

JAPAN

- The GDP per capita gap relative to the upper half of the OECD remains large, 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 2013 reform of agricultural policy, including a phasing out of quotas on the production of table rice, is being implemented. Legislation to strengthen competition in the electricity sector was approved in 2014. The introduction of National Strategic Special Zones in 2014 is promoting a range of structural reforms. The consumption tax rate was increased in 2014 and the corporate income tax rate was reduced.
- Narrowing the productivity gap requires reforms to reduce entry barriers and encourage inward FDI, particularly in services, where productivity has lagged behind. Measures to break down labour market duality and make the tax system more pro-growth are also needed. Enhancing the competitiveness of agriculture would facilitate Japan's participation in trade agreements. Increasing female labour force participation is essential to mitigate demographic headwinds from a falling population.
- Breaking down labour market duality would boost productivity, in particular by encouraging firm-based training, and reduce income inequality.

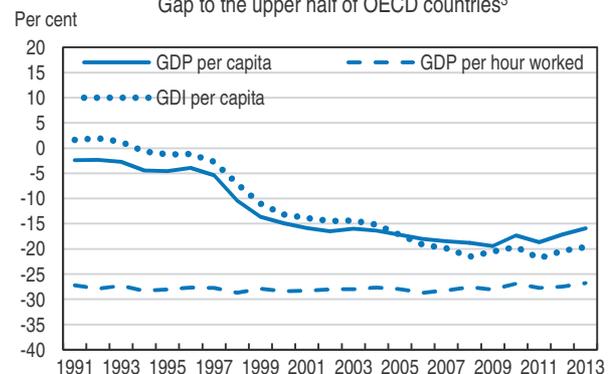
Growth performance indicators

A. Average annual trend growth rates

Per cent

	2003-08	2008-13
Potential GDP per capita	0.4	0.4
Potential labour utilisation	-0.5	-0.3
of which: Labour force participation rate	-0.5	-0.3
Employment rate ¹	0.0	0.0
Trend employment coefficient ²	0.0	0.0
Potential labour productivity	0.8	0.7
of which: Capital deepening	0.2	-0.2
Labour efficiency	0.1	0.4
Human capital	0.6	0.5

B. The gap in GDP per capita persists

Gap to the upper half of OECD countries³

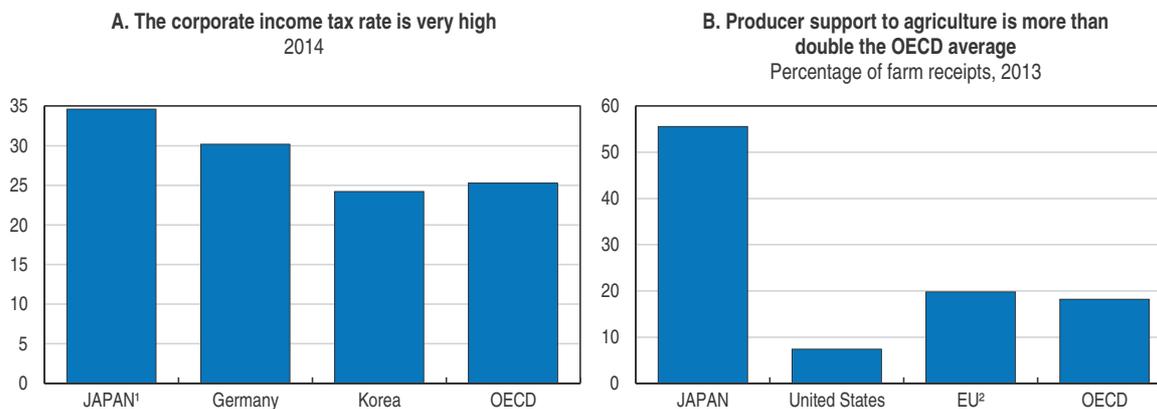
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage 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: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink  <http://dx.doi.org/10.1787/888933177858>

JAPAN

Policy indicators



1. In the fiscal year 2014 following the removal of the surcharge on the corporate income tax.

2. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, *Tax Database*. Panel B: OECD, *Producer and Consumer Support Estimates Database*.

StatLink  <http://dx.doi.org/10.1787/888933178286>

Going for Growth 2015 priorities

Priorities supported by indicators

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 June 2013 growth strategy calls for doubling the stock of inward FDI to JPY 35 trillion by 2020. In 2014, the government announced six “National Strategic Special Zones” in which regulations, including rules on construction and employment, will be relaxed to create a business-friendly environment. In 2014, the Electricity Business Act was revised to fully liberalise electricity retailing in 2016.

Recommendations: Extend the reforms in the Special Zones nationwide. 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. Steadily implement electricity market reform, including the unbundling of generation and transmission. Follow through on the full privatisation of Japan Post Group, including its banking and insurance companies, as outlined in the revised 2012 law.

Reduce producer support to agriculture. Support for agricultural producers is double the OECD average, distorting trade and production and complicating Japan’s participation in comprehensive bilateral and regional trade agreements.

Actions taken: In December 2013, legislation was approved to establish institutions supported by regional governments to promote the consolidation of farmland. The government decided to phase out the administrative allocation of table rice production targets in around five years and abolish the direct payment to rice producers by 2018.

Recommendations: Reduce agricultural support and delink it from production. Facilitate the entry of business-oriented farmers, in part to promote farm consolidation.

JAPAN

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

Actions taken: In April 2014, the government raised the consumption tax rate to 8%. A second tax hike planned for 2015, conditional on economic conditions, was postponed to 2017. In addition, the government announced that the corporate income tax rate would be cut to below 30% within several years, financed by measures, such as broadening the tax base.

Recommendations: Carry out the planned increase in the consumption tax rate to 10% in 2017, while maintaining a single rate to avoid the distortions and poor targeting associated with multiple rates. Implement the announced cut in the corporate income tax rate, while broadening the tax bases for both the personal and corporate income taxes.

Other key priorities

Strengthen policies to support female labour force participation. The participation rate of women aged 25 to 54 in 2012 was the tenth lowest in the OECD.

Actions taken: The June 2013 growth strategy targets an increase in the share of employed women among the 25 to 44-age group from 68% in 2012 to 73% in 2020. Reforms to achieve this include eliminating waiting lists for childcare centres by 2017 and subsidising firms that facilitate family-friendly working conditions, for example subsidies to establish and run childcare facilities within the firm. In addition, as from 2015, listed companies are required to disclose the number of women in executive positions.

Recommendations: Encourage women's labour participation through a comprehensive approach that includes increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax/benefit system and addressing labour market duality.

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

Actions taken: An employment guideline was prepared for the National Strategic Special Zones to make the cost of employment adjustment more transparent.

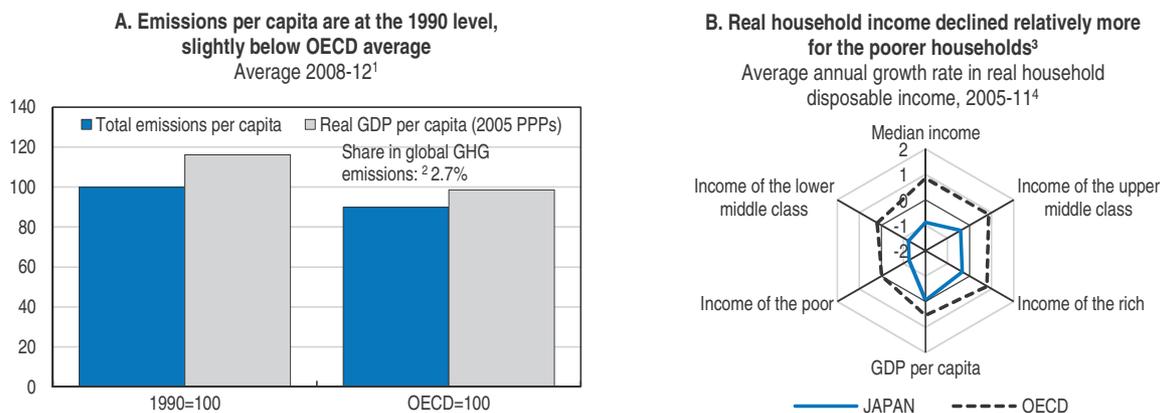
Recommendations: Reduce effective employment protection for regular workers by increasing transparency about the cost of collective dismissal and reducing the role of the judicial system. Expand social protection for non-regular workers and upgrade training programmes for them.

Reform areas no longer considered a priority in *Going for Growth*

For Japan, all priority areas from the 2013 issue of *Going for Growth* are maintained.

JAPAN

Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO₂ 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.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2006-10 for Japan.

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

StatLink  <http://dx.doi.org/10.1787/888933178719>