

# **The Trade-off Between Efficiency and Equality -- the Case of Japan**

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# **What measures have we seen so far?**

- **Various measures of the structural reform**
- **Gains from the reform → efficiency?**
- **Setbacks from the reform → inequality?**

# **Measures of the Structural Reform**

- 1) Regulatory Reform**
- 2) Privatization of Government  
Institutions**
- 3) Outsourcing of Government Services**
- 4) Special Zones for Reform**
- 5) Social Insurance Reform**
- 6) Administrative Reform**

# 1 ) Regulatory Reform

- **Temporary workers**

**Number of industries that could employ temporary workers increased in 1999. Manufacturing industry was permitted to employ them in 2004.**

**→ Employment increased.**

- **Taxi industry**

**Entry and fares were liberalized in 2002.**

**→ Employment increased.**

## **2) Privatization of Government Institutions**

- In 2005, the Japan Highway Public Corporation was privatized.  
→ No real change**
- Japan Post – postal services, financial services and insurance – will be privatized in 2007.**

# **3) Outsourcing of Government Services**

- **Parking ticketing started in June 2006**
- **Management of correctional facilities (trial) in 2007**
- **Collection of National pension premiums (trial) in 2007**

# **4) Special Zones for Reform**

- Various regulations were relaxed in 548 special zones at the end of 2005**
- 46 regulations will be relaxed nationwide**
- All are minor changes of conditions**
- No important regulations are tested!**

# **5) Social Insurance Reform**

- **Long-term care system began in 2000 and is expanding rapidly.**
- **Restraining healthcare costs is difficult despite various measures.**
- **Public pension reform is successful in limiting benefits payments.**
  - **Raising the age to start receiving benefits**
  - **Lowering the fixed multiple → The higher the income, the bigger the reduction.**
  - **Benefits grow less than CPI every year.**

## **6) Administrative Reform**

- The central government ministries and agencies were reorganized and simplified in 2001. No change in employment or in efficiency.**
- Civil servants will be reduced by 5% in the five years from 2006.**

# **Small Gains So Far**

- **No. of taxi drivers increased.**
- **No. of Temporary workers increased.**
- **Pension benefits reduced.**
- **Efficiency largely unchanged.**

# Wage Gap Narrowed: Temporary vs. Regular Workers

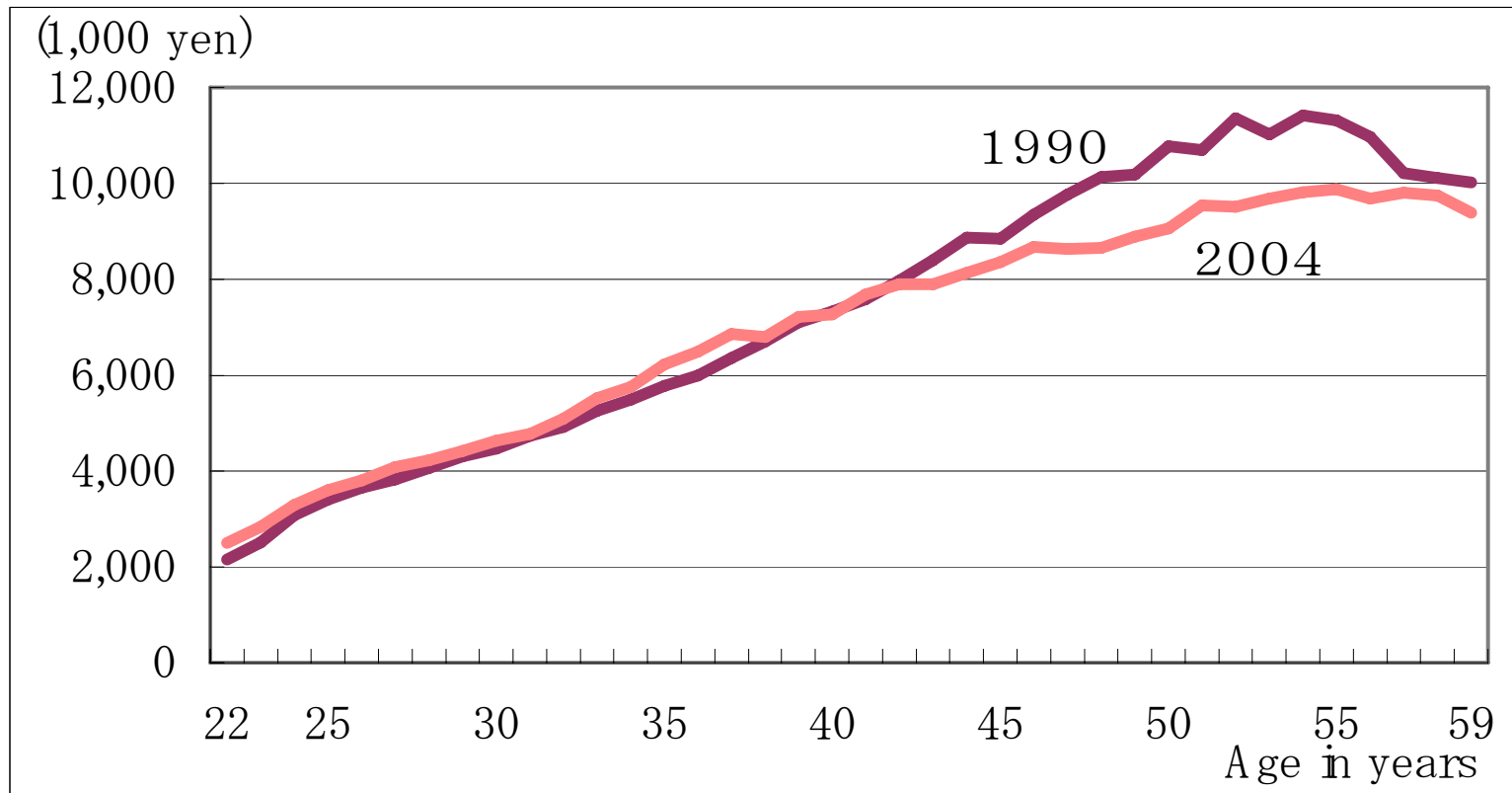
**Figure 2 Comparison of Annual Incomes**

|                                       | 2001  | 2005  |
|---------------------------------------|-------|-------|
| All employees (1,000 yen)             | 5,030 | 4,875 |
| Temporary workers (1,000 yen)         | 2,395 | 2,917 |
| Temporary workers / All Employees (%) | 47.6  | 59.8  |

Source: Ministry of Health, Labour and Welfare, "Basic Survey on Wage Structure"

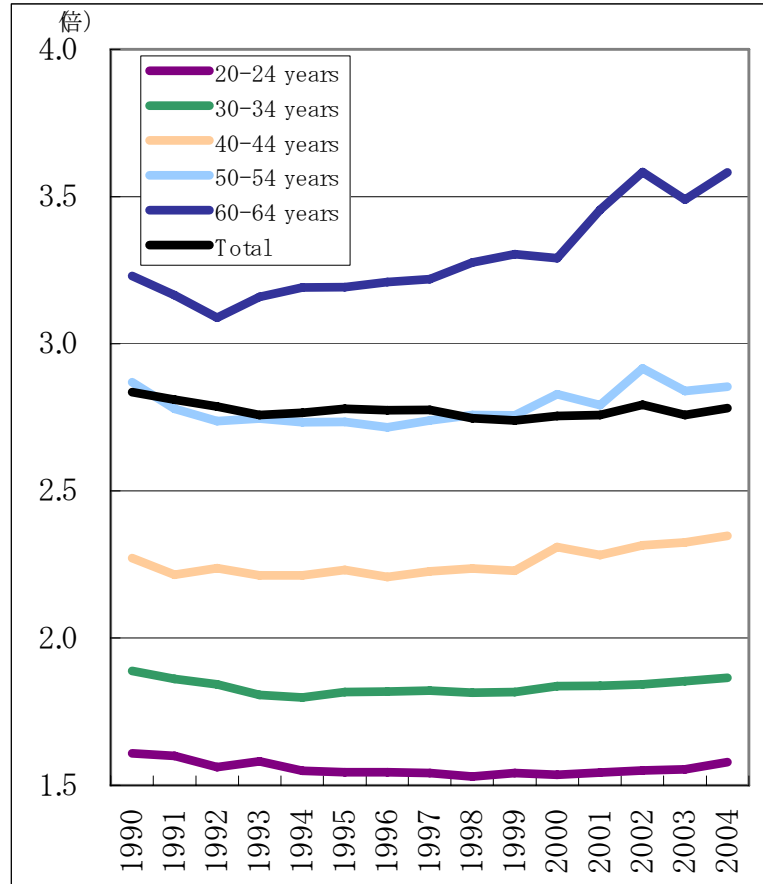
# Wage Gap Narrowed: Younger vs. Middle-aged

Figure 3 Annual wages of standard employee (in same company)



# Gap in the Same Age Group Unchanged

Figure 4 Differentials in Regular Wages of Male Workers

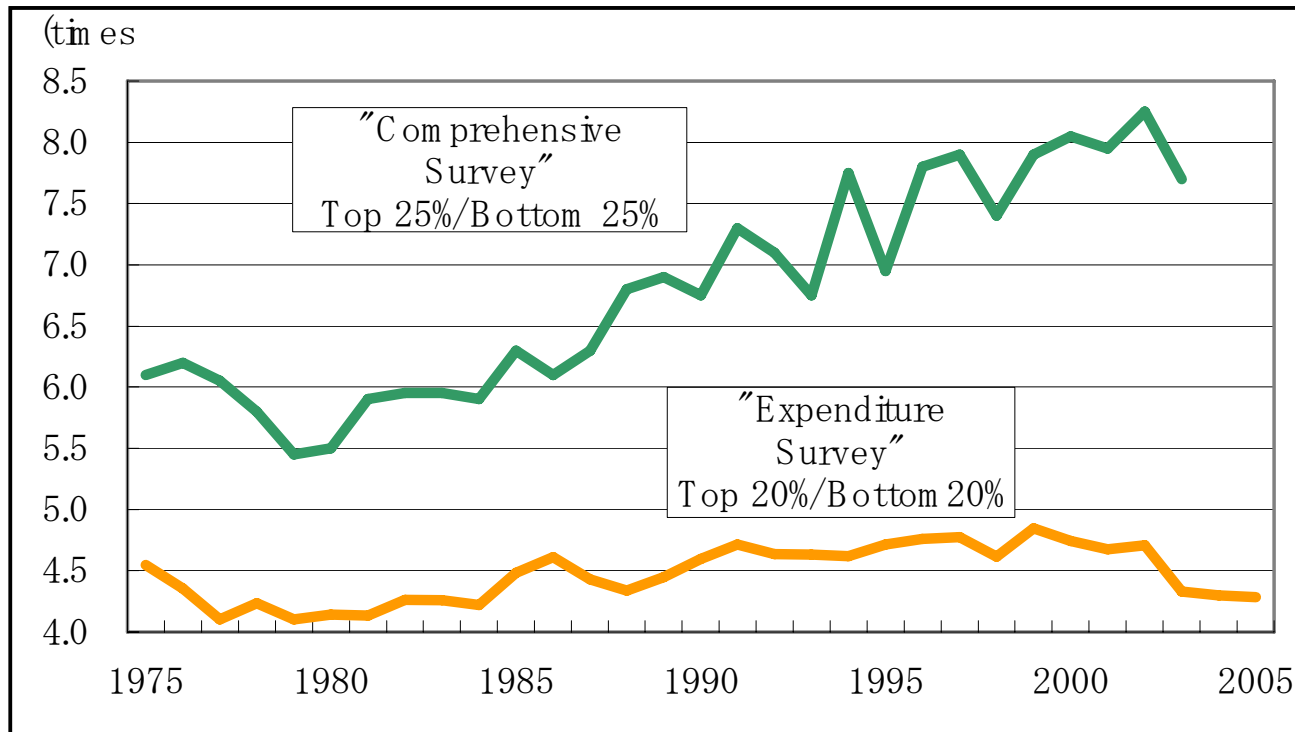


Note: 9<sup>th</sup> decile/ 1st decile

Source: “Basic Survey on Wage Structure”

# Equality of Family Income Deteriorated?

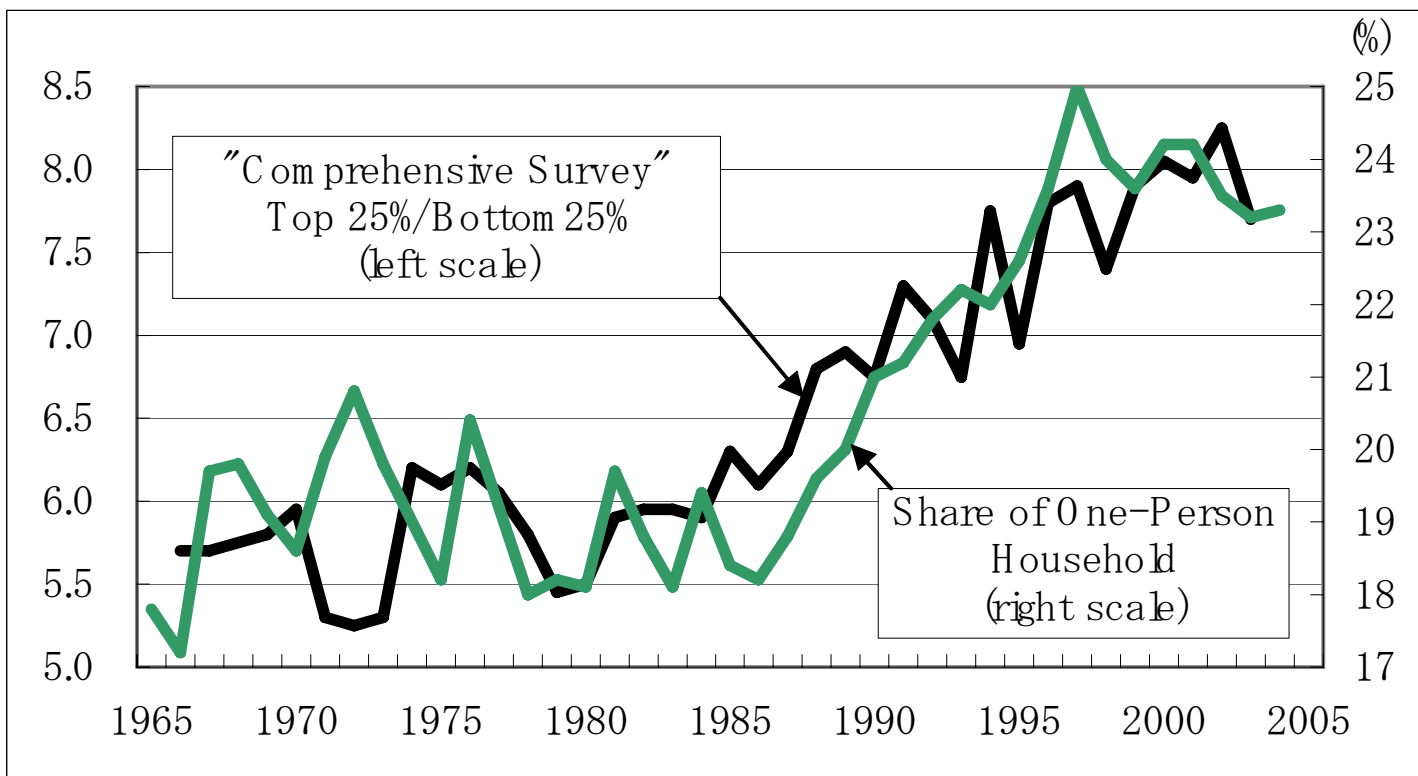
Figure 1 Income Inequality over Time



Notes: The “Comprehensive Survey of Living Condition of the People on Health and Welfare” includes single person households. “Expenditure Survey” consists only of households of two or more persons.

# More Single Person Households, Greater Income Gaps

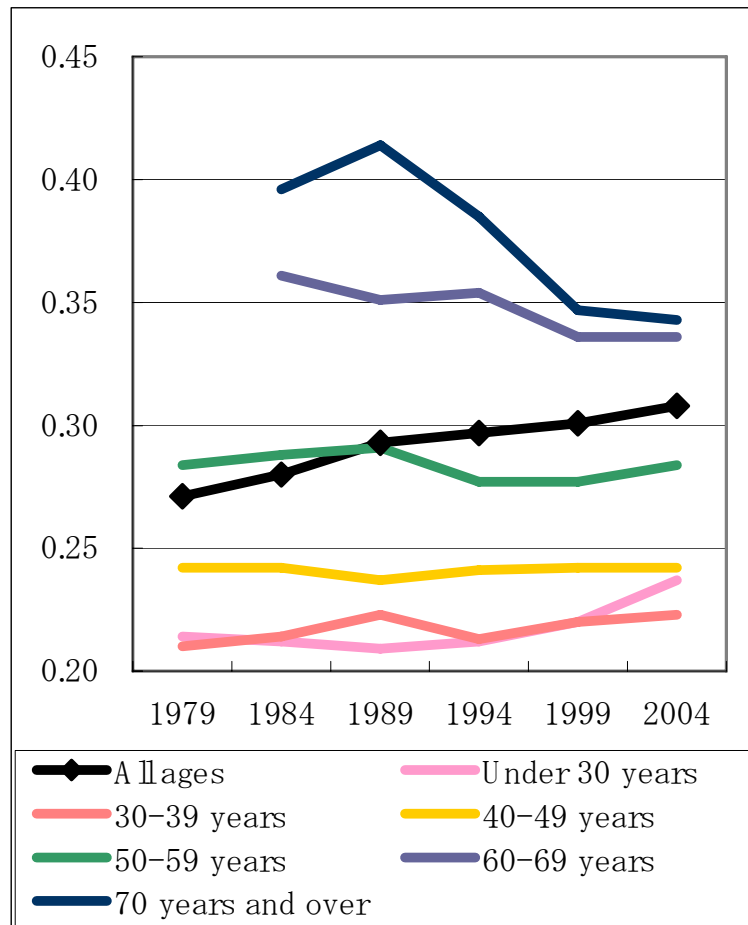
Figure 5 Rising single-person households and income differentials



Note: "Comprehensive Survey" includes single person households.

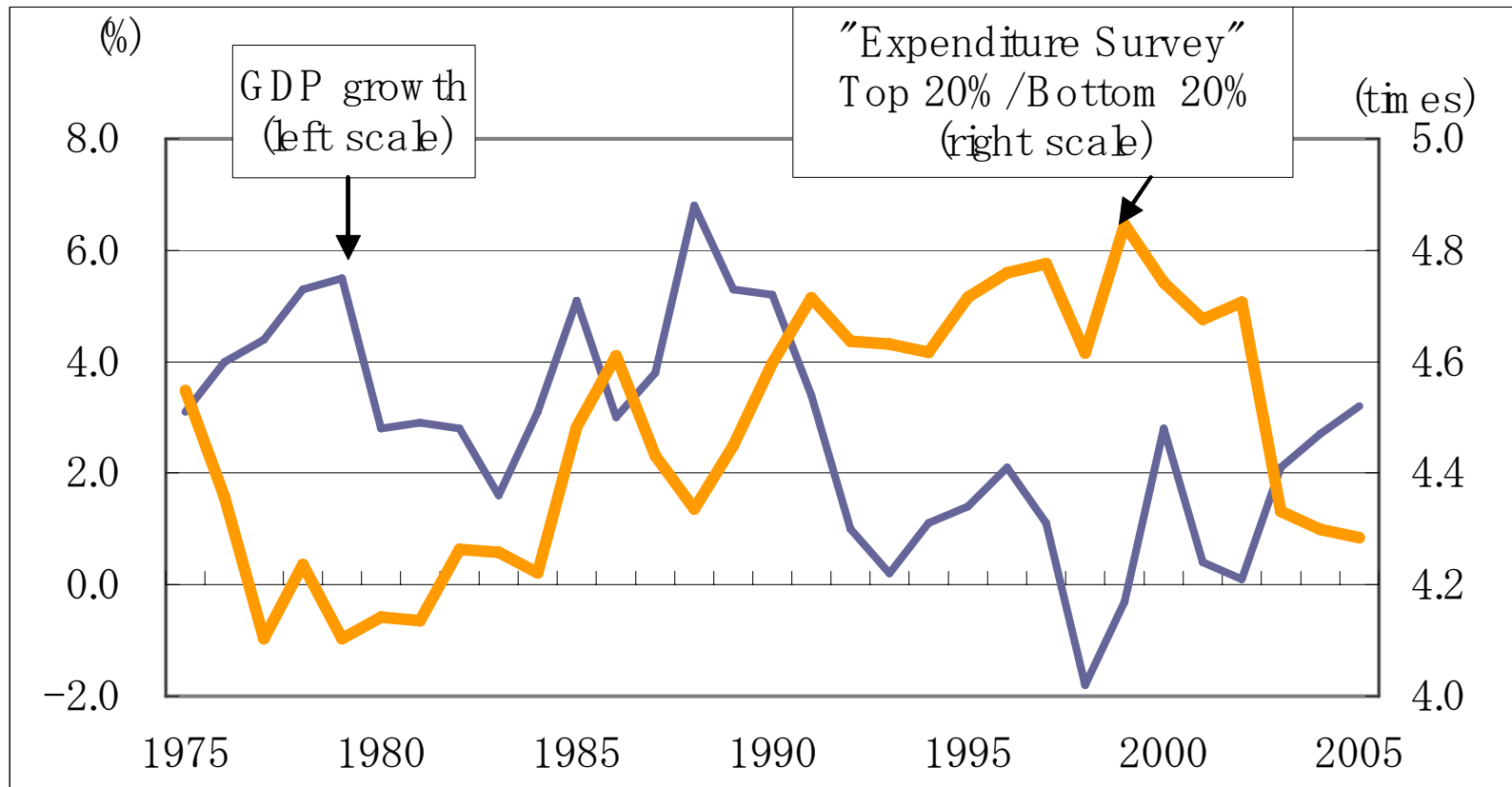
# More Equal in Every Age group, but Less Equal in Total, Because no. of Elderly Increased

Figure 6 Gini coefficients of annual income



# Equality Improves as Business Takes Off

Table 7 The economy and income differentials



# **Inequality is Not a Result of the Reform.**

- The competitive environment has not changed greatly and efficiency has not improved.**
- Some suggest that equality has suffered. However, there is no evidence to suggest that inequality occurred as a result of structural reforms.**
- The slight increase in the income disparity was due to aging of the population, and the economic recession.**

# **Reform Should Continue.**

- The structural reforms have not yet shown great results, and the road to efficiency is still very long.**
- Reforms should begin to be more full-fledged soon.**
- We should not stop the reforms as they have not led to greater inequality.**