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Macro Challenges to the Realization of the Asset Income Doubling Plan

—Revamp of Retirement Benefit Plans Is Vital —

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<Summary>

◆ Japanese Prime Minister Fumio Kishida has announced an “Asset Income Doubling Plan” to promote a shift “from savings to investment.” This slogan has actually been around since 2001, though little progress has been made so far.

◆ Although Japan’s total household financial assets are colossal, income from assets has barely increased because there is a heavy emphasis on savings accounts with ultra-low interest rates and only a small proportion of wealth is invested in stocks. One of the reasons for this is that the financial assets of Japanese households are unevenly distributed. The bulk of them are in the hands of the elderly, an age group that is more conservative about investing in risk assets. Meanwhile, the younger generation, who are keen to invest in risk assets, are starved of the cash to invest.

◆ The root cause of this is thought to be Japan's unique seniority-based wage system and retirement benefit plans. Many companies have introduced retirement benefit plans with a view to encouraging longer service. However, these plans have resulted in financial assets getting stuck in the savings accounts of elderly people, and are also hindering labor market mobility and flexibility. The revamp of the plans would be both a blessing and a curse, but if companies that currently only offer lump-sum retirement benefits began paying out part of the benefits in the form of annuities and allocated the rest to wage increases, it is highly likely that younger workers would increase their investment in risk assets.

◆ On the other hand, stable and long-term rises in stock prices necessitate increasing nominal GDP growth, so growth strategies such as restoring the "earning power" of Japanese

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companies are crucial. In light of the current situation, where increases in disposable income have not led to an expansion in consumer spending, it is also vital to dispel concerns about the sustainability of the social security system amid the graying of the population and the decline in real living standards due to reduced purchasing power.

◆ To engineer the "shift from savings to investment," we must take a serious look at the factors that have stood in the way of this shift, and not only upgrade finance-related systems and the tax regime, but also make fundamental changes to an economic structure that has been rendered obsolete and inefficient.

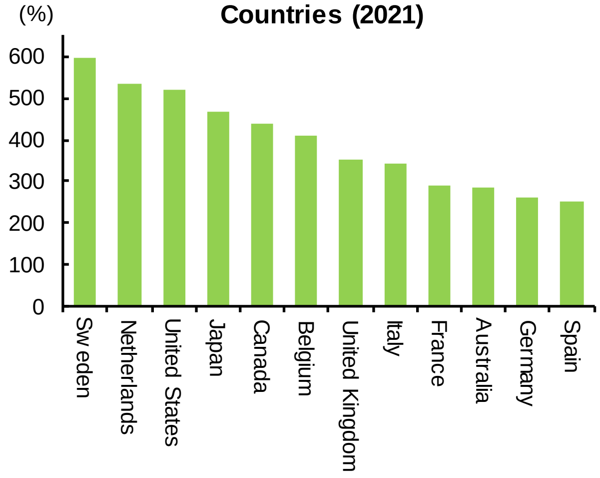
- **This is a English version of "資産所得倍増プラン実現に向けたマクロ的な課題　—退職給付制度の見直しが不可欠　—" in JRI Viewpoint (The original version is available at https://www.jri.co.jp/MediaLibrary/file/report/viewpoint/pdf/13554.pdf)**

1. Introduction

Japanese Prime Minister Fumio Kishida has come out with an "Asset Income Doubling Plan" to bring about a shift "from investment to savings." It was unveiled in the government Basic Policy on Economic and Fiscal Management and Reform (*Honebuto no Hoshin*) 2022, which was put together in June, and constitutes one of the key investment areas for establishing a “new form of capitalism.” The plan presents an agenda for achieving a bold and fundamental shift from savings to investment through a huge expansion of NISA (a scheme for exempting small investments from tax) and redesign of iDeCo (a defined contribution pension plan for individuals) schemes. At the same time, the government intends to improve financial literacy so that households can build stable asset portfolios, and to enhance the environment surrounding asset management so that households can select suitable financial assets. The latter initiative will include the expansion of information provided. For example, the amount of pension benefits that a household will receive will be made visible at a glance and digital tools will be deployed.

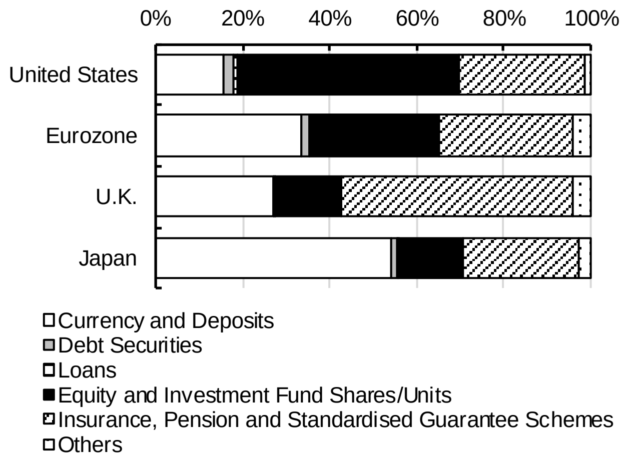
The financial assets of Japanese households as of the end of 2021 amounted to 2,015 trillion yen, or approximately 470% of national income. This percentage is the largest among OECD member countries after Sweden, the Netherlands, and the United States (Figure 1). However, in Japan currency and deposits account for 54% of household financial assets, which is by far the highest figure among major developed countries, while income from financial assets is extremely low amid the continuing ultra-low interest rate environment (Figure 2). Given this situation, Japan ought to move in the direction of making better use of its abundant financial assets to increase asset income. In addition, as the method of tapping into overseas growth has shifted away from exports alone to giving a greater weight to expanding foreign direct investment and earning dividends from overseas subsidiaries (expansion of non-operating income on corporate income statements and expansion of the income balance on the nation’s balance of payments), improved corporate

Figure 1. Household Financial Net Worth Relative to GDI in Major Advanced Countries (2021)



Source: OECD
Note: Figures for Netherlands and Japan are for 2020.

Figure 2. Composition of Household Financial Assets in Japan, the U.S., and Europe



Sources: FRB, ECB, BOE, and BOJ
Note 1: U.S. figures are for households and non-government NPOs that serve households.
Note 2: The Eurozone figure for "Others" includes loans.

performance is unlikely to translate into increased employee compensation (in the form of more employment and higher wages) in Japan. In other words, the growth rate of employee compensation (chiefly linked to the domestic economic growth rate), which reflects value added domestically, including exports, and the growth rate of stock prices (chiefly linked to the global economic growth rate), which reflects value added globally, including the performance of overseas subsidiaries, have begun to diverge in recent years. Under these circumstances, equity investment in Japanese companies by Japanese households, which have not fully tapped into overseas growth potential, could lead to the benefits of overseas growth that the country has enjoyed to date being returned in a different form. In this sense, it would be perfectly rational for Japanese households to allocate their savings mainly to equity investments.

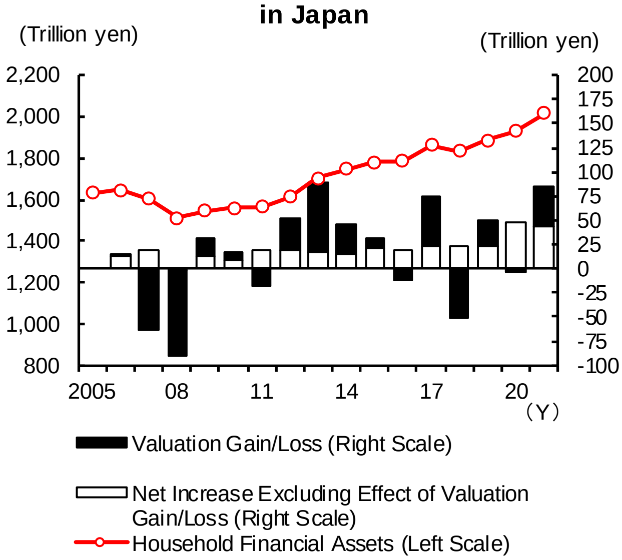
However, the slogan "from savings to investment" was first put forth by then Prime Minister Junichiro Koizumi in the June 2001 Basic Policy on Economic and Fiscal Management and Reform[1], and has continued to be chanted like an incantation ever since. Yet though there have been temporary investment booms, the fact remains that money in savings accounts as a proportion of the financial assets of Japanese households has not changed to any real degree. Although additional tax breaks are expected to be offered through the expansion of NISA and the redesign of iDeCo, and measures to improve financial literacy look likely to be deployed, past experience makes it tough to predict how far these initiatives will advance the "shift from savings to investment."

Therefore, in this paper, I will steer clear of issues such as taxation and financial education, and attempt to examine the feasibility of "asset income doubling" from a macroeconomic perspective.

2. Problems with Japanese household financial assets abound

Looking at the trend with the balance of Japan's household financial assets, the total amount was 2,015 trillion yen at the end of 2021, up 504 trillion yen over 13 years from 1,511 trillion yen at the end of 2008 (Figure 3). Breaking this amount down shows that since 2009, when the economic downturn caused by the collapse of Lehman Brothers came to an end, around 20 trillion yen annually has poured into household financial assets. And in 2020 and 2021, cash handouts and tepid consumption due to activity restrictions amid the spread of COVID-19 helped generate a net increase of over 40 trillion yen. As such, financial assets worth 295 trillion yen have been newly accumulated since 2009. Furthermore, the amount

Figure 3. Balance of Financial Assets in Japan

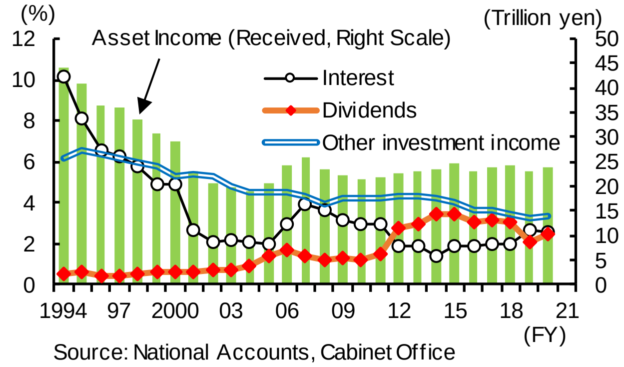


Source: Flow of Funds Accounts, BOJ

[1] In 2003, securities tax incentives were introduced. For a period of 10 years, the tax rate on dividends and capital gains from stocks and equity mutual funds was cut from 20% to 10%.

has increased by an additional 209 trillion yen on top of this due to asset appreciation and other factors, though economic and stock price fluctuations have made it a bumpy climb. Yet while Japan's household financial assets have been steadily increasing, asset income (received), i.e., the payback for holding financial assets, declined to less than 20 trillion yen through the early 2000s and has remained flat at 20-25 trillion yen since then, so it has hardly risen at all (Figure 4). This is due to a significant decline in interest income earned from currency and deposits, which account for the majority of financial assets. In fact, comparing Japan's asset income (received) to employer compensation, we find that interest income, which was over 10% of income received in FY1994, declined to 1.4%, which was less than three trillion yen in monetary terms, in FY2014 as Japan's ultra-low interest rates continued. Although the percentage has since begun to recover, it remains in the mid-2% range and the monetary value is only around seven trillion yen. Dividend income from stocks and other equity investments[2] has increased substantially since FY2012, surpassing interest income[3] even though the assets from which it is earned amount to less than 30% of the value of currency and deposits. The low share of equity investments in financial assets is another factor contributing to the sluggish growth of asset income (received).

Figure 4. Ratio of Asset Income (Received) to Employee Compensation

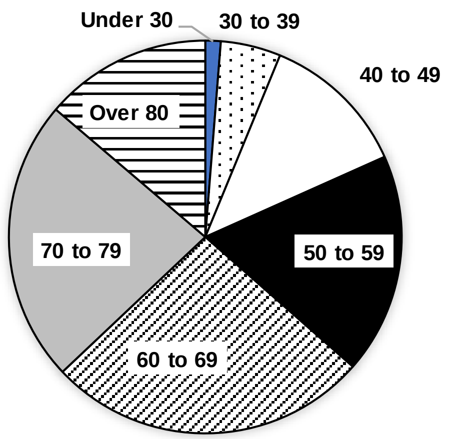


Source: National Accounts, Cabinet Office
Note 1: Asset income (received) excludes rental income
Note 2: Other asset income refers to investment income accruing to insurance policyholders and investment income associated with the right to receive pension benefits. Note that investment income accruing to mutual fund investors is recorded as interest in order to ensure continuity in the data.

In the background to this emphasis on currency and deposits and the low ratio of equity investment is the fact that the lion's share of the financial assets held by Japanese households are in the hands of the elderly. According to the Ministry of Internal Affairs and Communications' National Survey of Family Income, Consumption and Wealth, by age of the head of household, 14% of all financial assets are held by those aged 80 or older, 23% by those in their 70s, and 26% by those in their 60s.

This means that 63% of the total is possessed by persons aged 60 and up. Those in their 30s and below own less than 10% (Figure 5). Since financial assets represent the accumulation of savings and investments over many years, it is only natural that elderly households should hold a large chunk of them. In Japan, however, elderly households make up a huge proportion of the total

Figure 5. Share of Household Financial Assets by Household Age (2019)



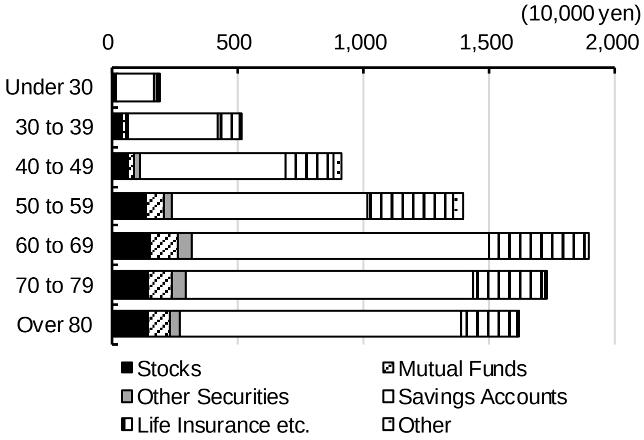
Source: Statistics Bureau of Japan, "National Suevey Family Income, Consumption and Wealth"

[2] This actually also includes bonuses to officers.
[3] However, dividend income declined and again fell below interest income in FY2019 and FY2020, when corporate performance deteriorated due to intensifying U.S.-China tensions, a consumption tax hike, and the spread of COVID.

due to the declining birthrate and aging population, and this has been a catalyst for financial assets mainly being in the possession of older people. In addition, the older a person gets, the more conservative he or she tends to become when it comes to savings and investments, and this is a reason for the heavy weight of savings accounts in the financial assets of Japanese households. In fact, a breakdown of financial assets by household age shows that while investments in stocks, mutual funds, and other marketable securities swell through the 50s, when people are accumulating financial assets, when people get into their 60s, the majority of the increase in financial assets languishes in currency and deposits (Figure 6).

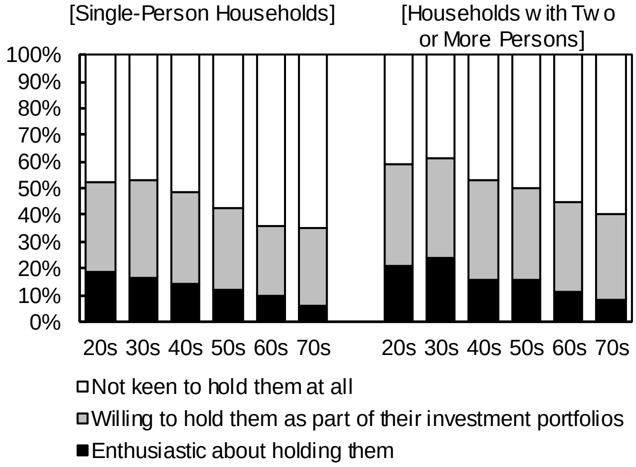
According to a poll of household financial behavior conducted by the Central Council for Financial Services Information, both single-person households and households with two or more persons responded increasingly positively toward the idea of "holding financial products that are expected to be highly profitable despite there being a possibility of a loss of principal" (saying that they were enthusiastic about holding them or that they would be willing to hold them as part of their investment portfolios) until their 30s, an age at which they may not have sufficient financial assets. After the 30s, however, the proportion of such households responding positively declines with age (Figure 7). Under these circumstances, the biggest challenge in promoting "from savings to investment" is the fact that people up to and in their 30s lack money for investment, even though this is the life stage at which they are most willing to invest in risk assets. And to make matters worse, it is in their 50s and 60s that people accumulate wealth most rapidly, just at the time they become more cautious about investing in risk assets.

Figure 6. Financial Assets by Household Head Age and Product Type



Source: National Survey of Family Income, Consumption and Wealth, Ministry of Internal Affairs and Communications

Figure 7. Holding Financial Products that Are Expected to Be Highly Profitable Despite There Being A Possibility of A Loss of Principal



Source: Public Poll Concerning Household Financial Behavior, Central Council for Financial Services Information

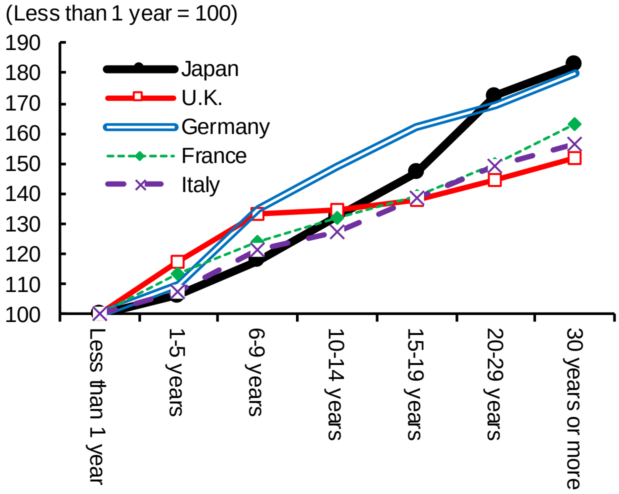
3. A revamp of retirement benefit plans is vital to double the asset income of Japanese households

The fundamental reason for the dearth of surplus cash among younger workers and the concentration of surplus cash among the elderly in Japan is likely to be the country's unique seniority-based wage and retirement benefit plans.

Looking at the wage gap by length of service between Japan and Europe, we see that wages in Japan are lower than in major European countries for employees with less than 10 years of service, while for those with 20 or more years of service, pay starts to climb at a rapid pace in Japan. This suggests that the seniority effect is extremely powerful (Figure 8). Retirement benefit plans are also suppressing wages in these younger age groups and spurring an increase in financial assets in the older age groups. These retirement benefit plans are unique to Japan. In other countries, a certain amount of funds are contributed to corporate pension plans (annuities), but there is generally no system of lump-sum payments, and even if there is, such payments are limited to situations where the company makes employees redundant for its own purposes.

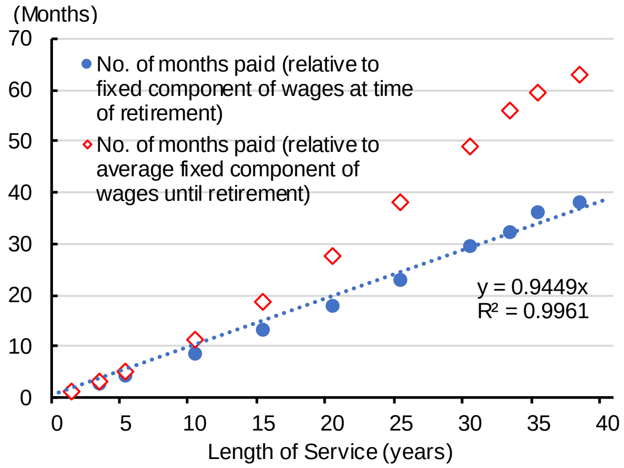
In Japan, although retirement benefits are not a legally mandated program, they are in effect a way of paying wages later. In addition, the amount paid tends to increase with the length of service[4]. In fact, in 2021, the monthly retirement benefits (including lump-sum payments and annuities) paid by Keidanren member companies increase on average by about one month’s worth of the fixed component of wages at the time of retirement for each additional year of service. But under the seniority-based wage system, the increases become steeper after about 15 years of service (Figure 9). In addition

Figure 8. Wages by Length of Service in Japan and Europe



Sources: 2018 Basic Survey on Wage Structure, Ministry of Health, Labour and Welfare; Structure of Earning Survey 2018, Eurostat
Note: Industry totals are for non-agricultural, forestry, and fisheries sectors, excluding public servants, defense personnel, and persons on social security benefits.
Note 2: For Japan, "1-5 years" means at least one year but less than five years, and "6-9 years" means at least five years but less than 10 years.

Figure 9. Monthly Retirement Benefits Paid by Keidanren Member Companies



Source: Retirement Benefits and Pensions Fact-Finding Survey, Keidanren
Note: Retirement benefits of standard managerial, administrative, or technical career-track workers (calculations based on people who joined their company after graduating from university, and then followed a standard career path in terms of promotions)

[4] Current retirement benefit plans are not necessarily tied to length of service, with over 60% reflecting factors such as points earned from “qualifications and job factors.” Even so, "qualifications and job factors" are partly based on work experience, and as a result, the effect of length of service remains substantial.

to corporate retirement benefits, the tax system also becomes more favorable as the length of service increases. The tax credit for retirement benefits increases once the length of service exceeds 20 years, reducing the amount of taxable income.

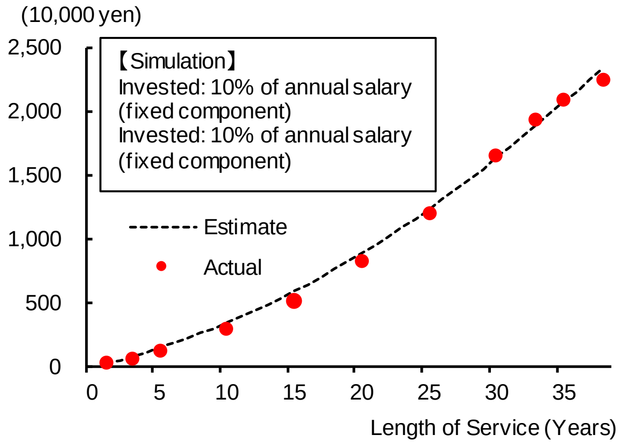
This system of post-payment of wages in the form of retirement benefits has been adopted by many companies for the following reasons: 1) encouraging long-term service leads to the accumulation of human capital, and 2) in industries where monitoring (work evaluation etc.) is difficult, the system is an easy way of increasing the incentive to work. In addition, because it in effect constitutes post-payment of wages and is not classified as salary, it provides a financial benefit to the company by reducing its social security-related expenses. On the employee side, lump-sum retirement benefits and corporate pensions support a stable lifestyle in retirement, allowing employees to focus on their work without feeling that they need to receive financial education, and there are also the tax advantages described above. This seniority-based wage system and retirement benefit plans, which encourage longer service, have contributed to the improvement of employees' skills, especially on the frontlines of sectors such as manufacturing, and are said to have spurred Japan's rapid economic growth. However, since the 1990s, as the "earning power" of companies has declined, retirement benefit amounts have been on a downward trend, due in part to reductions in the fixed components of pay. In addition, as the economy becomes more service-oriented and technological innovations such as digitalization accelerate the speed at which existing skills become obsolete, seniority-based wage systems and retirement benefit plans that encourage longer service have actually become a hindrance to mobility/flexibility in the labor market.

Under these circumstances, a redesign of retirement benefit plans, which are essentially the post-payment of wages, would be judged to be effective in shifting the financial assets of Japan’s households “from savings to investment.” In other words, doing so would make it possible to boost the wages of the young people who are keen to invest in risk assets and encourage them to invest for the long term with an eye to their retirement. At the same time, it will help put a stop to the recurring phenomenon whereby large amounts of money are paid in the form of lump-sum retirement benefits to people in their 60s, who become more cautious about investing in risk assets, resulting in money remaining in the shape of currency and deposits. Revamping the plans will promote labor market mobility/flexibility not only in terms of financial assets, but also by eliminating excessive financial incentives for longer service, and if a safety net is spread under the labor market and appropriate recurrent education and reskilling are provided, it will increase Japan's labor productivity and help lift economic growth.

Incidentally, the relationship seen in the retirement benefits of standard managerial, administrative, or technical career-track workers (joined company after graduating university, and then followed a standard career path in terms of promotions) at Keidanren member firms (i.e., the number of months paid (relative to fixed component of wages at time of retirement) in the form of retirement benefits increases by one month for each year of service) approximates to the amount that would be received if 10% of annual salary (fixed component) were set aside and compounded at 1% per year (Figure 10 on the next page). And if the same amounts set aside were invested at 2% over the long term, the total amount of retirement benefits would be estimated to increase by about five million yen, and by around 10 million yen if the rate of return were 3%[5]. Regarding retirement

[5] The Ministry of Health, Labour and Welfare's Comprehensive Survey of Working Conditions, which covers all companies, does not disclose data

Figure 10. Retirement Benefits Simulation for Keidanren Member Companies (2021)



Retirement Benefits at Time of Retirement at Age 60

Investment Returns of 1% per Year (%)	Retirement Benefits Amount (10,000 yen)
0.0	1,999
1.0	2,346
2.0	2,778
3.0	3,320
2021 Actual	2,243

Source: Retirement Benefits and Pensions Fact-Finding Survey, Keidanren
Note: Retirement benefits of standard managerial, administrative, or technical career-track workers (calculations based on people who joined their company after graduating from university, and then followed a standard career path in terms of promotions)

benefit plans, 10.3% of Keidanren member firms provide "retirement annuities only," 66.1% provide "both lump-sum retirement benefits and annuities," and just 15.9% provide “lump-sum retirement benefits only.” However, if we broaden the scope to include all companies, including small and medium-sized enterprises (SMEs), 73.3% of them offer “lump-sum retirement benefits only,” according to the Ministry of Health, Labour and Welfare's Comprehensive Survey of Working Conditions, 2018. Although the amounts would be smaller than in the above estimates if all companies were included, companies providing "lump-sum retirement benefits only" shifted a portion of the funding for such benefits to retirement annuity plans such as defined contribution (DC) plans, and returned the rest to employees in the form of higher salaries. As a result, Japan’s household financial assets in Japan would likely move toward risk assets.

Such changes would have various advantages and disadvantages. In terms of asset management, households will be forced to take on investment risk, whereas previously this was borne by the corporate side. For example, if they put the money in savings accounts at currently prevailing interest rates, which are close to zero, they may end up with less than 20 million yen when they retire. There is also the risk that if they spend the extra wages (which will essentially represent pre-payment of retirement benefits), they may not have enough money left to live on in their golden years. On the other hand, the longer investment period would stabilize the risk-return relationship and would at least increase the likelihood of earning higher returns than from a risk-free savings account. In terms of taxation, higher salaries are accompanied by disadvantages such as increased income tax and social security contributions. Nevertheless, the tax disadvantage will be resolved to a certain extent if measures are taken to raise the iDeCo investment cap, increase the associated income tax deduction, and exempt the money invested from taxation. If the money to fund lump-sum retirements benefits (or some of it) is transferred to the company’s DC plan, it can be carried over to a new company if that company operates a

as detailed as Keidanren's Retirement Benefits and Pensions Fact-Finding Survey. The estimates were therefore based on the Keidanren fact-finding survey. On an all-company basis, the fixed component of wages paid at the time of retirement and monthly retirement benefits are around 5% smaller than at companies with more than 1,000 employees, the typical size of Keidanren member companies, and the overall amount of retirement benefits is more than 10% smaller.

similar plan, which will work more favorably for the accumulation of assets than the current plans, which are liquidated when the employee leaves the company for another, with the employee receiving their lump-sum retirement benefit in cash at that time. On the corporate side, too, there will be disadvantages such as a higher personnel expense burden and difficulty retaining talented. That being said, companies will be relieved of medium- to long-term obligations toward their employees, such as the need to set aside provisions for future retirement benefits.

However, pros and cons aside, it is unlikely that any significant change will be seen in the skewing of financial assets toward savings unless the current system, i.e., the convention of large sums of money being paid out to workers at the time they retire in their 50s and 60s, is given an overhaul.

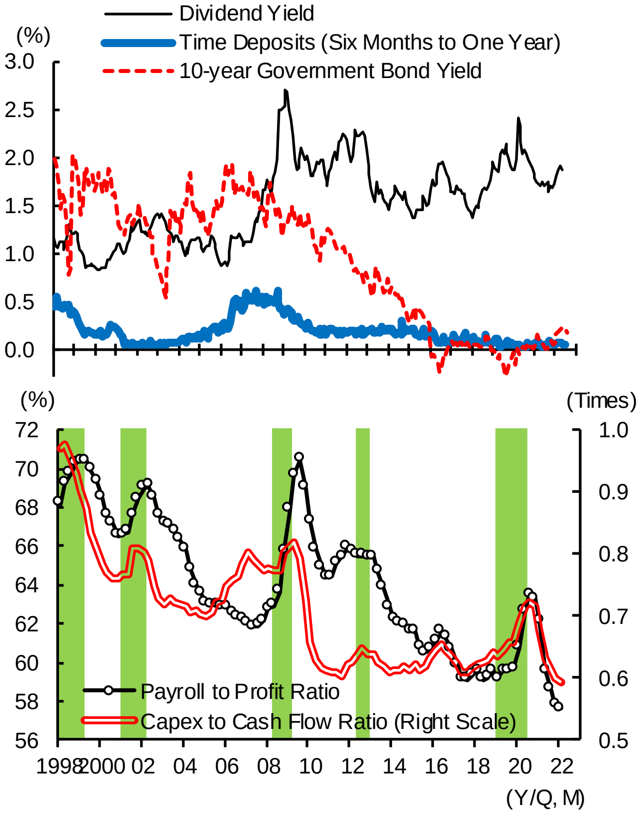
4. There are also other issues besides the transfer of income transfers to young people

(1) Raising the rate of economic growth

If income is transferred from the elderly to the younger generation through the revision of seniority-based wage system and retirement benefit system plans, assets would be expected to be diverted from currency and deposits, which offer low returns but carry little risk, to investments in securities such as stocks, which carry risk but offer high returns. However, it is not the case that just because young people will have more capital to invest, a doubling of asset income is guaranteed.

Since the collapse of Lehman Brothers, the dividend yields of Japanese listed companies in Japan have risen to around 2%, so a shift of funds from deposits that yield next to nothing to stocks will undoubtedly lead to an overall increase in investment returns (Figure 11). However, the increase in dividend yields since then is undeniably the result of companies' exercising more restraint in terms of personnel expenses and capital expenditures. Without increases in employees' income and capital investment, sustained economic growth cannot be expected, and there could ultimately be a contraction in households' investment resources.

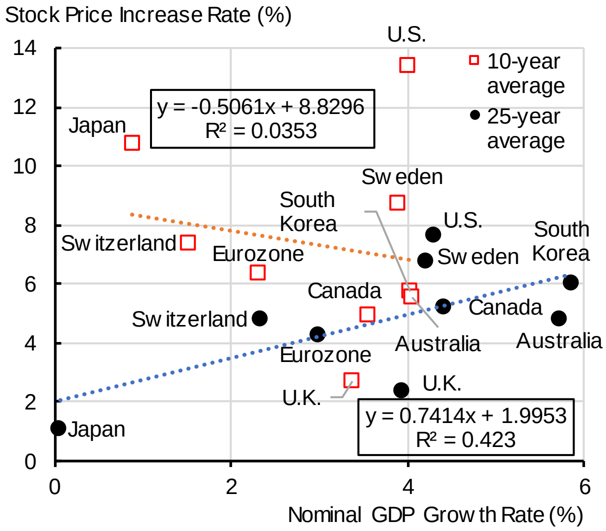
Figure 11. Investment Returns by Financial Product and Payroll and Capex Ratios in Japan



Sources: Ministry of Finance, Bank of Japan, Japan Exchange Group
Note 1: Payroll to profit ratios and capex to cash flow ratios are averages for four quarters.
Note 2: Cash flow = ordinary profit / 2 + depreciation
Note 3: Payroll to profit ratio = personnel expenses / (ordinary profit + depreciation + interest expense etc. + personnel expenses) * 100
Note 4: Green denotes quarters with negative growth

In addition, the high returns are only the dividend yields, and low growth could cause the value of stocks and other securities held could fall below the prices paid for them, which could make the total return negative. Over the past 10 years (2012-2021), Japan's TOPIX stock index has risen an average of 10.7% per year, second only to the U.S. S&P 500 index (13.4%). However, its performance during the previous decade (2002-2011) averaged -1.1% per year, the second-worst performance after Italy (-3.8%), so stock prices do not always rise steadily when the environment surrounding corporate performance is constantly changing[6]. The relationship between the nominal GDP growth rates of major countries and the growth rates of major stock indices is not necessarily stable over 10-year periods, but a positive correlation can be confirmed as the period lengthens (Figure 12). This indicates that while it is possible to earn high capital gains temporarily by investing in stocks, an increase in the nominal GDP growth rate, i.e., an improvement in the economy of one's own country, is indispensable for enjoying stable and long-term gains from such investments.

Figure 12. Nominal Growth Rates and Stock Index Increase Rates in Major Countries



Sources: Bloomberg LP, OECD
Note 1: All figures are as of the end of 2021.
Note 2: Stock price indices are the U.S. S&P 500, Eurozone STOXX 600, Japan TOPIX, U.K. FTSE 100, Canada S&P Toronto, South Korea KOSPI, Australia ASX, Switzerland SMI, and Sweden OMX Stockholm 30.

When Prime Minister Kishida took office last September, he proclaimed a fresh "income doubling plan" for the Reiwa era, but due to its lack of feasibility, this pledge fizzled out, and in May of this year, he came out with a less ambitious version, the "asset income doubling plan." Given the current high proportion of assets held as currency and deposits, the latter is certainly more feasible than the former, but as stressed above, it is essential to increase the rate of economic growth to ensure that it can be realized stably over the medium to long term. While it is essential to create an environment that encourages people to shift "from savings to investment" by expanding the iDeCo and NISA schemes, altering the tax regime, and providing financial education, if Japan's economy does not improve and Japanese companies do not strengthen their "earning power," Japan's abundant financial assets will be directed at financial products linked to overseas economies that are expected to grow at high rates. This could result in an outflow of funds abroad and a weakening of the yen. In this regard, it will be necessary not only to create an environment conducive to a shift "from savings to investment," but also to present a growth strategy that addresses how to restore the "earning power" of Japanese companies.

[6] Besides this, if stock investments are made during a so-called bubble phase, like that which occurred in Japan in around 1990, when P/E ratios (share price divided by net income per share) were around 80 times and stock price formation had become abnormal, there is a risk that stocks will underperform even over a long period of time.

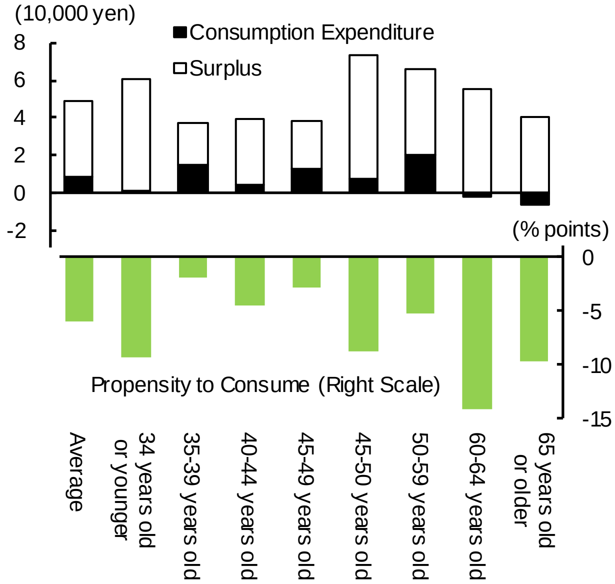
(2) Elimination of unease about the future

There is also the question of whether doubling asset income will lead to economic growth. In recent years, disposable income has increased, especially among young people, who have been accumulating financial assets, but this has not necessarily led to an increase in consumption expenditures.

Comparing disposable income and surplus/consumption expenditures by household head age group in 2015 and 2019 based on household surveys[7], we find that disposable income has increased for all age groups. Still, most of the increase has been used to increase financial assets and repay loans (surplus), with limited expansion in consumption expenditures, especially for those aged 60 and older (Figure 13). In fact, the propensity to consume has declined by 14.1 percentage points for those aged 60-64, 9.7 points for those aged 65 and older, and 9.2 points for those aged 34 and younger.

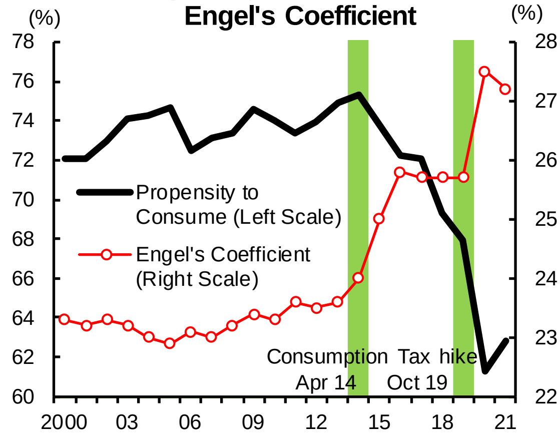
While higher incomes, including asset income, are a necessary element for realizing a virtuous cycle in the economy, they will not lead to sustained economic growth unless consumption expands sufficiently at the same time. Naturally, income growth would be temporary, and high investment returns would be unsustainable. Therefore, it is necessary to investigate the reasons that consumption has not expanded at a pace commensurate with the increase in income, and to take policy steps to improve this situation. While the propensity to consume of Japanese households has been on a long-term downtrend since peaking in 2014, given that the proportion of income spent on essentials, as measured by metrics such as Engel's coefficient, is high, this could be a reflection of concerns about the sustainability of Japan's social security system amid the graying of the population and the decline in real living standards due to reduced purchasing power in Japan (Figure 14). To translate increased

Figure 13. Changes in Consumption Expenditure and Surplus by Household Head Age Group (2015 vs 2019)



Source: National Survey of Family Income, Consumption and Wealth, Ministry of Internal Affairs and Communications」

Figure 14. Japan's Household's Propensity to Consume and Engel's Coefficient



Source: Statistics Bureau of Japan, "Family Income and Expenditure Survey
Note: Green is the year of the consumption tax hike.

[7] The period until 2019 was used to ascertain the underlying tone, as in 2020 and 2021 the COVID pandemic resulted in households receiving special cash handouts and also caused a marked decrease in demand for services involving contact with others due to activity restriction.

income into increased consumption, there is an urgent need to rebuild the social and economic structure to ensure its sustainability amid a declining population.

5. Conclusion

Japan's slow response to globalization and digitalization, which have accelerated worldwide since 2000, has resulted in a marked decline in the country's growth potential in recent years, and the country's GDP per capita, average wages, international competitiveness ranking, and various other indicators show that Japan has fallen behind other developed countries. Against this backdrop, the Kishida administration has stated in its Basic Policy on Economic and Fiscal Management and Reform (*Honebuto no Hoshin*) 2022 that it will "smoothly move labor into growth areas," "promote diverse work styles," and "invest in start-ups (new business ventures)." However, it is clear that any attempt to implement this raft of measures will end up only halfway successful unless systems that encourage longer service, such as seniority-based wage systems and retirement benefits, are also reformed.

On the financial side, as the corporate savings-investment balance has shifted into a savings surplus since the late 1990s, the funding cycle whereby households deposit their savings with financial institutions, which then lend them to corporations, has long since ceased to function. During this period, although the tax system has been deftly deployed to make temporary changes to the flow of funds, the funding cycle remains clogged, as there has been no significant structural change, with surplus cash tending to be concentrated among the risk-averse elderly population. Instead, the massive surplus funds of households and businesses that have nowhere else to go are being invested in government bonds through savings accounts, resulting in an increasingly inefficient economic structure, with public debt spiraling for example.

To finally succeed in engineering a "shift from savings to investment," we must take a serious look at the factors that have stood in the way of such a shift, and not only upgrade finance-related systems and the tax regime, but also make fundamental changes to systems, customary practices, and an economic structure that has been rendered obsolete and inefficient.

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