

A Macro Perspective Necessary for Improvement of Labor Productivity

For Japan, with its persistent population decline, it is essential to improve productivity in order to maintain economic growth. Lively argument on this subject has been raging for many years, and it normally occupies a central place in the Japan Revitalization Strategy and other government strategies formulated by the government every year. However, it could be said that the very fact that the same subject has been appearing repeatedly shows that, despite all the encouraging words, progress has not been very rapid.

The fact is that the labor productivity of Japanese manufacturing industry remains generally lackluster at present. The 2017 version of the international comparison of labor productivity published by the Japan Productivity Center in December last year shows that Japan's labor productivity per person in the manufacturing sector was \$95,063, ranking Japan a record-low 14th among the 29 major nations of the Organisation for Economic Co-operation and Development, and only about 70% of the level of the third-ranking United States. However, since in yen terms it has recently continued to rise steadily, the exchange-rate factor may have had an impact on its ranking in US dollar terms. Nevertheless, given the fact that Japan's labor productivity ranked as the world's highest up until around 2000, but since then its ranking has been declining, it is only natural to think that the slide cannot be explained by exchange-rate factors alone, and that something else also lies behind it.

Initially, among the so-called three arrows of Abenomics a "productivity revolution" lay at the core of the third arrow, namely the "growth strategy," and when subsequently three new policy arrows came into effect, the productivity revolution was again advocated in the same way. Also, a showpiece during the ongoing Diet session has been a series of work style reform bills that

are expected to have a ripple effect on the enhancement of productivity. However, these related measures are remarkable for giving primary emphasis to investment in facilities, technologies, and human resources in order to improve productivity, and for highlighting a carrot-and-stick approach in the form of rewarding—with the reduction or exemption of property and corporate taxes—companies acting proactively toward the granting of wage increases and capital investment.

Measures such as these can of course be expected to have a certain impact, but in order to accelerate the raising of productivity in the manufacturing sector, it may be essential to reconsider this problem from a somewhat more macro perspective. Although it is true that the productivity of Japanese manufacturing industry is low, the situation varies markedly from one industry to the next. The aforementioned research by the Japan Productivity Center shows that labor productivity in industries such as the chemicals and machinery industries is higher than in the US, and the automotive industry and other industries in the field of transportation machinery almost invariably compare well with their counterparts in the US. On the other hand, productivity in manufacturing industries in the fields of metal products, pulp and paper, and food manufacturing is only around 60%–70% of the level in their US counterparts. There are also some industries that are achieving improvements in productivity steadily from one year to the next, but also some that are not finding it easy to improve productivity even after an extended period.

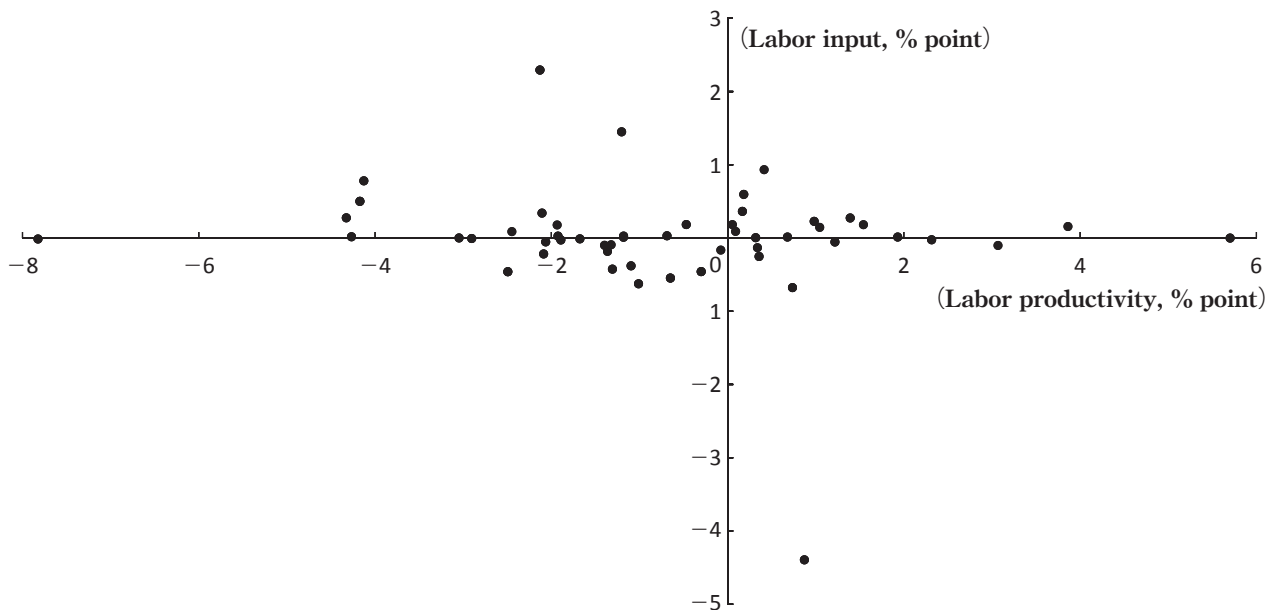
Based on data compiled by the Research Institute of Economy, Trade and Industry, the figure compares the average rate of increase in labor productivity by industry in the manufacturing sector and the percentage of labor input by industry in the 1990s and the 2000s, plotting in a scatter diagram the observable changes

between them. With regard to the average rate of increase in labor productivity (X axis), the average during the 1990s and the average from the outset of the 21st century have undergone quite large fluctuations in each industry, while the percentage of labor input by industry (Y axis) have not undergone particularly large changes. Under normal circumstances it is desirable for labor to migrate from industries with declining productivity to industries in which it is rising, and it would be ideal if the plotted dots were rising to the right, but in Japan's case we are far away from forming that shape.

The above shows that in order to improve labor productivity in the manufacturing industry and in

turn that of the Japanese industrial sector as a whole, it is important not only to encourage investment of various types by individual companies, but also to stimulate activity among companies and industries to replace the old with the new. Companies whose productivity is sliding relentlessly should be prompted to exit from their industries, and a generous helping hand should be extended to companies taking on the responsibility for new industries. In addition, to give momentum to the smooth transfer of labor between industries there should be appropriate legislation and measures for the retraining of workers. It is our view that moves such as these should be more upfront.

Extent of changes in average rate of increase in labor productivity by industry and in the percentage of labor input by industry



Note: The average rate of increase in labor productivity by industry and the percentage of labor input by industry from 1990 to 1999 have been compared with the same data from 2000 to 2012 in order to plot the extent of the changes.
Source: *JIP Database 2015* by Research Institute of Economy, Trade and Industry