

Japan's 21st Century Vision and its Beyond

KDI-WB Conference on Long-term Vision and Strategy for 21st Century

Kazuyuki Motohashi

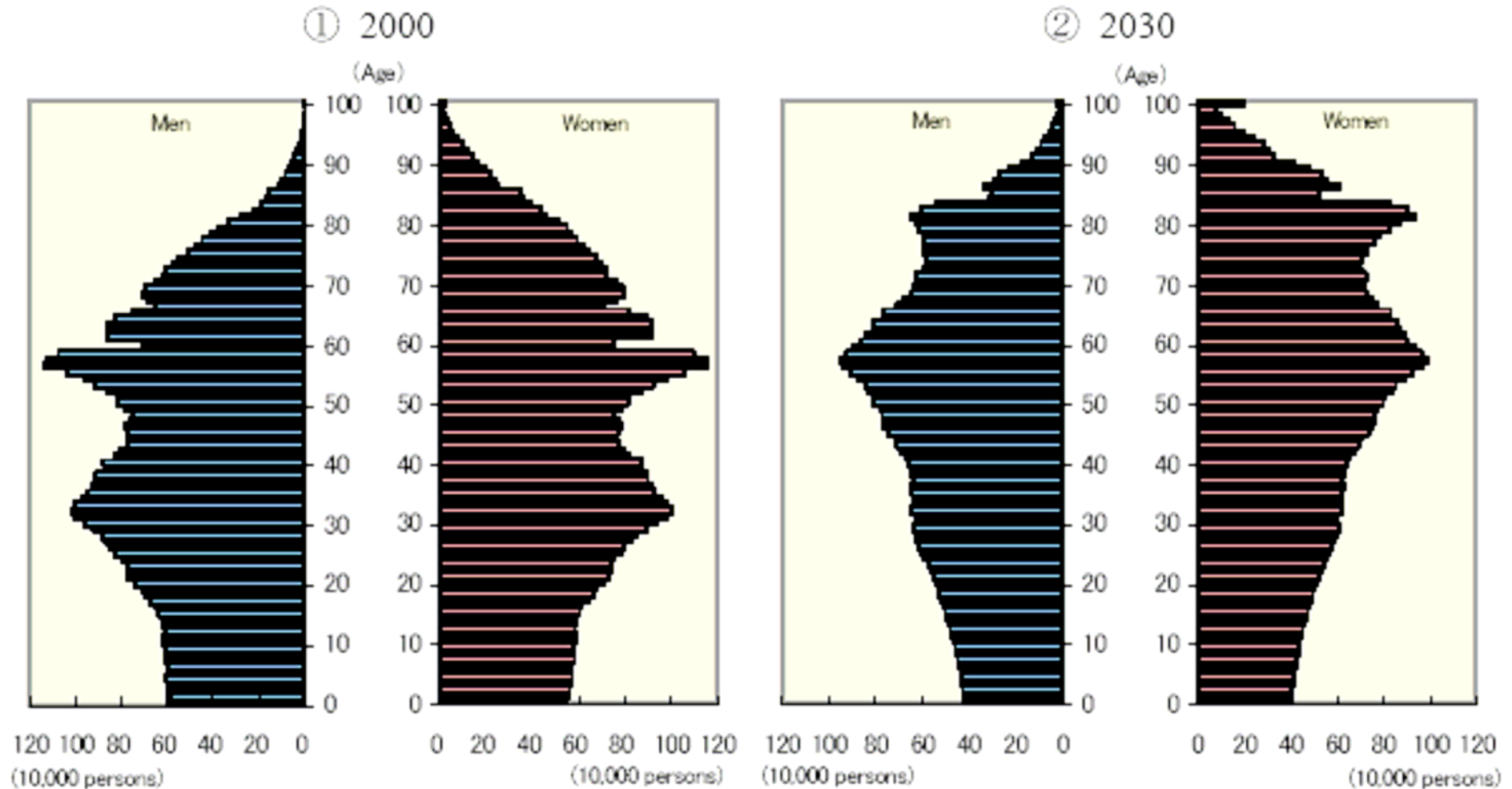
Dept of Technology Management for
Innovation, University of Tokyo and REITI

Japan's 21st Century Vision

- Published in April 2005
- Japan's official long-term strategy of economic and social policy until 2030

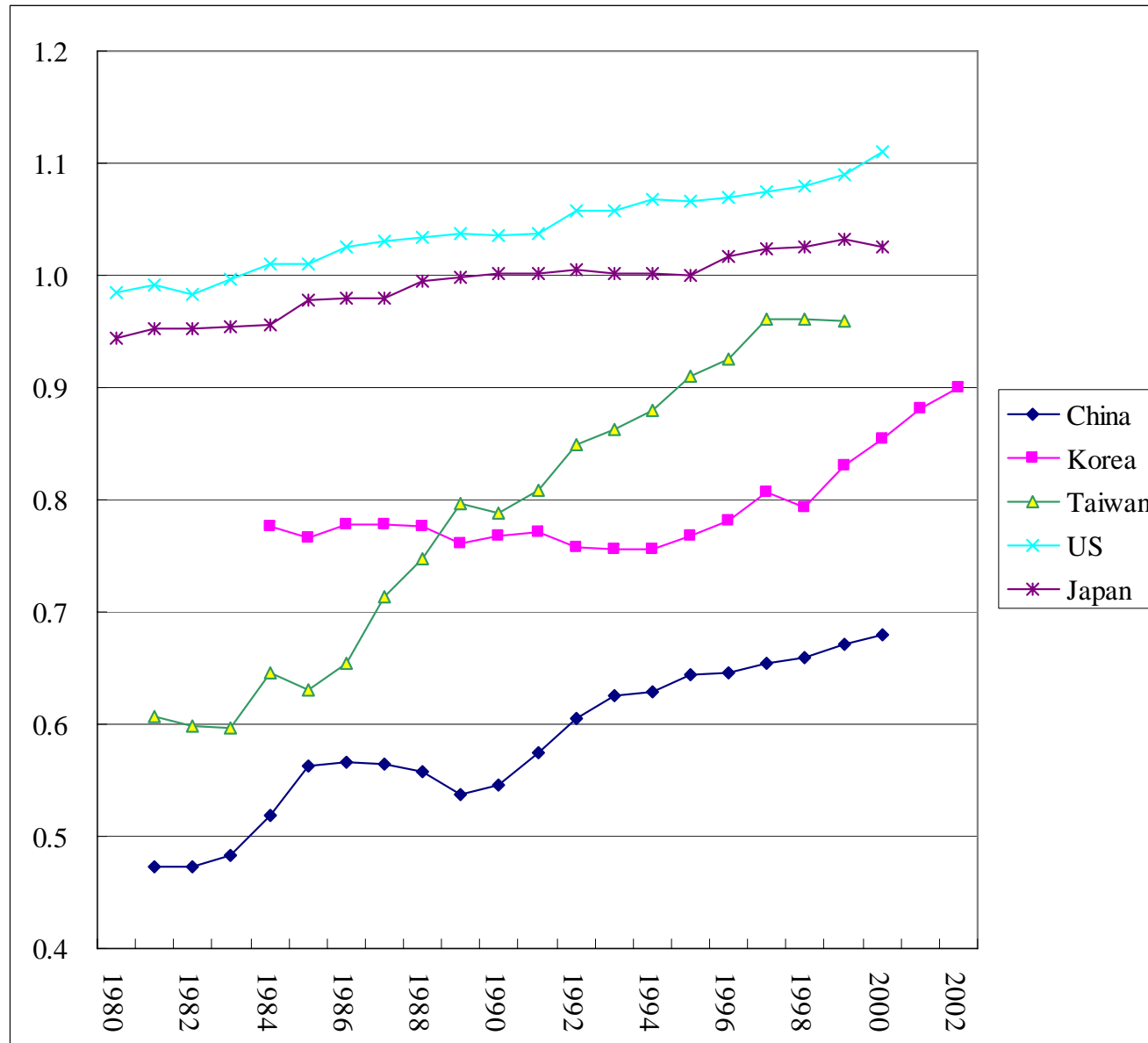


Decreasing population



Source: Created from National Institute of Population and Social Security Research,
Population Projection for Japan (estimates in January 2002).

Productivity Slowdown?



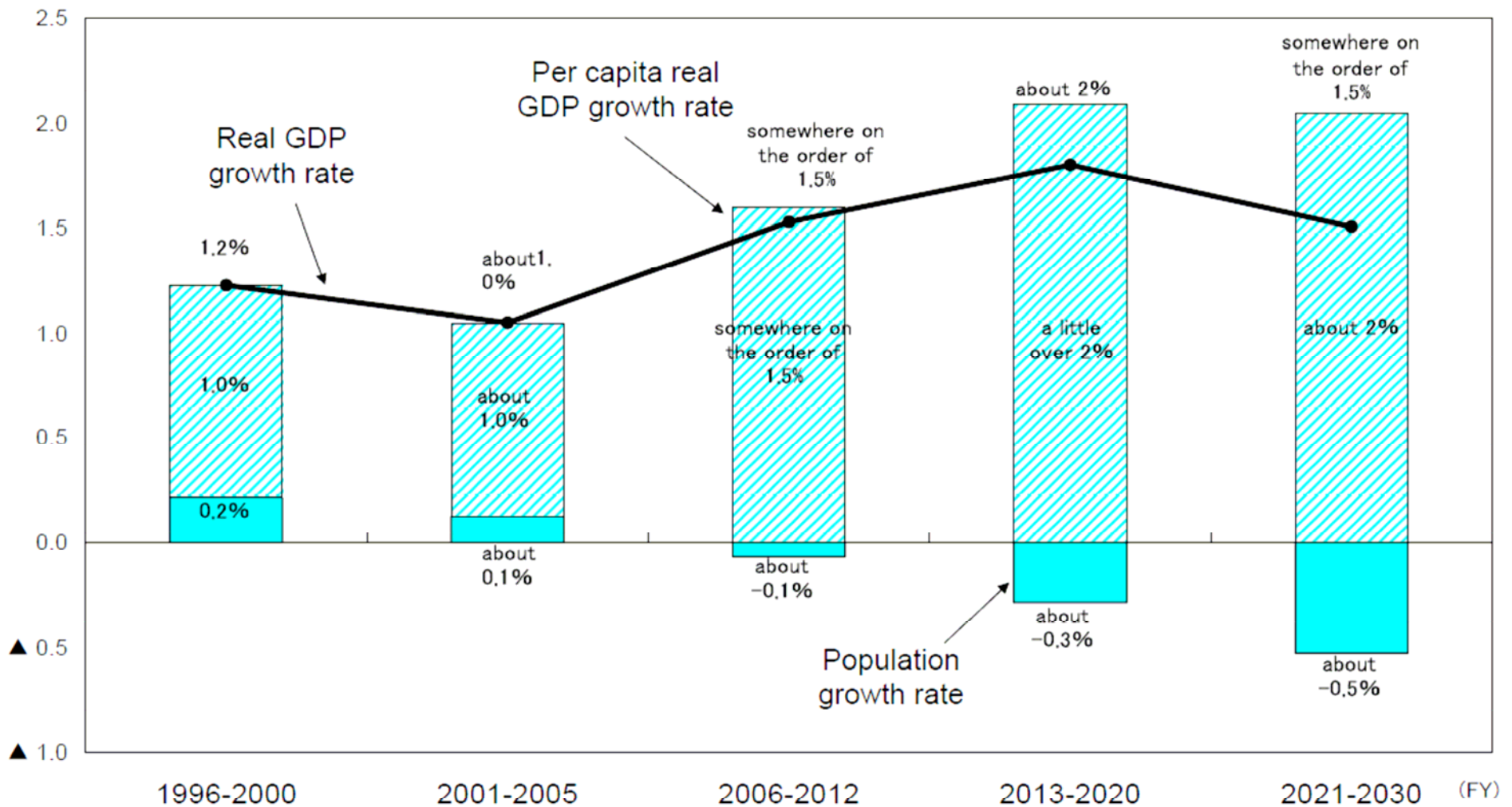
Japan is not a large country any more?

	million
China	1,316
India	1,103
USA	298
Indonesia	223
Brazil	186
Pakistan	158
Russia	143
Bangladesh	142
Nigeria	132
Japan	128

Growth Projection

(%, approximate %)

The real GDP growth rate holds somewhere on the order of 1.5%, and per capita real GDP grows at about 2%.

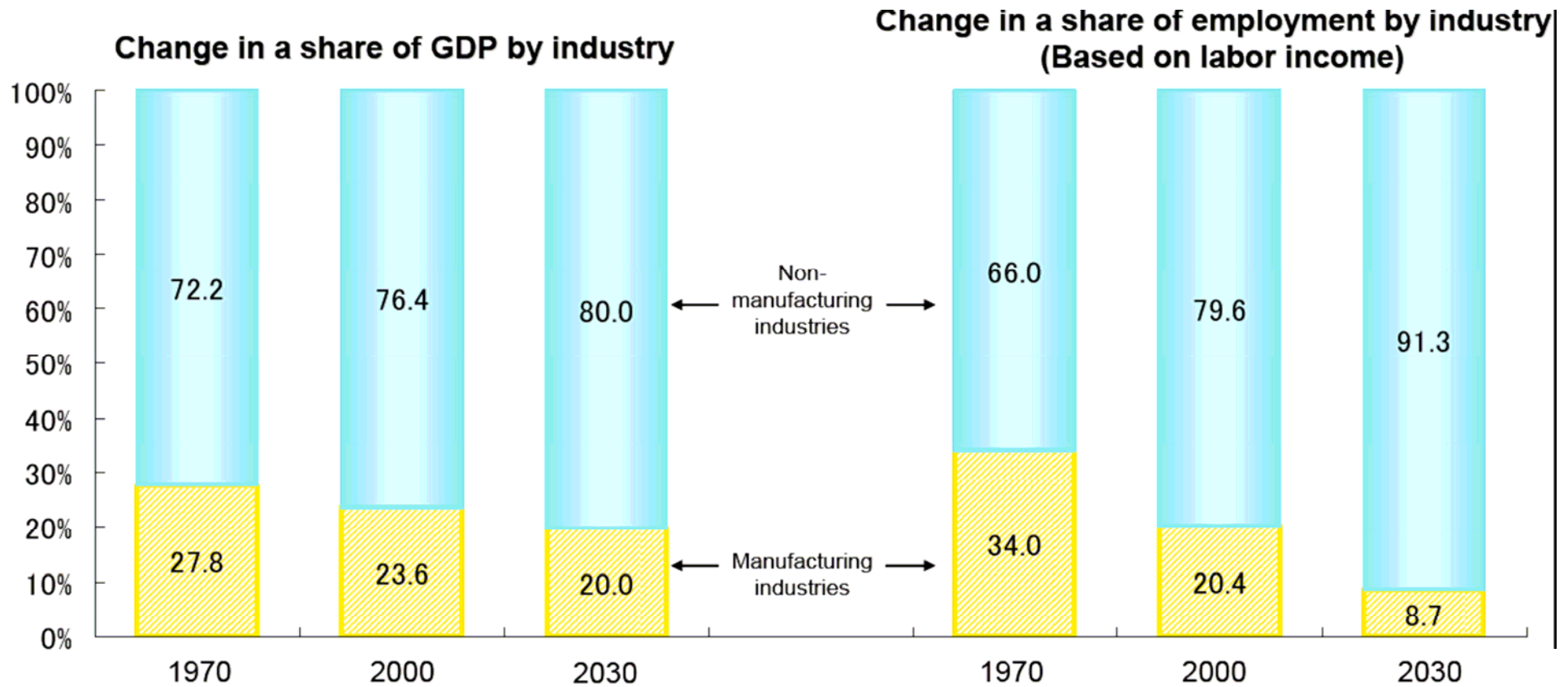


Background information (growth accounting results)

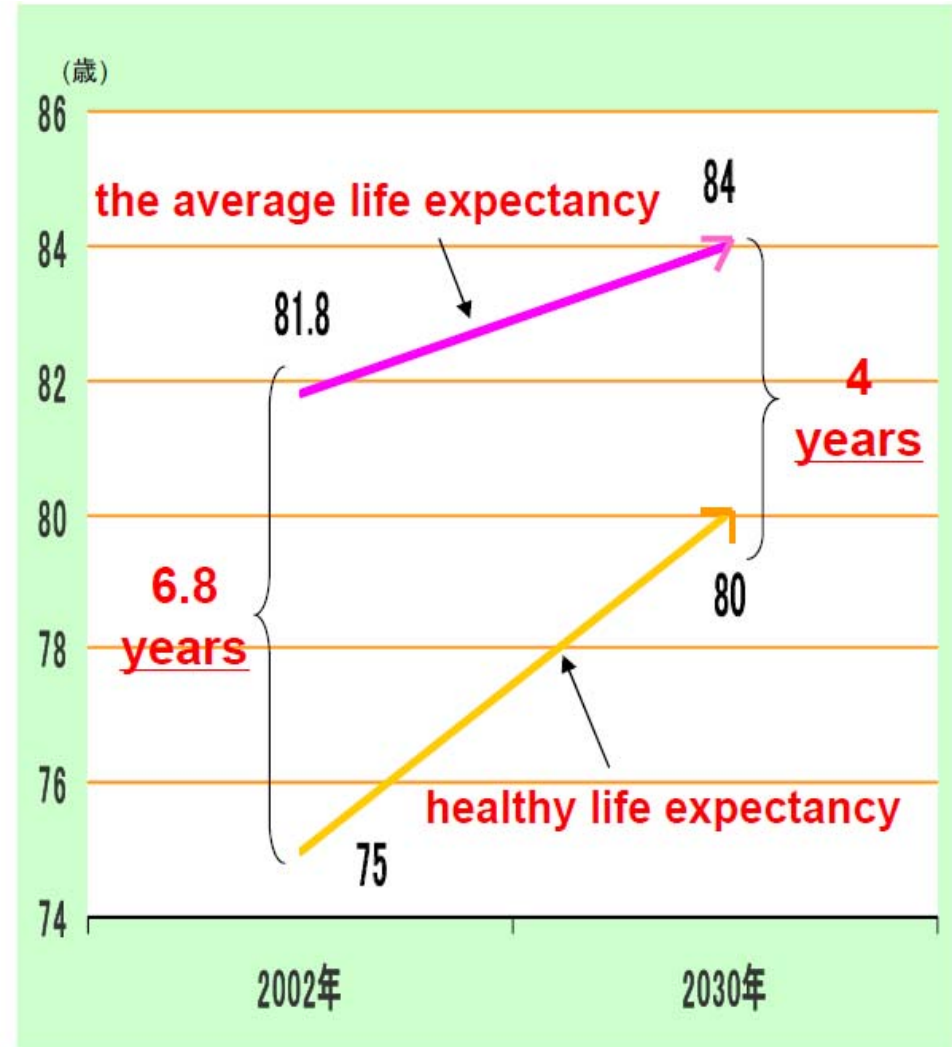
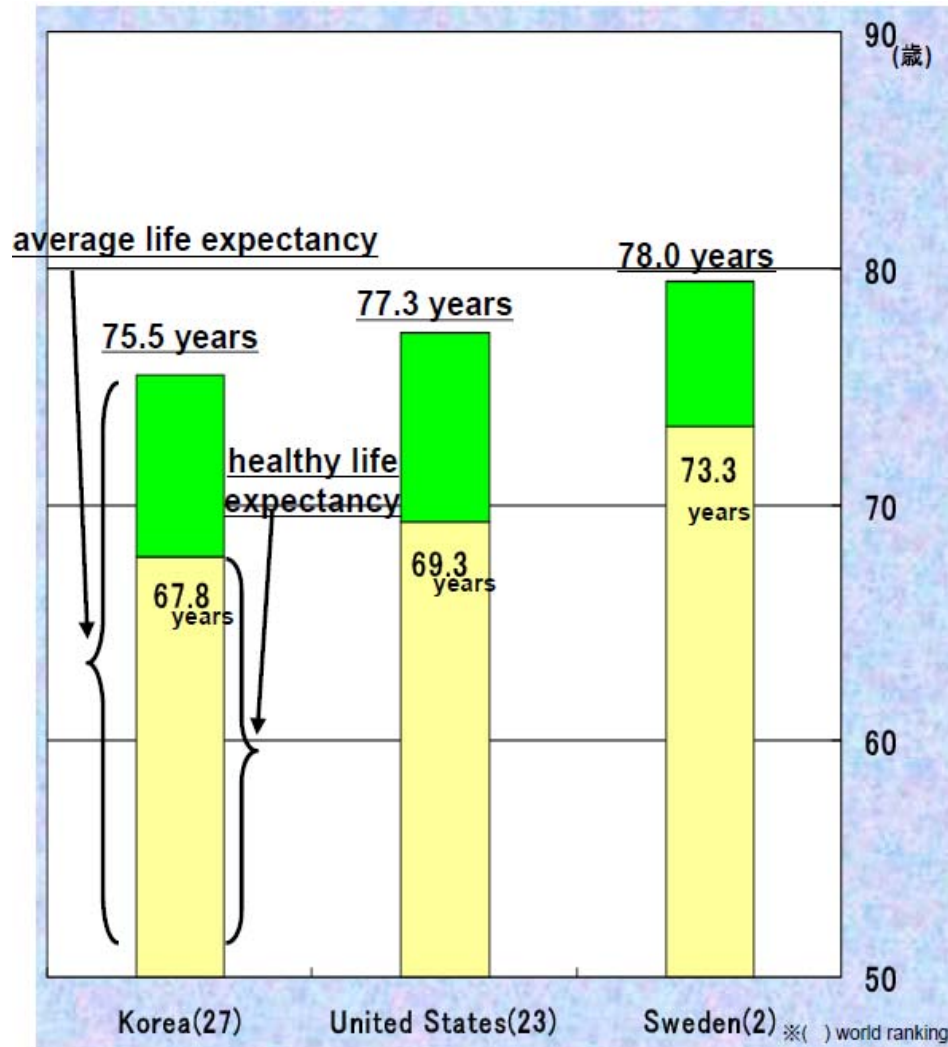
(annual %)

	FY2006–2012	FY2013–2020	FY2021–2030
Labor productivity	Just under 2%	Around 2%	Just over 2%
Contribution of capital equipment ratio	Around 1%	Just over 1%	Around 1.5%
Contribution of total factor productivity	Just under 1%	Just under 1%	Just under 1%
Capital equipment ratio	Around 3%	Around 4%	Just over 4%
Capital input	Just under 3%	Around 3.5%	Just under 4%
Labor input	Just under -0.1%	Just under -0.1%	Around -0.5%

Changes in industrial structure



Longer and better quality life



World Health Organization

A future to aim for (2030);

responding to environmental changes, autonomous structural evolution

Country without walls

: where people around the world will want to visit, work and live

Country with appeal and presence

: A cultural archipelago, innovation led by front runners

Bridging country for the world

: A leadership role in global issues

Dynamism of open Japan

: A world center for intellectual development, with multi-talented professionals

Virtuous cycle of productivity and income increase

: Per capita real GDP rises at about 2 percent

Contented public sector, a small government

: “Serving oneself is serving the public”, the structural reform of revenue and expenditure

Healthy life expectancy of 80 years, rich in free time

: Enjoy work, study well, and enjoy lives

More opportunities to realize dreams and to try again for success

Regional sovereignty

: Selection and concentration in regional policies

Strategy for growth and open economy

Specific actions that should be taken

- Create an education system that will enhance “human resources”
 - Realize diversity of options in education, improve education in professional skills
- Establish intellectual foundations and disseminate innovations
 - Establish Japan's place as a creator of science and technology and as an intellectual property leader
 - Senior figures serve as instructors in craftsman-quality manufacturing
 - Coordinators who establish bridges between users and specialists in law, finance, etc.
- Assure smooth flows of goods, people, and capital
 - Address East Asian economic integration more urgently in the coming 1–2 years
 - Receive foreign workers in an active and orderly manner
 - Export high-quality agricultural products and food to the world
- Take a leadership role in resolving issues on a global scale
 - Take active roles in development and environmental diplomacy
- Train human resources with superior specialized knowledge, linguistic ability, and negotiating skills

Strategy for better life

Specific actions that should be taken

- Emphasize preventing disease and maintaining health
- Improve a labor market that allows for diverse patterns of work
 - Diversification of employment contracts, work models patterned on cooperative business associations
- Design institutions to allow "two job changes and four education periods in a lifetime"
 - Realize tax systems, corporate pensions, and other such systems that do not disadvantage people who change employment
- Prevent the entrenchment of disparities
- Institutional and regulatory reform for diversification of life service providers
- Improve environments where children can be brought up with a sense of security
 - Focusing on the upcoming period of five or so years, implement comprehensive policies in a versatile manner
 - Make child-care leave flexible, set up coordinators for child-bearing and rearing
- Address regional issues on the basis of partnerships among residents, corporations, and the government

Strategy for efficient and effective government

Specific actions that should be taken

- Make government more efficient
 - One service to one government agency (eliminate duplication of administration and operations among national, prefectural, and municipal entities)
 - Conduct market testing periodically
 - Policies based on objective factual evidence
- Clearly defined fiscal management rules and objectives
 - Achieve surplus in the primary balance of the central and local government in the early 2010s, thereafter maintain the surplus and lower the level of public debt (as a percentage of nominal GDP)
 - Examine the possibility of adopting monetary policy framework (inflation targeting) for maintaining the rate of inflation at desirable levels
- Improve sustainability of the social security system
 - Intensively examine reform of the social security system over the coming two years
 - Change over to a social security system oriented for self-support (health promotion and employment assistance)
- Establish regional sovereignty
 - Significantly reduce the scope of national subsidy programs
 - Improve public disclosure and audit functions
 - Institute a regional system of government and basic local government for population at the 300,000 level
- Official subsidy system that designates the uses of tax money, up to a certain point, for public interest activities
- Utilize social investment funds

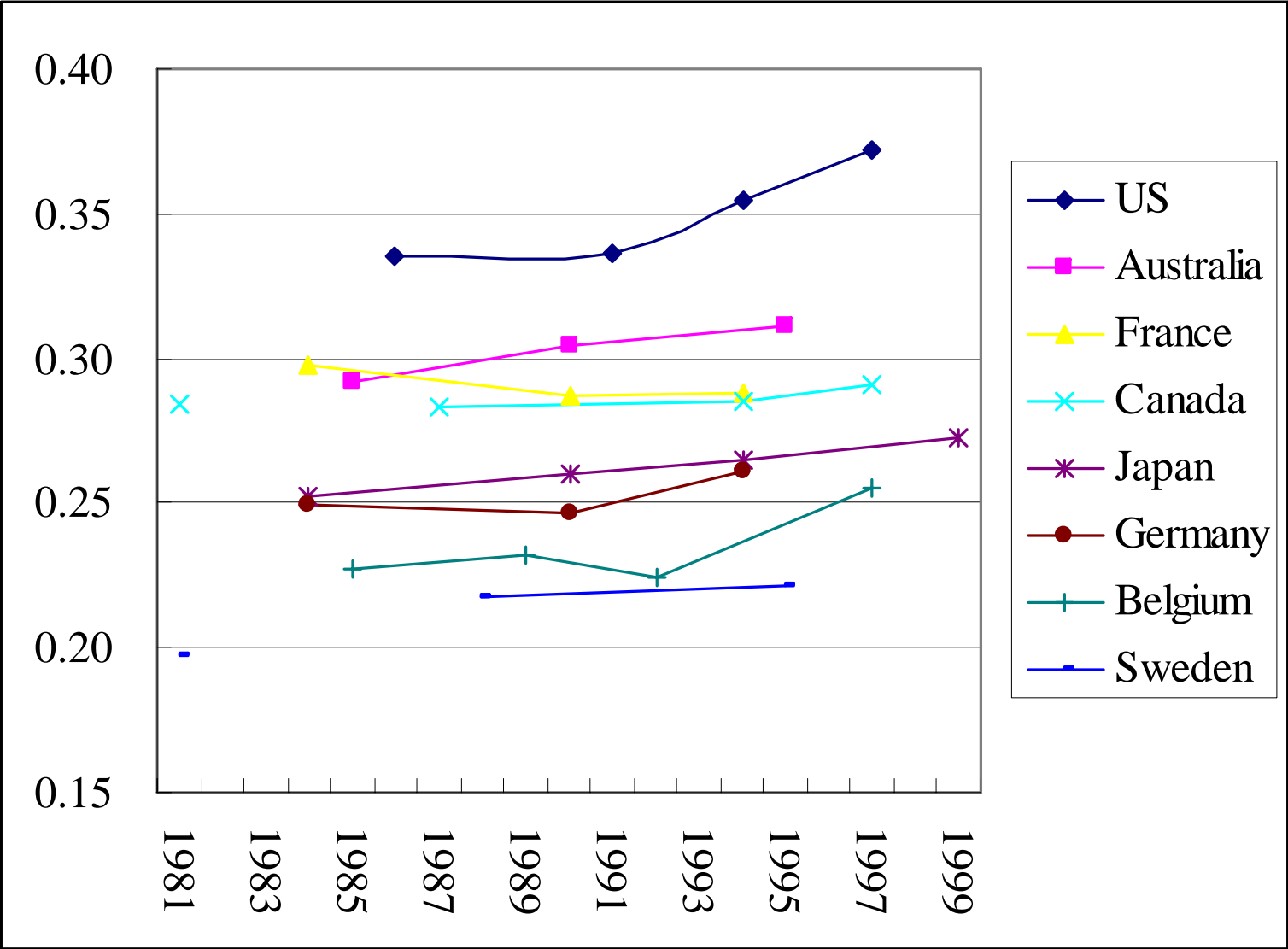
Critiques

- Too optimistic?
- Economic forecasting OK, matter of productivity projection
- Quality of life problem: new concern about growing inequality
- Globalization of Japanese people ??? Conflicts with social value?

Growth projection: alternative one

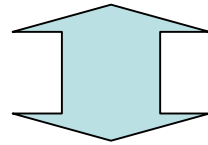
	Projections		
	Pessimistic	Base-case	Optimistic
	Projections		
Output Growth	0.84	1.48	1.88
ALP Growth	1.32	1.97	2.37
Effective Capital Stock	0.56	1.00	1.27
	Common Assumptions		
Hours Growth	-0.483	-0.483	-0.483
Labor Quality Growth	0.430	0.430	0.430
Capital Share	0.393	0.393	0.393
IT Output Share	0.043	0.043	0.043
Reproducible Capital Stock Share	0.674	0.674	0.674
	Alternative Assumptions		
TFP Growth in IT	7.53	8.11	8.47
Implied IT-related TFP Contribution	0.32	0.34	0.36
Other TFP Contribution	0.10	0.33	0.48
Capital Quality Growth	0.58	1.13	1.47
Implied Capital Deepening Contribution	0.64	1.03	1.27

Growing Income Inequality?



Conflict with social value?

- Pro-growth and pro-reform strategy
- Globalization and open country policy
- Introducing competition and dynamism



- Politics captured by old generations
- Self contained and “egalitarian” society
- New Cosmopolitans??? Good for Japanese society?