

JAPAN

Labour productivity decelerated during Japan's decade of economic stagnation, thus widening the income gap with the leading OECD countries.

Priorities supported by indicators

Further liberalise services

Prices of services are relatively high, reflecting insufficiently strong enforcement of competition law, overly prescriptive regulations and inadequate regulatory frameworks in network industries, including electricity.

Actions taken: The resources of the Fair Trade Commission have been increased and its independence strengthened. Joint-stock companies have been allowed to enter the health and education sectors in “special zones for structural reform”. Compulsory fee-setting by professional associations is being phased out.

Recommendations: Further strengthen enforcement of competition law and impose heavier sanctions. Extend the reform zones nation-wide. Promote competition in network industries by such measures as setting a non-discriminatory interconnection framework, unbundling vertically integrated activities and creating independent regulatory bodies.

Reduce producer support to agriculture

Support for agricultural producers represents 59 per cent of total farm receipts, nearly double the OECD average, boosting farm income but maintaining excess resources in low-productivity activities.

Actions taken: Total support to agriculture has been cut from 2.3 per cent of GDP in 1986-88 to 1.4 per cent in 2001-03 as the agricultural sector has contracted. Measures to deregulate rice distribution have been introduced.

Recommendations: Further reduce the level of support to agriculture, while shifting its composition from market price support to direct payments, which cause less distortion of trade and production. Allow the entry of joint-stock companies into agriculture, which was recently permitted in some special zones, on a nation-wide basis.

Ease employment protection

The broad definition of unfair dismissal by courts has made the requirement for dismissal less transparent and this could have discouraged the hiring of regular workers. Also, the difference in the strictness of regulation between regular and non-regular workers is one of the factors contributing to the rise in the share of non-regular workers, raising both efficiency and equity concerns.

Actions taken: The requirements for dismissals have been elaborated in labour law, thus enhancing transparency.

Recommendations: To reduce dualism in the labour market and facilitate restructuring of the corporate and financial sectors, a comprehensive approach should be adopted, including a reduction of employment protection for regular workers.

Other key priorities

- Reform the financial sector by resolving the non-performing loan problem, requiring banks to strengthen their capital base and scaling back the role of public financial institutions.
- Remove impediments to foreign direct investment in Japan, currently receiving the lowest inflow in the OECD area, by implementing the action plan aimed at doubling the stock of FDI over five years.

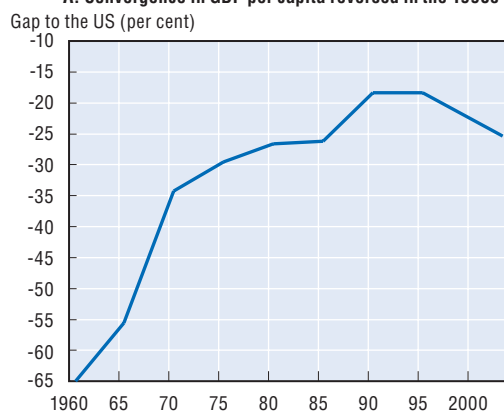
JAPAN

Structural indicators

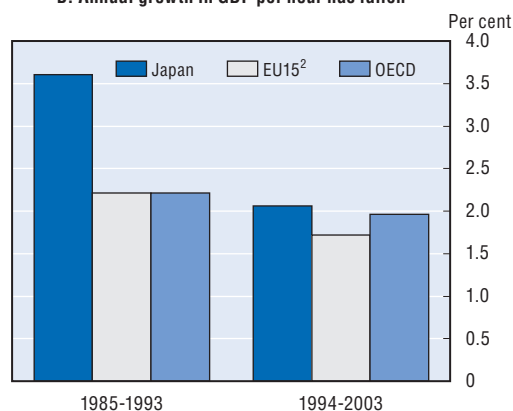
	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	2.8	1.4	1.3	1.4
Trend employment rate	72.3	73.9	74.7	75.1
Trend participation rate	74.4	76.2	77.6	78.1
Structural unemployment rate (NAIRU)	2.8	3.0	3.6	3.9

Source: Estimates based on OECD Economic Outlook, No. 76.

A. Convergence in GDP per capita reversed in the 1990s¹

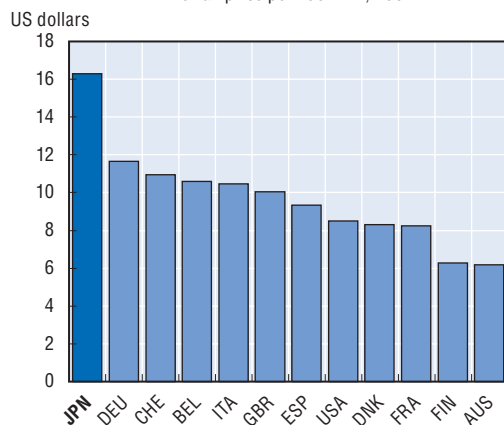


B. Annual growth in GDP per hour has fallen



C. Electricity prices for households are high

Pre-tax price per 100 kWh, 2002



D. Agricultural support is high

Producer support estimate



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Market price support and payments based on output and input use.

4. Payments based on area planted/animal numbers, historical entitlements and overall farm income.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Energy Prices and Taxes, 2004; Chart D: OECD, Producer and consumer support estimates database.