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- Per capita income remains about a quarter below the most advanced OECD countries, reflecting somewhat weak labour productivity, which is held back by a marked slowdown in capital accumulation. Despite significant declines in the working-age population, a rising participation rate, notably among women, is boosting labour inputs.
- Income inequality has decreased recently but the Gini index remains significantly above the OECD average. The share of disposable income held by the poorest 20% of the population is below the OECD average, reflecting entrenched labour market dualism and the weak redistributive effect of the tax and social welfare system on the working-age population.
- Structural reforms during the past few years have addressed some of the priorities in *Going for Growth 2015*. From 2018, farmers will be allowed to produce rice without relying on a government quota allocation and Japan's participation in the Trans-Pacific Partnership will require further liberalisation of agriculture. The legal unbundling of electricity transmission and distribution was approved in 2015. The corporate income tax rate was reduced from 37% in FY 2013 to just below 30% in FY 2016, although the planned hike in the consumption tax rate to 10% has been postponed from 2015 to 2019. Rising employment of women has been supported by an expansion in childcare. In 2015-2016, the government created four additional "National Strategic Special Zones" in which regulations in a number of areas were relaxed.
- Narrowing the productivity gap requires further reforms to reduce entry barriers, especially in services, and encourage inward FDI. Enhancing the competitiveness of agriculture through the consolidation of farmland and increased entry of business-oriented farmers would facilitate Japan's participation in comprehensive trade agreements. To mitigate the impact of a shrinking and ageing population, it is essential to increase the employment of women by reducing disincentives for second earners in the tax and social security system, further expanding childcare and breaking down labour market dualism, which would also lower income inequality and boost productivity by encouraging firm-based training.
- Higher environmental taxes would help achieve environmental goals, while raising government revenue. Following through on the reform of the electricity sector would also facilitate the use of renewables.

Going for Growth 2017 priorities

Ease entry barriers for domestic and foreign firms in the services sector. Product market regulations limit competition and investment in services, reducing productivity.

Actions taken: The 2015 revision of the Electricity Business Act requires legal unbundling of power transmission and distribution in 2020, followed by the elimination of regulations on retail prices. In 2015-16, the government created four additional "National Strategic Special Zones" in which regulations, notably on healthcare and employment, were relaxed.

Recommendations: Extend the reforms in the Special Zones nationwide. Reduce entry barriers, while lowering restrictions on service imports and inward FDI, including those on ownership. Increase fines on violators of the Anti-Monopoly Act (AMA) and reduce exemptions from the AMA. Break down the ten regional monopolies in the electricity sector and create a competitive, nationwide market, which would also support the development of renewable energy. Follow through on the full privatisation of Japan Post, including its banking and insurance companies, as outlined in the 2005 law.

Reduce producer support to agriculture. Support for agricultural producers is more than double the OECD average, raising prices for consumers and complicating Japan's

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Growth performance and inequality indicators

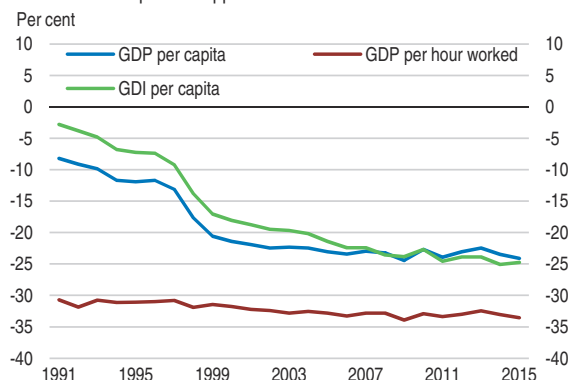
A. Growth

Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.1	1.4
Labour utilisation	0.3	0.6
of which: Labour force participation rate	0.2	0.3
Employment rate ¹	0.0	0.3
Employment coefficient ²	0.0	0.0
Labour productivity	0.1	1.1
of which: Capital deepening	0.4	-0.6
Total factor productivity	-0.3	1.8
Dependency ratio	-0.3	-0.4

B. Inequality

	Level	Annual variation (percentage points)
	2012	2009-12
Gini coefficient ³	33 (31.7)*	-0.2 (0)*
Share of national disposable income held by the poorest 20%	6.5 (7.7)*	0 (0)*

* OECD average

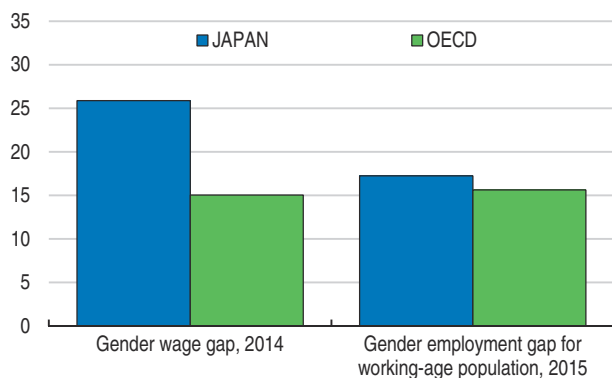
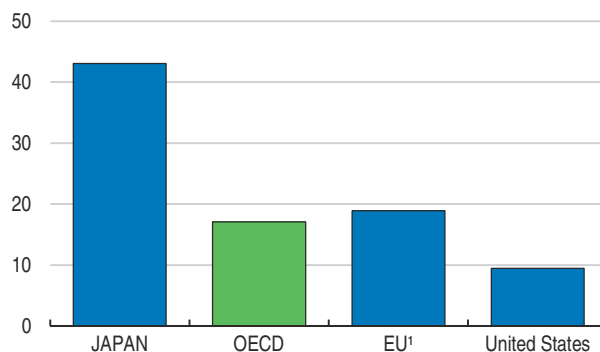
C. The gap in GDP per capita persists
Gap to the upper half of OECD countries⁴

1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

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Policy indicators

A. Participation of women in the labour market is low, driving up wage inequality
PercentageB. Producer support to agriculture is more than double the OECD average
Percentage of farm receipts, 2015

1. For this measure, EU refers to all 28 members of the European Union.

Source: Panel A: OECD, *Labour Force Statistics and Social Protection and Well-being Databases*; Panel B: OECD, *Producer and Consumer Support Estimates Database*.

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participation in comprehensive trade agreements. Moreover, producer support in Japan is dominated by the potentially most distorting form of support.

Actions taken: From 2018, farmers will be allowed to produce rice without relying on a government quota allocation, although increased subsidies for manufacturing and feed rice, and other crops, such as barley and wheat, are keeping the rice price high. Direct payments for rice will end in 2018. In 2016, rules on the number of farmers on the boards of agricultural corporations and limits on the voting rights of non-farmers were relaxed.

Recommendations: Reduce agricultural support, including for diversion crops, such as feed rice, barley and wheat, and delink it from production. Promote greater efficiency through farmland consolidation by lifting obstacles to transactions and abolishing the prohibition on non-agricultural corporations owning farmland.

Improve the efficiency of the tax system. The tax system, which has a high corporate tax rate with a narrow base and the lowest consumption tax rate among OECD countries, lowers Japan's growth potential.

Actions taken: The corporate income tax rate, which was one of the highest in the OECD at 37% in FY 2013, was cut to just under 30% in FY 2016. The planned hike in the consumption tax rate to 10% in 2015 has been delayed until 2019 and will be accompanied by the introduction of multiple rates. A personal identification number for tax and social insurance ("my number") was introduced in 2016, thus enhancing transparency about income.

Recommendations: Set a schedule of small annual increases in the consumption tax to raise it toward the OECD average of 20%. Continue to lower the corporate tax rate toward the 26% OECD average and broaden its base. Broaden the personal income tax base by scaling back deductions that primarily benefit high-income households. Increase environmental taxes to achieve environmental goals and boost revenue.

Strengthen policies to support female labour force participation. The employment rate of women is 17 percentage points below that of men, one of the largest gaps in the OECD, slowing growth and reducing social cohesion.

Actions taken: The government expanded the planned increase in the capacity of childcare centres over FY 2013 to FY 2017 from 0.4 million to 0.5 million and aims to boost the capacity of long-term care for the elderly by 0.5 million between FY 2015 and the early 2020s. The Promotion of Women's Career Activities Act, which aims to increase opportunities for women in hiring and promotions and improve work-life balance, took effect in 2016. Companies with more than 300 workers must set quantitative targets to promote the careers of women.

Recommendations: Encourage women's labour force participation through a comprehensive approach that includes further increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax and transfer system and breaking down labour market dualism.

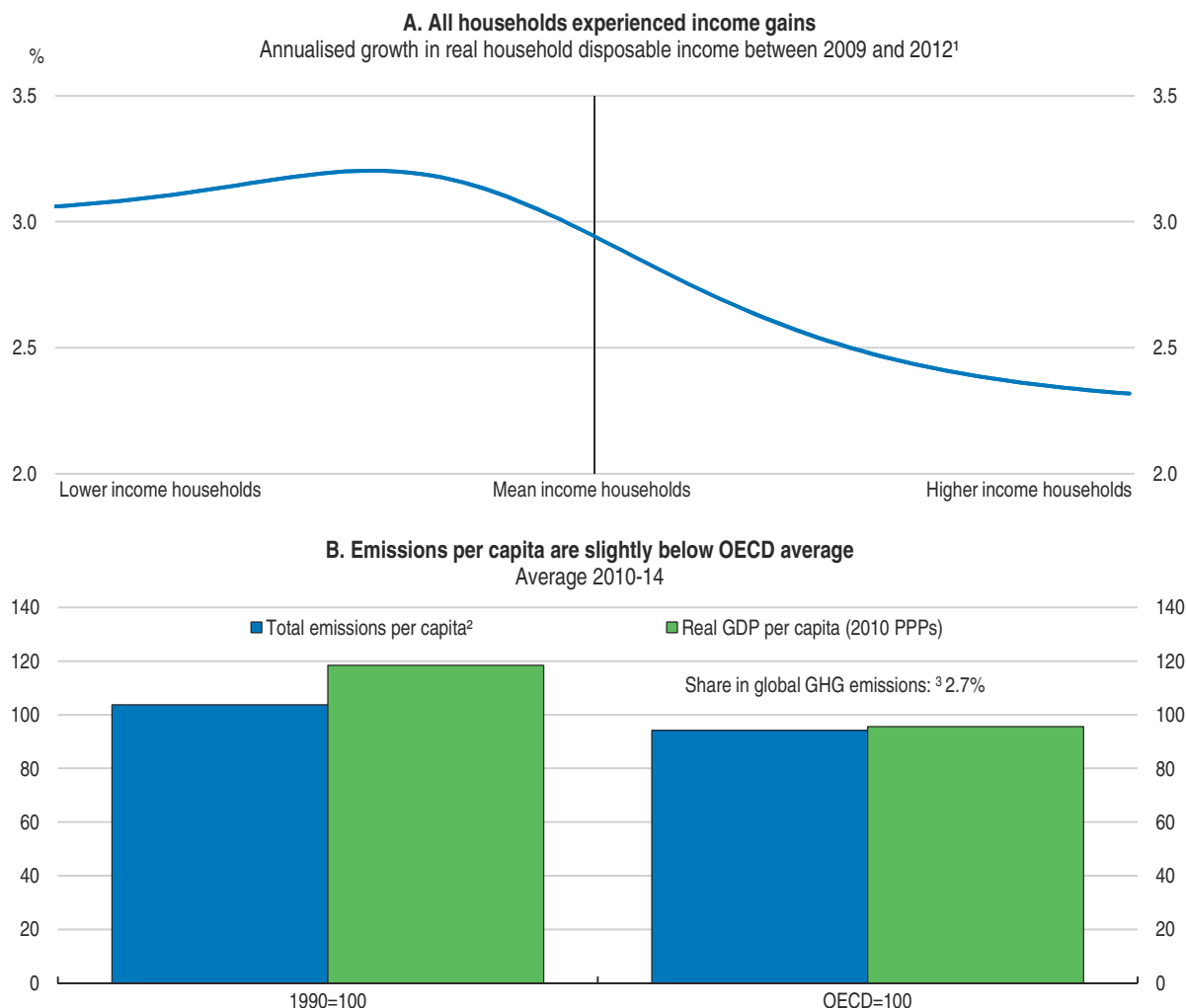
Reform job protection and upgrade training programmes for the unemployed. Labour market dualism stems from the high proportion of non-regular workers – more than a third of total employment – and is a major driver of income inequality. In addition to having low-paid and precarious jobs, non-regular workers receive limited social protection coverage and less training.

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Actions taken: An expansion of employees' pension and healthcare extended coverage to additional 250 000 part-time workers in 2016. To promote equal pay for equal work, the government is preparing for attaching guidelines to the Labour Contract Law, the Part-time Workers' Law and the Dispatched Worker Law.


Recommendations: Reduce effective employment protection for regular workers by increasing transparency about the cost of collective dismissal and reducing the role of the judicial system. Further expand social protection for non-regular workers and upgrade training programmes for them.

Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2009 and 2012. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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