

# In Pursuit of Productivity: An Abenomics Report Card

The primary goal of Abenomics is raising productivity growth. To raise its output per worker in order to maintain the standard of living, Japan needs reform. Many government policies including the Abenomics initiatives are delivering in this area.

## Fighting Against History

For Abenomics to succeed, all three of its arrows—fiscal stimulus, monetary policy, and structural reforms—must contribute to accelerating productivity growth. Real GDP per worker in Japan has followed an S-curve over the last 60 years. In 1955 it stood at about JPY 1 million (USD 9,600), in today's prices, per worker; after accelerating in the first 20–25 years, it has since then been decelerating. At around JPY 8 million (USD 77,000) today, it is still rising, but at a much slower pace.

What Abenomics needs to do is to fight this history of deceleration—which is something that can impact all major industrialized economies, not just Japan—and thus increase the pace of growth again. With hard work, this can be done.

## Headed in the Right Direction

Nearly four years since the launch of Abenomics, Japan is moving in the correct direction, with a number of successful policies. Two areas of particular success are agriculture and corporate governance. Agricultural reform in Japan presents a difficult political landscape, but progress has been excellent. We have now seen previously inconceivable reforms in the agricultural distribution system thanks to Prime Minister Shinzo Abe's work to get things done.

In corporate governance, we now see external directors at virtually every listed company. Having outside people on the board is quite helpful because they can be allies to bring in external opinion and help the decision-makers in the firm push things forward.

In addition, the Stewardship Code put out by the Financial Services Agency (FSA) has been enormously successful in giving asset managers incentives to be tougher with the companies they own and better serve the needs of their investors.

In government reform, too, I give Prime Minister Abe and Chief Cabinet Secretary Yoshihide Suga credit for improving discipline in government. Their changes to the National Public Service Act centralizing control over promotions in individual ministries have produced a much more organized government. This has in turn had a positive impact on welfare, trade and industrial, tax, and other policies.

## Further Effort Needed

We've seen less progress in other areas, such as immigration policy. Japan has traditionally been sensitive to the idea of large-scale immigration. Given today's demographic and labor market changes, though, the country clearly faces different conditions from the past.

The government's new panel for work style reforms, launched in September, is making some progress here. Labor reform is an area where the Prime Minister has been quite vocal, with his insistence on equal pay for equal work. He showed nimble leadership in organizing this panel, which will make its own proposals for labor policy reform by March 2017. I am hopeful that that committee will produce good proposals, and challenge the slower legacy commissions in this policy area.

Energy policy also needs improvement. Japan's total spending on energy, energy-related R&D, and so forth totals JPY 1.2 trillion (about USD 12 billion). Social security spending, meanwhile, comes to JPY 130 trillion (USD 1.25 trillion). Something is wrong when we spend that little on energy, particularly on technology,

which is crucial to the long-term sustainability of the country—and which shows such promise. Just recently, for example, a group in Saitama Prefecture announced a new kind of battery replacing lithium with magnesium, which will reduce the material cost by 96%. There are immense opportunities for a complete overhaul of the energy supply chain.

## Maintaining Momentum

In the area of tax reform, we have seen the corporate tax brought from 35% down to 29%—a big win. It improves the incentives for companies to invest. There have also been detailed changes in the tax code to encourage R&D to create incentives for better, more efficient investment, which should aid productivity.

My view is that the consumption tax hike in 2014 was a mistake that derailed the economic recovery. Since that error, though, the Prime Minister has been very forceful in postponing tax hikes twice. He made it clear to the ministries that the money was not coming in, and instructed them to improve efficiency and cut spending where possible. We now have more discipline in public spending, and Abenomics deserves credit for that.

Fiscal spending needs to contribute directly to growth, on either the supply or the demand side. The fiscal package that just passed the Diet is good in this regard, being concentrated in crucial industries: energy, infrastructure, healthcare and daycare. These fields are important for the future of Japan because they are essential for raising productivity.

Looking beyond Japan's borders, the Trans-Pacific Partnership is very significant. TPP will open trade for the entire region. It's disappointing to see the United States backtracking on its commitment—this is a negative development for the global economy and for global peace. I hope that Japan can step forward and ensure that TPP becomes a robust agreement.

## Reasons for Optimism

With Abenomics, Japan is using monetary, fiscal, and structural policy in a coordinated fashion. No other country's economic policy approach is nearly as comprehensive as Japan's. To my mind, Abenomics is actually just orthodox economics. The theories underpinning it are not new, but the notion that they should come together and work together in a coordinated fashion is a lesson that other countries can learn.

Japan has many reasons to be confident about its future. Its political, social, and legal stability is immense. The FSA provides excellent, consistent market regulation. The Japanese people work hard, which is a huge asset. The technology level in the country is very good, with wonderful scientists and engineers everywhere. And if we can get them to interact more, there is an immense amount of pent-up creativity. These are all reasons for optimism that Japan can tackle the challenge of its economic history, keep productivity growing, and remain a top target for the global investment community.



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