

Experts: Without pushing deregulation, the Japanese economy cannot grow

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Japan's once-booming economy has been sluggish, mainly as a result of deflation and decreased productivity, according to international economics experts at Rice University's Baker Institute for Public Policy. In a new issue brief, the experts argue that without pushing deregulation, the Japanese economy cannot grow.

"What Happened to 'Japan as Number One'?" was co-authored by Russell Green, the Will Clayton Fellow in International Economics and a former U.S. Treasury Department official, and Masaaki Yoshimori, contributing expert in the institute's International Economics Program. In the brief, they discuss "Abenomics"—Japanese Prime Minister Shinzo Abe's stimulus program for achieving economic growth—and the headwinds created by the demographic forces of aging in Japan.

"The Abenomics strategy for overcoming deflation and achieving economic growth is based upon three pillars: easy monetary policy, fiscal stimulus and structural reforms," Green said. "It is premature to evaluate Abenomics because the strategy is still progressing. However, fading inflation expectations suggest monetary policy has run its course and cannot stimulate the economy further. Fiscal policy may have some room to maneuver but is severely constrained by sustainability concerns. The only arrow in Abenomics that can travel further is structural reform. Without pushing deregulation, the Japanese economy cannot grow."

According to Green and Yoshimori, "Japan as Number One" by Ezra Vogel shocked Americans who were confident in their country's

dominance of the [world economy](#) when the book was published in 1979. In the 1980s, the robust Japanese economy confirmed Vogel's thesis, and experts around the world predicted continued success. However, after the collapse of the asset price bubble in the 1990s, Japan experienced two "lost" decades of nearly zero growth. The Japanese economy has been mired in deflation with low consumer confidence. To exit these economic conditions, Japan launched Abenomics in 2013. Abenomics comprises a bold [monetary policy](#) developed by the Bank of Japan, fiscal stimulus launched by the Ministry of Finance and growth-focused structural reforms implemented by the Ministry of Economy, Trade and Industry.

Beyond Abenomics, demographic change is the most important factor impacting the Japanese economy, the authors said. According to a National Institute of Population and Social Security Research estimate, Japan's rapidly aging population is projected to fall to 90 million people in 2055, about a 28 percent decrease. The labor force is shrinking by more than 1 million workers per year, and is forecast to fall 17 percent by 2030 and nearly 40 percent by 2050, according to the issue brief.

Green and Yoshimori argue that if implemented, the Trans-Pacific Partnership (TPP) trade agreement promoted by the Abe government would be the most significant pillar of structural reform.

"The TPP benefits the Japanese economy in three ways," the researchers wrote. "(1) It will make it easier for Japanese companies to expand overseas. This could improve productivity growth through greater supply-chain development. (2) It will benefit the auto industry by reducing tariffs on its exports. (3) It will improve competition and raise productivity in domestic sectors by removing restrictions on inward foreign direct investment and other forms of investment, as well as by removing service sector protections.

"How much could the TPP affect the Japanese economy? (In 2016, economic experts calculated) that Japan's [economy](#) would grow about 0.2 percent faster over the next 15 years, meaning gross domestic product in 2030 will be 2.5 percent larger than it would be without the TPP."

More information: Issue brief: [bakerinstitute.org/media/files ... 82616-ECON_Japan.pdf](http://bakerinstitute.org/media/files/82616-ECON_Japan.pdf).

Provided by Rice University

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