8.0
7	Finland	4.7	Australia	7.9
8	Austria	4.7	United States	7.7
9	Belgium	4.7	Belgium	7.5
10	Australia	4.6	Finland	7.4
11	France	4.4	Ireland	7.4
12	Canada	4.3	Netherlands	7.3
13	Germany	4.3	France	7.1
14	Ireland	4.2	Austria	7.0
15	Japan	4.2	United Kingdom	6.6
17	⋮		Japan(Stagnation scenario)	5.4
29	⋮		Japan(Bankrupt scenario)	3.9
45	⋮		China	1.2
47	China	0.03		

Note: Estimated by JCER based on World Banks statistics

[1] This is translation from the article appeared in the Nihon Keizai Shimbun.

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from the present level of 42,000 dollars to just under 90,000 dollars (or 8.4 million yen at 95 yen to the dollar) even as the Japanese population continues to erode. This would put Japan in third place by per capita GNI (see the accompanying Table).

The second alternative is a “Stagnation Scenario” under which the pace of reform continues at the same slow tempo it has over some twenty years now, with Japan’s standard of living gradually eroding as fiscal retrenchment necessitates rising tax and social burdens. Halting the pace of reform would undermine growth and risk tipping the nation into fiscal collapse under the “Default Scenario.” In contrast with the Growth Scenario, Japan’s per capita GNI in that case would fall below the ranking it held in 2010.

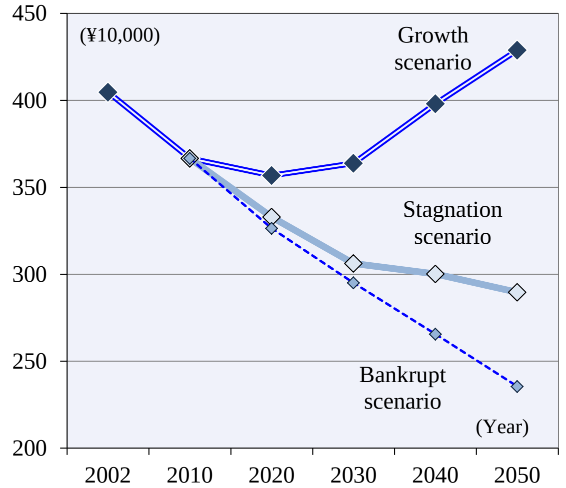
But if the Growth Scenario is to be achieved, Japan must overcome three barriers. The first of these is outdated employment practices and institutions. Japan is not fully exploiting the latent talents of women, young people and seniors. The wall dividing full-time regular employees and irregular employees is formidable. An employment style centered on regular employees working long hours makes it difficult to fully harness the abilities of Japanese women, who bear the burdens of childbirth and childcare.

I believe that the best means to break through this impasse would be to lay out a positive action plan incorporating numerical standards in the form of legislation aimed at better utilizing the talents of women in the workplace. For example, one benchmark might be to ensure that a certain percentage of women are sent to the Diet. Already eighty-seven countries have enacted such a standard. In Norway, which is well advanced in terms of female participation in the workforce, the percentage of women in parliament stood at Japan’s level some forty years ago. Increasing the participation of women in leadership positions such as management and government could become a catalyst for transforming feminine consciousness.

Meanwhile, steps should be taken to move away from the workplace seniority system to an employment and wage structure based on the specifications and responsibilities of an employee’s position. Even for employees with a short workday, there should be no discrimination in terms of wages, advancement and social security coverage. An employment system offering a wealth of options would be expected to yield improved productivity by making it easier for young people, seniors and foreign workers to work while enabling employers to make full use of all available labor resources.

Improving worker mobility will require enhancement of the labor market to strengthen job training and broaden employment agency services to enable workers to shift smoothly from one job to another.

Figure Real Consumption per Household of Working Generation



Source: Japan Center for Economic Research, based on “Survey on the Redistribution of Income,” Ministry of Health, Labor and Welfare. Real values with base year of 2010.

A second barrier exists in the form of regulations as well as legal and cultural barriers to new capital investments. These make market entry difficult for new entrepreneurs at home or from abroad. Energizing industry will most certainly require the advancing of competition through facilitating entry by venture capitalists and entrepreneurs from other industries, but Japan remains among the most closed economies. Japan has the highest barriers to direct inward investment among Organization for Economic Co-operation and Development (OECD) nations, and the situation has gotten worse over the past fifteen years.

For example, one overseas institutional investor had wanted to increasing its holdings of shares in a certain electric power company, but the government has prevented this on the grounds that it would not be desirable to allow any increase in the influence of specified foreign companies in Japanese power companies, which are responsible for power plants and power grids. In the field of corporate rescue too, there have been instances in which the government, citing a troubled company’s possession of important technology, for example, has stepped in to offer aid on its own, thereby effectively excluding foreign companies which might have wanted to buy out the enterprise. If regulations are necessary, the government should make them more transparent by making public the criteria under which they apply and how they function.

In fields which are dominated by monopolies, it is critical that an environment of fair competition be guaranteed. For example, NTT is obliged to open its communications network, and its usage rates, or connection fees, are strictly regulated. As a result, new entrepreneurs are able to use its communications network inexpensively. The proliferation of Internet services and the decline in communications charges has taken place in large part thanks to measures designed to promote competition. Likewise, the success or failure of any overhaul of the electric power system as might encourage lower rates and energy conservation will depend on whether a system is put in place to advance competition as has been done for telecommunications.

The third barrier is energy. Under the Growth Scenario, it is assumed that energy conservation will be 20% higher compared to the Stagnation Scenario. In that case, the value of fossil fuel imports in 2050 based on the price projections of the U.S. Department of Energy would be 55 trillion yen.

The debate concerning the role which nuclear power is to play can not be avoided. A multitude of problems is involved, such as ensuring safety against severe accidents, providing for an insurance system, and finding a final disposal site for nuclear waste. Solutions to these problems will not come easily, so it will be critical that Japan make energy conservation efforts exceeding those made during the oil shocks while also expanding the utilization of renewable energy.

What will the future look like if these three barriers can be overcome? The labor force participation rate and workplace advancement for Japanese women would come in line with levels prevailing in present day Holland, and Japanese women would be active in all spheres of life. And as in Holland, employment reforms ensuring equal treatment of regular employees and part-timers would be successful, and more seniors would find jobs. Substantial advances would be achieved in economic integration in the fields of investment and finance, which would make Japanese markets as open as those of the United States or Holland.

Labor productivity would rise with the realization of a flexible working environment, and business firms possessing outstanding ideas and business models would drive growth. The average growth rate in 2050 would rise to 1.3%, nearly double that prevailing between 2000 and 2012.

Financing social insurance benefits such as the national pension scheme will require that the consumption tax be raised in stages to 25% by 2030. The public's burden, including tax and social welfare expenses, will rise as high as 54%, but the real consumption of working households will rise by 17% compared to 2010 (see the accompanying Figure). The benefits of growth will exceed the increased public burden. The primary balance would enter a surplus, and outstanding government debt would remain flat at around twice nominal GDP.

Bringing down the public burden to a serious extent would require policies to address the population problem, as through measures dealing with the shortage of children and furthering immigration into Japan. It might be worthwhile to consider numerical targets aimed at stabilizing the population.

What will happen if reforms are delayed? Under the Stagnation Scenario, economic growth would be around zero through 2050. The public burden would rise to 59%, and real consumption would fall by more than 20% versus 2010.

With the Default Scenario, under which virtually no reform measures are pursued, average growth would fall to -0.8%, and economic deterioration would make any increase in the consumption tax impossible. Real consumption would then drop by more than 35%. The government debt would exceed four times GDP, raising the specter of fiscal default.

Under our forecast, the United States will drive the global economy in the twenty-first century. Per capita wealth will be highest in Northern Europe. Growth will be generated by sustained innovation born of competition among business firms and the harnessing of human resources toward that end. These conditions will be in place in countries set to grow. Unable to harness the strengths of the private sector, China would see growth slow by a large margin.

So long as Japan fails to fully utilize the talents of women, young people, seniors and foreigners, these latent forces will remain dormant even if the nation maintains growth. Japan stands at a crossroads and must decide whether or not to make the leap toward a future with vitality.