

Service Sector Productivity in Japan: the key to future Economic Growth

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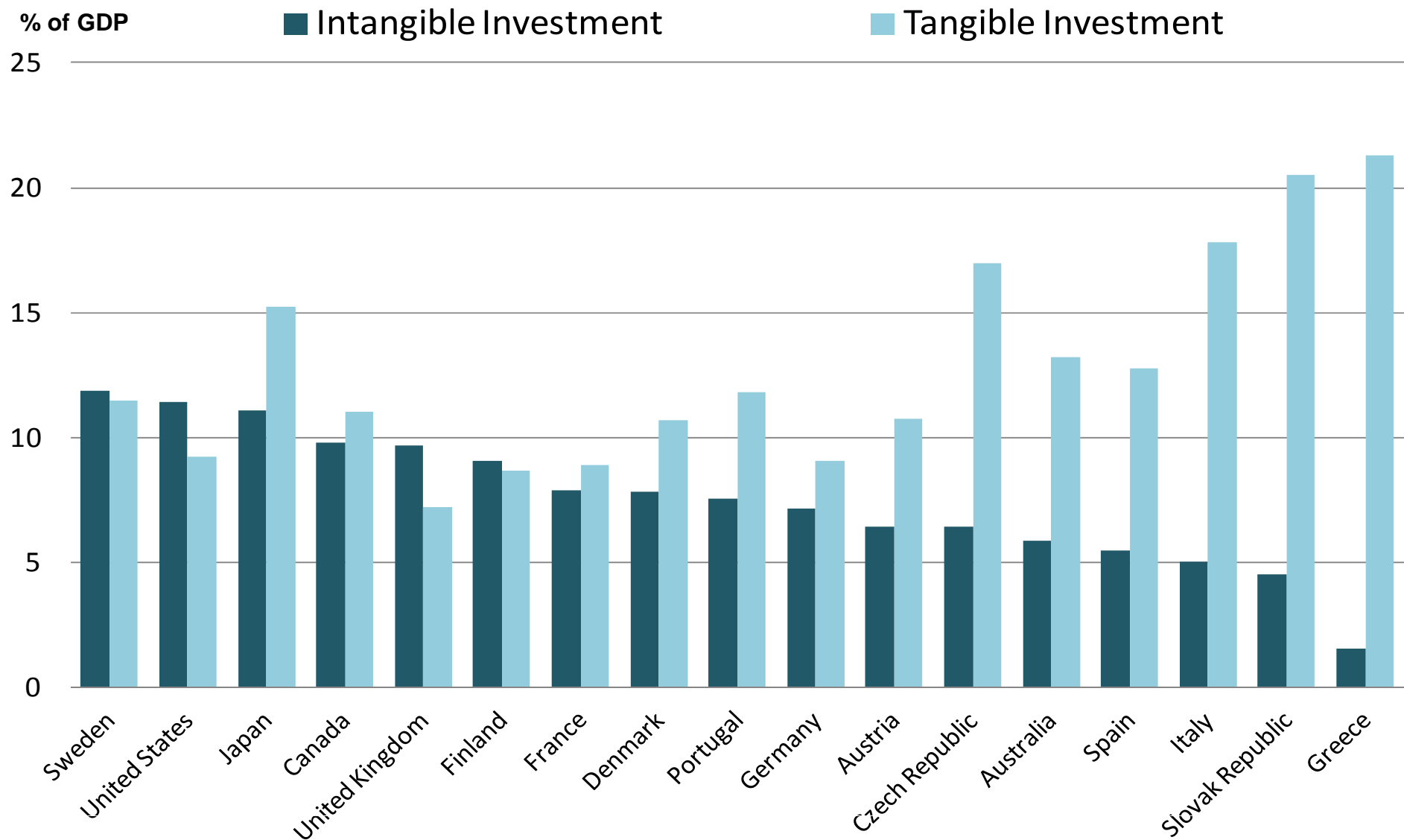
Discussion by Chiara Criscuolo (OECD)

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Advancement: Issues and Implications for the
Korean Economy”

The questions and the answers

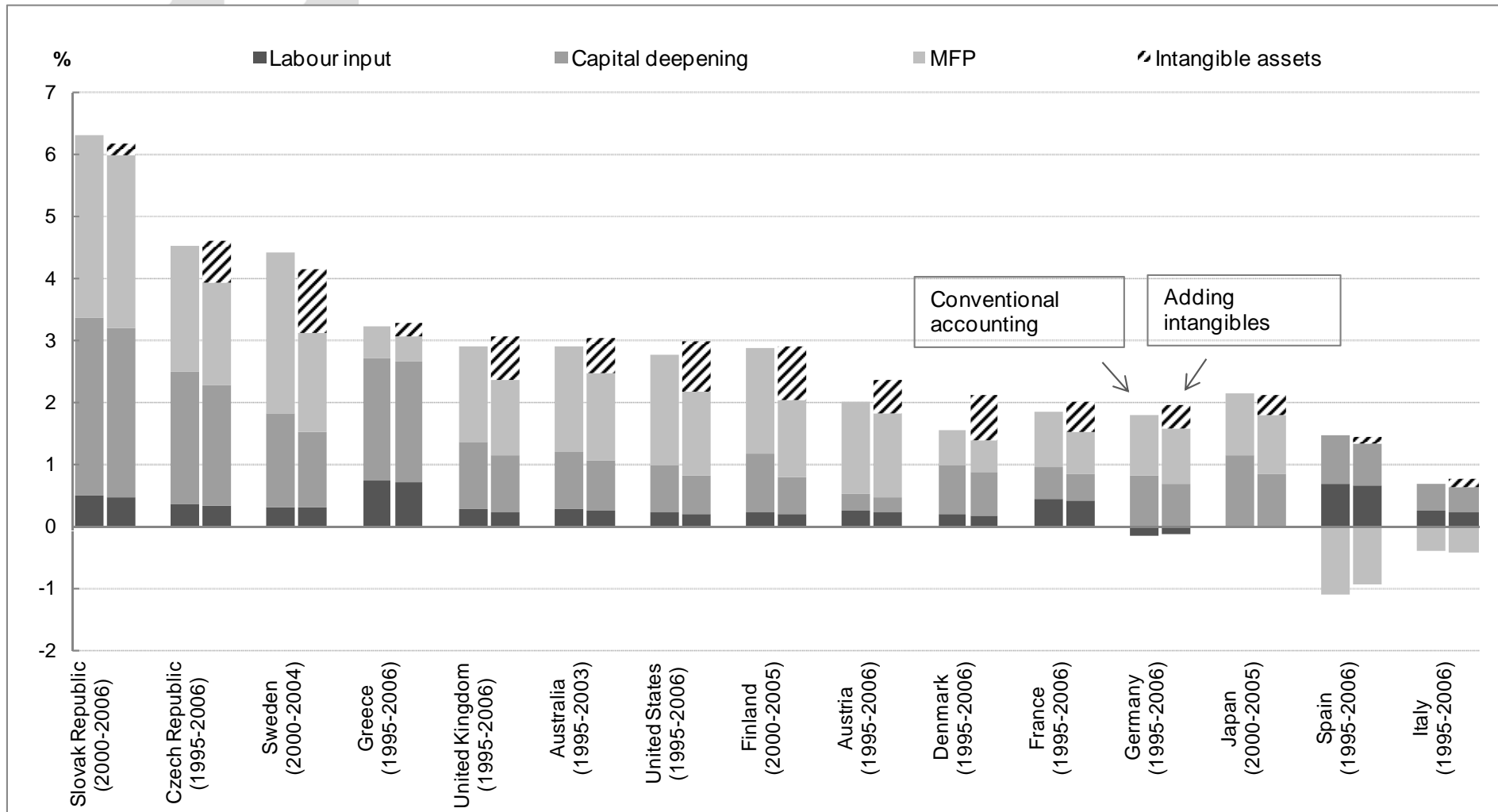
- Why is the service sector important for Japan's future growth?
 - shrinking of manufacturing
 - Manufacturing sector's TFP is almost 3 times that of services which has stagnated
- Why does productivity in Japan's service sector stagnate?
Especially in ICT using sector (contrary to US!)
 - Low ICT investment and IT capital input in production in Japan relative to US
- Why? Custom software to avoid business reorganization.
- What needs to be done?
 - Role of IT investment
 - Role of intangibles
 - Role of firm dynamics (EPL; PMRs and Venture capital)
 - Trade off of flexibility vs productivity (of part-time workers)
 - Size and internalization of service firm ... due to regulation? Due to lack of market size?

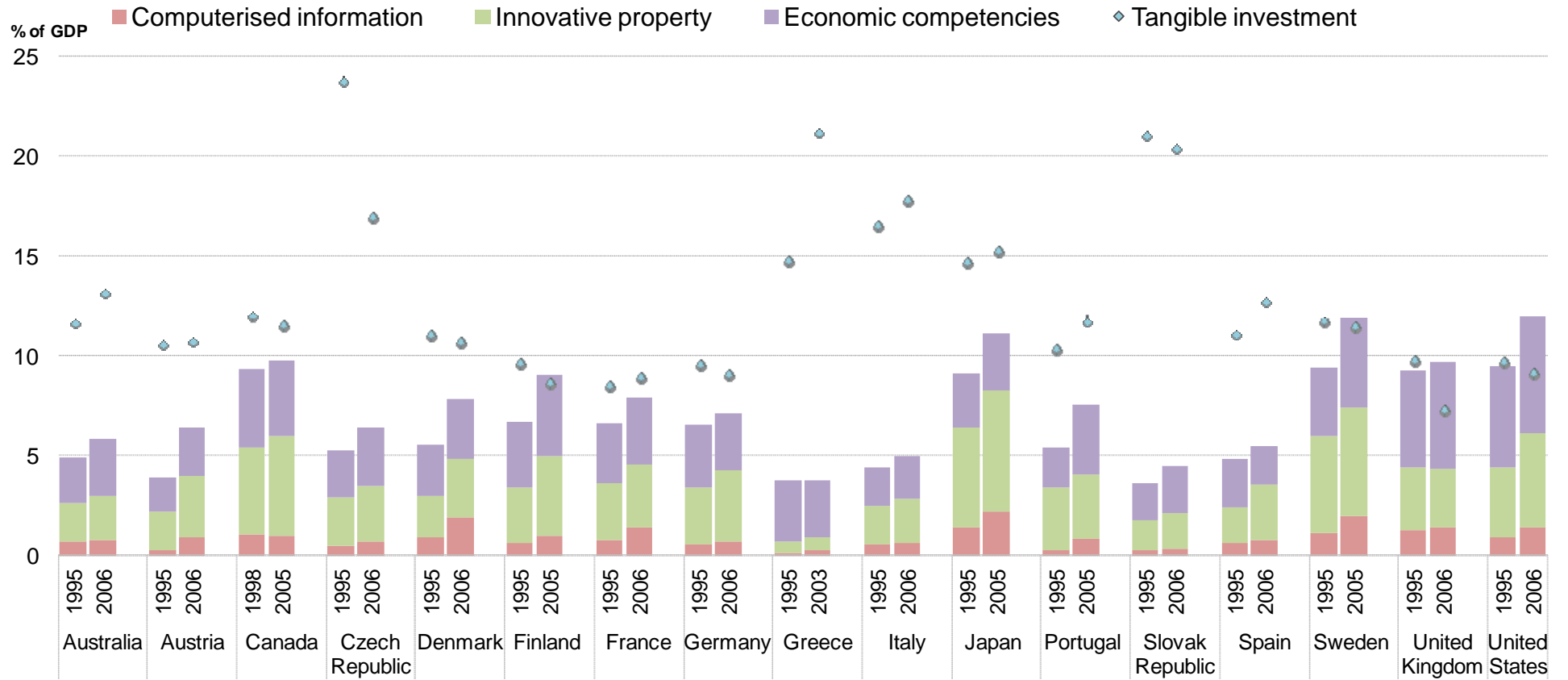
Investment in Intangible assets is sizeable



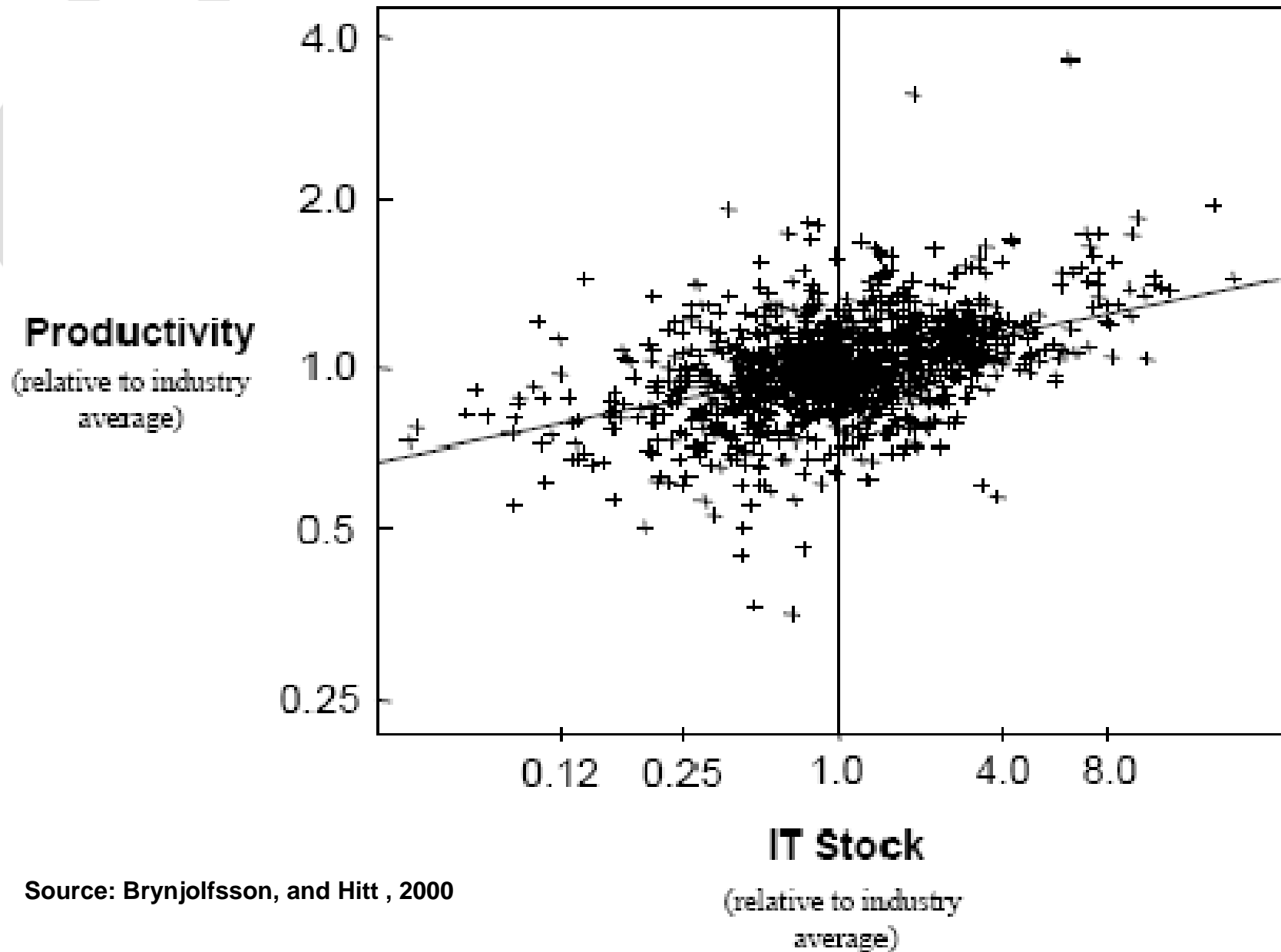
Note: Share of Investment in intangible and tangible assts as a share of GDP in 2006 (or latest available year); National sources

..and so is its contribution to labour productivity growth





Intangibles explain the great variation in returns to investment in IT.... ▲ ▲ ▲

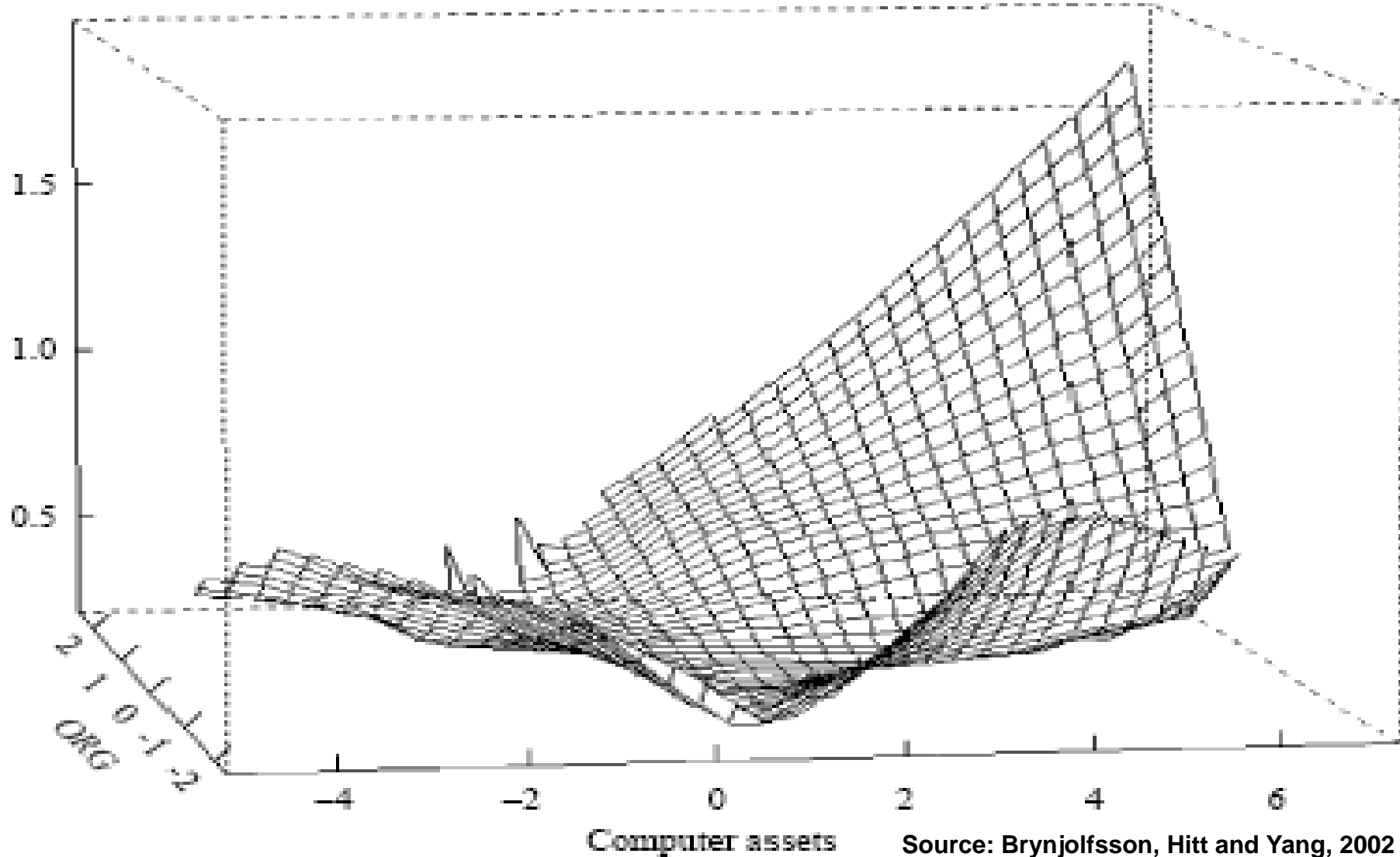


Source: Brynjolfsson, and Hitt , 2000

COMPLEMENTARITY!

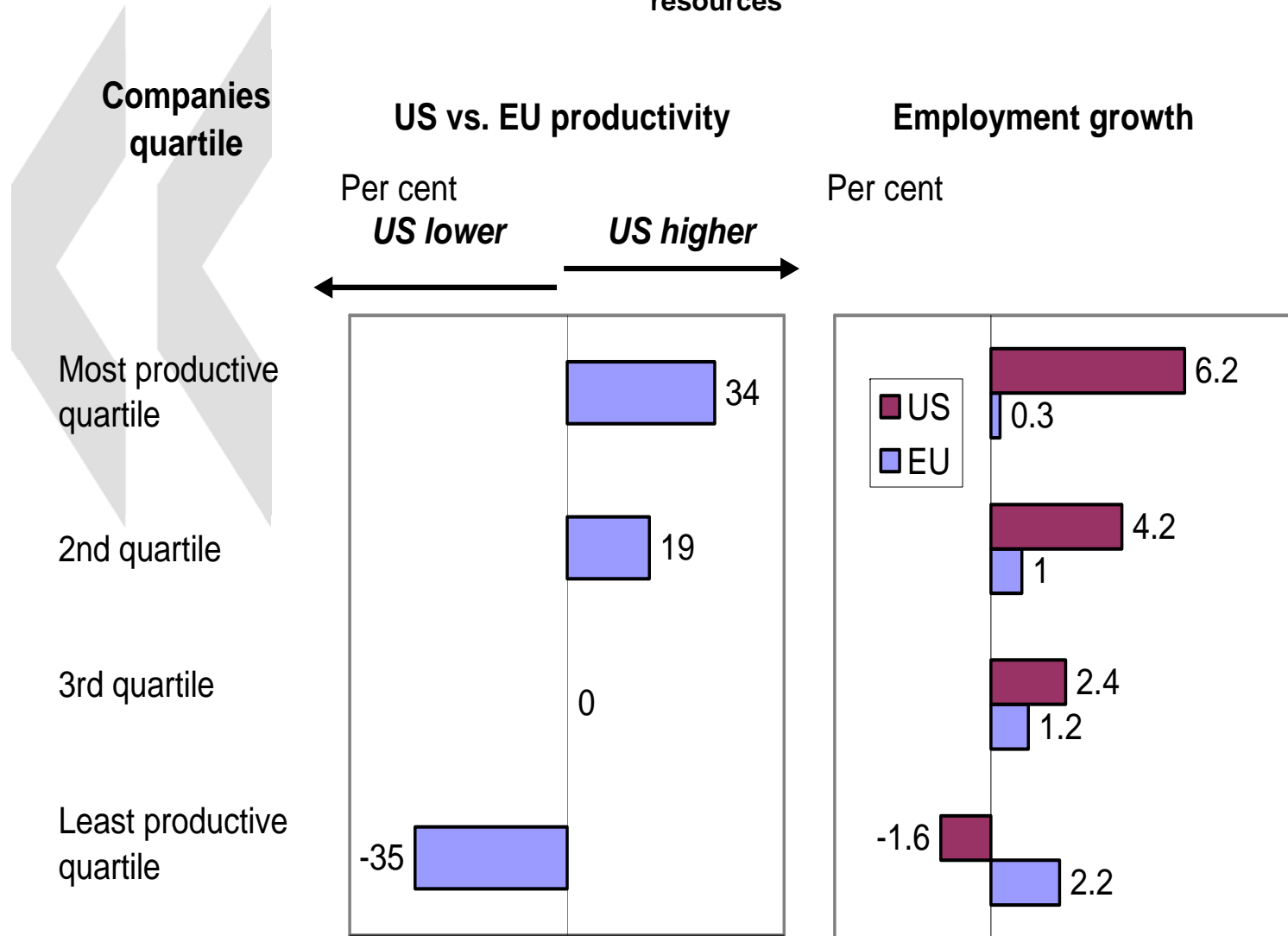
Firms need to invest in intangible assets (organisational capital) if they want to benefit from technological progress (IT)

Market value



Source: Brynjolfsson, Hitt and Yang, 2002

Firm dynamics: more reallocation in the United States – productive companies gain, poorly performing firms lose resources



Source: Eric Bartelsman, ESI-VU.