

26 August 2025 (No. of pages:1)

Japanese report: 25 Aug 2025

Tackling Inequality in Japan's Working-Age Period

Support the Poor Through Refundable Tax Credits and Individual Income Tax Reform

Economic Research Dept.

Takayuki Sueyoshi**Ryohei Yoshida****Akane Yamaguchi****Wakaba Kobayashi****Kisuke Yoshii****Yoshiya Kikuchi**

Summary

- The widening inequality progressing globally poses the risk of causing fiscal instability through the rise of populism and stagnant economic growth. Economic stagnation lowers labor productivity by hindering investment in human capital including education and may worsen inequality. To avoid such a vicious cycle, it is important to implement appropriate redistribution not only from a social policy perspective but also from an economic growth standpoint.
- Japan's inequality level, as measured by the Gini coefficient, is currently around 0.34, but the optimal level for improving labor productivity is estimated to be around 0.31. While Japan has a relatively well-developed social security system for the elderly, the income redistribution function during the so-called working-age period (age 18 to 65) is weak. Moreover, the ratio of the median to the bottom 10% of equivalized disposable income (poverty gap) is on an upward trend, making "the hardship of the poor" a central issue.
- To address Japan's inequality, effective measures include refundable tax credits, individual income tax reform, active labor market policies, and promotion of household asset management. The implementation of refundable tax credits to resolve the regressive nature of consumption tax, and the realization of net burden rates through the reform of tax and social security systems comparable to those in continental Europe, are estimated to reduce the Gini coefficient to around 0.32-0.33, approaching the optimal level. While this would require funding of approximately 0.6-2.9 trillion yen, this fiscal resource could be secured by eliminating reduced consumption tax rates and increasing income tax revenue.