

Section 3

INCOME DISTRIBUTION: A MAJOR CHALLENGE FOR KANSAI'S ECONOMY

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1. Introduction: Zooming in on Income Distribution

In last year's *Economic Outlook*, we examined the adjustment process of households and firms after the COVID-19 pandemic and focused on firms' deteriorating earnings and their employment adjustment. From around 2014 until before the pandemic, demand by inbound tourism was robust and employment was growing, especially in the face-to-face service industry. However, after the onset of the pandemic, sales declined significantly in the non-manufacturing sector, especially in the lodging and restaurant industries, due to infection prevention measures such as requests to close or shorten business hours. The result was a significant adjustment in employment, which mainly affected women working part-time.

Prime Minister Fumio Kishida, who was elected in September 2021, emphasized at his inaugural press conference that the so-called 'new capitalism' has two pillars: a growth strategy and a distribution strategy. The latter is supposed to "increase working people's share of national income," "expand the middle class and thereby address the problem with low-birth rate problem," and "boost income distribution by the government in order to expand the income of the middle class". Subsequently, a major report by the Cabinet Office (2022), which analyzed the current state of and the outlook for the Japanese economy, identified income distribution as a key challenge.

How has the distribution of labor and capital income changed during the recovery from the COVID-19 pandemic? In this section, we analyze the income distribution in the Kansai region based on the discussion developed by the Cabinet Office (2022). We discuss the importance of boosting labor productivity through higher wages and investing in human capital in the distributional policies of the Kishida administration in order to regain a thick middle class.

2. Income Distribution before the COVID-19 pandemic

(1) Distribution of lab or income

First, we look at the distribution of labor income since the 2000s. Specifically, annual labor income of individuals is divided into several classes, and the income

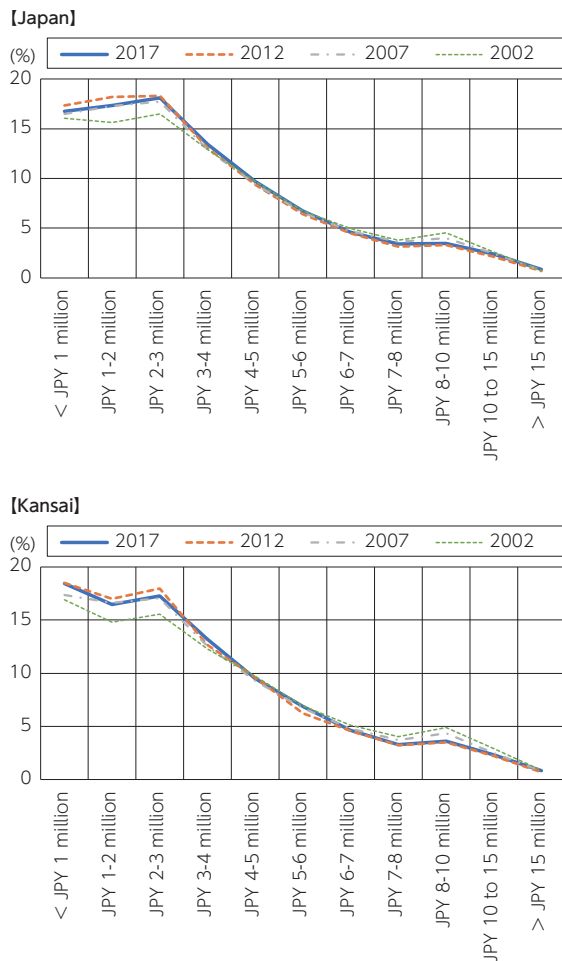


Figure 2-3-1 Changes in the Distribution of Annual Labor Income: Kansai vs. Japan

Note: Annual income from main job. The share for Kansai is calculated by summing the number of persons in each income bracket in Shiga, Kyoto, Osaka, Hyogo, Nara, and Wakayama prefectures.

Source: Compiled by the authors based on the Basic Survey of Employment Structure by the Ministry of Internal Affairs and Communications.

distribution showing the percentage of individuals who fall into each class is compared over time, and the median value is confirmed.

Figure 2-3-1 shows the distribution of annual labor income (annual income from main jobs) in Japan since 2002. It shows that the percentage of individuals earning less than 3 million yen has been increasing in recent years, except

in 2012, the year after the Great East Japan Earthquake. On the other hand, there has been almost no change in the middle-income group earning 3-8 million yen, and the percentage of the high-income earners (8-15 million yen) has been decreasing.

A comparison of Japan and Kansai (the lower part of [Figure 2-3-1](#)) shows that the trend is the same. However, the share of low-income earners is higher in Kansai - in 2017, 18.4% of the respondents in Kansai had incomes of less than 1 million yen, compared with 16.7% in Japan as a whole. The average income in Kansai is lower than the national average.

Next, we look at trends in the median annual labor income. [Figure 2-3-2](#) shows that median income has been declining both in Japan as a whole and in Kansai. The median labor income in 2017 was 2.76 million yen in Japan, and 2.71 million in Kansai. Compared to 2002, the median labor income decreased by 170,000 yen nationwide (from 2.92 million yen to 2.76 million yen), and by a staggering 270,000 yen in Kansai (2.98 million yen to 2.71 million yen).

Next, we compare the shares of households in the low-income bracket (less than 3 million yen), the middle-income bracket (3 to 8 million yen), and the high-income bracket (10 million yen or more) in 2014 and 2019. [Figure 2-3-3](#) shows that the percentage of households in the low-income bracket remained almost unchanged nationwide (15.5% in 2014 → 15.3% in 2019), while the percentage in Kansai increased by 2.9 percentage points (14.4% in 2014 → 17.3% in 2019). In the middle-income bracket, while both Japan as a whole and Kansai have seen a decline, the decline has been larger in Kansai: -4.9 percentage points as compared to -1.9 percentage points in Japan as a whole. On the other hand, the percentage increase in the high-income group was smaller in Kansai (+1.5 percentage points) than nationwide (+2.0 percentage points). The shrinkage of the middle-income bracket is an indication of the polarization of income both in Japan and in Kansai. However, in contrast to Japan as a whole, Kansai is also characterized by an increase in the share of the low-income bracket.

Next, we calculated the median annual income per household for working households. The median income per household increased from 5.46 million yen in 2014 to 5.56 million yen in 2019 in Japan, while it decreased from 5.47 million yen to 5.33 million yen in Kansai. On a per capita basis, however, labor income declined both in Japan and in Kansai in that period. The increase in household income and the decline in per capita income suggest that on the national level there has been an increase in labor income earned by members other than the head of the household. In Kansai, however, incomes declined on both household and per capita basis.

In order to analyze the reasons for the decline in Kansai, we focus on the

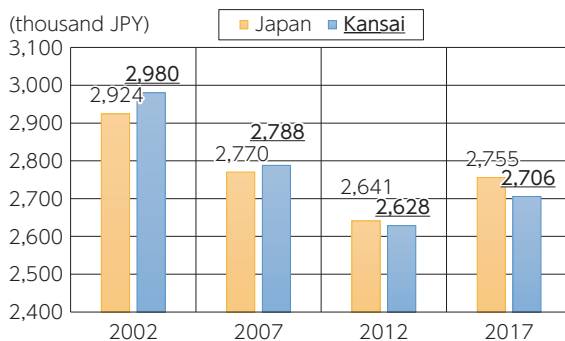


Figure 2-3-2 Changes in median annual labor income: Kansai vs. Japan

Note: Annual income from main job.

Source: Compiled by the authors based on the Basic Survey of Employment Structure by the Ministry of Internal Affairs and Communications.

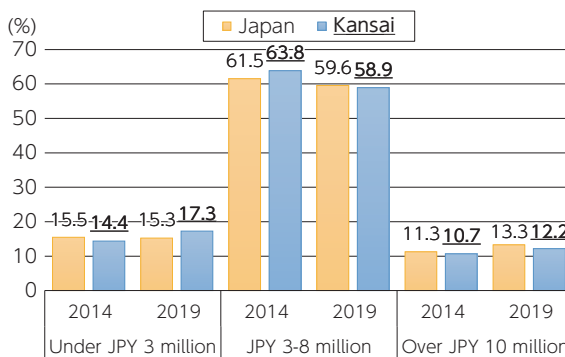


Figure 2-3-3 Changes in annual household income: Kansai vs. Japan

Note: Working households only. The figures for Japan are calculated based on Table 6-54 of the National Household Survey. The figures for Kansai are aggregates of data for Shiga, Kyoto, Osaka, Hyogo, Nara, and Wakayama prefectures based on Table 9-0 of the National Household Survey.

Source: Compiled by the authors based on Table 30-0 of the National Household Survey by the Ministry of Internal Affairs and Communications.

employment status. The reason is that, in general, non-regular workers work shorter hours and earn lower wages per hour, so an increase in the number of non-regular workers is likely to have an impact on the widening gap in labor income among workers.

Figure 2-3-4 shows the distribution of annual earnings by gender and employment status in Japan using the Ministry of Internal Affairs and Communications' Labor Force Survey.

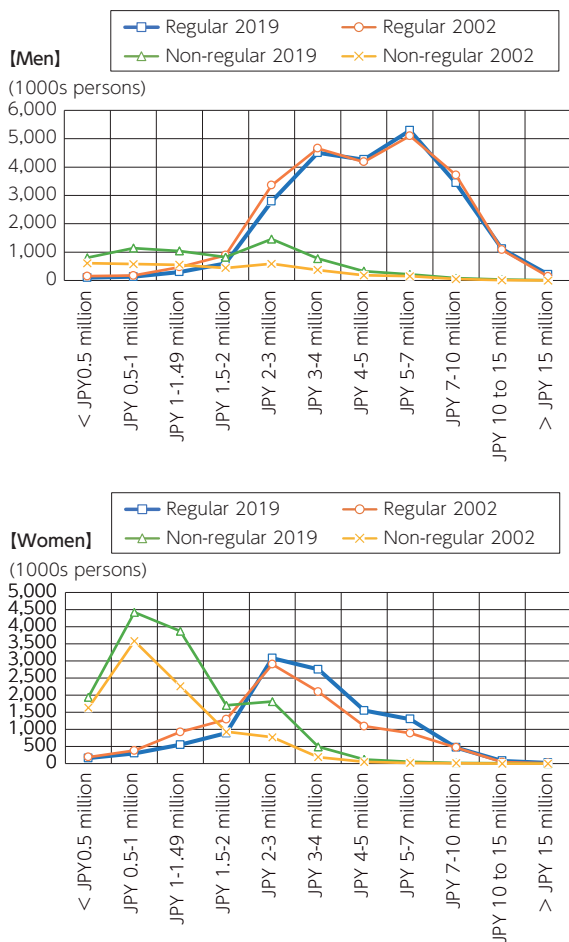


Figure 2-3-4

Comparison of annual income distribution by gender and employment type: Kansai vs. Japan

Note: Income from work (annual); non-regular employees in 2002 are the total of part-time employees, dispatched workers, and contract and temporary workers.

Source: Compiled by the authors based on the Labor Force Survey (Table II-12) by the Ministry of Internal Affairs and Communications.

For males, the majority of full-time employees in 2019 were in the income bracket of 2-10 million yen per year. On the other hand, the majority of non-regular employees were in the 1–2-million-yen income bracket. Comparing the shape of the distribution between 2002 and 2007, there is almost no change in the number of regular employees, while the number of non-regular employees in the income bracket of less than 4 million yen per year has increased.

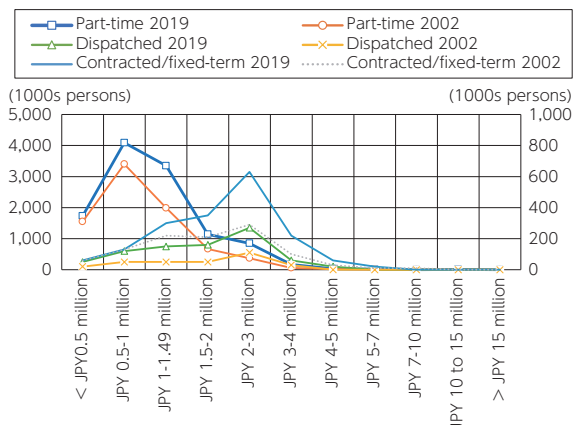


Figure 2-3-5

Comparison of annual income distribution among female part-time employees: 2002 vs 2019

Note: Left axis for part-time employees, right axis for others

Source: Compiled by the authors based on the Labor Force Survey by the Ministry of Internal Affairs and Communications.

For female, compared to 2002, the number of persons in the 1–2-million-yen income bracket decreased, while the number of persons in the 3–7-million-yen income bracket increased. Compared to 2002, the number of non-regular employees in the income bracket of 0.5-1.5 million yen has increased significantly. Figure 2-3-5 shows that this increase has mainly been driven by women.

The above suggests that the increase in the number of part-time and non-regular employees has been one of the determining factors of the polarization of income distribution.

What about the Kansai region? Since the “Labor Force Survey” used in Figures 2-3-4 and 2-3-5 does not provide data by region, the authors estimated the share of part-time workers in Kansai based on the “Monthly Labor Survey” published by each prefecture. Figure 2-3-6 shows that the share of part-time workers in Kansai is about 3 to 4 percentage points higher than the nationwide share, and this share has been increasing. Therefore, it is possible that the number of part-time workers is increasing in Kansai, as in the rest of Japan, and that the distribution of annual income is becoming more polarized.

As shown in Figure 2-3-3, even before the COVID-19 pandemic, the number of low-income households in Kansai was rising, and the number of middle-income households was shrinking. The boom of inbound tourism in Kansai between the mid-2010s and 2019 led to an increase in the number of people employed in tourism-related industries. Many of the employees in these industries were part-time or non-regular employees with relatively low incomes,

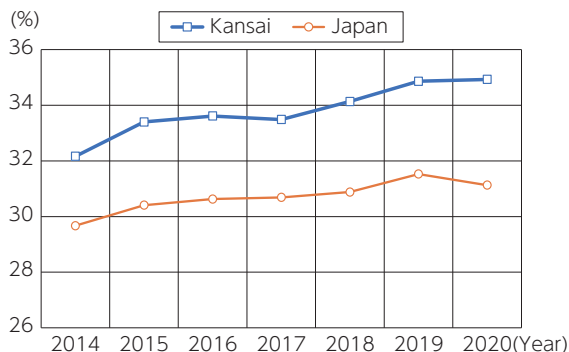


Figure 2-3-6

Comparison of the shares of part-time employees: Kansai vs. Japan

Note : Businesses with 5 or more workers

Source : Compiled by the authors based on the Monthly Labor Survey by the Ministry of Health, Labor and Welfare and official data from local governments of Kansai prefectures.

which may have contributed to the decline in household incomes.

(2) Trends in Capital Income

The Cabinet Office (2022) examined the distribution of financial asset balances by decile of total household assets (the sum of net financial assets and housing and residential land assets) in 2014 and 2019 for the entire nation. In particular, the share of the decile holding 40% of total financial assets, or about 50 million yen per household on average, is said to have increased.

Figure 2-3-7 shows the total amount of financial assets held by households in Kansai as well as in Japan by asset class using the National Household Survey. As shown in the figure, the total amount of household assets per household position increased in Kansai as well for households holding more than 50 million yen. On the other hand, it shows a decrease for households with less than 6 million yen.

Figure 2-3-8 shows the breakdown of household asset balances in Kansai in 2019 by asset category. The figure shows that the larger the financial asset balance is, the larger is the share of securities holdings, including stocks. Although it has been declining, the return on financial assets held by the decile with the largest share of securities holdings in Japan is still quite high. In addition, the distribution of interest and dividend income also shows an increase in the share of the richest decile, indicating that the capital-income gap is widening. The fact that households owning securities are more likely to own high-value assets in Kansai and Japan alike, may be a factor in widening capital-income disparities.

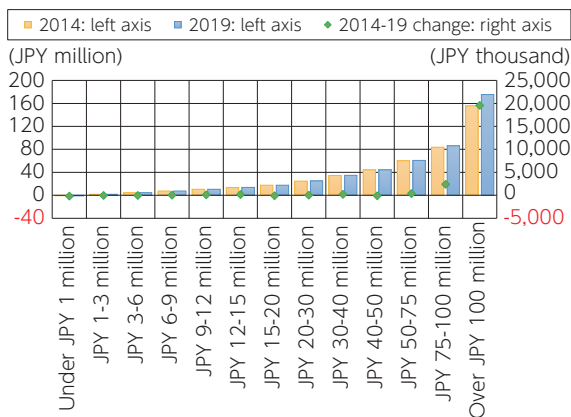


Figure 2-3-7 Change in financial assets held by asset category in Kansai: 2014/2019

Note : Working households only. Figures for Kansai are averages for each income group in Shiga, Kyoto, Osaka, Hyogo, Nara, and Wakayama prefectures. Total household assets are the sum of "net financial assets (financial assets minus financial liabilities)" and "housing and residential land assets."

Source : Compiled by the authors based on Table 30-0 of the National Household Survey by the Ministry of Internal Affairs and Communications.

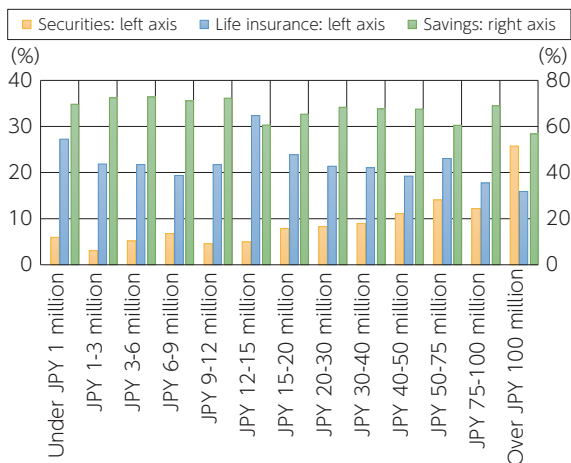


Figure 2-3-8 Breakdown of financial assets in Kansai: 2019

Note : Working households only. Figures for Kansai are averages for each income bracket in Shiga, Kyoto, Osaka, Hyogo, Nara, and Wakayama prefectures.

Source : Compiled by the authors based on Table 30-0 of the National Household Survey by the Ministry of Internal Affairs and Communications.

3. Income Distribution and the Middle Class during the COVID-19 pandemic

(1) Income distribution before and after the COVID-19 pandemic

In the previous section, we saw that the income environment of households in the Kansai region was severe even before the impact of COVID-19 crystalized. We proceed to discuss how the COVID-19 pandemic affected income distribution.

Table 2-3-1 shows the annual income by income decile for working households with two or more members in 2019-21, based on the “Family Income and Expenditure Survey” by the Ministry of Internal Affairs and Communications. It shows that the average annual income has increased slightly from 7.29 million yen in 2019, to 7.33 million yen in 2020, and then further to 7.37 million yen in 2021.

However, here is a decrease in annual income in the first (poorest) and third deciles from 2019 to 20, and in the first quintile from 19 to 21. On the other hand, annual income increased in the rest of the working households. Thus, the increase in average annual income was mainly due to the increase in annual income in the higher-income deciles.

Table 2-3-1 Annual Income by Income Decile: Nationwide

Units: JPY thousand

	Average	I	II	III	IV	V	VI	VII	VIII	IX	X
2019	7,290	2,920	4,230	5,010	5,690	6,360	7,090	7,910	8,860	10,370	14,490
2020	7,330	2,900	4,240	4,990	5,700	6,420	7,140	7,950	9,000	10,430	14,580
2021	7,370	2,900	4,250	5,030	5,720	6,380	7,090	7,930	8,960	10,490	15,000
2019-20 change	40	-20	10	-20	10	60	50	40	140	60	90
2019-21 change	80	-20	20	20	30	20	0	20	100	120	510

Note : Working households with two or more members.

Source : Compiled by the authors based on Table 2-5 of the Household Income and Expenditure Survey by the Ministry of Internal Affairs and Communications.

(2) A Shrinking Middle Class

As discussed above, due to the worsening economic situation caused by the COVID-19 pandemic, the incomes of low-income households have been shrinking, while those of high-income households have been increasing. However, what about middle-income households (hereafter referred to as the “middle class”)? To investigate this matter, we use data from the Household Income and Expenditure Survey by the Ministry of Internal Affairs and Communications (Figure 2-3-9). The figure shows the shares of households in each of the three

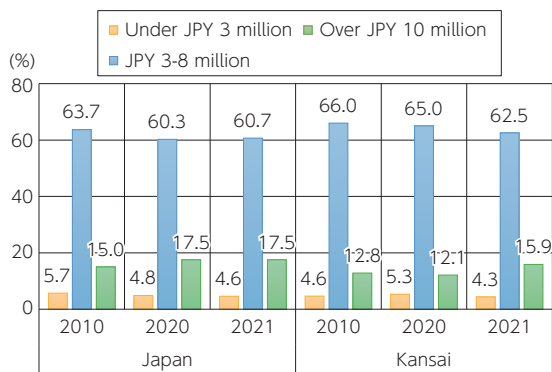


Figure 2-3-9 Comparison of the percentage of households in each income bracket: Japan vs. Kansai

Source : Compiled by the authors based on the Household Income and Expenditure Survey by the Ministry of Internal Affairs and Communications.

income brackets (less than 3 million yen, 3-8 million yen, and 10 million yen or more) both in Japan and in Kansai.

Comparing 2010 and 2021, the percentage of households in the low-income bracket has declined in both nationwide (from 5.7% in 2010 to 4.6% in 2021) and in Kansai (from 4.6% to 4.3%). The decline in Kansai is smaller than that in Japan. The percentage of middle-class households declined both in Japan (from 63.7% in 2010 to 60.7% in 2021) and in Kansai (from 66.0% to 62.5%). However, the extent of the decline was greater in Kansai. Finally, the percentage of households in the high-income bracket with annual incomes of 10 million yen or more has increased both in Japan (from 15.0% in 2010 to 17.5% in 2021) and in Kansai (from 12.8% to 15.9%). However, the increase in Kansai was lower than that in Japan.

A comparison of 2010 and 2020, the year the COVID-19 pandemic started, reveals a different picture from the comparison of 2010 and 2021 above. Whereas the percentage of low-income households declined nationwide (from 5.7% in 2010 to 4.8% in 2020), in Kansai it increased (from 4.6% to 5.3%). The percentage of high-income households rose nationwide (from 15.0% in 2010 to 17.5% in 2020), while it declined in Kansai (from 12.8% in 2010 to 12.1% in 2020). Thus, focusing on the Kansai region, the proportion of low-income households increased and that of high-income households decreased in 2020 due to the significant impact of the COVID-19 pandemic.

From the data presented above, it can be concluded that the already unfavorable income environment of middle-income households in Kansai was further exacerbated by the COVID-19 pandemic.

As mentioned above, in recent years, employment in the Kansai region, especially among non-regular workers in the food service and lodging industries, has been increasing due to the increased demand generated by inbound tourism. However, since 2020, in addition to the evaporation of inbound tourism due to the COVID-19 pandemic, several emergency declarations were issued, and restrictions aimed at curbing the spread of infections were imposed. This has exerted significant employment adjustment pressure, which affected workers employed in these industries.

The shrinkage of the middle class has led to a slump in consumption, which has put a damper on the momentum of the Kansai economy's recovery from the COVID-19 pandemic. Although the rise in inbound tourism was a major growth factor for Kansai's economy, it also thinned the middle class in terms of income distribution. This has created an economic structure that is vulnerable to economic shocks, as witnessed by the impact of the COVID-19 pandemic.

4. Conclusion: The Need to Invest in Human Capital

In this article, we compared the dynamics of labor and capital income in the Kansai region before and after the COVID-19 pandemic with the nationwide trends, using representative statistics.

We have seen that the polarization of income was an issue in Kansai even before the outbreak of the COVID-19 pandemic, as evidenced by the shrinkage of the middle-income group and an increase in the shares of the low-income and high-income groups (Figure 2-3-1 and Figure 2-3-3).

Due to the impact of the COVID-19 pandemic, middle-class incomes declined further, and the middle-income moved closer to the low-income group, leaving households in a difficult situation in terms of income (Table 2-3-1 and Figure 2-3-9).

With regard to these negative trends, we believe that wage increases and enhanced human capital investment are the key to regaining a thick middle class.

Prime Minister Kishida's administration has set forth three major pillars as part of the so-called "distribution strategy": (1) raising wages, (2) boosting investment in human capital, and (3) maintaining a middle class throughout the next generation. Among these policies, support for the middle class has already been proposed by economic organizations and think tanks, and it has become an important policy issue. However, there has been little progress with regard to raising wages.

The Survey of Corporate Statistics by the Kinki Regional Finance Bureau

shows that the amount of funds allocated to labor costs (wages) by companies in Kansai has declined from 10.6 trillion yen in FY2001 to 8.1 trillion yen in FY 2019, a decrease of 23.3%. During the COVID-19 pandemic, it decreased further to 8.0 trillion yen in FY 2020 (dropped by -24.8%), and to 7.9 trillion yen in FY 2021 (dropped by -25.2%). The Monthly Labor Survey shows that wage growth has been lower in Kansai than in the rest of Japan, and this has led to a stagnation in private consumption.

As shown in [Figure 2-3-9](#), the percentage of low-income households in Kansai has hardly declined compared to Japan as a whole. Therefore, in the short run, economic support measures targeting low-income groups are crucial. On the other hand, in the long run, the key challenge is to improve labor productivity by boosting investment in human capital. As the working population declines due to the aging population and the falling birthrate, increasing labor productivity is becoming increasingly relevant.

The Basic Policies for Economic and Fiscal Management and Reform (hereinafter Framework 2022), which were approved by the Cabinet on June 7, 2022, identified “investment in people” as a priority investment area. In addition to previously proposed policies, such as the promotion of side jobs and re-qualification, Framework 2022 policy promotes lifelong education (or “recurrent education”) in order to facilitate labor mobility.

In line with Framework 2022, universities and technical colleges are also expected to accelerate their response to social changes by fostering innovative human resources who can respond to digitalization. This is considered a key element in achieving the so-called “new capitalism.”

One of the challenges in terms of human resources in Kansai is the out-migration of many highly skilled workers to the Kanto region in response to the rise of high-value-added service industries there. In consideration of this, in the medium to long term, it will be important not only to ensure the availability of highly skilled human resources by boosting human capital investment, but also to transfer labor force from low-productivity sectors to growth sectors through special subsidies aimed at supporting long-term employment adjustments.

Section 1 of Chapter 6 of this Economic Outlook points out that one of the major reasons for the stagnation of Kansai’s economy has been a lack of investment. This suggests that in addition to investing in human capital locally, it will be important to attract domestic and foreign investment, as well as highly skilled human resources.

A series of large-scale investments on the order of 1 trillion yen are scheduled to take place in Kansai in the near future, including the Osaka-Kansai Expo in 2025. We hope that the implementation of such projects will help the Kansai

economy, which has been stagnant since the 1970 Osaka Expo, to turn around and achieve a virtuous cycle of growth and income distribution.

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