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

Source: Brynjolfsson, Hitt and Yang, 2002
Firm dynamics: more reallocation in the United States – productive companies gain, poorly performing firms lose resources

### Companies quartile

<table>
<thead>
<tr>
<th>Quartile</th>
<th>US vs. EU productivity</th>
<th>Employment growth</th>
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</thead>
<tbody>
<tr>
<td>Most productive quartile</td>
<td>US higher 34</td>
<td>US lower 0.3</td>
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<tr>
<td>2nd quartile</td>
<td>US lower 19</td>
<td>EU lower 1</td>
</tr>
<tr>
<td>3rd quartile</td>
<td>0</td>
<td>2.4</td>
</tr>
<tr>
<td>Least productive quartile</td>
<td>-35</td>
<td>-1.6</td>
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</tbody>
</table>

Source: Eric Bartelsman, ESI-VU.

Source: Ministry of Economic Affairs: Fostering Economic Growth 2004