

Proposals from Productivity Improvement Strategy PT,
Service Productivity & Innovation for Growth (SPRING)

To Achieve “Smart Economy”,
Sustainable Socio-Economic System, in the Era of Lost Labor Force

[Summary]

The essential issue of Japan’s economy is the rapid decline in productive-age population. The country will lose the labor force source of over 21 million people by 2045, which is equivalent to the current productive-age population in Tokyo, Kanagawa, Saitama and Chiba, accelerating contraction of market demand. Japan is in danger of extinction.

To avoid this and make the country more sustainable, we need to make fundamental reforms in supply, industrial and consumption structures so that more scarce human resources will be better utilized. We also need to transform the society from the traditional one aspiring to the economy constantly growing in a linear fashion to the one where added value of each worker is increased and their output circulates in new innovation and consumption, further increasing added value.

We propose the concept of such society we should aspire to as “Smart Economy”, a sharp, smart and high-performance socio-economic system, and propose actions to achieve it.

Proposal 1 Reform toward highly efficient supply structure – Abolish excessive corporate protection policies and change industrial policies to support corporations for innovation.

① Recognizing that it is best not to have policies resisting natural decrease of corporations, the government should encourage regeneration of corporations and promote industry reorganization, business succession and integration.

It is estimated that about a million corporations, 25% of about 4 million corporations that exist today, will disappear by 2040. The “era of lost labor force” will also be the “era of a declining number of corporations” on a large scale.

The government should avoid taking policies to resist such natural decrease of corporations. In addition to promoting regeneration of corporations, the government should achieve industry reorganization, business succession and integration, and strengthen the vitality of corporations. It should also increase the number of corporations with a spirit of innovation that actively make investment in human resource development and R&D with a focus on productivity improvement.

② *Promote raising of the minimum wage and “equal pay for equal work” to achieve a fair labor market.*

In Japan, high-quality workers are not used well, partly because, with Japan’s unique employment practices such as lifetime employment and seniority-based system, mobility in employment is extremely low and the labor market applies little pressure on business owners.

Japan should raise the minimum wage, which is lower than in many other countries. It should also eliminate excessive working hours and thoroughly apply the concept of “equal pay for equal work”, which has been promoted as part of the reform of working practices. Creating an environment where management that fails to do these minimum things has to leave will lead to the effective use of scarce human resources.

③ *Improve business practices and reduce loss and waste to increase efficiency in the whole industry and economy.*

Efficiency of the socio-economic system should be increased not only through activities of individual corporations but also in the whole industry and economy. For example, promotion of cashless transactions, which is underway for the 2020 Tokyo Olympic and Paralympic Games, should be accelerated. Sale data should be analyzed and utilized as big data and utilized as a tool to improve productivity of corporations and industries.

It is estimated that every year 1900 billion yen is lost from food waste and 200 billion yen is lost from no-shows at restaurants. Such wasteful loss should be reduced with involvement of consumers. In the transportation industry where manpower shortage is an issue, 60% of the transportation capacity of trucks in the country are not utilized. If this is utilized for joint deliveries, it will generate a positive economic impact of 400 billion yen. The principal of self-sufficiency should be discarded and IT-based external cooperation should be encouraged.

Proposal 2 Reform toward highly innovative industrial structure - Aggressively promote scientific management of the service industry for full-scale development of service innovations.

④ *Utilizing “knowledge” of Serviceology, a scientific and engineering approach to services, as well as service design methods, get out of business management that depends on hunches and experience.*

The focus of economy is rapidly shifting from “goods” to “experience” and “service”. The sources of added value are also shifting to “experience” and “service”. However, the productivity in the service industry, which accounts for over 70% of GDP, is about 70% of that in the manufacturing industry and about 50% of that in the service industry in the United States. Japan’s economy will not function well if productivity is not increased with increased added value per worker in the service industry.

Because management science developed mostly in the manufacturing industry, much of the knowledge could not be used in the service industry without change. However, with

Serviceology developed as a scientific and engineering approach to services in the 21st century, service design methods can be utilized now. To increase productivity in the service industry, the government and business owners should learn and utilize this type of new “knowledge” as well as utilizing information technologies such as IoT, AI and RPA (Robotic Process Automation).

⑤ *Increase R&D investment in the service industry.*

The proportion of R&D expense in the service industry in the total R&D expense in all industries is 21% in Japan while it is almost at the same level as in the manufacturing industry in EU and is much higher than in the manufacturing industry in the US. The notion that R&D is for manufacturing may be a common understanding in Japan, but not in the world.

Japanese manufacturers have actively conducted both basic and applied R&D activities, establishing specialized research institutions at different levels such as “central research laboratory”, “basic research laboratory” and “technical research laboratory”. The service industry should also establish such research organizations and strengthen its R&D activities.

⑥ *Strengthen the structure to accelerate service innovation. Establish headquarters in the government.*

In the area of services, one government organization is often in charge of service regulation and promotion. However, to promote service innovation on a full scale, regulation and promotion should be separated and the promotion side should cover a wide range of services. To adjust systems to new IT-based business models smoothly, consideration should be given to the establishment of headquarters in the government to exercise cross-functional leadership in promotion of service innovation.

**Proposal 3 Reform toward a consumption structure with high purchasing power—
Increase labor share and strengthen consumers’ purchasing power.**

⑦ *Adjust labor share according to labor quality.*

In recent years, as Japan’s net corporate profits have markedly increased, dividends have increased rapidly. On the other hand, wage level growth has been sluggish for a long time and labor share (share of labor cost in added value) has been dropping, contributing to stagnation of personal consumption. It is necessary to raise labor share and increase consumers’ purchasing power. The government should raise the minimum wage and corporations should also make their own efforts, considering the fact that human resources will be scarce.

⑧ *Increase investment in human resource development to strengthen individuals' earning power.*

Investment in human resource development in Japan has decreased from 2.5 trillion yen in the early 1990s to 0.5 trillion yen. It is one reason why Japan is behind Europe, the United States and China in IT-based innovation. We should increase investment in human resources and create an environment where everybody can learn easily by putting more focus on such social measures as recurrent education and visualization of skill standards so that more individuals will continue learning and have higher earning power.

⑨ *Promote globalization of the service industry and incorporate Asian and European consumers into Japan's consumption structure.*

As population declines, the domestic market will inevitably shrink. To add more value to Japan's economy, we need to incorporate consumers in the growing Asian economic group, Europe and the United States who prefer high added-value.

We should accelerate overseas expansion of the service industry as well as increasing inbound investment through development of services for wealthy customers from overseas. Japan is far behind Europe and the United States especially in export of services and direct overseas investment. It is hoped that the old common notion that the service industry is a domestic industry will be replaced with a new notion in the 21st century that all players in the service industry should develop business always with the global market in mind.

**Proposal 4 "Productivity-based management" that promotes "Smart Economy" –
Publish production indexes (labor productivity, etc.) for sustainable management**

⑩ *Publish production indicators (labor productivity, etc.) for sustainable management.*

Measures of management have always been based on "profit". Although it is important to see short-term performance, it does not ensure the sustainable growth of the corporation. What is most important is to see whether added-value per worker has been increasing. In addition to data related to investment in R&D, human resource development, IT, etc., corporations should also publish productivity indicators that the public and corporations can share.

There is a trend to publish data concerning SDGs and ESG indicators in Synthesis Report (annual report) to show how much contribution is made to the sustainability of the international society and the global environment. The foremost task for corporations that carry out activities in the framework of a nation is to release information about how the corporate activities contribute to GDP and GDP per capita, indicators for scale of economy and for affluence respectively.

For example, using an indicator for concentration called ppm (parts per million), it is possible to measure how much contribution a corporation has made to Japan's GDP. Using such indicators, the public and private sectors should tackle socioeconomic reforms as a common target.