



# 2017 OECD ECONOMIC SURVEY OF JAPAN

Raising productivity  
for inclusive growth

Tokyo, 14 April 2017

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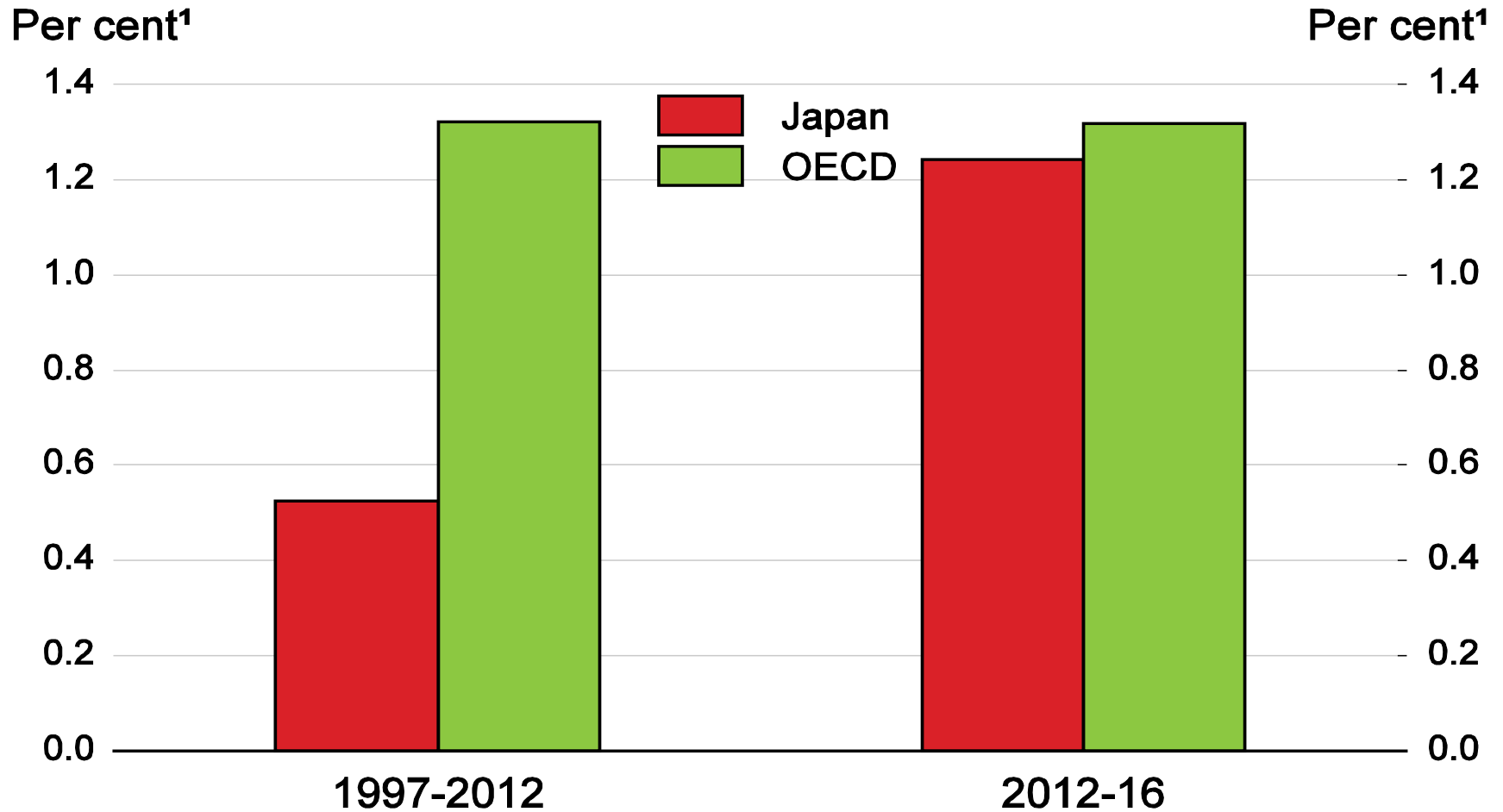


# Overview: Growth has picked up but major challenges remain

- ❑ Growth has gained momentum over the past four years:
    - Real GDP in per capita terms has been close to the OECD area.
    - Job creation has been strong, particularly among women.
  
  - ❑ Major challenges:
    - Japan's population is ageing rapidly and shrinking.
    - Labour market dualism creates inequality and contributes to a large gender wage gap.
    - Productivity has slowed and is well below leading OECD economies.
    - The already high government debt ratio continues to increase.
- It is essential to successfully implement all three arrows of Abenomics.



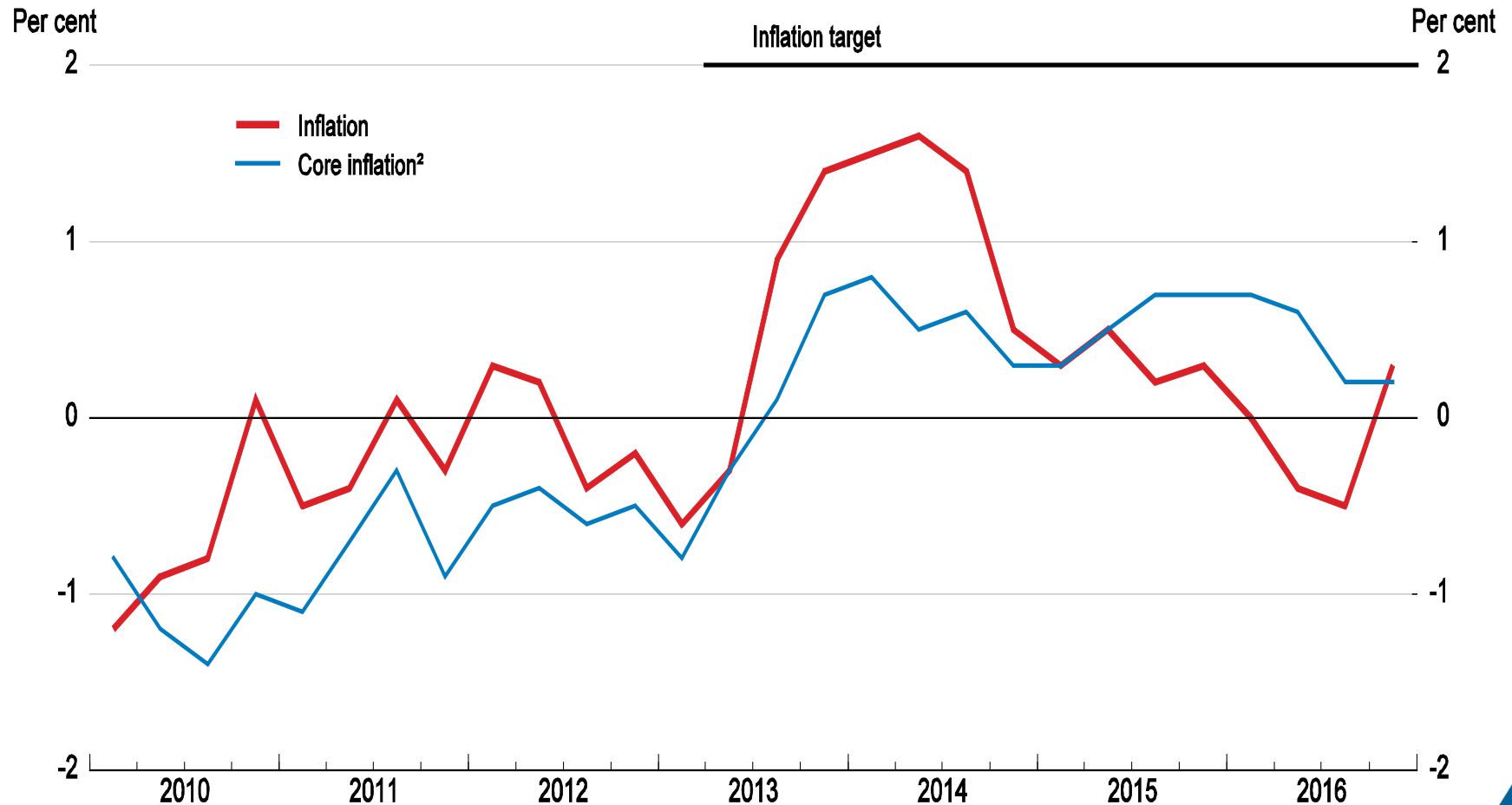
# Per capita output has accelerated



1. Annual average percentage change in real GDP on a per capita basis.  
*Source: OECD Economic Outlook: Statistics and Projections (database).*



# Inflation is close to zero<sup>1</sup>



1. Excluding the 2014 tax hike. Year-on-year percentage change.

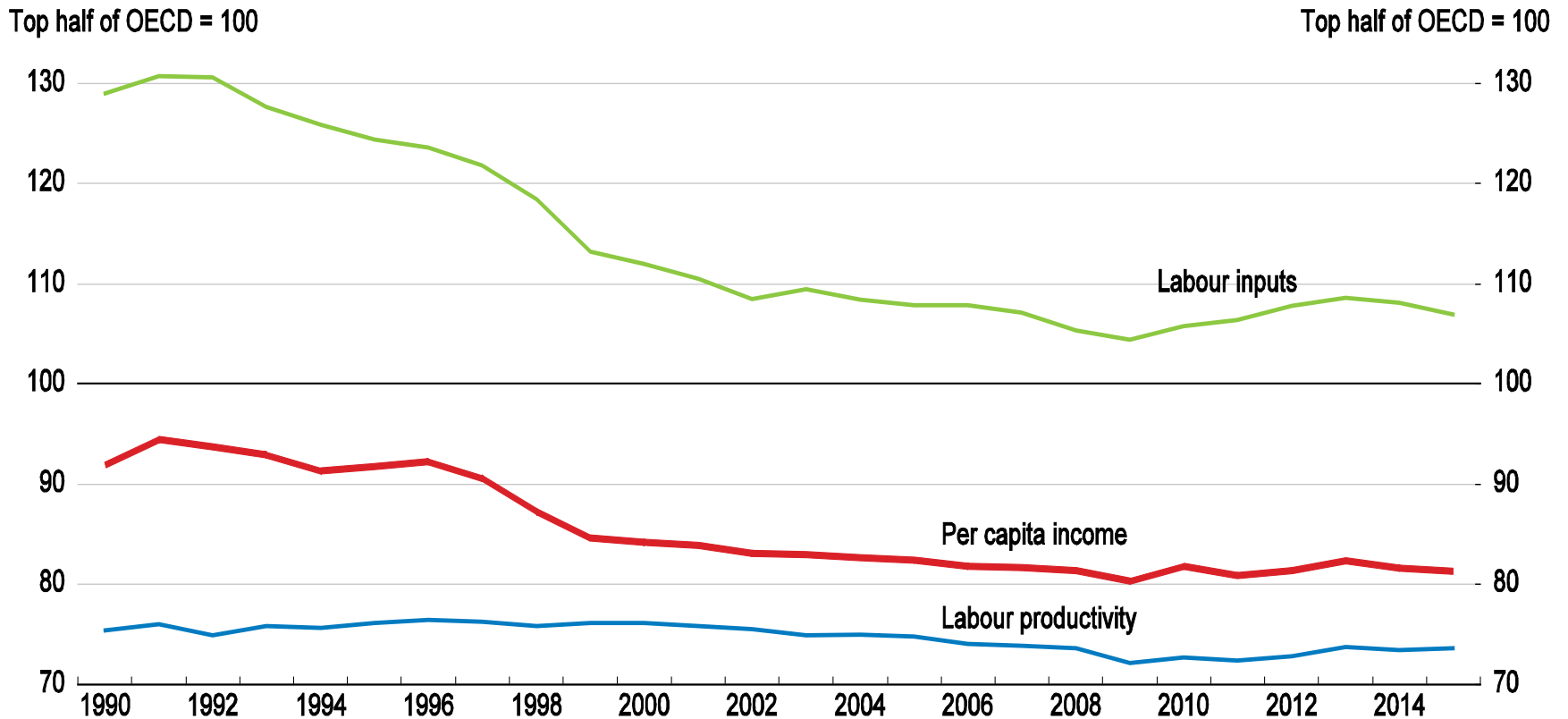
2. OECD measure, which excludes food and energy.

Source: *OECD Economic Outlook: Statistics and Projections* (database).



# Living standards and productivity are well below leading OECD countries

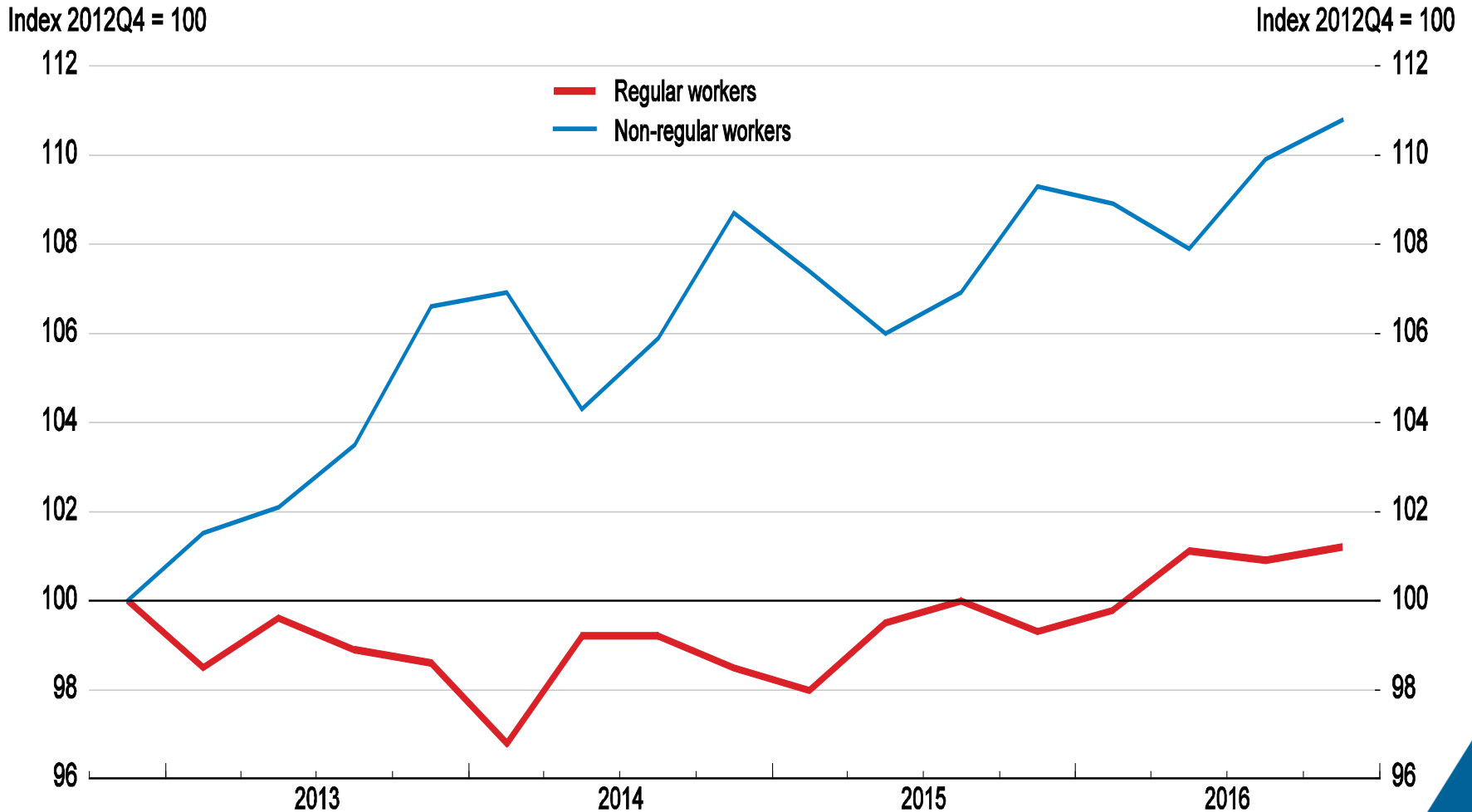
Japan relative to the top half of OECD countries<sup>1</sup>



1. Per capita GDP using 2010 prices and PPP exchange rates. Labour productivity equals GDP per hour of labour input.  
Source: *OECD Economic Outlook: Statistics and Projections* (database).



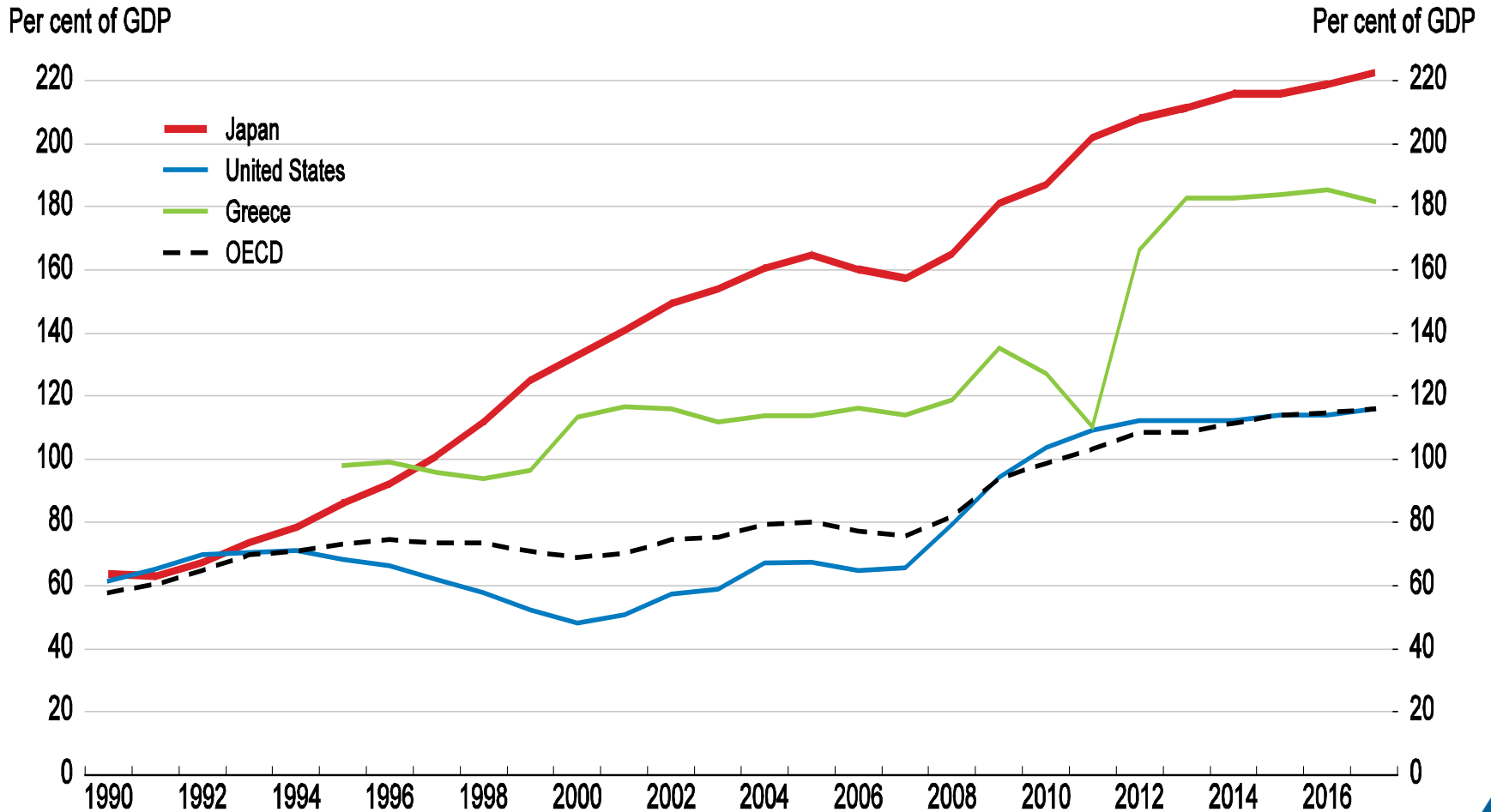
# The number of non-regular workers is rising rapidly



Source: Ministry of Health, Labor and Welfare.



# Japan's gross government debt ratio is the highest in the OECD<sup>1</sup>

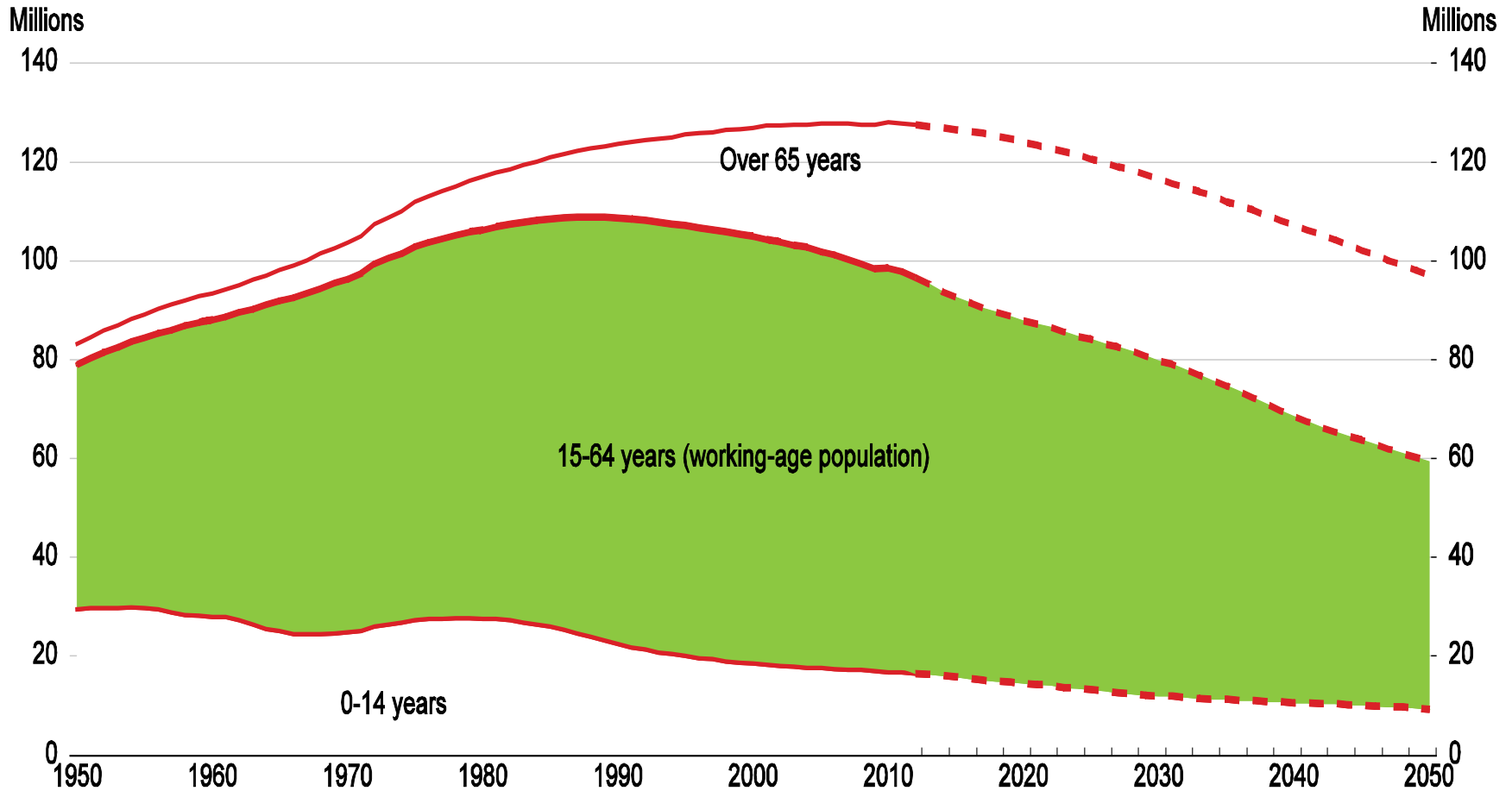


1. Gross government as a percentage of GDP. OECD estimates for 2016 and projections for 2017.

Source: *OECD Economic Outlook: Statistics and Projections* (database).



# Japan's population is shrinking and ageing



Source: OECD Demography and Population Statistics (database).





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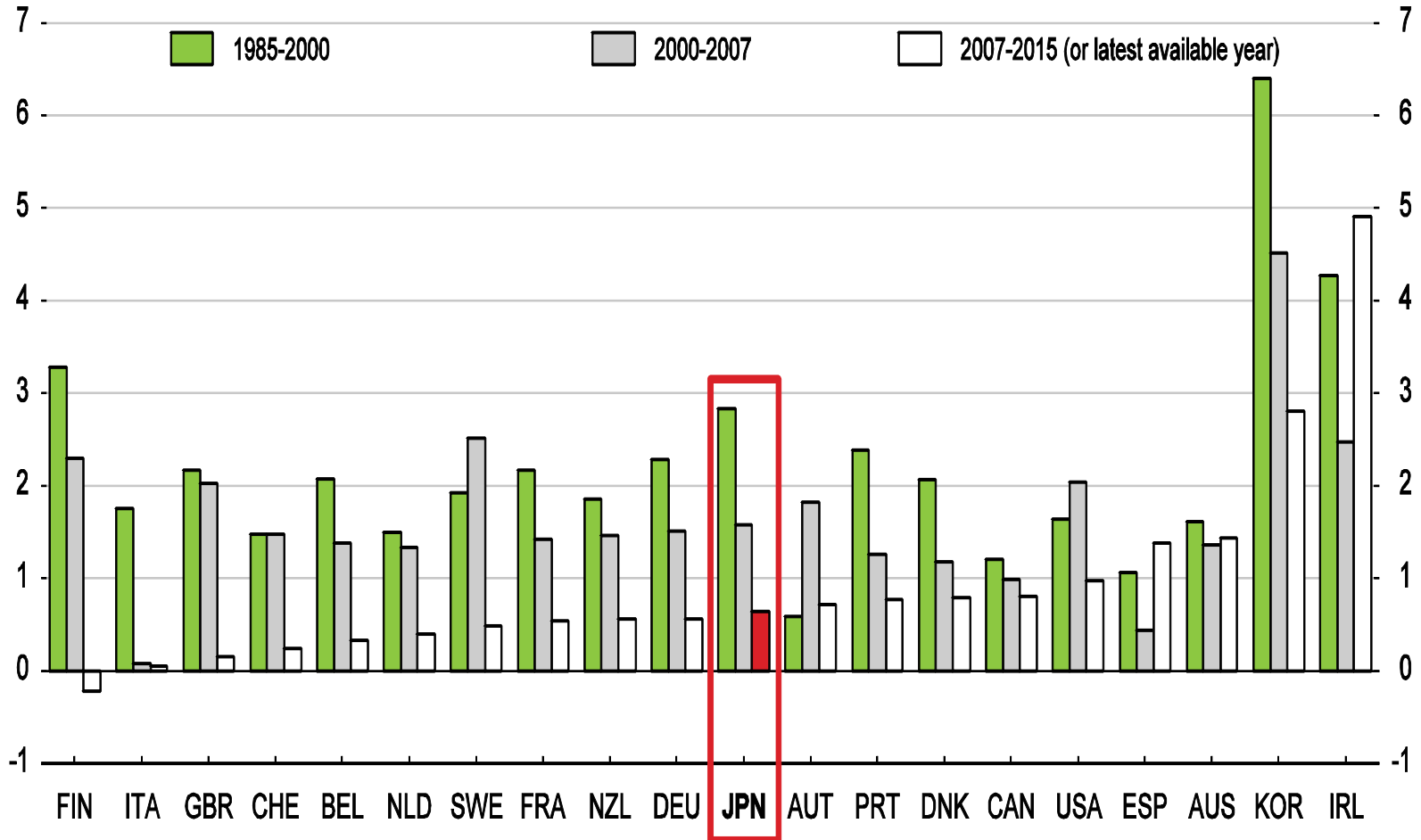
# **Policies to boost productivity and promote inclusive growth**



# Productivity has slowed in Japan, as in most OECD countries

Total economy, percentage change at annual rate

Total economy, percentage change at annual rate



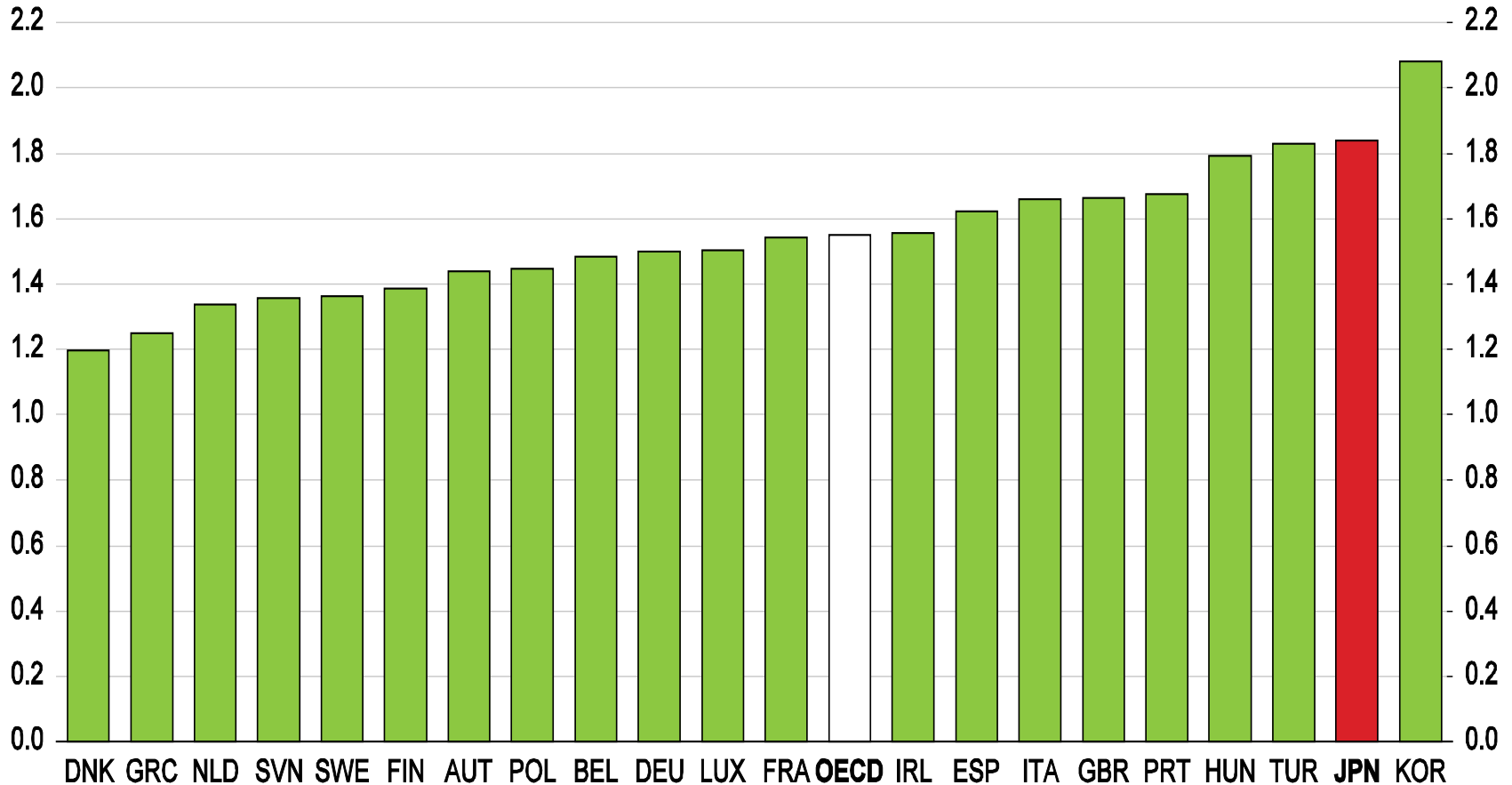
Source: OECD Productivity Statistics (database).



# The dispersion of labour income is high in Japan<sup>1</sup>

P90/P50 ratio in the firm distribution of average labour income

P90/P50 ratio in the firm distribution of average labour income

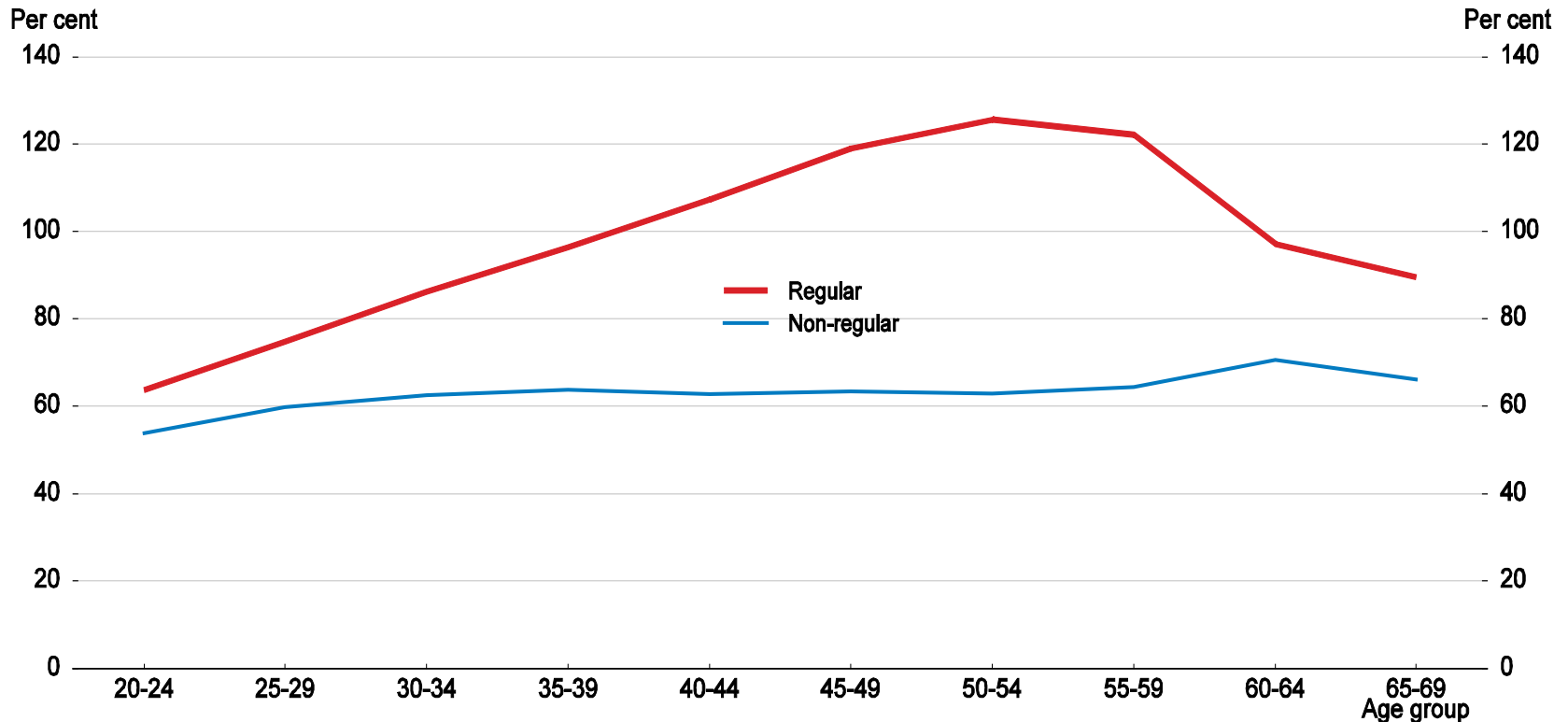


1. Average labour income at a firm at the 90<sup>th</sup> percentile compared to one at the 50<sup>th</sup> percentile.  
Source: OECD Economic Outlook, No. 99.



# The wage gap between regular and non-regular workers is large

Wage as a percentage of the average wage of regular employees<sup>1</sup>



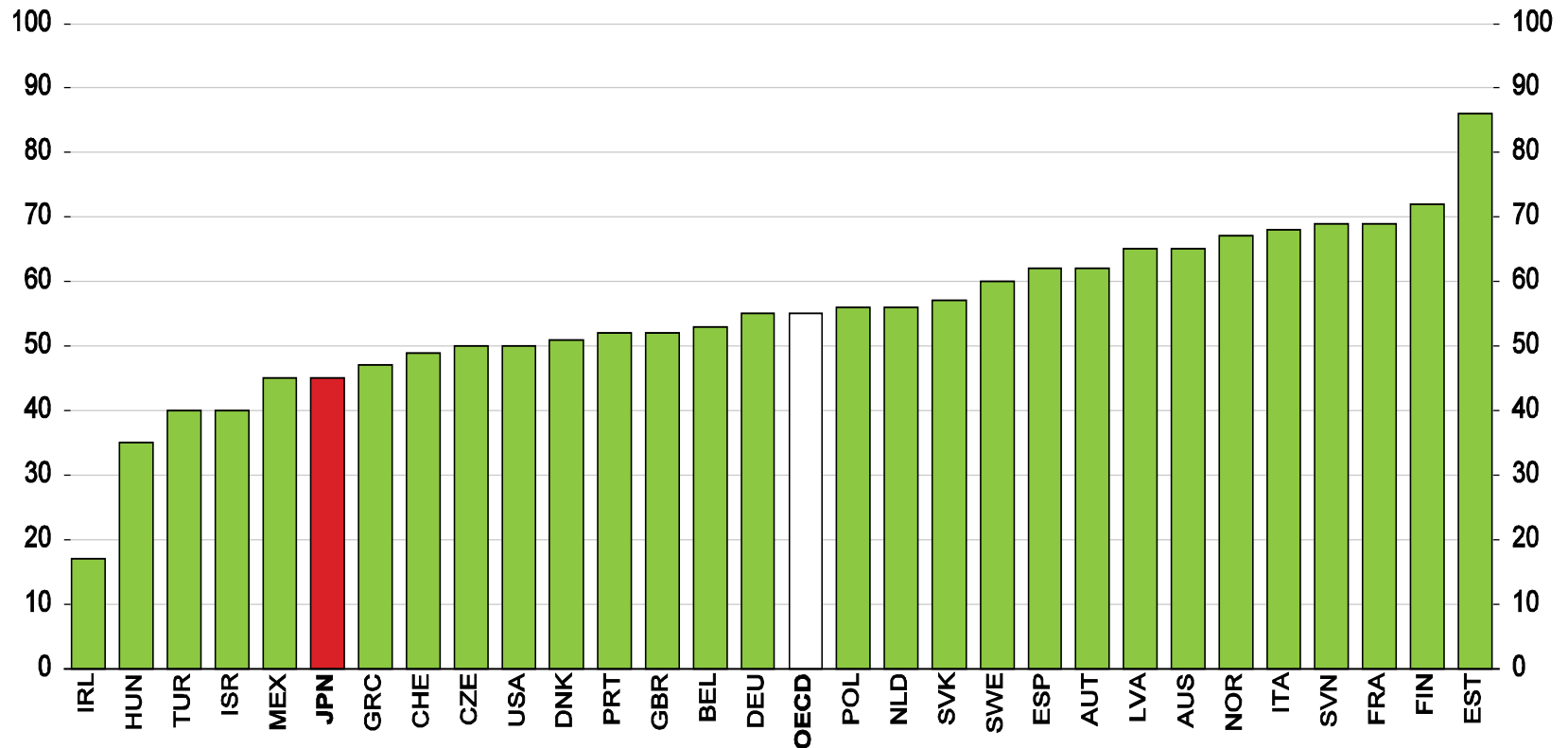
1. In June 2015, excluding overtime payments and bonuses.

Source: Ministry of Health, Labor, and Welfare "Basic Survey on Wage Structure 2015".

- Break down dualism by relaxing employment protection for regular workers and expanding social insurance coverage and training for non-regular workers.



# Productivity in small firms is low relative to large firms<sup>1</sup>

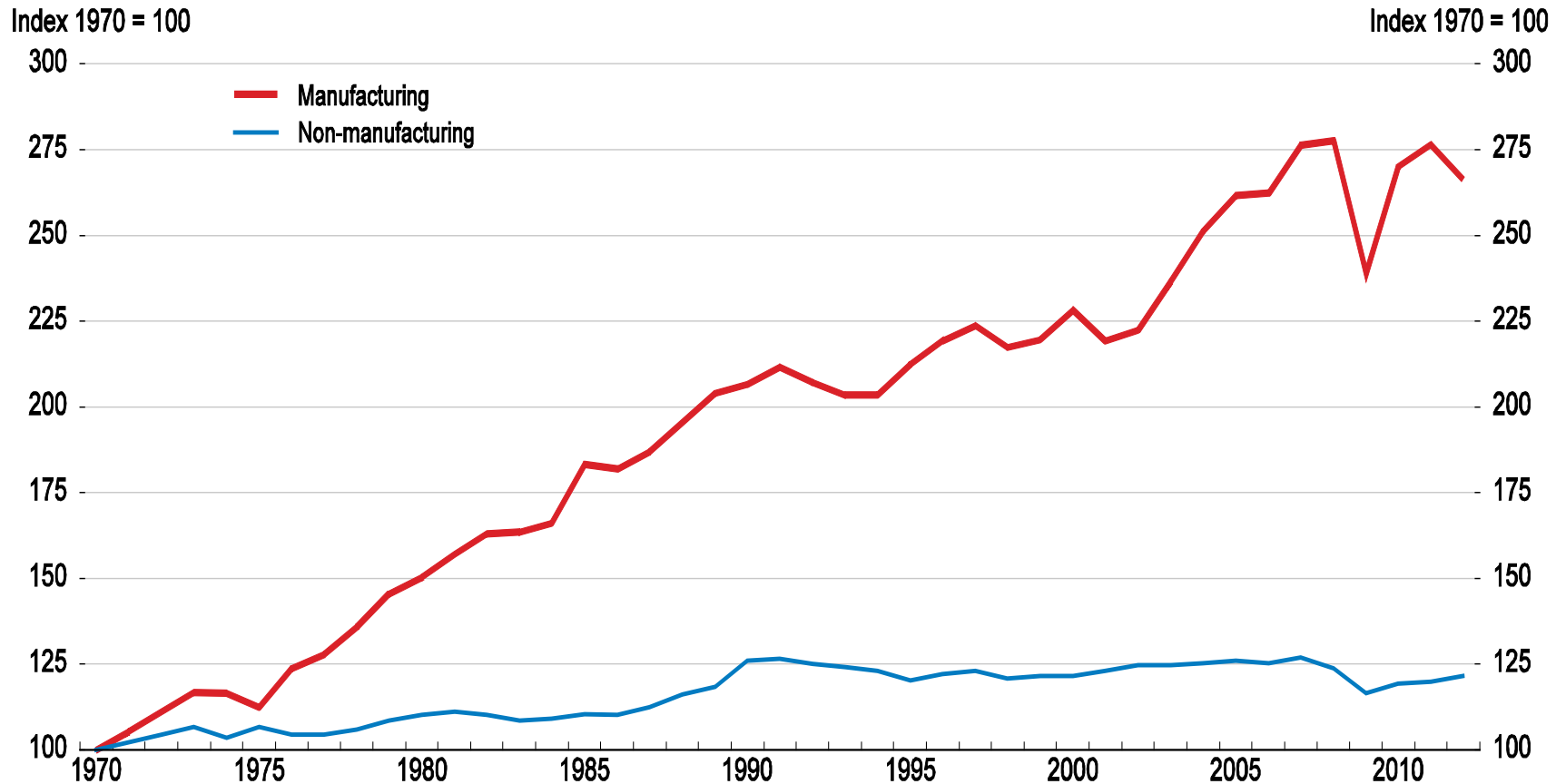


1. Value added per person employed in 2013 in firms with 20-49 workers, relative to that in firms with more than 250 workers = 100.  
Source: OECD (2016), *Entrepreneurship at a Glance*.

➤ **Increase the productivity of SMEs by strengthening R&D links between firms and universities.**



# The productivity gap between manufacturing and non-manufacturing has widened sharply

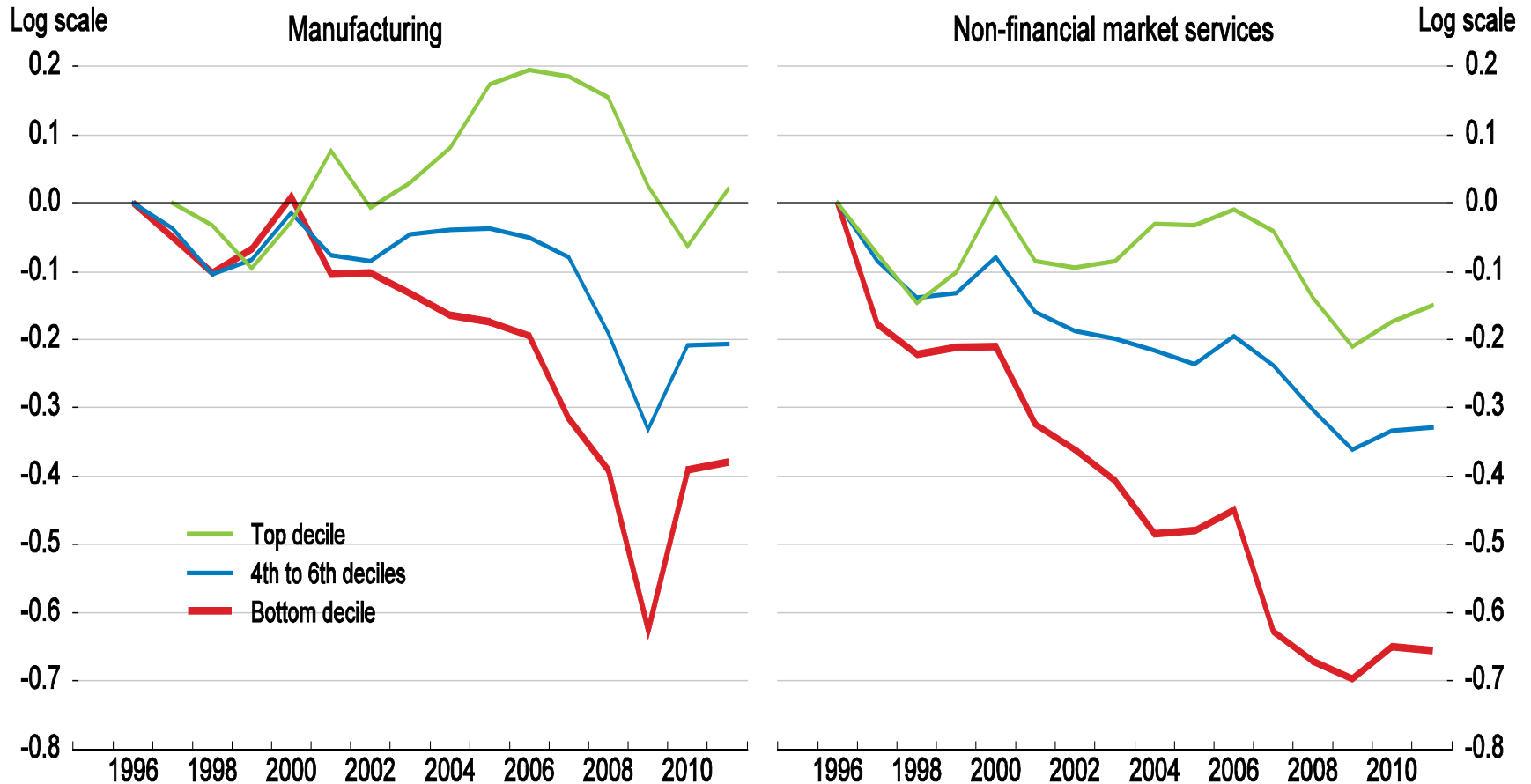


Source: Japan Industrial Productivity Database 2015.

➤ Relax product market regulation, focusing on the service sector.



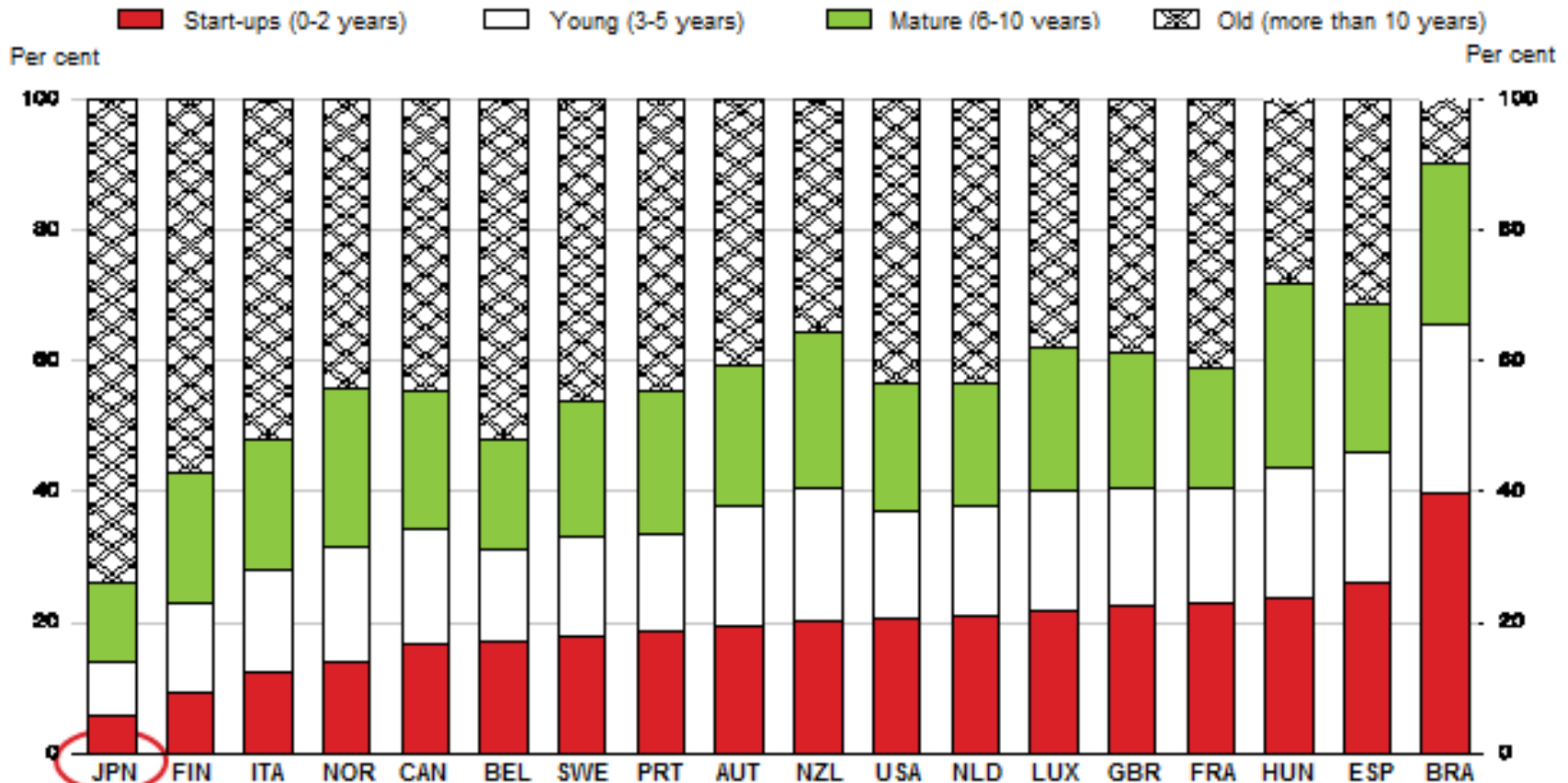
# Productivity has diverged across Japanese firms



Source: Berlingieri et al. (2017).



# Small firms are old, pointing to a lack of economic dynamism



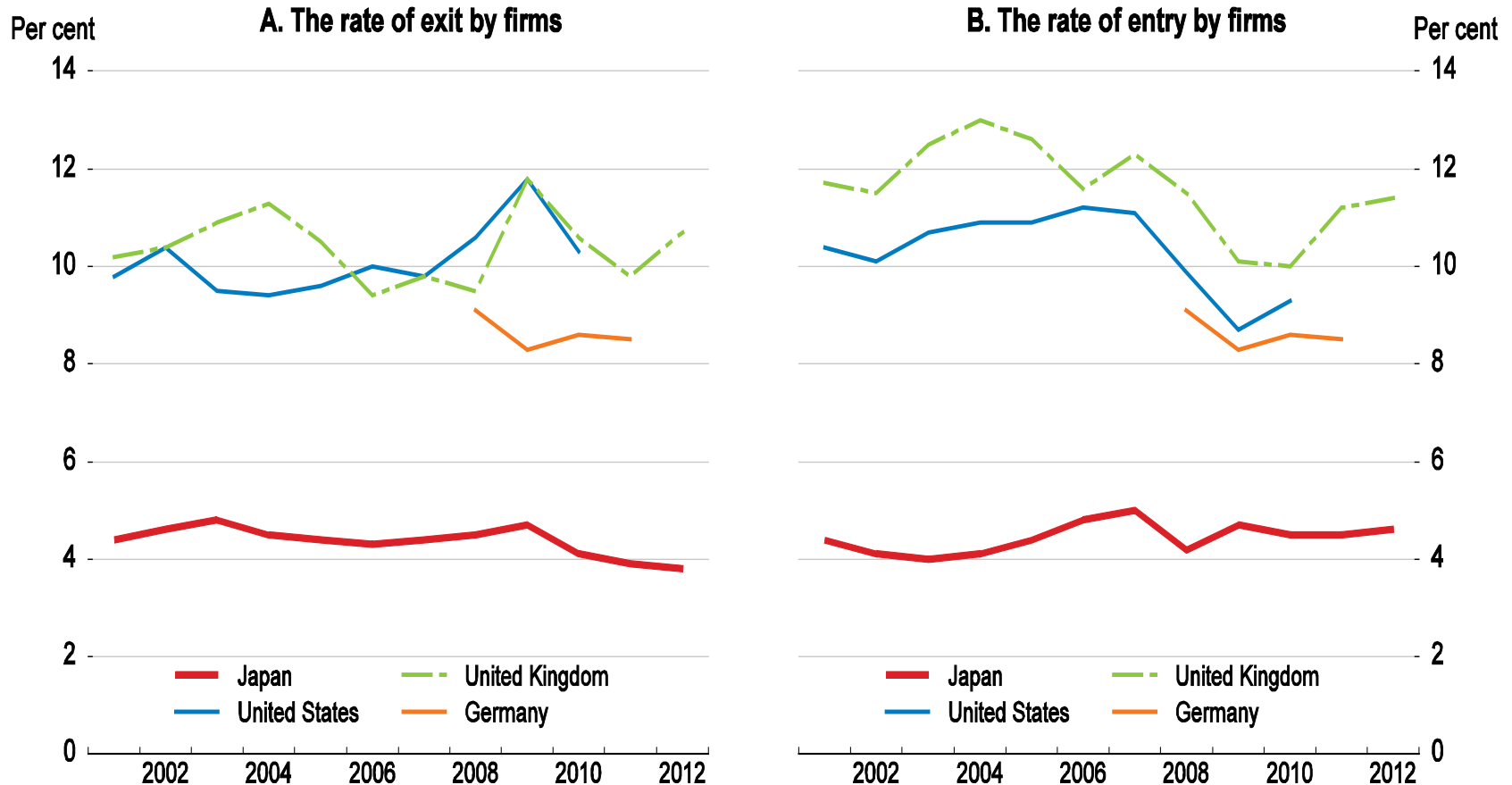
Source: Criscuolo et al. (2014).

- Focus regulatory reform on administrative burdens on start-ups and regulatory protection of incumbents to encourage firm creation.





# Firm entry and exit rates are low

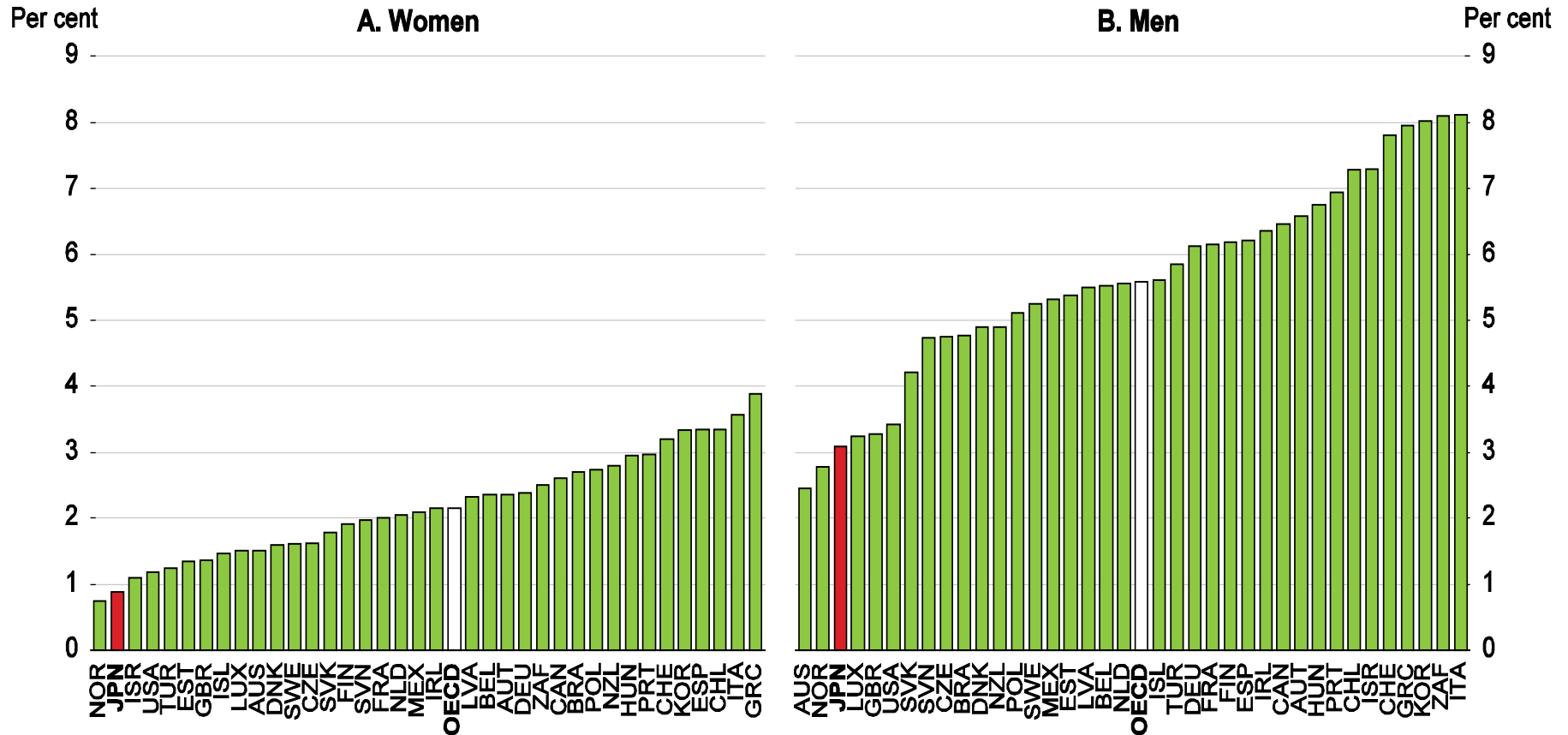


Source: Ministry of Economy, Trade and Industry (2014).

- Facilitate the exit of non-viable firms by reducing the use of personal guarantees.



# The share of entrepreneurs is low, especially among women

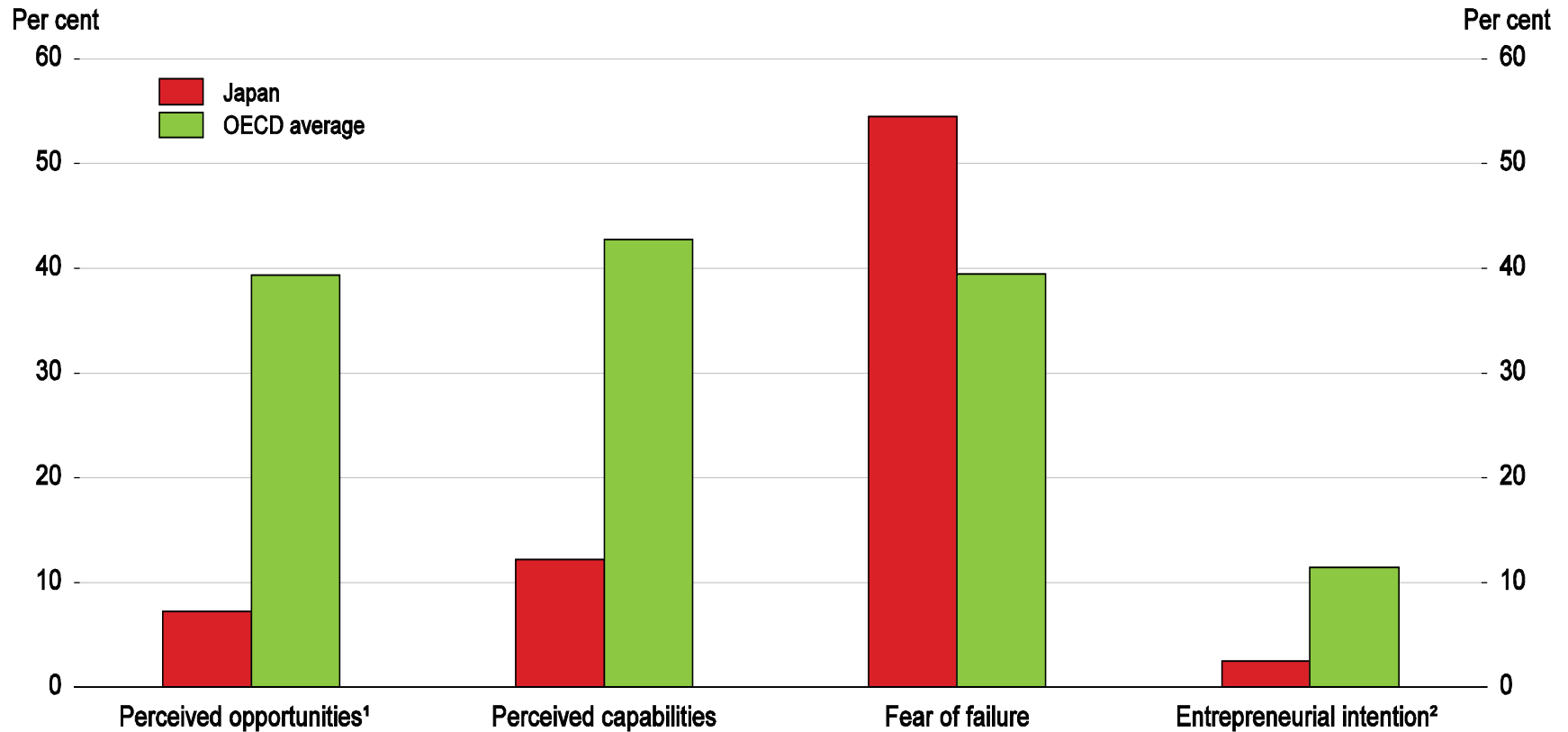


Source: OECD (2016), *Entrepreneurship at a Glance*.

➤ Promote second chances for failed entrepreneurs by making the personal bankruptcy system less stringent.



# Views on entrepreneurship are negative



1. Share of adults who perceive good opportunities to start a business.

2. Share of adults who are not involved in entrepreneurial activity and expect to start a business within three years.

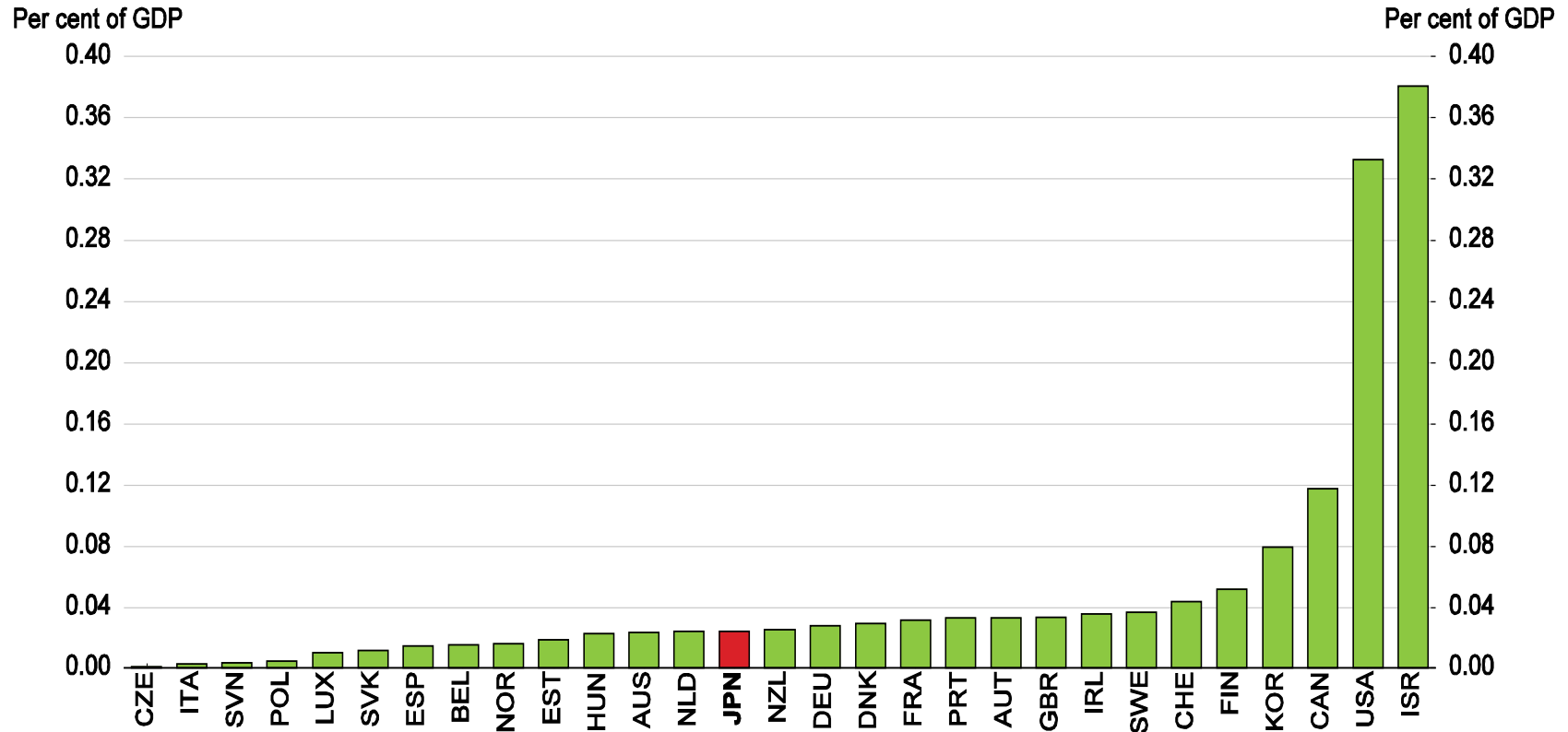
*Source:* Global Entrepreneurship Monitor (2015).

➤ Promote entrepreneurship by enhancing the availability of education, training and financing, particularly for women.



# The venture capital sector is relatively undeveloped

Venture capital investments as a percentage of GDP in 2015



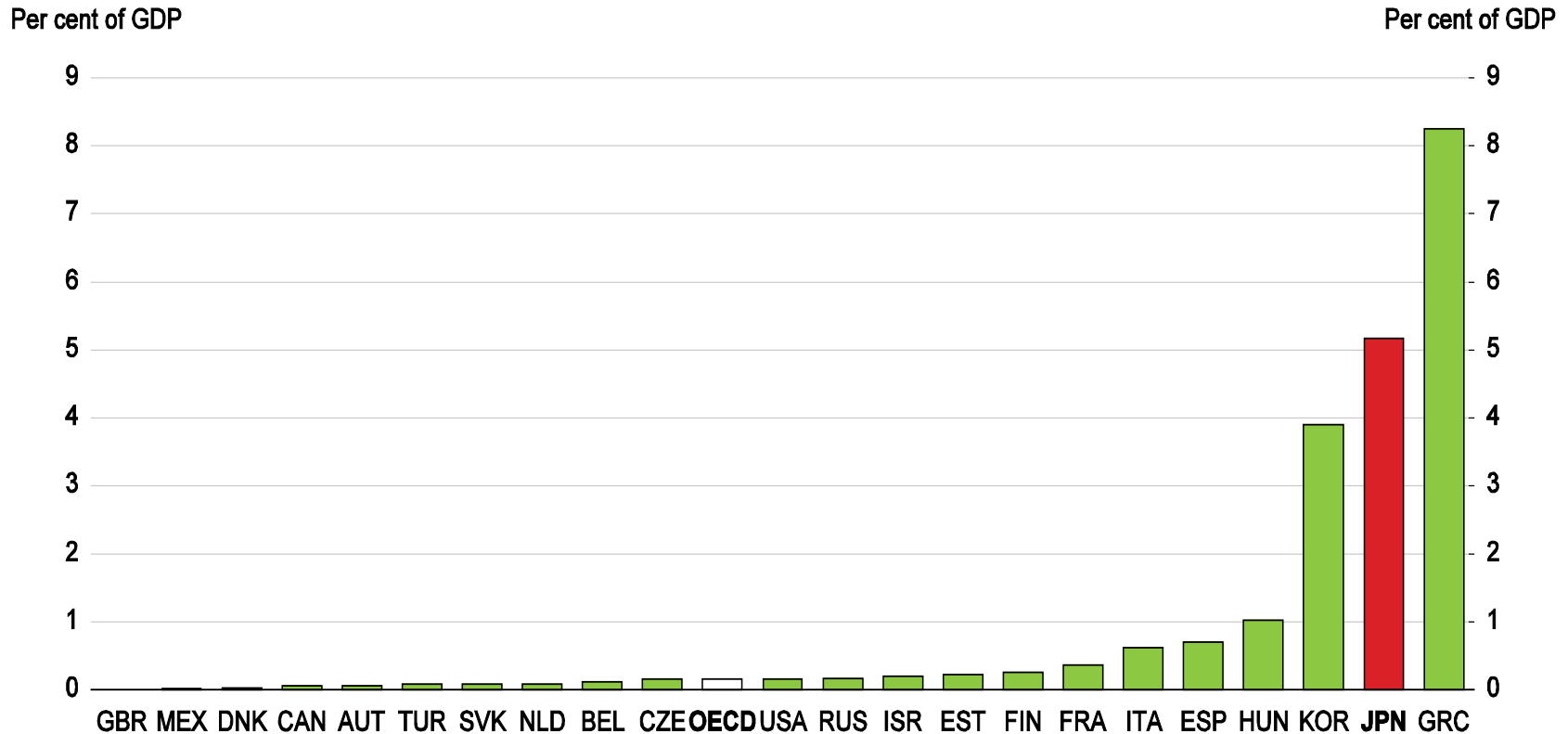
Source: OECD (2016), *Entrepreneurship at a Glance*.

- Develop the M&A market and shorten the time for initial public offerings (IPOs) to boost venture capital investment.



# Government credit guarantees to SMEs are high

Stock of guarantees in 2015



Source: *Financing SMEs and Entrepreneurs 2017: An OECD Scorecard* (forthcoming).

- **Implement the planned reform of the Credit Guarantee System to strengthen market forces and keep public guarantees of SME loans on a downward trend.**



# Key recommendations to boost productivity for inclusive growth

1. Remove obstacles to female employment by increasing the capacity of childcare and improving work-life balance through a binding ceiling on overtime work.
2. Increase the productivity of SMEs by strengthening R&D links between firms and universities.
3. Facilitate the exit of non-viable firms by reducing the use of personal guarantees.
4. Promote second chances for failed entrepreneurs by making the personal bankruptcy system less stringent.
5. Implement the planned reform of the Credit Guarantee System to strengthen market forces and keep public guarantees of SME loans on a downward trend.
6. Break down dualism by relaxing employment protection for regular workers and expanding social insurance coverage and training for non-regular workers.

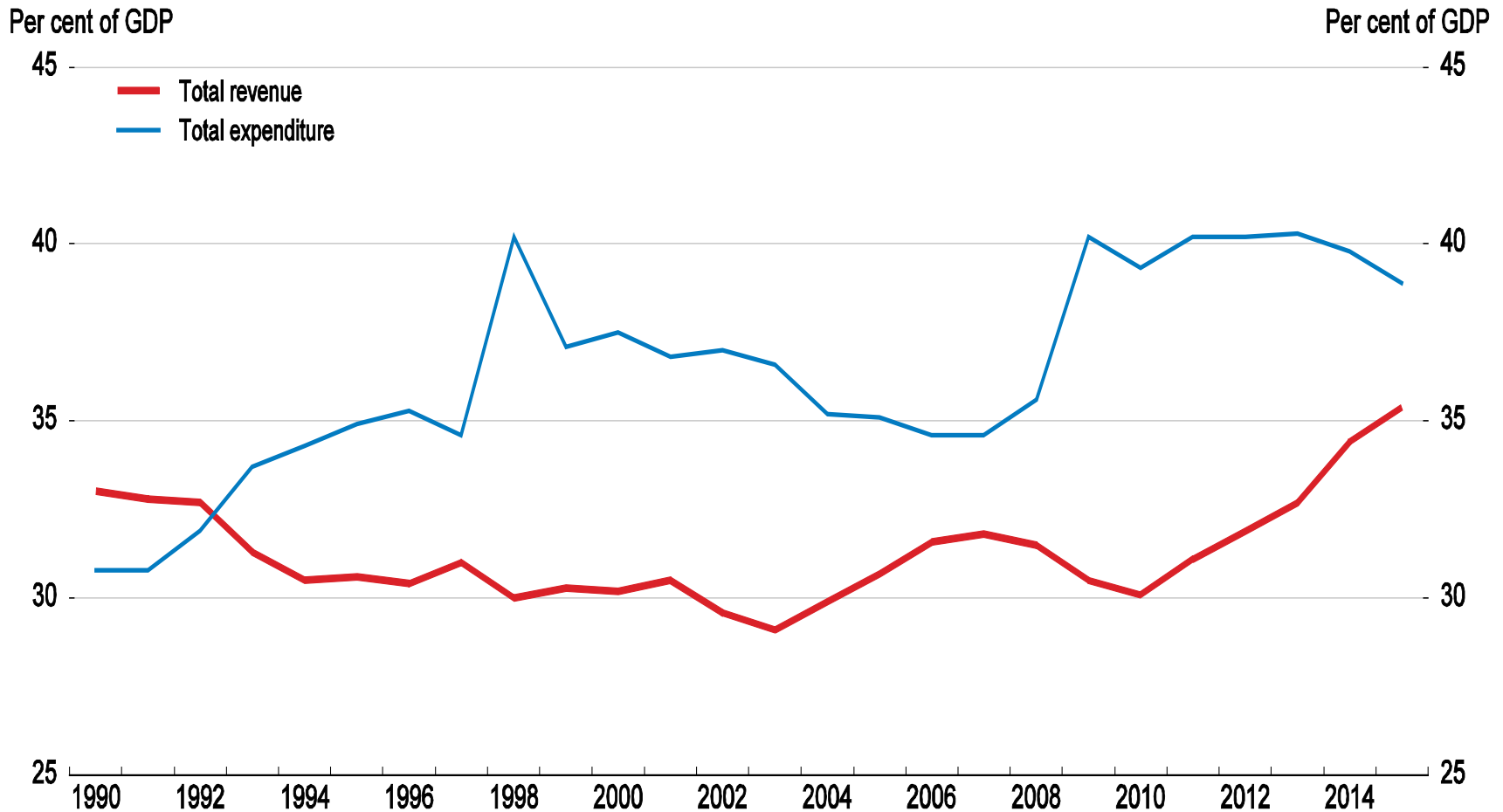


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# **Policies to ensure fiscal sustainability in the face of a shrinking and ageing population**



# Government revenue has not kept up with rising expenditures

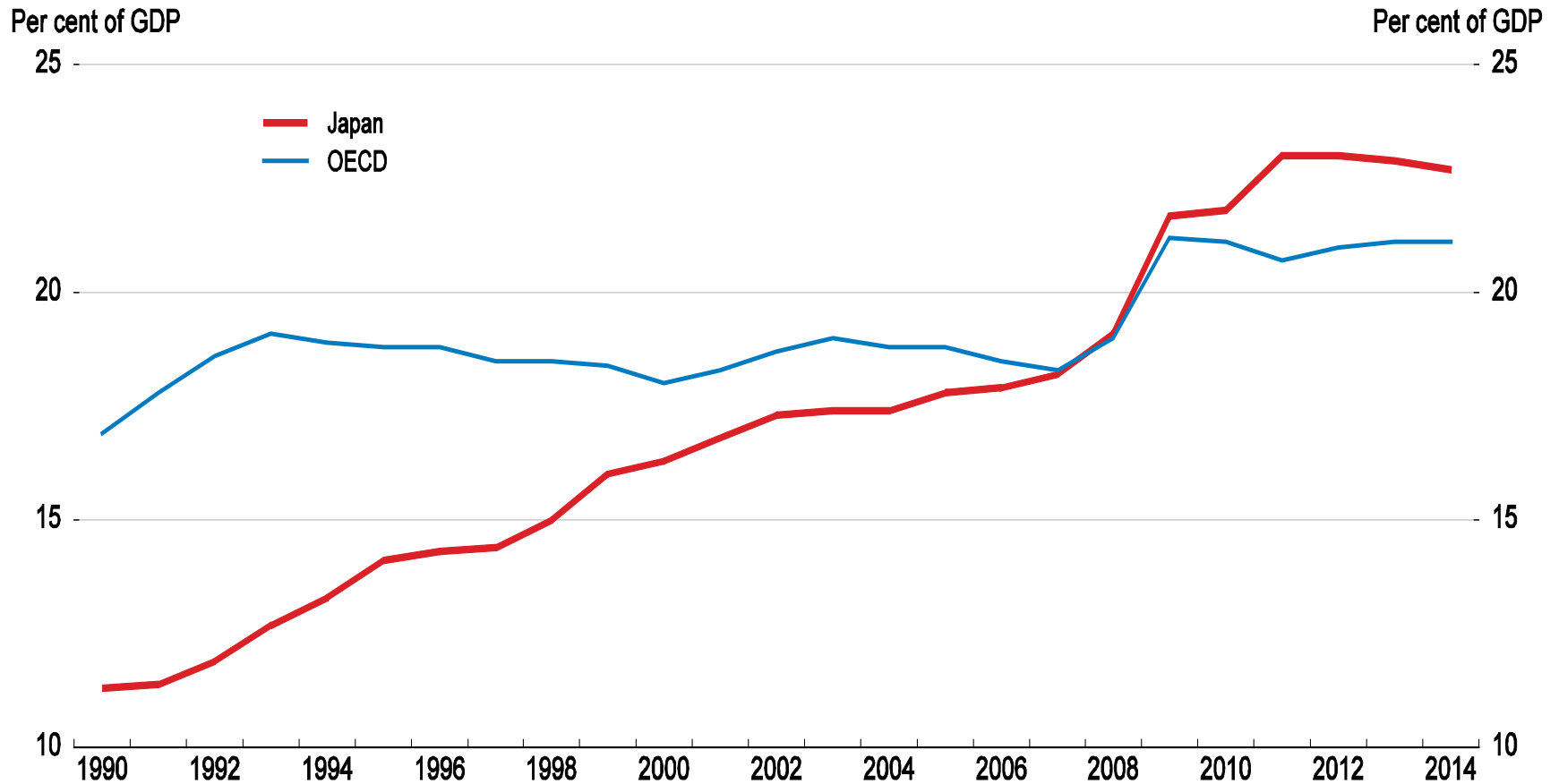


Source: OECD (2017c), *OECD Economic Outlook: Statistics and Projections* (database).





# Public social spending has surpassed the OECD average

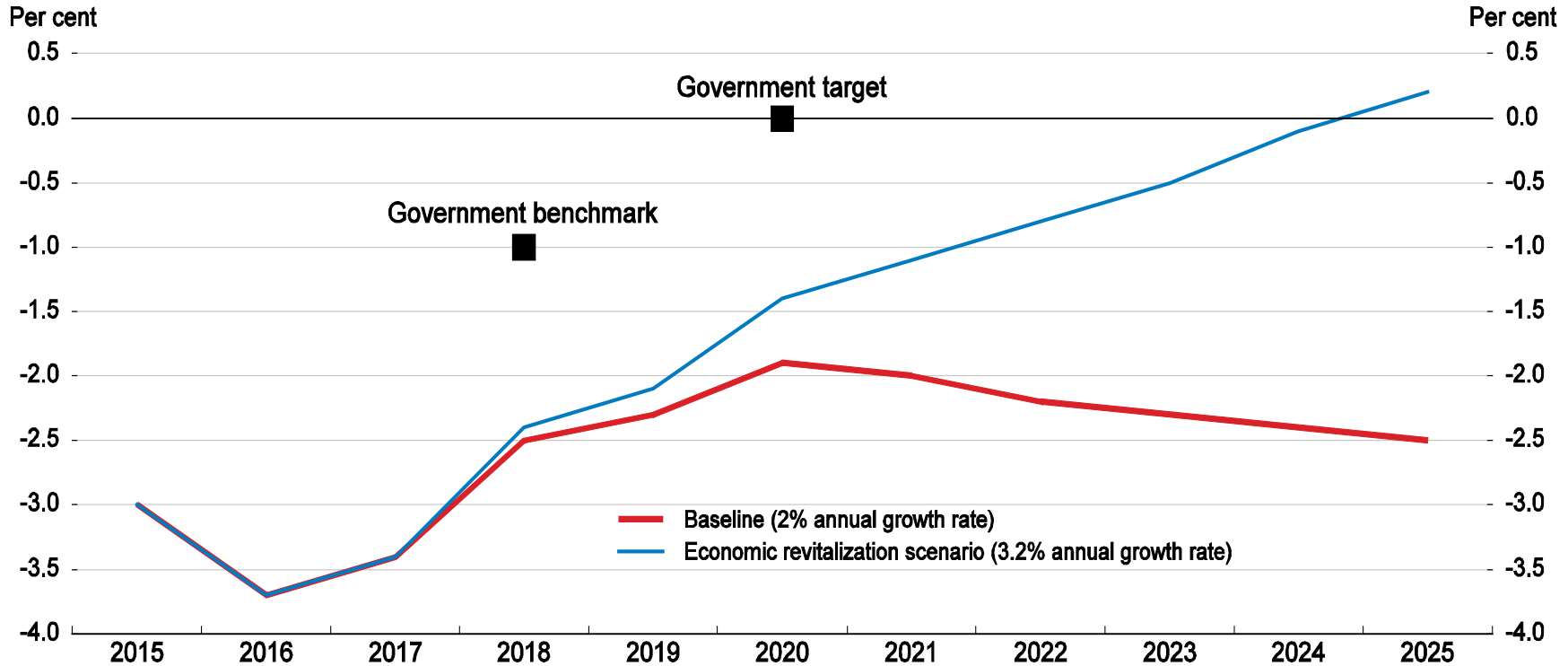


Source: OECD (2017e), *OECD Social Expenditure Statistics* (database).



# Government projections show it failing to meet its fiscal targets

Primary balance (central and local governments) as a percentage of GDP on a fiscal year basis



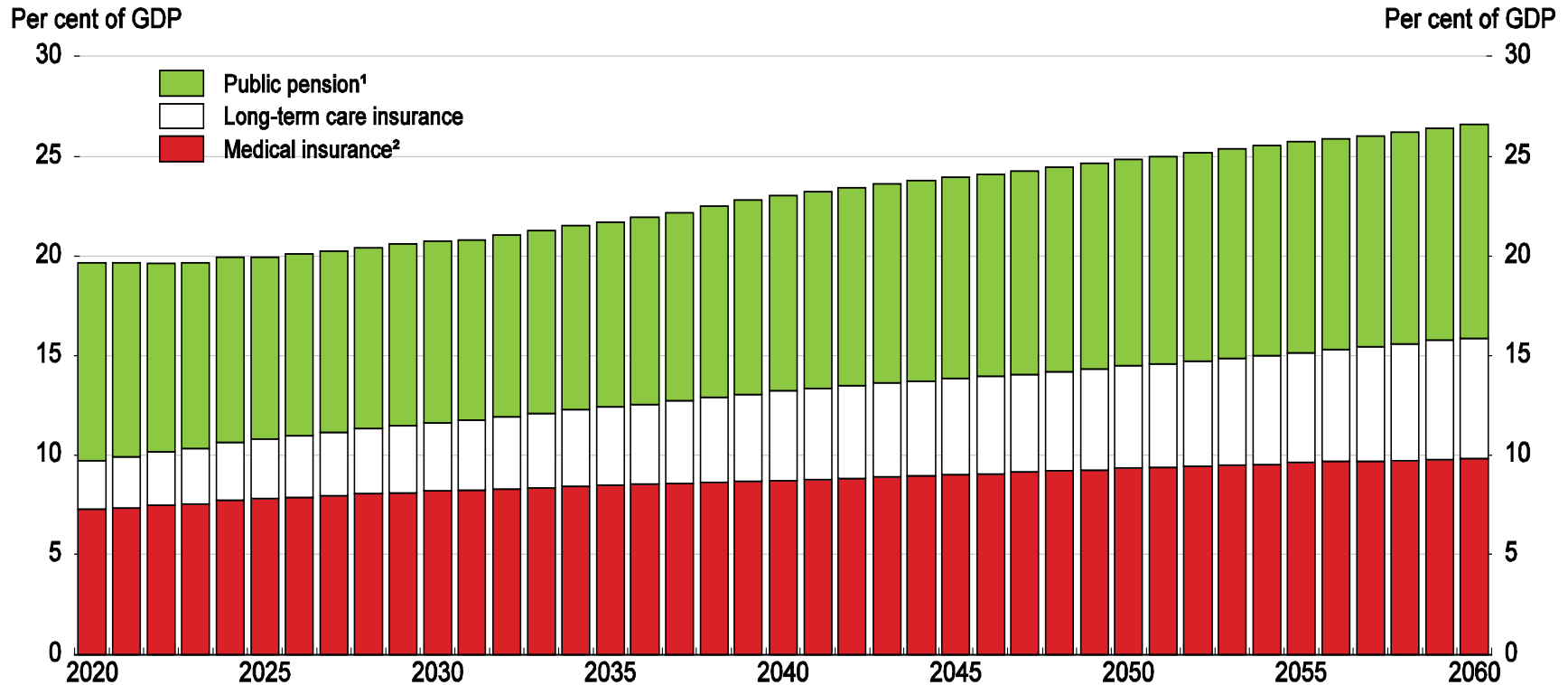
*Note:* January 2017 projection. The 2018 benchmark will be reviewed and addressed in light of the postponement of the consumption tax hike.

*Source:* Cabinet Office (2017).

- **Commit to a more detailed medium-term fiscal consolidation path with specific spending cuts and tax increases to strengthen confidence in public finance sustainability.**



# Elderly-related social spending is projected to rise further



Note: Fiscal System Council estimates based on the current framework. Ageing-related spending is defined as programmes where per capita expenditure differs by age, such as pensions.

1. Public pension spending is based on the actuarial valuation by the Ministry of Health, Labor and Welfare (2014), Case C.
2. Medical assistance in the Basic Livelihood Protection Program is included in “medical insurance”.

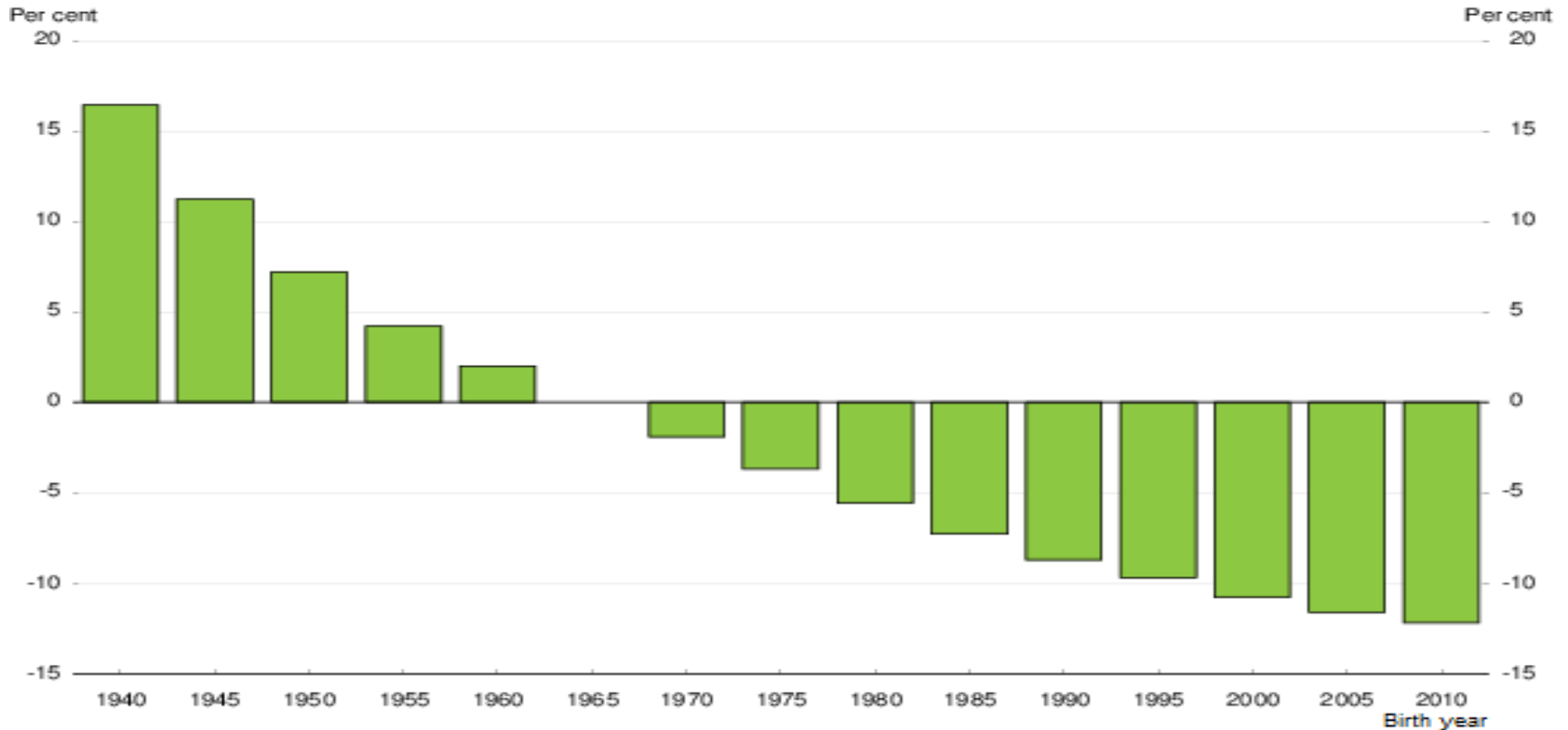
Source: Fiscal System Council (2015).

- Scale back transfers from the working-age population to the elderly by raising the co-payment rate and the ceilings on total co-payments to the elderly for health and long-term care, while taking account of equity implications.



# Inter-generational transfers are large

Net transfers from the government as a percentage of lifetime earnings<sup>1</sup>



1. For men covered by employee pension and health insurance and with a non-working wife.  
*Source:* Suzuki (2014).

- Fully apply macroeconomic indexation as soon as possible.
- Raise the pension eligibility age above 65.



# International comparisons show room for healthcare cost savings in Japan

In 2014 or latest year available

	Number of doctor consultations per capita per year	Share of private expenditure on outpatient care (%)	Average total hospital stay <sup>1</sup>	Average hospital stay for acute care <sup>1</sup>	Total number of hospital beds <sup>2</sup>	Number of acute-care beds <sup>2,3</sup>	Number of long-term care beds <sup>2,3</sup>	Number of beds in long-term care facilities <sup>2</sup>
<b>Japan</b>	12.8	17.1	29.9	16.9	13.2	7.9	2.7	6.2
<b>OECD average</b>	6.8	33.3	8.3	6.4	4.7	3.6	0.6	7.3
<b>Highest country</b>	14.9	54.9	29.9	16.9	13.2	7.9	4.2	12.8
<b>Lowest country</b>	2.6	13.3	4.0	3.5	1.6	1.6	0.0	0.5

1. In days.

2. Per 1 000 population.

3. In hospitals.

Source: OECD (2017f), *OECD Health Statistics* (database).



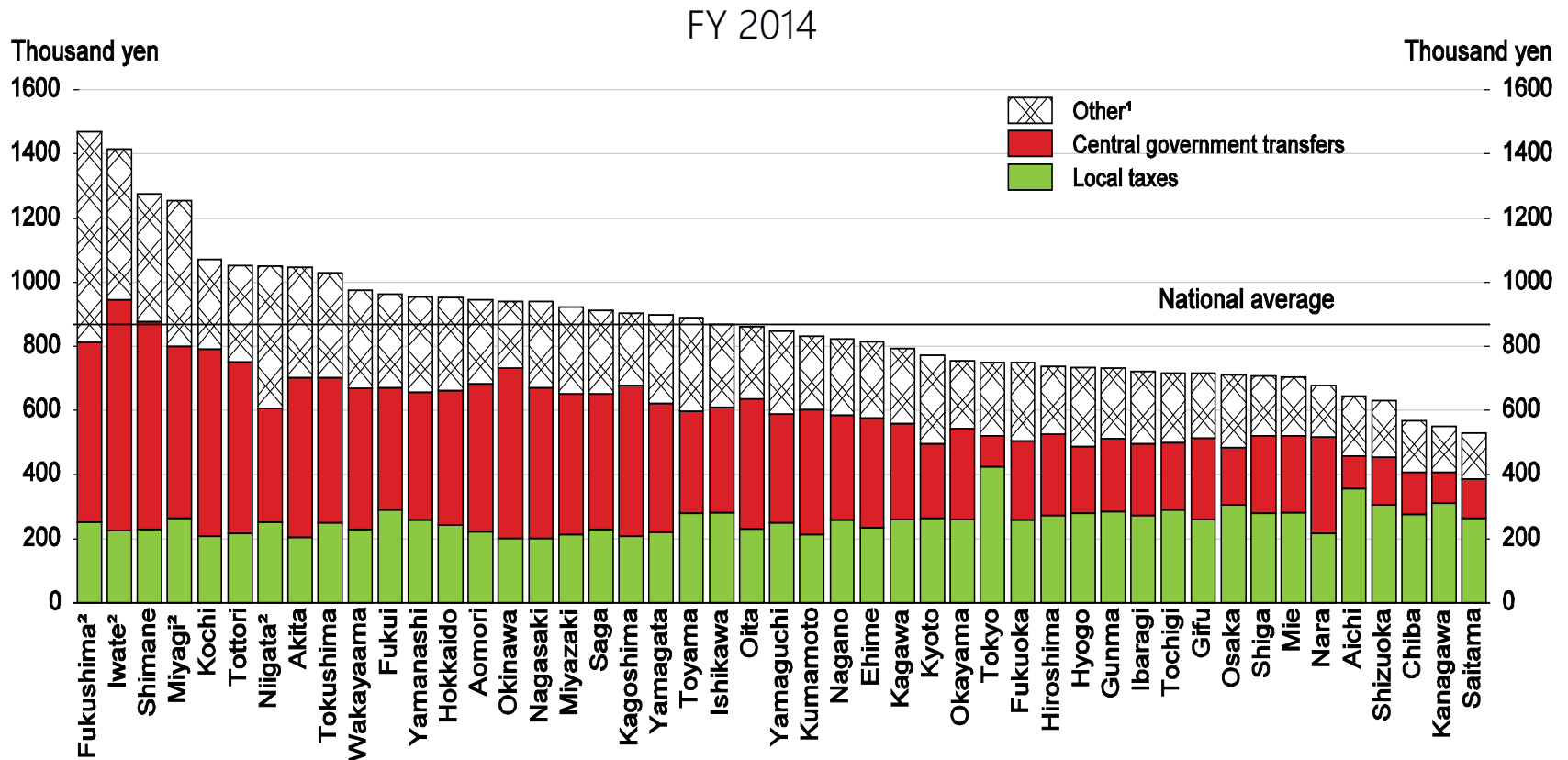
# Policies to reduce the growth of health and long-term care spending

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- Take long-term care out of hospitals by shifting it to home-based care or specialised institutions.
- Reduce long-term care insurance coverage for those with less severe needs.
- Increase the use of generics from their relatively low level at present to reduce spending on pharmaceuticals.
- Scale back transfers from the working-age population to the elderly by raising co-payments and the ceilings on total co-payments for the elderly for health and long-term care, while taking account of equity implications.
- Shift away from a fee-for-service system to reduce the number of doctor visits and shorten hospital stays for curative care.



# Variation in per capita spending across prefectures suggests scope for fiscal consolidation



1. Includes local bonds, loan redemptions, transferred money, balances brought forward, user fees, commissions, etc.

2. Prefectures affected by the Great East Japan Earthquake and the Chuetsu Earthquake.

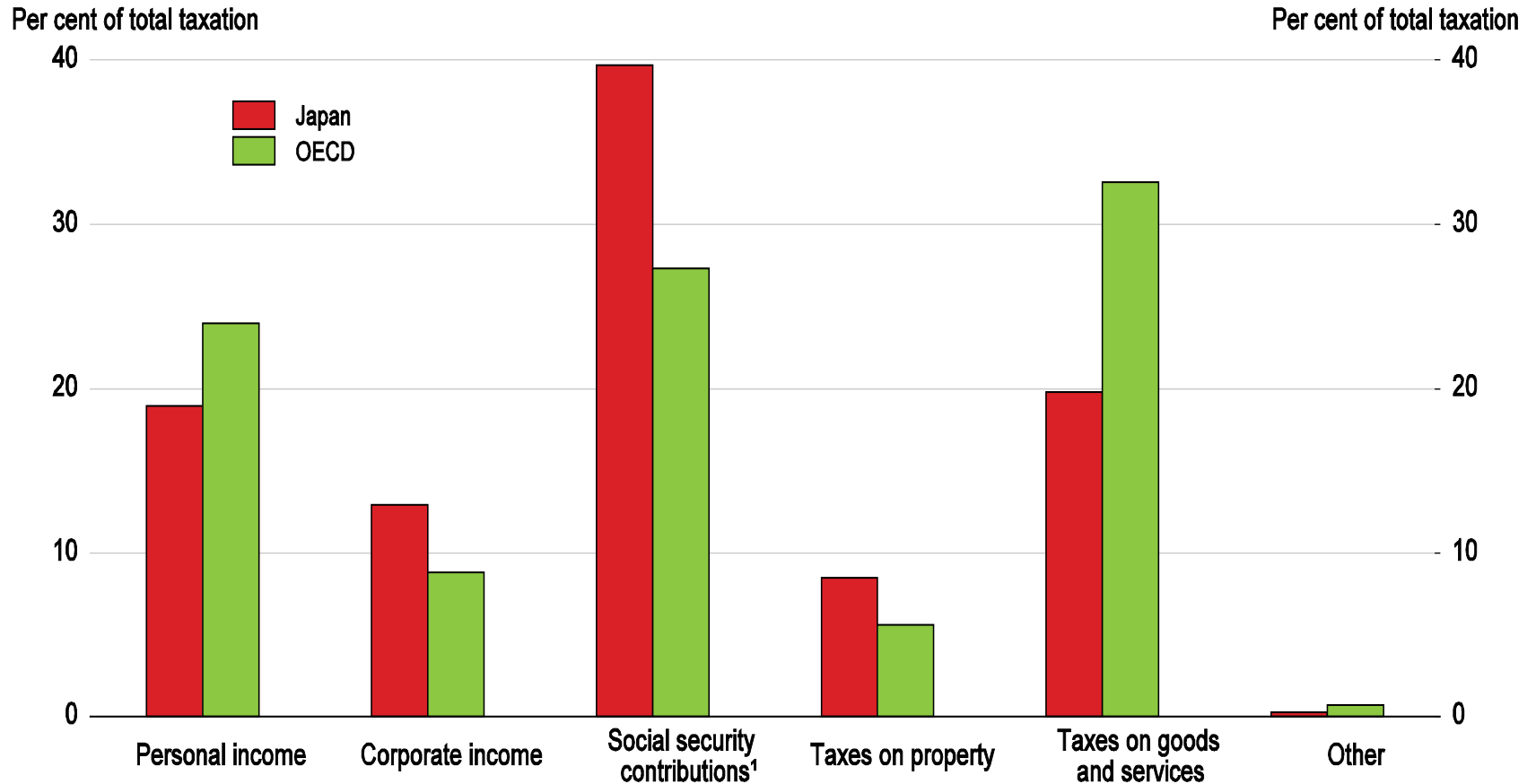
Source: Cabinet Office (2016).

➤ **Require local governments to pursue fiscal consolidation in tandem with the central government by reducing transfers from the central government and imposing spending rules.**



# Taxes on goods and services as well as on personal income are relatively low

2014 or latest year available



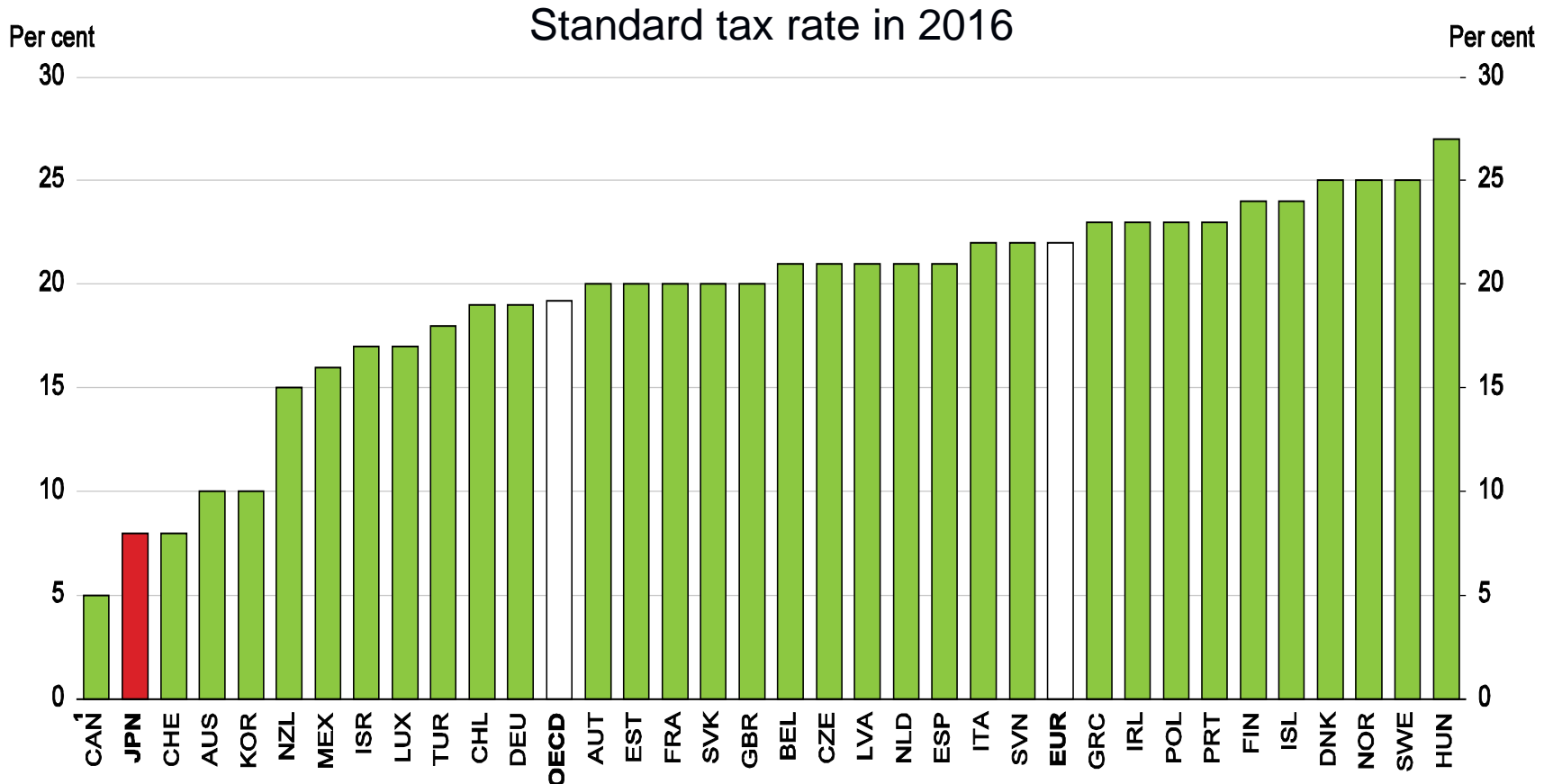
1. Contributions include other payroll taxes.

Source: OECD (2017j), *OECD Tax Statistics* (database).





# Japan's consumption tax rate is one of the lowest in the OECD



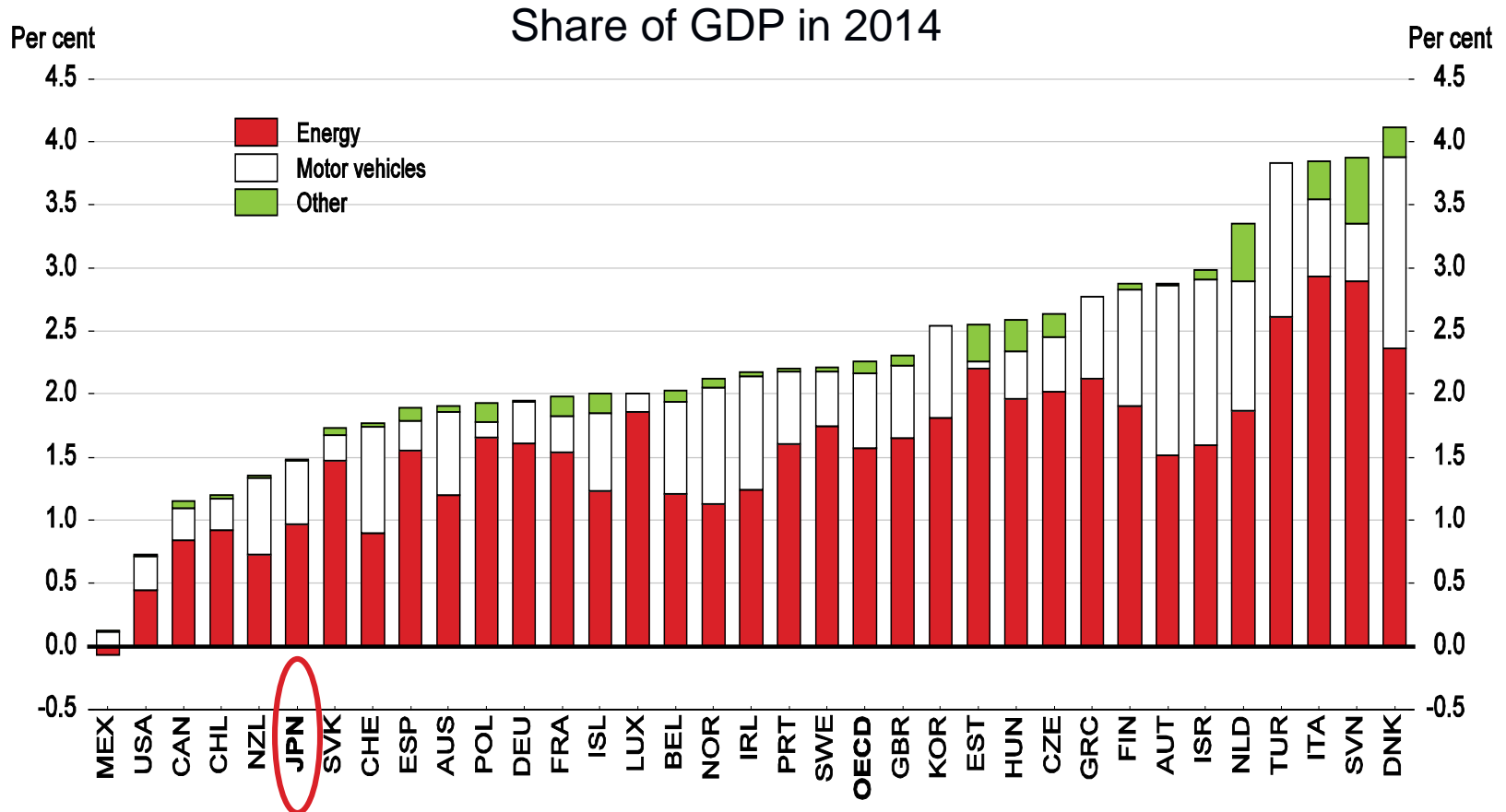
1. In Canada, the provinces can levy a consumption tax on top of the federal tax, making it higher than Japan's 8%.

Source: OECD, *Consumption Tax Trends 2016*.

➤ Gradually raise the consumption tax rate.



# Japan has scope to raise environmental taxes



Source: OECD (2016), *Taxing Energy Use: A Graphical Analysis*, OECD Publishing, Paris.

- **Rely on environmentally-related taxes and promote energy efficiency and the use of low-carbon energy sources to further cut greenhouse gas emissions.**



# Key recommendations to ensure fiscal sustainability

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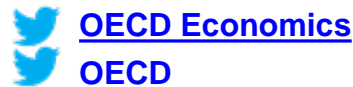
1. Commit to a more detailed medium-term fiscal consolidation path with specific spending cuts and tax increases to strengthen confidence in public finance sustainability.
2. Gradually raise the consumption tax rate.
3. Enhance equity by introducing an earned income tax credit.
4. Fully apply macroeconomic indexation as soon as possible.
5. Raise the pension eligibility age above 65.
6. Take long-term care out of hospitals and reduce long-term care insurance coverage for those with less severe needs and increase the use of generic drugs.



# More information...



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