# Business Entry and Exit Rates Remain Lackluster

For over a month the Japanese political world was the scene of hectic activity that included the surprise dissolution of the lower house of the Diet and unexpectedly dramatic political party realignments. In the midst of an election campaign it is of course natural for the ruling parties to brag about the impact of their policies. In 2012 Japan underwent a change of government and around that time the Japanese economy entered a sustained period of expansion. It is almost certain that the expansion period has become the second-longest in the postwar era, surpassing the so-called Izanagi Boom period (1965–1970).

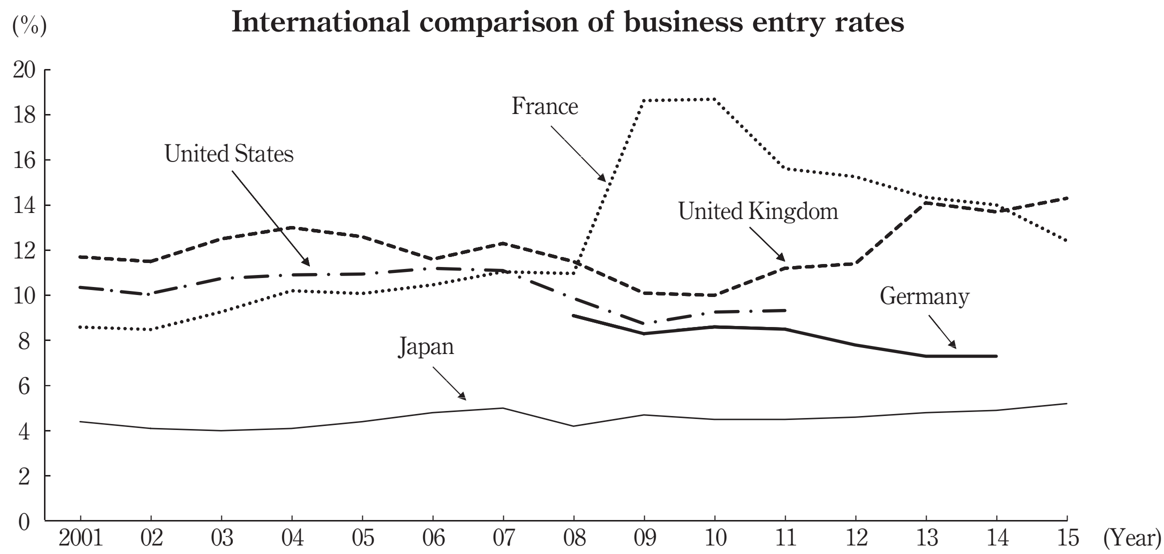
Nevertheless, the widespread view among ordinary people is that in their daily lives they have not been feeling a commensurate degree of benefit from the economic expansion, and there is an overwhelming consensus that this is because Abenomics, nearly five years after its launch, is still only a work in progress. It started off with a spurt powered by the first arrow (monetary policy) and second arrow (fiscal policy), and then, while experiencing an adrenaline rush, it addressed the third arrow in the form of a growth strategy. These were the core components of Abenomics. Unfortunately, however, the general view is that although numerous third arrows have been fired, their impact has been inadequate.

In 2013, the year in which Abenomics started, the "Japan Revitalization Strategy" was proclaimed as the policy underlying the third arrow, and alongside measures such as those for accelerating structural reform, and promoting science, technology and innovation, it also included a measure to pursue "innovation of small and medium-sized enterprises." In order to spur the turnover of establishments and thereby invigorate industries, as a specific yardstick, the government set a target figure of raising the business entry rate and exit rate to the 10% level—up from around the mid-4% level at that time. Not much attention was paid to this subsequently, however, and nowadays the subject is rarely addressed. In fact, the Japan Revitalization Strategy for the current fiscal year had its name changed to the "Growth Strategy" when announced in June, and in the main text there is no mention at all of the terms "entry rate" and "exit rate." The figure shows time-series entry rates in major countries, and it can be seen that the rate in Japan is at a significantly low level and is showing little sign of rising. The trend in the exit rate is very similar. Given this, it is reasonable to assume that they will simply be forgotten completely.

It is said that, among the oldest companies in the world, the top three are all Japanese, their histories stretching back more than 1,000 years. There are also reportedly more than 3,000 Japanese companies that have been operating for more than 200 years. It is arguably the case that the tendency to hold business history in high esteem and for long-established businesses to have the image of being solid, admirable companies may be a defining characteristic of Japanese culture, and it may indeed be that a fair percentage of Japanese companies regard tradition itself as being the wellspring of competitiveness. Nevertheless, isn't it problematic that indicators of establishment turnover within industries persist at low levels, and that even after more than 10 years it has not been possible to fill the gap between Japan and other countries in Europe and America? On the premise that industries that are not experiencing turnover caused by the entry and exit of companies have been losing their dynamism, and that has been leading to Japan's low growth and in turn preventing people from feeling any tangible benefit from the economic recovery, would it not be advisable to make an effort to raise those indicators further?

According to the *2017 White Paper on Small Enterprises in Japan*, the percentage of people indifferent to starting up enterprises is extremely high, at just short of 80%, while in the United States, Britain, Germany and France it is below 40% in each case, and particularly low in the US, where it is just over 20%. The reason why the entrepreneurial spirit is so vigorous in the US is that there have been many successful cases where new companies such as Apple and Amazon in the past and Uber and Facebook more recently, have even created new industrial fields. A fair amount of time is necessary to close the gaps between the thinking of people in Japan and those countries, but suitable preparation of a system could make it possible to prod entrepreneurs supportively. It is said that, in Britain, where the entry rate has risen rapidly since 2010, the start-up of enterprises has been bolstered through financial support by such means as Start Up Loans and the UK Innovation Investment Fund, and the aspirations of younger people have been increased by offering educational frameworks including providing children aged between five and 11 with money to experience hands-on business management. Schemes of this kind might help dispel the air of stagnation that pervades the entire Japanese economy, and surely Japan can learn from them.

**International comparison of business entry rates**




Notes : The definition of entry rate differs from country to country, and there are also multiple definitions for the term in Japan. In this figure the rates are based on the *Annual Report on Employment Insurance Services* of the Ministry of Health, Labour and Welfare.

Business entry rate = Number of business establishments in which employment relationships were established in a fiscal year / Number of business establishments that had adopted employment insurance at the end of the preceding fiscal year × 100

Source : *White Paper on Small Enterprises in Japan* by Small and Medium Enterprise Agency