

Keynote Speech: Prof. Hiroshi Yoshikawa (University of Tokyo)

Growth theory normally focuses on supply side of the economy, but demand is just as important. Prof. Yoshikawa brought up Engel's law, which stated that the higher one's income is, the lower one will spend on food. It means that the demand for foodstuff eventually reaches a point of saturation. This law applies not only to food stuff, but actually to everything. Engel's law is the fundamental constraint for economic growth. The key to creating economic growth therefore, is the creation of new products and services.

Why do new products or services emerge? Because new challenges emerge. Issues of social resilience are a new challenge as well, and they will lead to innovation.

In Japan, inequality is one of the most important political issues. There are many ways to measure inequality. One of these is the Gini coefficient. Another is to look at the percentage of income held by the richest one percent. The Gini coefficient has been rising in Japan, Canada and Australia, but was flat in many European countries. Why did the Gini coefficients rise? The most important reason is aging. Inequalities among the aged are higher than among the young. By the end of the century, almost all of the major countries in the world will have to deal with aging populations.

Japan has a decent public pension system. The pension system is decent, but not perfect. One of the major proposals to improve the pension system is the introduction of a social security number system.

The social security system is not sustainable. It is sustained by public deficits. Japanese GDP amounts to 500 trillion yen, whereas the public debt is close to 800 or 900 trillion yen. The government debt to GDP ratio is therefore around 160%, whereas the EU criterion is that the ratio must be less than 60%. Greece, a country in deep financial trouble at the time, has a debt ratio of about 115%. Why is Japan's ratio so high? The main reason is mounting social security.

The Japanese government is expecting a 54 trillion yen budget for the coming fiscal year. The amount allotted for social security is 27 trillion yen. Every year social security expenditures are to increase by roughly 1 trillion yen; the greatest expenditure of the Japanese government is social security.

Japanese people do not pay enough in taxes. Consumption tax (VAT) in Japan is 5%. In the EU the minimum VAT tax rate is 15%. Prof. Yoshikawa brought up the example of the German national election in 2005, in which Angela Merkel had proposed that Value Added Tax (VAT) be raised from 16% to 19% in order to safeguard the German social security system, and this had allowed her party to win the election. In Japan however, the idea of raising consumption tax is incredibly unpopular. It is important that people be helped to understand what the social security system is and what its prospects are. Every country can learn a lot from every other country on this issue.

Mr. Dambadarjaa noted that the Japanese economy was not competitive and that Japan was losing its export market. Wouldn't an increase in consumption tax make Japanese businesses even less competitive? Prof. Yoshikawa answered that competition was more effected by corporate income tax, which was effectively set at roughly 40% in Japan. Many economists had suggested increasing consumption tax and at the same time cutting corporate income tax to increase competitiveness. Prof. Yoshikawa noted that this sort of package was hard to sell politically as many called it an effort to decrease the tax burden of corporations while increasing the burden on the public.

Dr. Tan Khee Giap (Chair, Singapore National Committee for Pacific Economic Cooperation (SINCPEC)) asked if it was possible to increase the retirement age in order to decrease the burden on the social security system. Prof. Yoshikawa responded that the starting age for pensions in Japan used to be 60. Prof. Yoshikawa believed that 68 was reasonable.

Dr. Young asked Prof. Yoshikawa for what specific recommendation he would give APEC leaders. Prof. Yoshikawa responded that the social security system reflected the values of each economy, and more than anything, he hoped that APEC economies could be encouraged to have shared values so that they could develop a shared social security system.