ISSUES FACING THE JAPANESE LABOR MARKET

Hiroaki Miyamoto
University of Tokyo
miyamoto@pp.u-tokyo.ac.jp
IMF’s views: Issues in the Japanese labor market

1. Labor shortage

2. Labor market duality

3. Wage dynamics
Labor shortage

• Shrinking and aging population
  • Reduce labor force & potential output growth
  • Affect fiscal sustainability

Source: Cabinet Office
How to address labor shortage

• Boost female labor force
  • Raise married female labor participation rate

• Encourage the supply of elderly workers
  • Flatten wage curve & Raise retirement age

• Increase foreign workers
  • Issue: What sort of foreign workers accept?

• Increase take-home pay
  • Support wage increase, lower social security premiums
How to address labor shortage

• Better utilization of young labor force
• Reduce mismatch
  • Employment and occupational
How to address labor shortage

- Better utilization of young labor force

Employment rate, Male (%)

Source: Ministry of Internal Affairs and Communication
How to address labor shortage

• Better utilization of young labor force

• Youth is under inferior employment conditions
  • 0.9 millions in unemployed (15-34 years old)
  • 1.8 millions in unstable causal jobs “Freeter”
  • 0.6 millions in NEET
  • 35% of youth are working poor (6 millions)

• Less training opportunity → human capital↓
  →economic growth↓
How to address labor shortage

• Reduce employment-type and occupational mismatch

Jobs-to-applicants ratio

Sources: Ministry of Health, Labor and Welfare
Mismatch has increased

Unemployment rate 1990Q1-2015Q3

Sources: Ministry of Internal Affairs and Communication; The Japan Institute for Labour Policy and Training (JIL)
Issues in the Japanese labor market

1. Labor shortage

2. Labor market duality

3. Wage dynamics
Labor market duality

- The ratio of non-regular workers has increased

Source: Ministry of Internal Affairs and Communication
Labor market duality

• **Pros:**
  - Lower the unemployment rate
  - Bring “voluntary-non-regular workers”

• **Cons:**
  - Reduce human capital
  - May reduce TFP

• Why has labor market duality deepened in Japan?
  - Strict employment protection (Aoyagi and Ganelli, 2015)
  - Slowdown of economic growth (Miyamoto, 2015)
Issues in the Japanese labor market

1. Labor shortage

2. Labor market duality

3. Wage dynamics
Recent wage dynamics
2000Q1-2015Q3, SA

Total cash earnings (growth rate, %)

Source: Ministry of Health, Labor and Welfare
Wage dynamics (1997=100)
1990Q1-2015Q3, Nominal

Total cash earnings

Source: Ministry of Health, Labor and Welfare
Wage: international comparison
1997=100, Private sector, hourly earnings

In Japan, wage is downward flexible

Source: OECD
Why have wages declined?

1. Increased “non-regular workers”
   • 60% of regular workers’ wages

2. Bonus (special cash earnings) system
   • A relatively unique aspect of the Japanese labor market

3. Lower worker’s bargaining power & Weak wage indexation
   • Miyamoto (2015)

4. Increased “elderly workers”
   • Genda (2015)
   → Wage deflation is not short-term (cyclical) problem!!
Why have wages declined?

Source: Ministry of Health, Labor and Welfare
Why have wages declined?

Wage growth rate, Male, College and grad school graduates

Source: Ministry of Internal Affairs and Communication
What is the main problem?

- The **Japanese employment system** (JES) ceases working well and causes several serious problem.

- **JES**: Life-long employment, Seniority wage, Internal training and promotion, Enterprise union

- The JES was created and prevailed thanks to rapid economic growth and large youth population

- No more rapid economic growth & large youth population
Structural problems

• In the JES, a standard worker is a full-time high-salaried male worker → The JES is not for youth, females, aged, non-regular

• Structural problems:
  • Youth idleness
  • Female participation
  • Older worker participation
  • Regular vs. Non-regular

• Incumbents also face problems:
  • Long working hours
  • Unlimited services
  • Frequent shifts of assignment to different jobs & workplaces
Possible “solutions”

- **Economic growth**
  - Employment is the derived demand of production
  - Companies are not confident about the future

- **Labor market reform**
  - Prepare more fair and competitive conditions
  - Use resource reallocation functions of the labor market
  - **Promoting a more flexible labor market**
    - Human resources are reallocated to match changes in the industrial and occupational structures
    - Potentially raise productivity of the economy
  - “Equal pay for equal work”
To enhance the flexibility of the labor market

- Information
- Opportunities for training
- Evaluate the labor service objectively and fairly
- Open job-matching service to private sector providers
- Reduce employment protection
  - Make explicit firing rules (legal uncertainty)
Thank you
Appendix
Structural change

Economic growth

Growth rate of real GDP: 1956-2013

Source: Cabinet Office
Structural change

Demographic changes

Source: National Institute of Population and Social Security Research
Increased “Non-regular workers”

Proportion of non-regular workers

- Total: 37.2%
- Male: 15.3%
- Female: 30.9%

Wages

About 60% of regular worker’s wage
Scheduled vs Bonus
1993 - 2014

Regular Workers

Part-time Workers

- Total cash earnings
- Scheduled
- Bonus (right axis)

Copyright © Hiroaki Miyamoto
Female labor force participation (%)

Source: Ministry of Internal Affairs and Communication
Labor turnover in Japan and the U.S.

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>The U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Market</td>
<td>“Rigid”</td>
<td>“Flexible”</td>
</tr>
<tr>
<td>Worker flows rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job finding rate</td>
<td>14.2%</td>
<td>59.4%</td>
</tr>
<tr>
<td>Separation rate</td>
<td>0.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>3.5% (1980-2012)</td>
<td>5.8% (1948-2013)</td>
</tr>
<tr>
<td>Turnover rate</td>
<td>9% (annual)</td>
<td>3% (monthly)</td>
</tr>
</tbody>
</table>

- With a flexible labor market
  - Human recourses are reallocated to match changes in the industrial and occupational structures
  - Potentially raise productivity of the economy

Source: Miyamoto (2011); Lin and Miyamoto (2012)
Reference


