



2017.2.20

## **What the Productivity Gap between Japanese and US Service Industry suggests**

**Hiroshi Morikawa, Senior Economist  
Institute for International Monetary Affairs**

The Nihon Keizai Shimbun carried on February 16 a comparison of labor productivity in the US and Japan by industry (data by Japan Productivity Center) in its “Keizai Kyoshitsu” section. According to the data, productivity in Japan’s service industry like wholesale and retail trade and accommodations and eating and drinking accounts for less than a half of that in the US, and even in a broadly defined service industry as a whole, the index remained at 49.3 of the US. Comparing the recent date in 2010~2012 with those in 1998~2000, the productivity gap between Japan and the US narrowed in manufacturing industry but widened in service industry.

Many of the Japanese who have stayed overseas, especially in the US and Western Europe, may have felt somewhat at odds with the survey results. Take up home delivery service, for instance. In overseas countries, it is not rare that the delivery of an order takes 10 days. In addition, as the time of delivery cannot be set, I myself experienced that I could not take the delivery because it was made during my short absence from home and I had to wait for another week for the redelivery. Next, the car sales. One of my colleagues had to wait for two months for a delivery of a new car, not of so popular kind. And repair service. My friend was at a loss when he had to wait for half a month to have the failed boiler get repaired.

On the other hand, the effectiveness of the Japanese delivery business is remarkably high. The “Omotenashi (hospitality)” spirit in the accommodations business is highly praised from all over the world. Therefore the data on low productivity of the Japanese service sector is very far removed from actual feeling. Even Ms. Takizawa, the author of the article, points out that “the comparison of the absolute levels of productivity by industry should be interpreted with much care”, but at the same time emphasizes that it is an undeniable fact that the productivity differential between Japan and the US has been expanding through time. She also continues to emphasize the importance of deregulation, increase in IT related investment and development of human resources for prescriptions. I have no objection on the need to increase IT related investment. As Japan faces a society with decreasing population, active utilization of AI and robot is indispensable regardless of the industry. But I would like to reserve judgement on the

productivity differential. Some people think the same way with me. One of them, Mr. Susumu Okano of Daiwa Institute of Research, notes as follows. I would like to quote a sentence from him, though it is a bit long.

“In many cases, the quality standard of personal services absolutely differs depending on the cultures of countries where such services are provided. It relates to the qualitative difference of efficiency required for that service. It is not the matter of which is better or worse. It cannot be flatly said about the difference of quality but the quality standard of Japanese services seems to have a tendency to cost higher and for that reason, productivity figures for the Japanese service industry may tend to be estimated lower. To argue for the need to improve low Japanese productivity without taking account of such circumstances may lead us to a wrong direction. Even if we try to superficially improve a quantitative productivity, things will not go well as intended.<sup>1</sup>“

I myself feel that the Japanese society tends to demand costly services and the service industry is responding well to such demands. I have even a fear that depending on a kind of business they may be providing excessive services because of intensified competition. For instance, Is the delivery at every 2 hours really needed? Is the round-the-clock operation truly necessary for every convenience store? How about for fast food stores? Even if such service is needed, is it collecting fees that cover the cost? Isn't it placing undue stress on the workers on the business site to strengthen efforts of cost down in a heating competition of service? Isn't the excessive provision of service contributing to the problems of heavy works, long-term works, and uncompensated overtime? If a worker damages his health because of overwork and stress, not only precious manpower will be idly consumed away for a certain period, but also it will affect the medical care cost.

Thinking like this, I am ultimately wandering into a profound problem of how the quality of service should be measured, what should be considered as an outcome of service to measure the productivity. Let me give you two easily understandable examples. Japanese railway service is probably the best in the world in providing on-time operations. Surely they provide safely the service of quite high quality, I believe. However, the congestion of commuter trains in the metropolitan areas is by far beyond comparison with those in the UK and the US. Although they are inferior to Japan in term of on-term operation, I would rather make a harsh evaluation on Japan's service from the standpoint of comfort, since I have never experienced such a crowded commuting rush overseas. On-time operation and riding comfort. Neither of them should be given one-sided priority. Another example is the number of students in public schools. In Japan, a class-size of 35 has become mainstream in public primary and junior-high schools. However, according to a friend living in New Zealand, a class-size of less than 30 is mainstream and there are many classes of early 20s. When the size comes closer to 30, both teachers and parents are

---

<sup>1</sup> [http://www.dir.co.jp/library/column/20170120\\_011605.html](http://www.dir.co.jp/library/column/20170120_011605.html)

said to voice a complaint it is too big. So I wonder, will it be socially a desirable choice to increase a number of students for a teacher in order to raise the productivity data?

As these examples suggest, it is difficult to properly measure the productivity of service industry. The important thing is not to try to evaluate it with a single indicator. It is more so about the public service. I am not saying that the efforts to improve the productivity are not necessary. In New Zealand, in some of the subjects in primary school, competence-based curriculums have been introduced from lower grades. Even if it takes much time and cost to teach children according to their ability, such teaching will make an asset to them when they enter the world of work. In order to help produce such results, it is reported that study holidays have been provided for teachers to enhance their ability to teach.

The example of railways may be exceeding a range of management efforts by one railway company. Railway companies can be considered to be another victim of excess concentration of population and industry in the Tokyo Metropolitan area. Concentration can enhance the efficiency at times, but it will produce adverse effect of congestion. So-called “Unopened Railway Crossing” is an easily comprehensible example of external diseconomy. In such a situation, total municipal policy should be reviewed.

There should be no room for providing useless and excessive services in Japan which undergoes a period of decreasing population with aging population accompanied by less number of child birth. Promoting an effective use of manpower and resources will surely lead to an improvement of productivity. That will require the reconsideration of distribution of resources throughout the entire society, rather than only throwing the problems to the people who provide the services at the business sites.