Mr. Abe's Scattershot Reforms

By Takao Hosshi

Prime Minister Shinzo Abe’s plan for revitalizing the Japanese economy appears to offer something for everyone. As released by the Industry, Science and Technology Council, it runs to 98 pages and contains more than 170 proposals. This council, chaired by Mr. Abe, calls the “third arrow” of his strategy, but in reality it amounts to an indiscriminate spray of arrows. Before he makes any announcements, Mr. Abe needs to focus his efforts on a few key priorities.

At its core, the third arrow proposal has three “action plans” for kick-starting the economy. One, dubbed the Strategic Market Creation Plan, is clearly recycled industrial policy consisting of ideas like promoting clean energy and energy-saving housing. A second action plan concerns international expansion and is geared toward trade promotion, and has little to show for its efforts for decades. Instead of picking winners for decades, Japan focused too much on protectionism, border security

The The Japanese prime minister should shorten his list of objectives to a handful of priorities.

Guest Workers Are the Best Border Security

By Tamar Jacoby

With the U.S. Senate beginning debate this week on the immigration reform bill, border security will be one of the most contentious issues. Sen. Marco Rubio (R., Fla.) argues at every opportunity that “immigration reform hinges on border security,” and he isn’t wrong. But physical control of the border can go only so far in preventing illegal immigration. At least as important is finding a way for immigrants to work in the U.S. legally and work in year-round jobs, except for the debt Tokyo has rung up subsidizing failing firms and dying industries. As for the other areas, some proposals are sound but others—including some of the highest-profile elements—are not.

For instance, the proposal for creating special economic zones, which have already been tried in the U.S. and Japan, would be a waste of time. While in theory this would be a good way to free businesses from the burdens of the red tape, past experience shows that special economic zones mostly just shift demand from one geographical local to another without encouraging more growth overall.

A second good idea is use of public-private partnerships for provision of public works such as airports, sewer systems and highways. This version of the “third sector” strategy from the 1980s and 90s is a failure because many of the third sector corporations were unprofitable and ended up failing and leaving local governments with large debts. And although the growth in the past few years questions the importance of fostering small- and medium-sized enterprises, most of the proposed policies merely provide subsidies to keep those businesses afloat instead of creating conditions for them to grow on their own.

Instead, Mr. Abe should shorten his objectives to a handful of specific priorities. There is a simple way to get a third test he can use to separate the good ideas contained in this part of his agenda from the bad ones.

First, Mr. Abe needs to focus on policies that unambiguously raise the productivity growth rate for the economy. It is time to abandon short-term fixes that prop up demand but that create few lasting gains. His current proposal is littered with such policies. For instance, temporary tax incentives for business investment may stimulate the growth in the short-run, but will not generate continued growth without other reforms. Similarly, government-led promotion of Japanese food and tourism is not likely to increase potential growth, either. Instead he must focus on policies that will deliver sustained improvements that will translate into higher long-term prosperity.

But Mr. Abe’s growth strategy includes another good idea that would facilitate economic restructuring would ease the process of replacing old and less productive firms with new and more productive firms, leading to a better allocation of physical capital. One good idea is to create a mechanism to allow entrepreneurs to check quickly if their new business idea would violate existing regulations. Allowing temporary regulatory exceptions for innovative businesses, which is also mentioned in the plan, is even better.

Employment-system reform is another good idea that will facilitate restructuring and improve the allocation of human capital. Mr. Abe’s plan correctly points out that the past labor policy in Japan focused too much on protecting employment, although the plan does not go as far as making it easier for companies to lay off regular employees, whose job protection often leads younger workers to take part-time jobs or to work at another firm.

The growth strategy identifies increased economic openness is an important goal. Policies that permit Japanese women to start a family without leaving the labor force would help offset the rapid aging and population decline that confronts the Japan’s labor force. Accepting more high-skilled immigrants would also increase labor supply and help productivity growth.

In sum, the best way to use of information technology easier for corporations, government offices and individuals would also help the economy grow. For example, the government could make it easier for the private sector to use public databases, as well as improve the communications infrastructure.

There are some hopeful signs Mr. Abe understands all this. The Abe plan mentions Japan’s ranking in the World Bank’s Doing Business 2011 report. It highlights the need to include policies that will make Japan one of the top three advanced countries (above Switzerland and its current ranking of 8th). This goal is good, but the policies proposed do not address the main reasons why Japan is not ranked higher.

Mr. Abe has the popularity to enact the kind of policies to put Japan on the right track. The Senate needs to help and try some different policies rather than re-presenting the same approach from his first stint as prime minister.

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