# Japan’s coming “wage surprise”

By Shinzo Abe

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The year 2013 saw the Japanese economy turn the corner on two decades of stagnation. And the future will become even brighter with the appearance of what we are calling the “wage surprise.”

Intensive discussions since September among Japanese government, business, and labor leaders have been geared toward setting in motion an upward, virtuous cycle whereby increased wages lead to more robust growth. I have taken part in two of the four meetings so far, joining our finance minister, economy minister, and labor minister, as well as industry and labor leaders like Akio Toyoda, the head of Toyota Motors, and Nobuaki Koga, who leads the Japanese Trade Union Confederation. Each time, I have come away from the meeting feeling confident and invigorated.

Let’s face it. Deflationary pressure in Japan – and only in Japan – has persisted for well over a decade. At the beginning of my premiership, I launched what observers have called “Abenomics,” because only in my country had the nominal wage level remained in negative territory for a staggering length of time.

I was appalled when I first saw the statistics: Japan’s wage level since 2000 has fallen at an average annual rate of 0.8%, compared to average nominal-wage growth of 3.3% in the United States and the United Kingdom and 2.8% in France. In 1997, wage earners in Japan received a gross total of ¥279 trillion; by 2012, the total had fallen to ¥244.7 trillion.

In other words, Japan’s wage earners have lost ¥34.3 trillion over the last decade and a half – an amount larger than the annual GDP of Denmark, Malaysia, or Singapore. Only when this trend is reversed can Japan’s economy resume a long-term upward trajectory.

Meanwhile, Japan’s companies are no longer poorly capitalized. I, for one, remember how low the net-worth ratio for Japanese corporations was 15 years ago – below 20%, compared to more than 30% in Europe and the US. As a result, economists said, Japanese corporate behavior would be characterized by over-borrowing.

That is no longer the case. Thanks to the continued surge in corporate profitability and firms’ sustained deleveraging efforts during the last decade and a half, indebtedness has fallen dramatically. In terms of the net-worth ratio, corporate Japan is now on a par with Europe and the US.

Abenomics, I am proud to say, has been successful in a more fundamental sense: we have rebooted Japan’s collective psyche. In the year since my government took office, a mindset of resignation has given way to one of limitless possibility – a shift symbolized for many by Tokyo’s winning bid for the 2020 Olympic and Paralympic Games. As a result, many Wall Street investors have bought the narrative and gone long on Japan.

That is what Abenomics’ first two “arrows” – bold monetary policy and flexible fiscal policy – have achieved so far. How about the third arrow, a set of policies to promote private investment so that productivity growth sustains Japan’s long-term recovery?

Some say that, unlike the first and second arrows, the third is hard to come by. I do not disagree: by definition, structural reforms take more time than changes in monetary and fiscal policy do. Many will require legislation, on which my colleagues in the Diet have been spending much of their time over the last couple of months. During this process, with its seemingly endless and convoluted floor debates, observers should not lose sight of the forest for the trees.

From joining the negotiations for the Trans-Pacific Partnership (TPP) to introducing specially deregulated zones (my own office will oversee their implementation), my government is committed to catalyzing economic recovery by all means available. Here, the wage surprise stands out, because only when the long-missing link between corporate profitability and wages is restored will investment in houses, cars, and other durables, and household consumption in general, finally rid Japan of its deflation and put its economy on a sustained growth path.

The wage surprise draws its inspiration from the Netherlands, where a consensus emerged in the early 1980's that in order to sustain employment, the burden of taming rampant inflation should be shared by employers and the employed. That consensus was enshrined in the 1982 "Wassenaar Agreement," named after The Hague suburb where it was forged.

Japan is now witnessing the emergence of a similar national consensus, or, rather, the Dutch consensus in reverse: a shared sense that the government, major industries, and organized labor should work together to *increase* wages and bonuses (while facilitating incentives that could enhance productivity).

Needless to say, wage levels ought to be determined solely by management and workers. But it is equally true that the emerging consensus among the government, business leaders, and trade unions already has led a growing number of companies to promise significantly higher wages and bonuses.

This is the essence of the wage surprise. It will be an entirely new phenomenon, one that, together with the massive ¥5 trillion fiscal stimulus, will more than offset the potential negative effect of a sales-tax increase. Most important, it will continue to put Japan's economy on a sustainable growth trajectory. Of this I am certain.

*Shinzo Abe is Prime Minister of Japan.*