

JAPAN

The income gap relative to the upper half of OECD countries has been persistent over the last decade, reflecting a large productivity shortfall. The government has announced a Growth Strategy aimed at boosting incomes, notably in the environment, health care and tourism sectors, but it needs also to focus more on the following regulatory reforms to boost demand and productivity growth.

Priorities supported by indicators

Reform regulation in network sectors

Regulation of network sectors is more stringent than in the average OECD country, thus limiting competition and hindering productivity.

Actions taken: The privatisation process of Japan Post Bank and Japan Post Insurance, which were to be completed by 2017, has been stopped. The government proposed revising the Broadcast Act to integrate broadcasting services and communications.

Recommendations: Enhance efficiency in the network sectors – particularly electricity – through further deregulation and privatisation, while strengthening competition policy. The privatisation of Japan Post should be carried out as outlined in the 2005 law in order to encourage the flow of funds towards more productive private-sector investments.

Reduce producer support to agriculture

Support for agricultural producers is still double the OECD average, distorting trade and production, while boosting consumer prices of agricultural products far above world prices.

Actions taken: The government implemented a direct income support programme for targeted cereals, including rice, on a trial basis in 2010.

Recommendations: Further scale back the level of support to agriculture. Shift its composition away from support based on output and towards direct support for farmers to reduce the distortion of trade and production decisions.

Reduce the dualism of job protection

The large share of non-regular workers, at more than one-third of total employment, discourages on-the-job training, while creating equity concerns due to inequality in pay and coverage by the social security system.

Actions taken: The government revised the Employment Insurance Act to relax the conditions for receiving benefits in 2009 and expanded the number of workers covered by the insurance in 2010.

Recommendations: Reduce employment protection for regular workers, while expanding social insurance coverage for non-regular workers to equalise social costs of employment among different types of contracts.

Other key priorities

Lower restrictions on FDI

The low stock of inward FDI – the smallest in the OECD area at 4% of GDP – limits competition, especially in services.

Actions taken: The government decided to establish a special zone system to revitalise local economies, including by attracting foreign firms. In 2010, it announced a programme to facilitate inward FDI to make Japan a hub in Asia.

Recommendations: Promote inward FDI by reducing legal and non-legal impediments, especially in services, and nurture an attractive business environment to attract foreign investors through tax and labour market reforms.

Improve the efficiency of the tax system

Reduce corporate taxes and improve the efficiency of the tax system. With the highest corporate tax rate among OECD countries and the lowest consumption tax rate, tax structure in Japan undermines productivity.

Actions taken: The government decided in 2010, in principle, to reduce the effective corporate tax rate to the average of major countries and to review tax expenditures to expand the tax base.

Recommendations: Implement the planned reform of the corporate tax, while increasing the consumption tax and property-holding taxes to raise the necessary revenues to finance growing welfare spending and to improve the fiscal balance.

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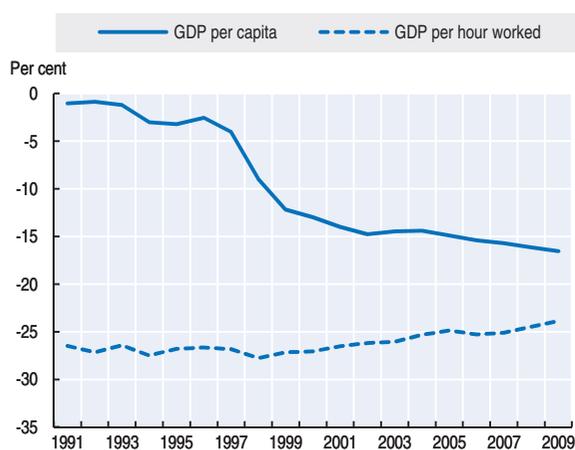
Structural indicators

Average annual trend growth rates, per cent

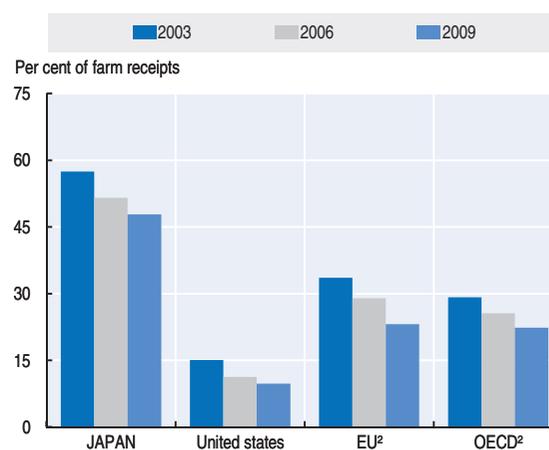
	1999-2009	1999-2004	2004-09
GDP per capita	0.9	1.0	0.8
Labour utilisation	-0.8	-0.9	-0.8
of which: Employment rate	-0.4	-0.3	-0.4
Average hours	-0.4	-0.6	-0.3
Labour productivity	1.7	1.8	1.6
of which: Capital intensity	0.6	0.8	0.4
Multifactor productivity	1.1	1.1	1.1

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.

A. The gap in GDP per capita persists
Gap to the upper half of OECD countries¹



B. Agricultural support remains very high



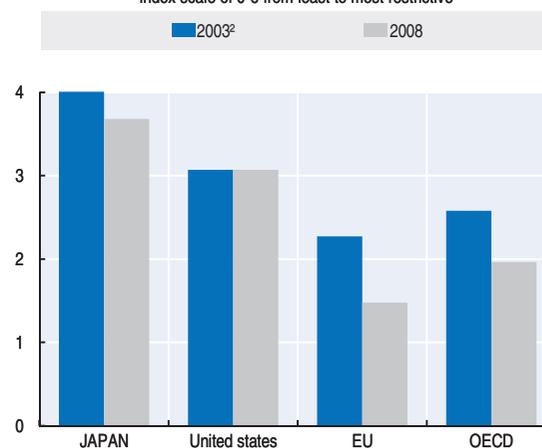
C. Employment protection legislation is relatively unbalanced, 2008

Index scale of 0-6 from least to most restrictive



D. Regulatory barriers to entry in the network sectors continue to be restrictive

Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).

2. For the aggregates of European countries in the OECD and total OECD averages exclude Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Chart B: OECD, Producer and Consumer Support Estimates Database; Chart C: OECD, Employment Database; Chart D: OECD, Product Market Regulation Database.

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