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- The income gap relative to the upper half of the OECD has been persistent, as a decline in labour inputs has offset relative productivity gains. Nevertheless, average labour productivity remains nearly a quarter below the leading OECD economies, while labour utilisation is slightly above.
- The corporate income tax rate was reduced, although the cut has been temporarily offset by a surcharge to pay for reconstruction spending. Measures to boost inward foreign direct investment (FDI) have been introduced, although less progress has been made in reforming the service sector.
- Narrowing the productivity gap requires reforms to reduce entry barriers and encourage inward FDI, particularly outside manufacturing, where productivity has lagged behind. Other priorities include breaking down labour market duality, making the tax system more pro-growth and enhancing the competitiveness of agriculture, which would also facilitate Japan's participation in trade agreements. Increasing female labour force participation would mitigate the demographic headwinds from a falling population.
- In addition to boosting productivity, breaking down labour market duality would reduce inequality.

Growth performance indicators

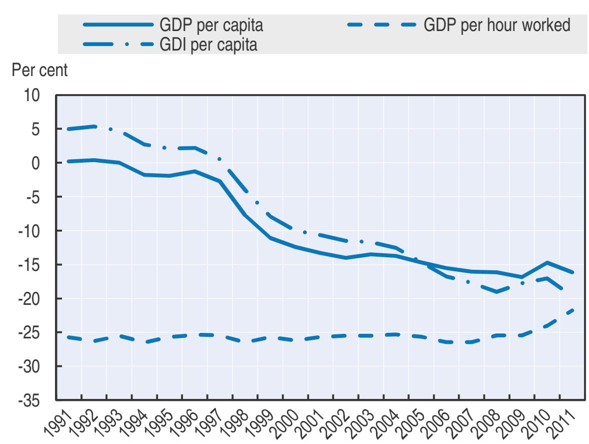
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.4	0.5
Potential labour utilisation		-0.5	-0.4
of which:	Labour force participation rate	-0.5	-0.4
	Employment rate[1]	0.0	0.0
Potential labour productivity		1.0	1.0
of which:	Capital intensity	0.5	0.3
	Labour efficiency	0.1	0.3
	Human capital	0.4	0.4

B. The gap in GDP per capita persists

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts* and *Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777093

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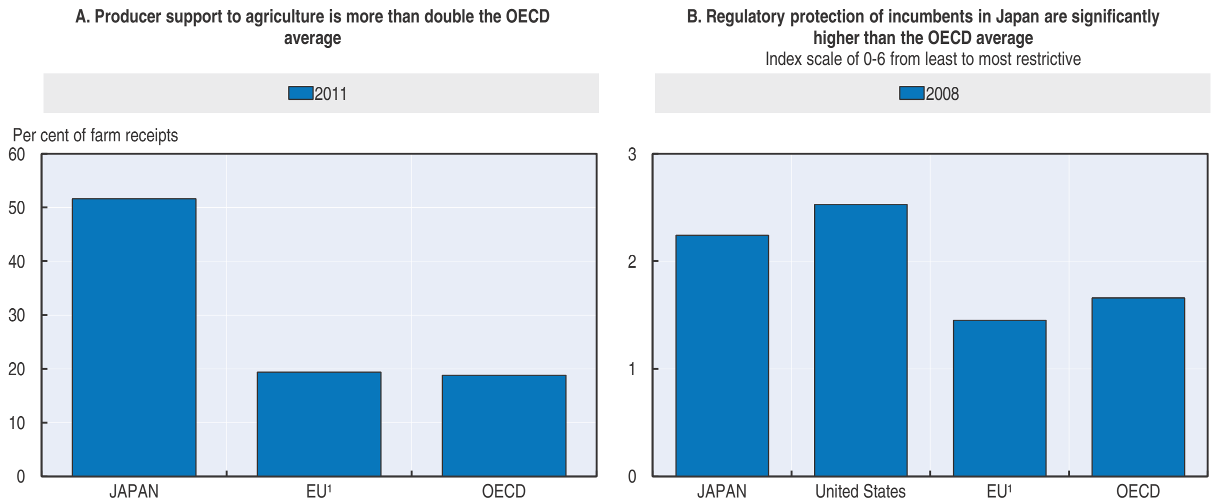
Policy indicators



1. Average of 21 EU countries members of the OECD.
Source: OECD, *Producer and Consumer Support Estimates and Product Market Regulation Databases.*

StatLink http://dx.doi.org/10.1787/888932777112

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

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

Actions taken: In 2011, the government introduced incentives, including fiscal measures, to boost inward FDI. The 2012 revised Japan Post Privatisation Law resumed the privatisation process, while taking account of the business conditions of Japan Post Bank and Japan Post Insurance.

Recommendations: Relax entry barriers, while reducing 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. 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 double the OECD average, distorting trade and production.

Actions taken: In October 2011, the government announced a plan to enhance the competitiveness of agriculture, notably by boosting the number of young, full-time farmers and consolidating farms.

Recommendations: Scale back agricultural protection and shift its composition away from price support to direct support for farmers, thereby facilitating Japan's participation in trade agreements.

Improve the efficiency of the tax system. With the highest corporate tax rate among OECD countries and a narrow base and the lowest consumption tax rate, the tax system lowers Japan's growth potential.

Actions taken: In 2012, the government cut the corporate tax rate (central and local) from 40% to 35% and the Diet approved a hike in the consumption tax rate in two steps, from 5% to 10%, by 2015, conditional on improvement in economic conditions.

Recommendations: Implement the government's proposal to hike the consumption tax rate as planned, while broadening the income tax bases and further reducing the corporate tax rate.

Other key priorities

****Strengthen policies to support female labour force participation*.**[1] The participation rate of women aged 25 to 54 in 2010 was the sixth lowest in the OECD.

Recommendations: Encourage women's labour participation, *e.g.* by increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax/benefit system and addressing labour market duality.

Reform job protection and upgrade training programmes. Non-regular workers, who constitute more than a third of total employment, tend to hold precarious jobs, to have limited social protection coverage and to receive less training.

Actions taken: The 2012 revised Dispatched Workers Law restricted the use of such workers for less than 30 days. However, this does not address the need for employment flexibility and will encourage firms to shift to other types of non-regular workers. A law enacted in 2012 expanded the coverage of the public pension programme for employees, including non-regular workers, from 2016.

Recommendations: Reduce effective employment protection for regular workers, while expanding the social protection coverage of non-regular workers and upgrading training programmes for them.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

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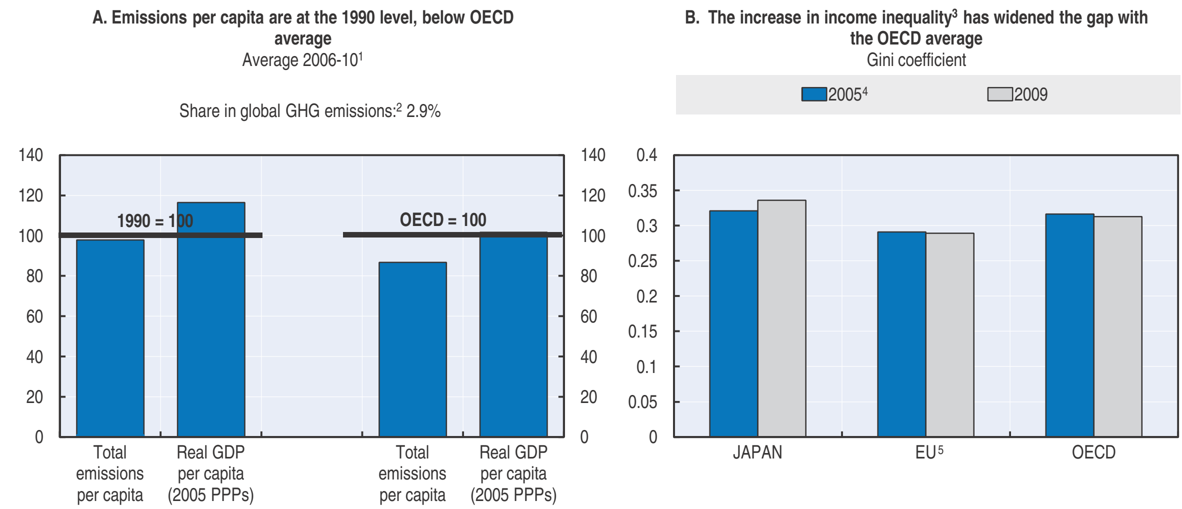
Other dimenstions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2003 for Japan.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777131