

Discussion of Strategy 2020: New Growth Model, New Social Policy

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Very comprehensive and ambitious proposal. Because of the limitation of my knowledge, I comment only on a fraction of the proposal from a particular point of view

A framework: Aggregate output is produced from
private share (McGrattan-Prescott)

(a) labor 64%

(b) tangible capital 28%

(c) intangible capital 8%

(d) social capital

(a) Labor

Growth of labor force is expected to be limited due to a declining population

→ the only way to expand labor is investment on human capital

Education is relatively good, but can be improved, especially in higher education

Human capital accumulation on the job - one of intangible investment - is as important as education

(b) Tangible Capital

Inflation rate $>$ nominal interest rate on saving

→ saving rate is low and saving is biased to housing

→ needs to control inflation more

Needs to stop financial suppression (financial liberalization + effective financial regulation)

(c) Intangible Capital

Intangible investment (R&D, advertisement, starting new businesses and on-the-job training) is a key for growth

Intangible investment is as large as tangible in the US

Russian economy is short of intangible capital. Why?

barriers to new entry (for both foreign and domestic entrants)

soft budget constraint for unsuccessful businesses

An essence of free market is freedom to entry, because intangible capital accumulates through tries and errors

Use WTO accession and international competition to shake up the economy. Beware Dutch disease

(d) Social Capital

Social insurance for guaranteeing a minimum standard of living is important for free market economy

→ needs decent health care, pension and basic education

→ guarantee the minimum publicly and can provide the additional privately

Check-and balance between law making, public administration, jurisdiction and public opinion (including journalism and academics)