



Between Tokyo's 2020 Olympics and 1964 Olympics: Moving Beyond Countercyclical Measures to Create a Sustainable Model

KOJIMA Akira, Chairman of World Trade Center Tokyo, Inc., Member, Board of Trustees of the National Graduate Institute for Policy Studies

In Japan's 2014 snap election, seen as a vote of confidence in Abenomics and the Abe Shinzo Administration, the LDP scored a landslide victory, singlehandedly winning a comfortable majority. There are, however, three causes for concern. The first is that Abenomics, said to be "the only way" to fix the economy, and the economic policy debate surrounding it has, somewhere along the line, turned into a "countercyclical policy" debate, and the viewpoint of raising the trend growth rate and potential growth rate and establishing a sustainable model for the new-born Japan has weakened. The second cause for concern is that, while the pessimism of the first term has definitely weakened and optimism about the future is also growing, the viewpoint tends to be too short, going as far as the Tokyo Olympics in 2020. The third worry is that, while the governance problems of the LDP itself are being debated both internally and externally, "voter turnout," which forms the basis for governance, hit a record low of around 52%, and Japan has become a "half democracy."



KOJIMA Akira, Chairman of World Trade Center Tokyo, Inc., Member, Board of Trustees of the National Graduate Institute for Policy Studies

Spread of short-termism

It was after the collapse of Lehman Brothers in 2008 that the new word short-termism started to pop up here and there, and it stemmed from criticism of the nature of securities markets including "high frequency trading" and the tendency of the financial business in general to think about immediate profit. This soon developed into a debate surrounding corporate governance in general and the governance of market economies and capitalism. In 2012, I had the opportunity to attend the Annual Conference of the Club Of Rome in Bucharest which marked the 40th



Anniversary of the publication of the report “Limits to Growth,” and one of the subjects of debate at this conference was how to overcome short-termism and switch to a system of political, economic and business governance that takes a more long-term view.

In Japan, too, somewhere along the line, short-termism has begun to spread. A political landscape dominated by the LDP, seen by some as the “New 55-Year System,” was created in the recent election, but I hope that the government will use this political landscape to its advantage and establish a model for the medium-and-long-term sustainable development of the new-born Japan that transcends short-termism.

The 1964 Tokyo Olympics held under the “55-Year System” can be described as the point when Japan, a late-industrializing country, graduated the developing country stage and was declared to have taken its place among the advanced nations. At the time, Japan was enjoying rapid economic growth. The decreasing birthrate and aging population were completely irrelevant, and the birthrate was 2.05. The working-age population was increasing, rising from 47.1 million in 1964 to top 50 million in 1968, and reaching 55.96 in 1979. The “population bonus” supported Japan’s rapid economic growth, and, between 1964 and 1970, Japan’s real economic growth rate remained above 10%, excluding the reactionary decline in the year following the Olympics (real economic growth rate of 5.4%, calendar year).

However, the problem of pollution, which was not taken seriously at the time of the 1964 Olympics, became more serious from the late 1960s. Moreover, from the end of the 1970s through the early 1980s, Japan completed the first stage of the process of catching up with the advanced economies of Europe and the United States. I say first stage because, while Japan finished catching up in terms of industrial technology and productivity, as symbolized by the fact that Japan’s motor vehicle production and crude steel production at the time were on a par with those of the United States, income per capita was still at the level of a backward nation. However, partly due to Japan’s continued economic growth thereafter and the appreciation of the yen following the Plaza Accord in 1985, Japan also managed to catch up in terms of income.

The problem is what comes after catching up. Japan’s systems and practices achieved a remarkable accomplishment in the catching-up process, but once Japan had completely caught up, in other words, from the late 1980s onwards, these systems and practices began to act as an obstacle to further sustainable development. This also tends to be referred to as the “paradox of success.”

Need for internal and external declaration of sustainable model for new-born Japan at 2020 Olympics

Unfortunately, the bubble economy of the late 1980s and the long-term economic stagnation that began in the 1990s with its collapse obstructed the construction of a post-catch-up model.



Economic measures have been taken more than ten times since the collapse of the bubble economy, but the construction of a new sustainable economic model has continued to be postponed. Though measures were prefixed with words like “urgent” and “comprehensive,” they were all nothing more than immediate measures and countercyclical measures.

Today, more than ten years into the twenty-first century, the measures that continue being actually adopted are mainly countercyclical measures and measures to support stock prices. Abenomics was surely expected to go beyond immediate countercyclical measures. In particular, people have high expectations of structural reform, which is the “third arrow” of the “three arrows” to the Abenomics policy. If this structural reform is inadequate, even if the economy is lifted in the immediate future, sustainable economic development cannot be realized in the long term.

Many people expect and argue that both the economy and stock prices will fare reasonably well until the 2020 Tokyo Olympics. But, the new issues facing Japan will materialize from 2020 onwards. The problems of the decreasing birthrate and aging population will relentlessly continue getting worse in the future. While the total population decreases, population aging in the form of an increase in the proportion of the elderly population to the total population will advance further.

The household savings rate (proportion of disposable income that is diverted to savings) used to be high, hovering between 14 and 17% in the 1960s and 18 and 23% in the 1970s, and this supported high economic growth.

This household savings rate dropped to 1.3% in 2012, and is currently considered to be almost zero percent. With the baby-boom generation also retiring, the pace of aging increasing further, and the process of dipping into savings (or “dissaving”) underway, the savings rate at this household level will turn negative. People tend to turn their gaze to the huge amount of total financial assets. However, though dependent on investment income, if dissaving continues, total financial assets will also start to decline.

Companies are also required to show entrepreneurial spirit, aiming to develop new technologies, products and services, open up new business areas and create added value instead of aiming for immediate profit, and also taking on risk. Business which consists of nothing more than cost cutting is not sustainable.

Nor is it simply a question of further advancement in the decreasing birthrate and population aging. The global competition environment will also become even tougher for Japan. The “mega-competition of system reforms,” where countries around the world try to establish systems to be competitive or to increase their growth potential, is continuing. Bilateral and multilateral free trade agreements (FTA) are rapidly becoming more widespread. The FTA coverage ratio of Japan’s trade is low. Unless things change, first-rate companies will continue to move their plants and business overseas. Also in terms of inward direct investment, Japan is behind other countries. Japan’s ratio of inward direct investment stock to gross domestic product (GDP) is only one tenth of the world average.



Japan's ranking in the World Bank's Doing Business 2015 rankings, released at the end of October 2014, was 29th out of 189 countries, falling two places from the previous year.

Unless the government promptly and boldly releases the “third arrow,” a sustainable model for Japan's rebirth will not be produced. The government needs to look beyond 2020.

The Bank of Japan's 2 percent target for price rises is by no means a final target. While it makes sense to alter the deflationary psychology, the target ought to be that earnings growth exceeding consumer price growth is sustainably secured and people's standard of living improves. To this end, the creation of various mechanisms to boost the upward trend in productivity is essential. Ideas, policies and corporate governance focusing not only on the period to 2020 but also the period beyond 2020 are required.

The idea of the “Lost OO Years” is also not needed anymore. Medium-term and long-term ideas and actions are crucial for the future.

Translated from an original article in Japanese written for Discuss Japan. [December 2014]

KOJIMA Akira

Chairman of World Trade Center Tokyo, Inc., Member, Board of Trustees of the National Graduate Institute for Policy Studies
