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Tuesday, February 3, 2004

Key Findings from the New OECD Economic Survey of Japan *Videoconference*

Speaking from Paris:

Randall Jones, Head of the Japan/Korea Desk of the OECD Economics Department

Commenting in Washington:

Ed Lincoln, Senior Fellow, Council on Foreign Relations,
JIAP Board Member

8:30 AM Registration and Coffee; 9:00 – 10:00 am Program

OECD Washington Center
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Washington, DC 20036

While the series is free of charge, we ask you to please register by Friday, January 30 for planning purposes.

The recent acceleration of growth has raised hopes that Japan's economic fundamentals are changing for the better following a disappointing decade, during which economic growth averaged only 1 per cent a year. Indeed, Japan has made progress in addressing some structural problems, notably the weakness of the banking sector, while restructuring in the corporate sector has advanced. However, despite these positive signs, there is still considerable uncertainty regarding Japan's economic outlook.

Achieving a robust, sustained expansion will depend on overcoming serious structural problems, which still limit Japan's growth potential and weaken demand. Resolving such problems requires greater resolve in pursuing a broad-based policy that features structural reforms to improve resource allocation, revitalize business sector activity and restore the soundness of the banking sector. The latter would improve the effectiveness of monetary

policy, which, while very expansionary, has proven incapable of bringing an end to the deflation that has persisted since the mid-1990s.

Extensive use of fiscal stimulus has increased public debt to more than 150 per cent of GDP, an extraordinarily high figure, and the fiscal situation is clearly not sustainable at present. Moreover, public finances will come under increasing pressure from the aging of the population. While excessive fiscal tightening should be avoided in the short run, it is necessary to create a credible plan to reduce the deficit over the longer term in order to maintain confidence in the sustainability of public finances.

Randall S. JONES is currently Head of the Japan/Korea Desk of the OECD Economics Department. During his 14 years at the OECD, he has helped write five *Economic Surveys of Japan* and seven *Economic Surveys of Korea*, in addition to working on several European countries. Prior to joining the OECD, he worked as a staff economist at the US Council of Economic Advisers, as Senior Economist at the Japan Economic Institute and at the US State Department.

Edward J. LINCOLN is currently a Senior Fellow for Asian and Economic Studies at the Council on Foreign Relations. He is an expert on the Japanese economy and U.S. economic relations with Japan and Asia, author of *Arthritic Japan: the Slow Pace of Economic Reform* and several other books, and project director of the Council-sponsored Independent Task Force on Japan. Before joining the Council, Lincoln spent a total of 16 years at the Brookings Institution, a career interrupted by a stint of three years at the American Embassy in Tokyo as Special Economic Advisor to Ambassador Walter Mondale in the mid-1990s. Lincoln, a frequent public speaker and television commentator, writes a regular column for *Newsweek Japan*, and his articles have appeared in *Foreign Affairs*, *Nihon Keizai Shimbun*, *The Brookings Review*, and elsewhere.