

ISSUES FACING THE JAPANESE LABOR MARKET

Hiroaki Miyamoto

University of Tokyo

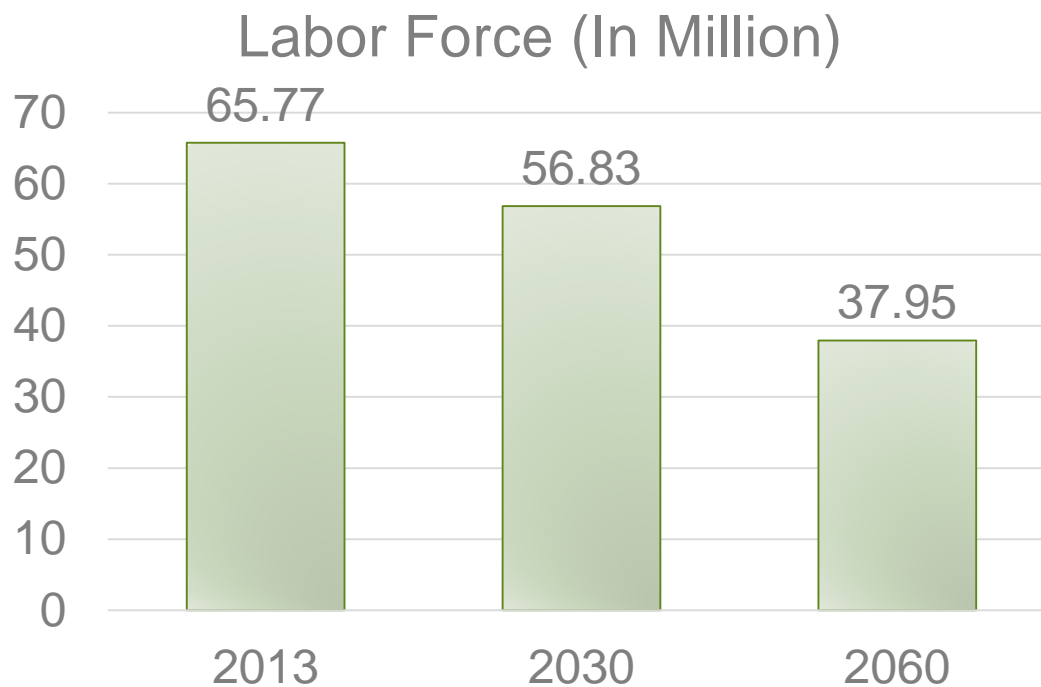
miyamoto@pp.u-tokyo.ac.jp

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

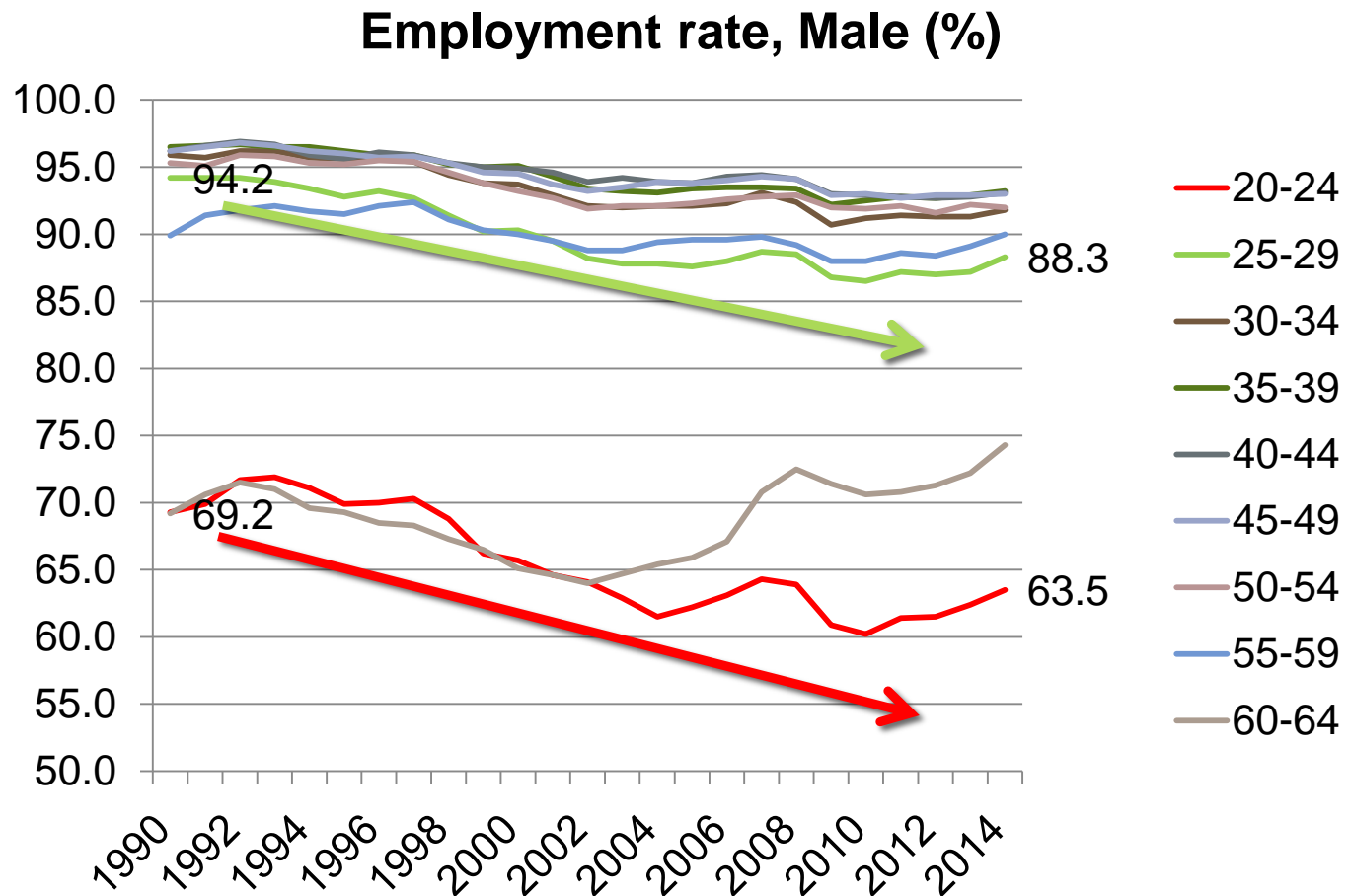
- Boost female labor force
 - Raise married female labor participation rate
- Encourage the supply of elderly workers
 - Flatten wage curve & Raise retirement age
- Increase foreign workers
 - Issue: What sort of foreign workers accept?
- Increase take-home pay
 - Support wage increase, lower social 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



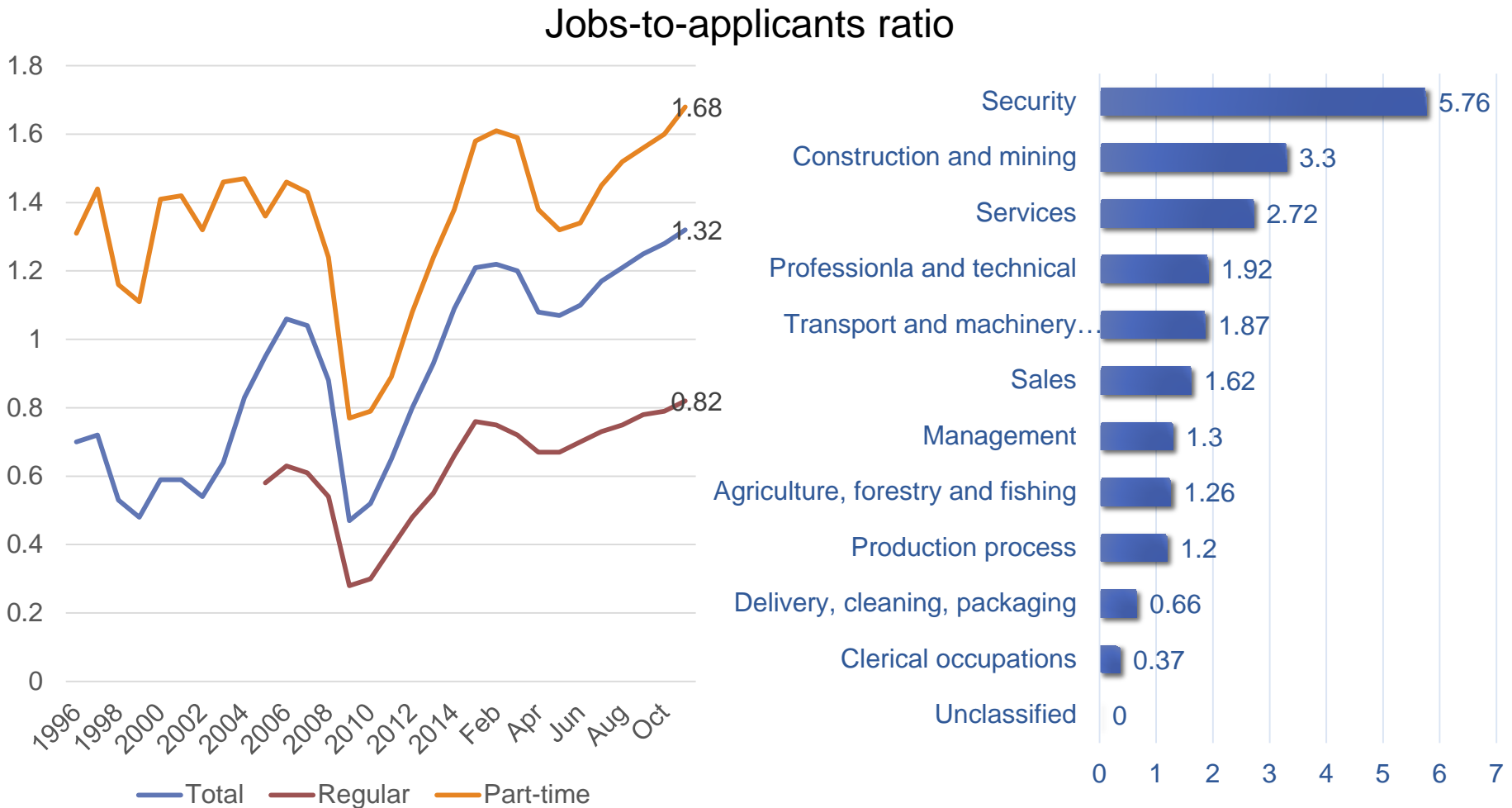
Source: Ministry of Internal Affairs and Communication

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 casual 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

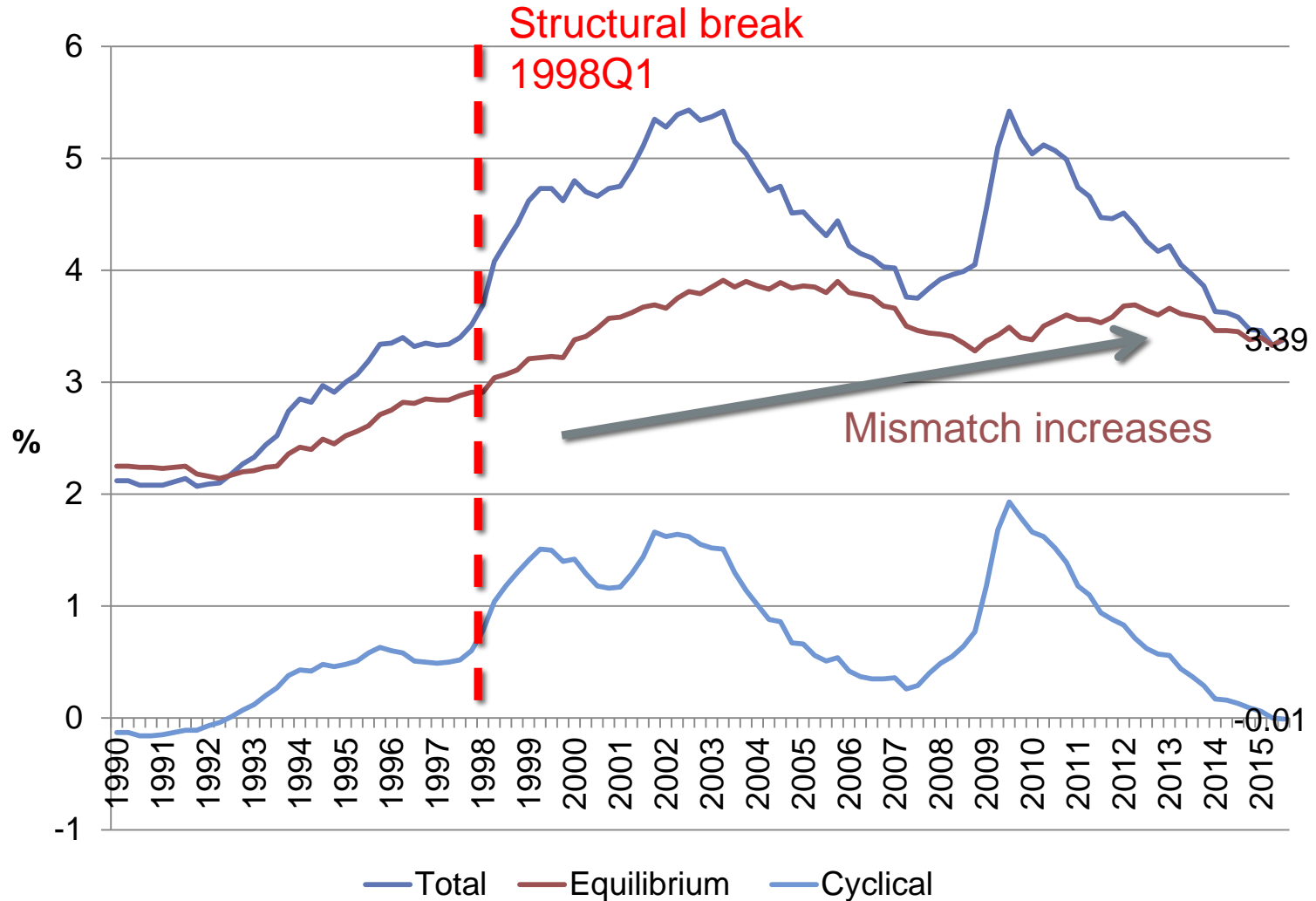
- Reduce employment-type and occupational mismatch



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)

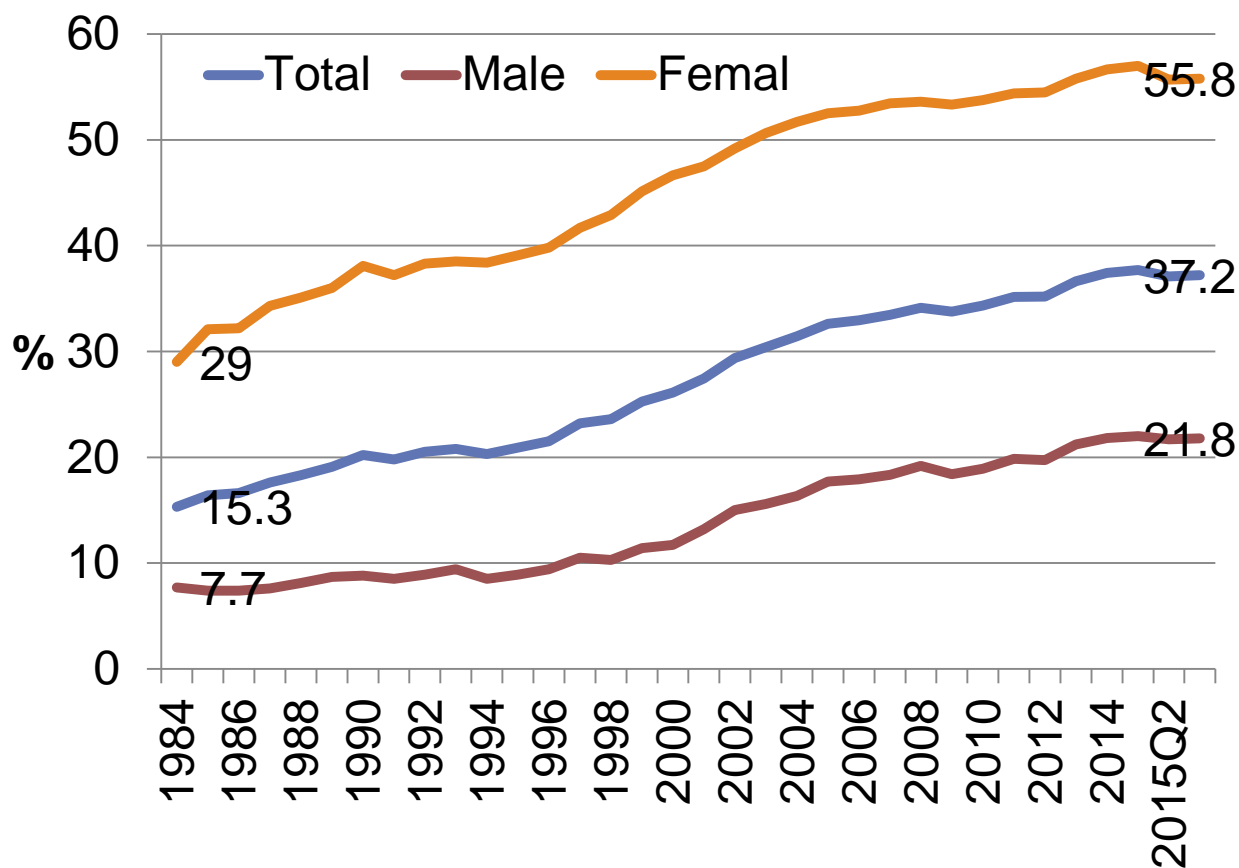
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Issues in the Japanese labor market

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)

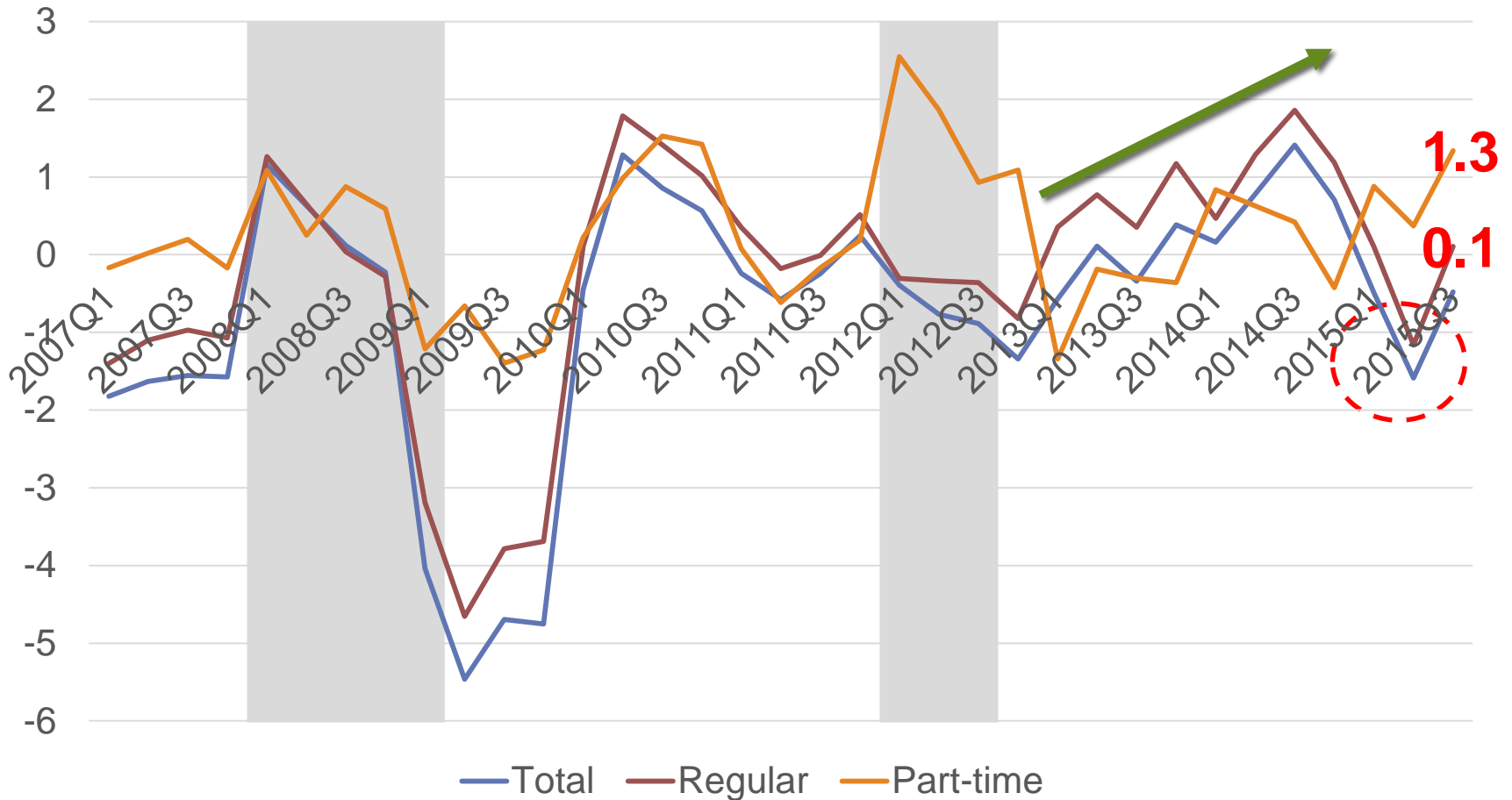
Issues in the Japanese labor market

1. Labor shortage
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Recent wage dynamics

2000Q1-2015Q3, SA

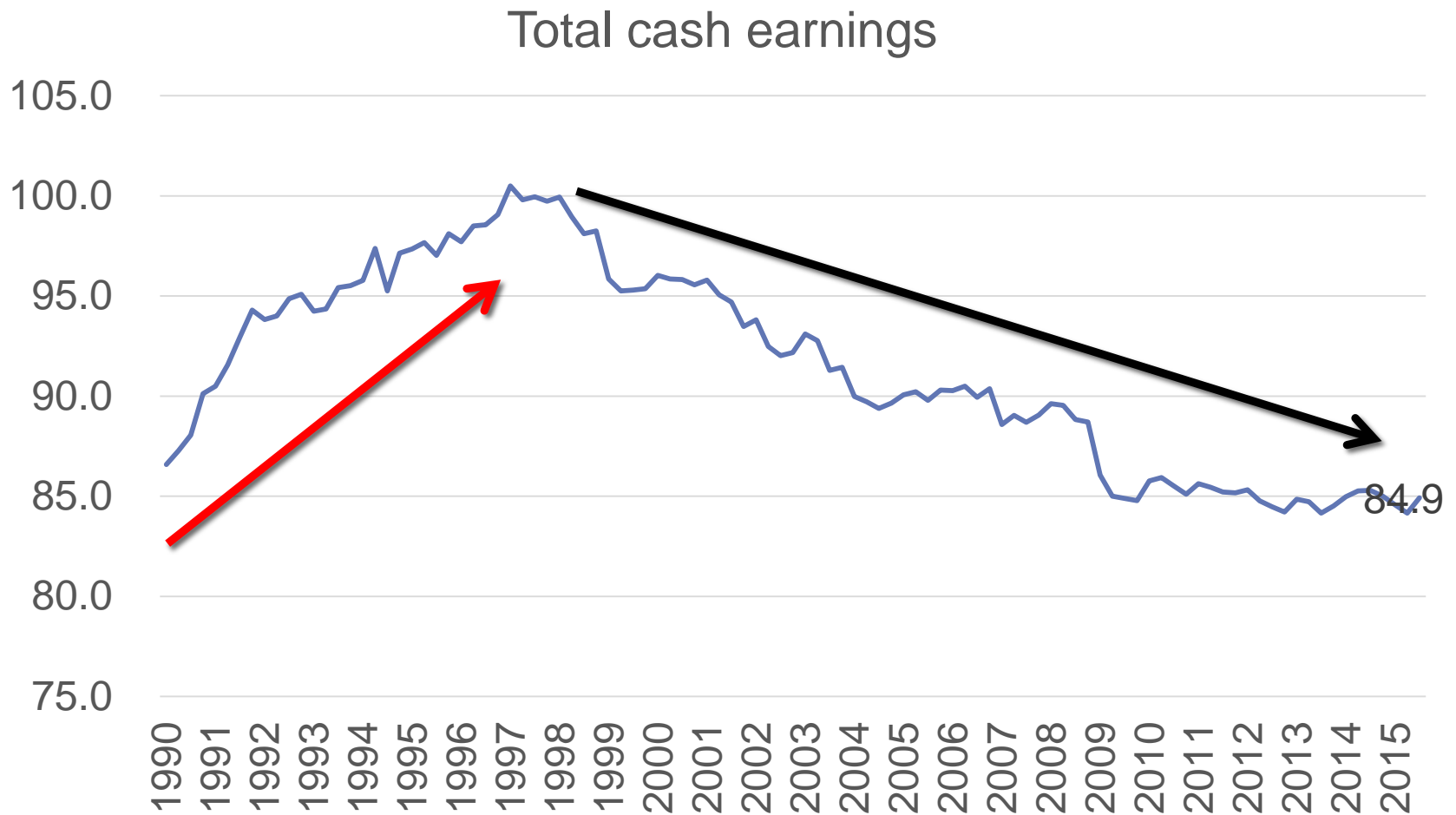
Total cash earnings (growth rate, %)



Source: Ministry of Health, Labor and Welfare

Wage dynamics (1997=100)

1990Q1-2015Q3, Nominal

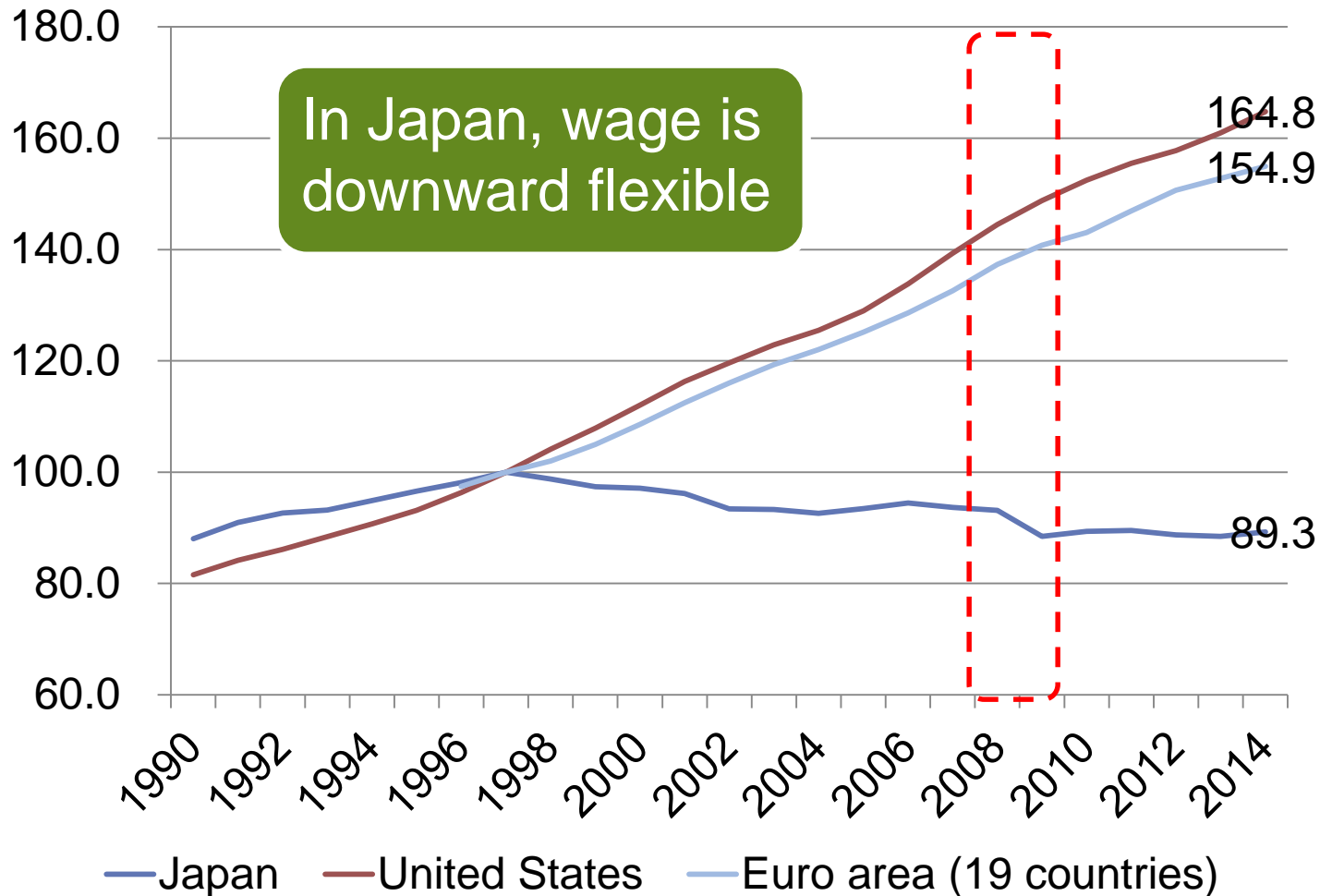


Source: Ministry of Health, Labor and Welfare

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Wage: international comparison

1997=100, Private sector, hourly earnings

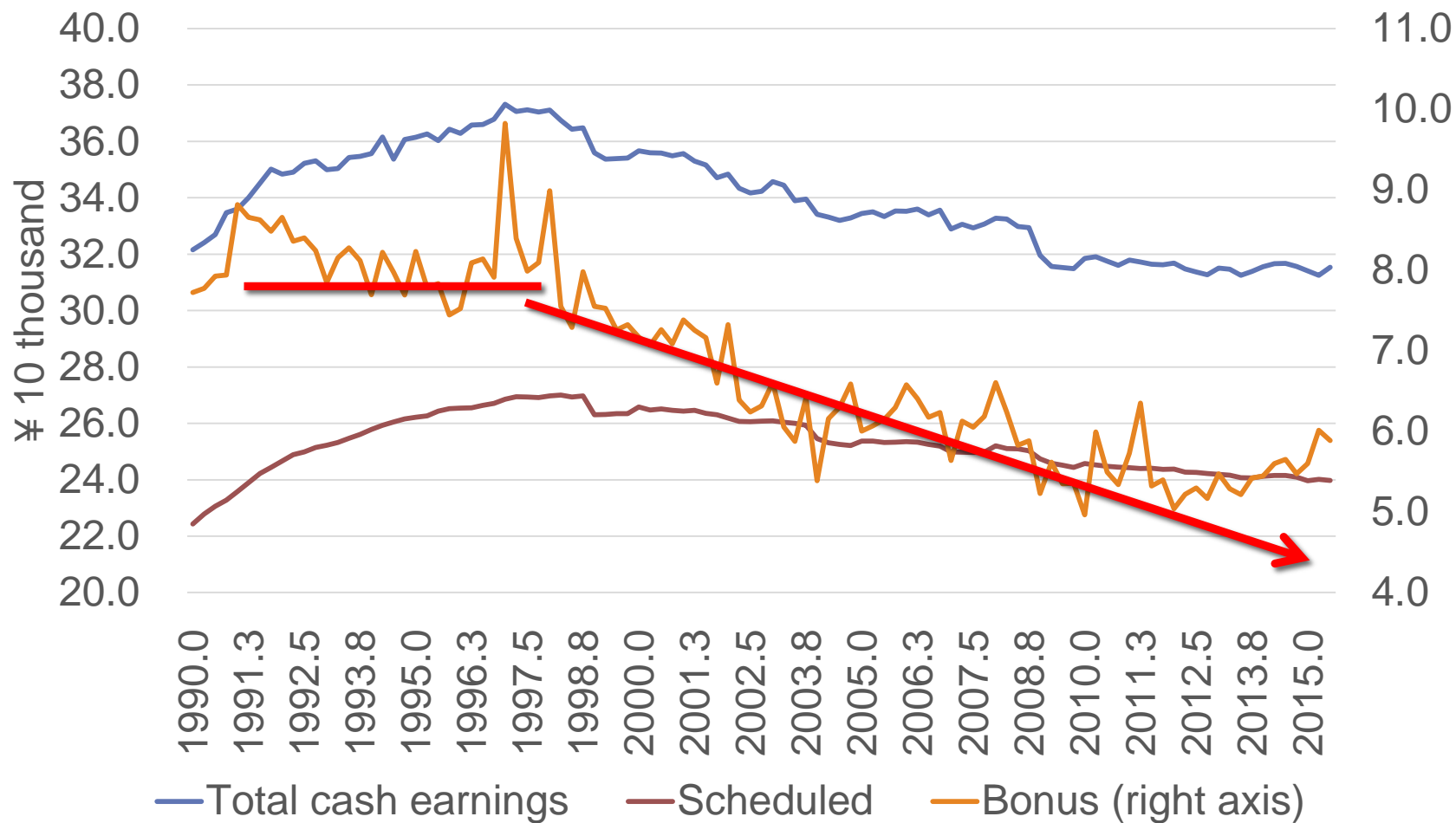


Source: OECD

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!!**

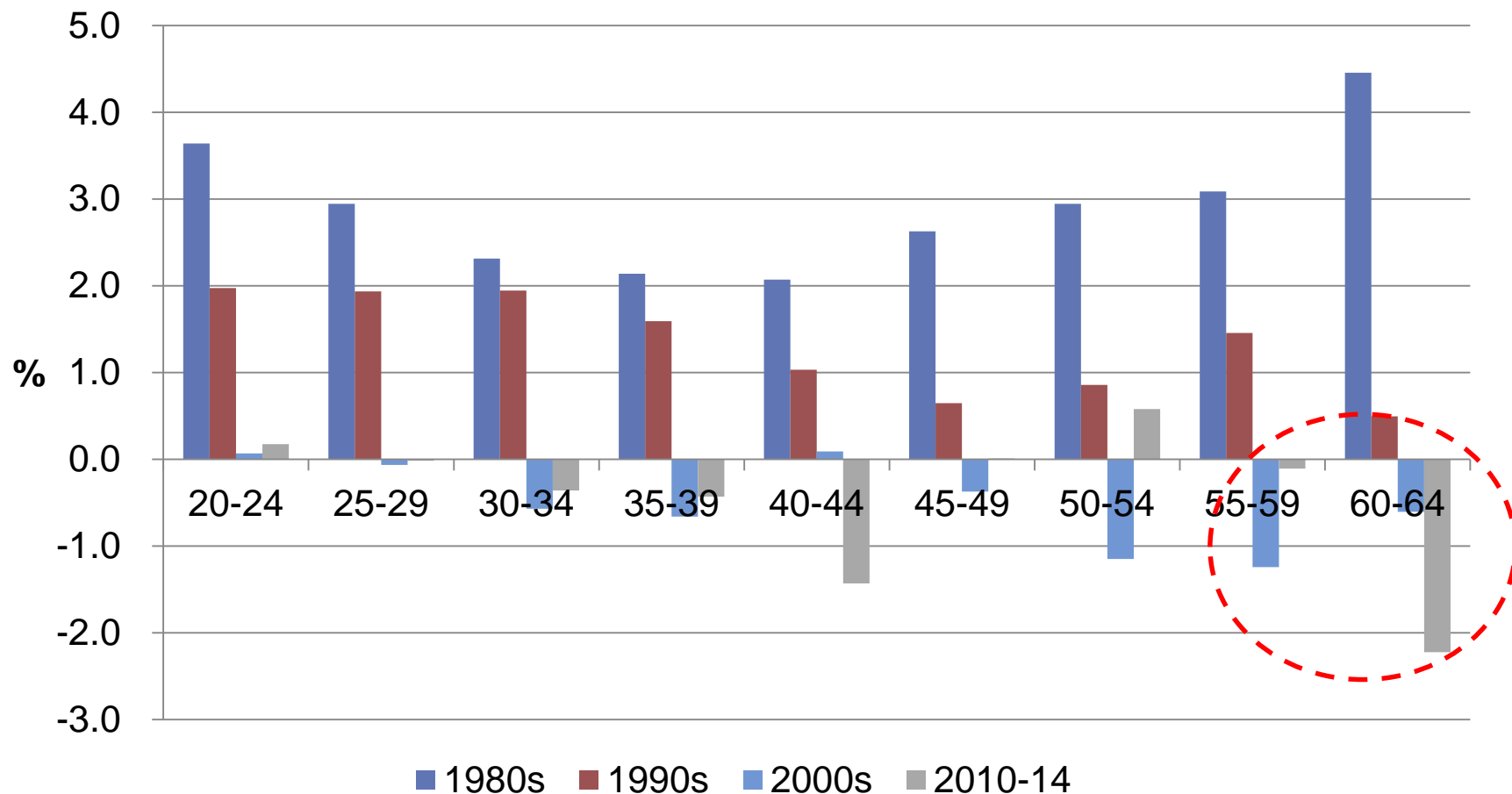
Why have wages declined?



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)

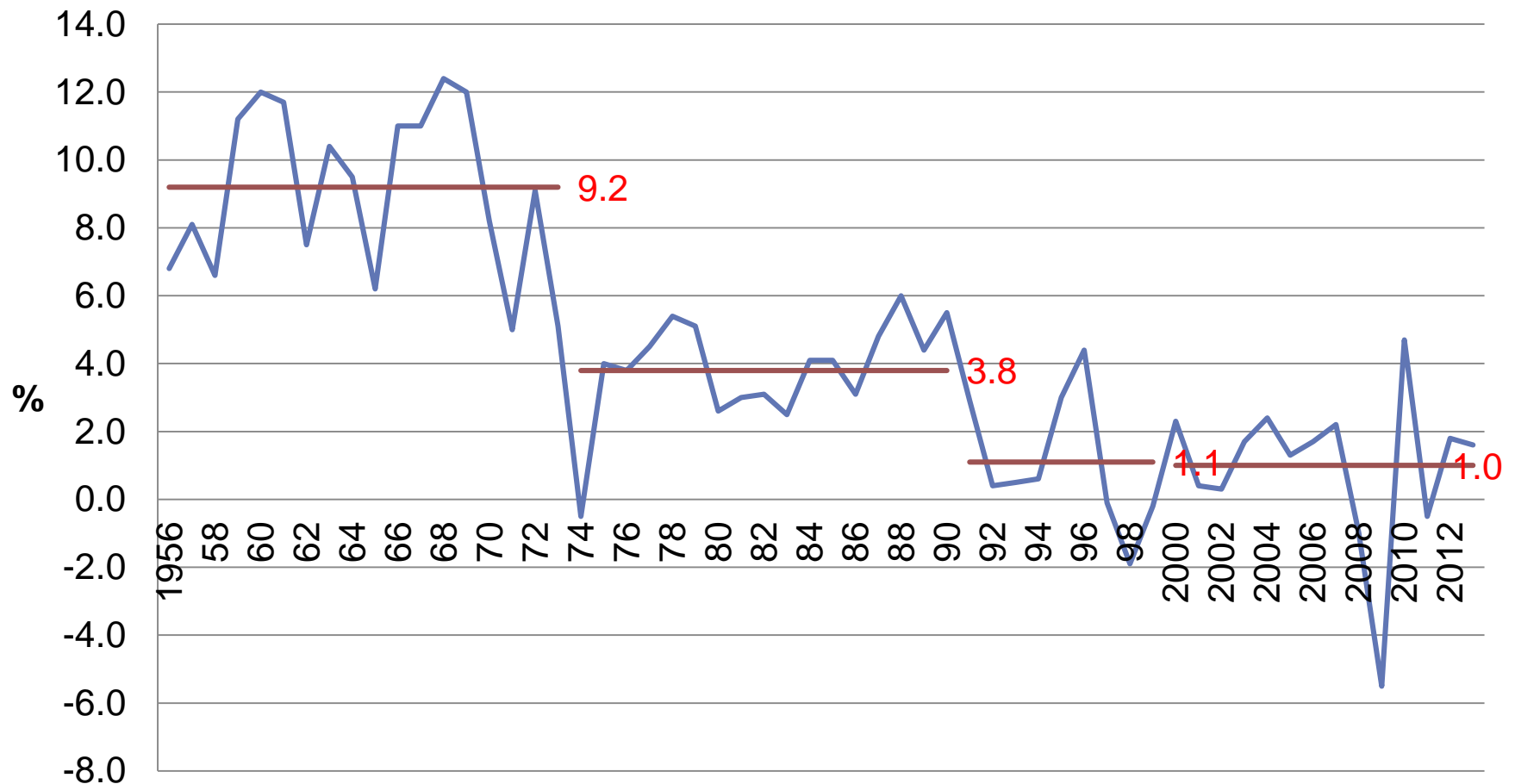
Thank you

Appendix

Structural change

Economic growth

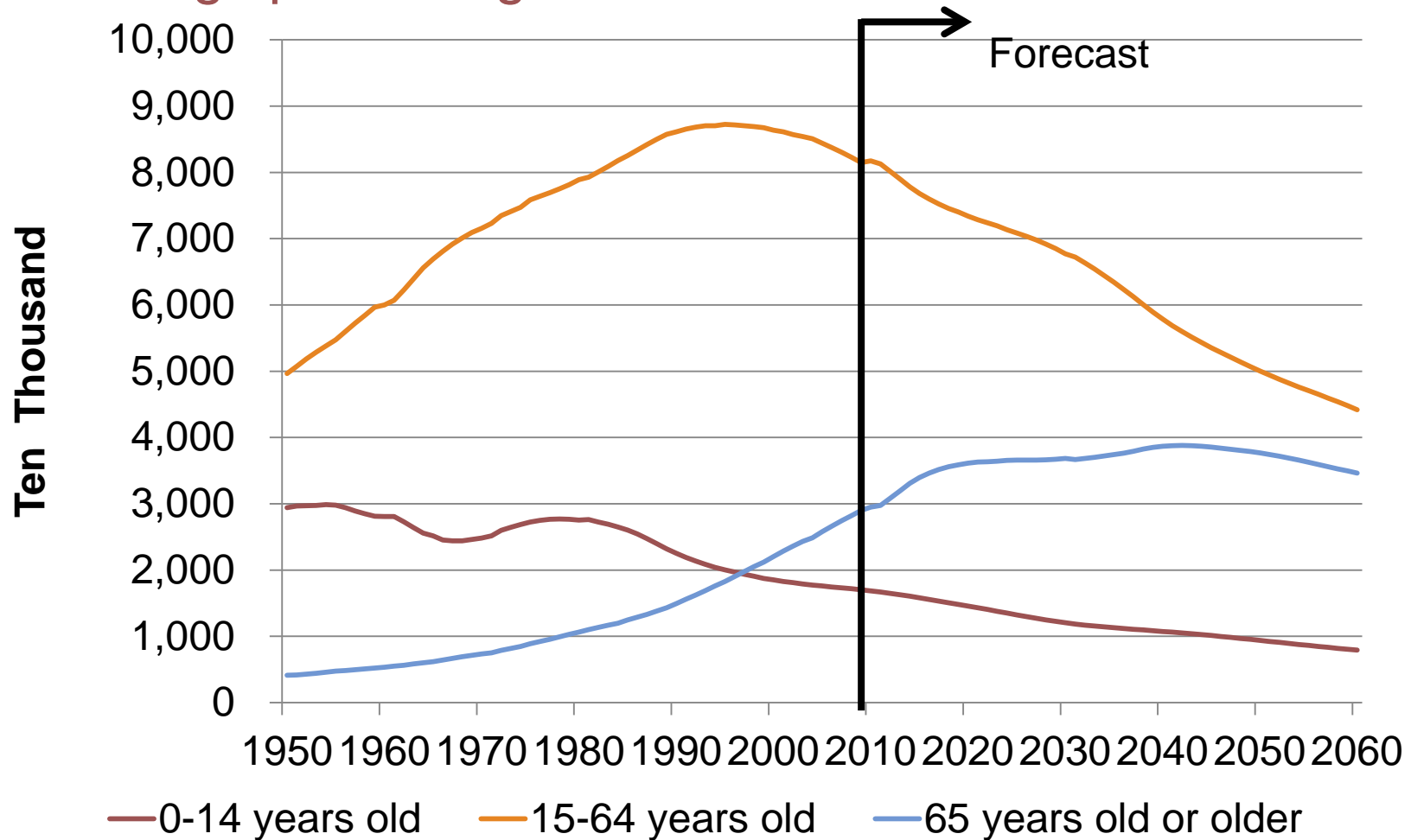
Growth rate of real GDP: 1956-2013



Source: Cabinet Office

Structural change

Demographic changes

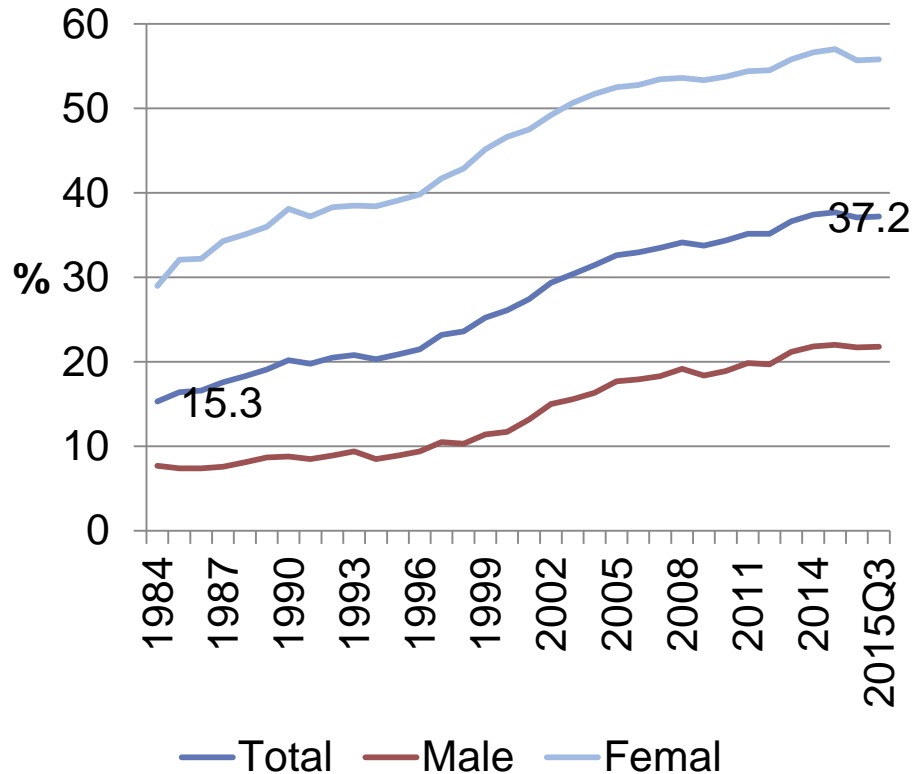


Source: National Institute of Population and Social Security Research

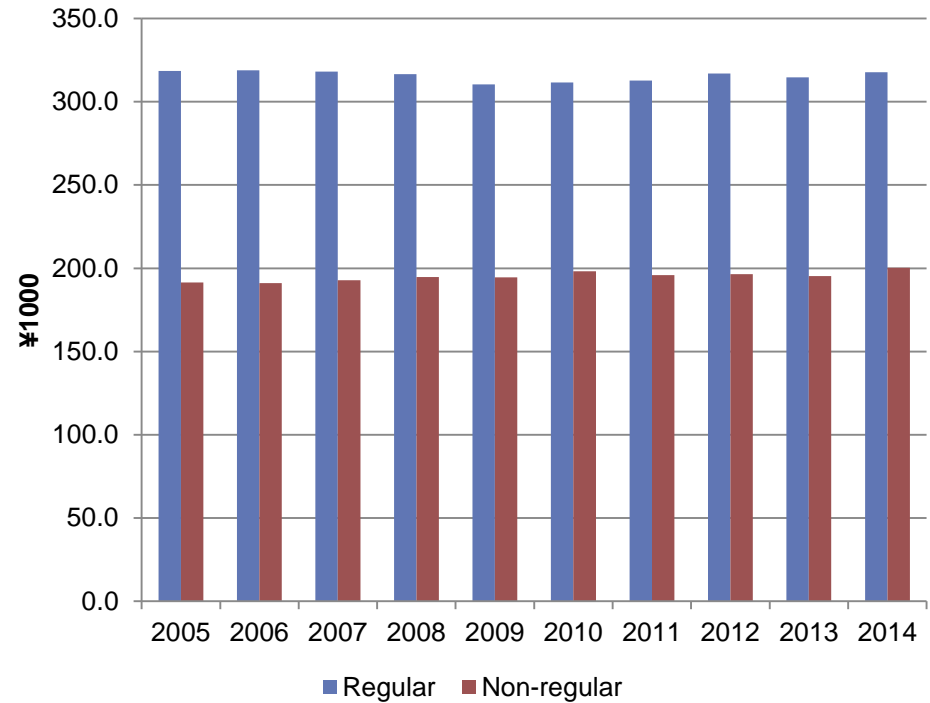
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Increased “Non-regular workers”

Proportion of non-regular workers



Wages

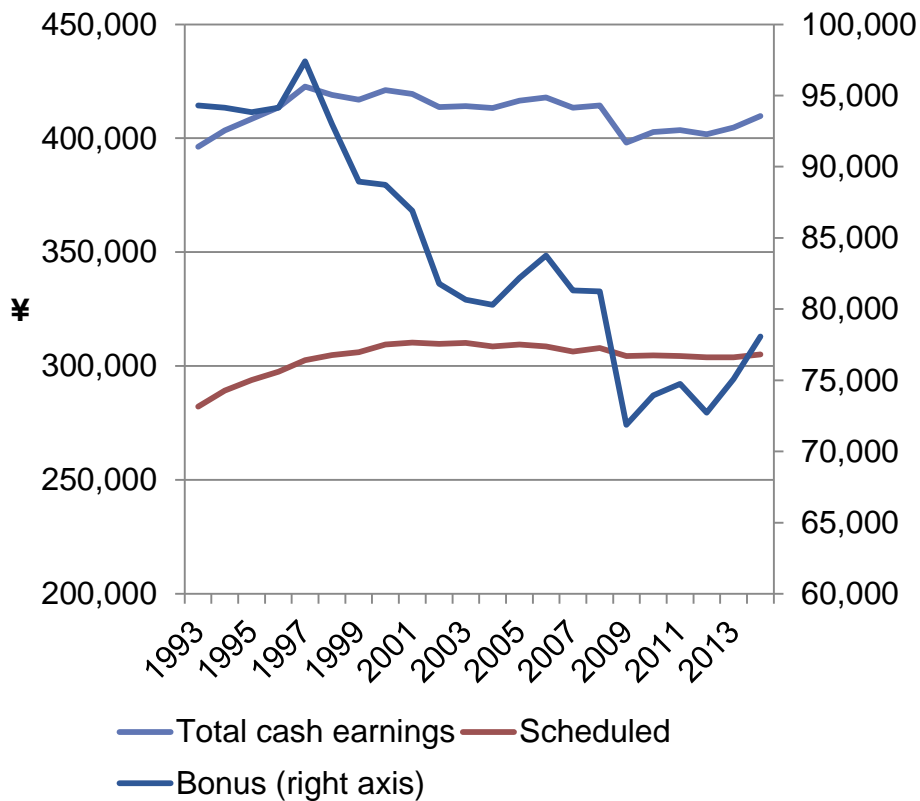


About 60% of regular worker's wage

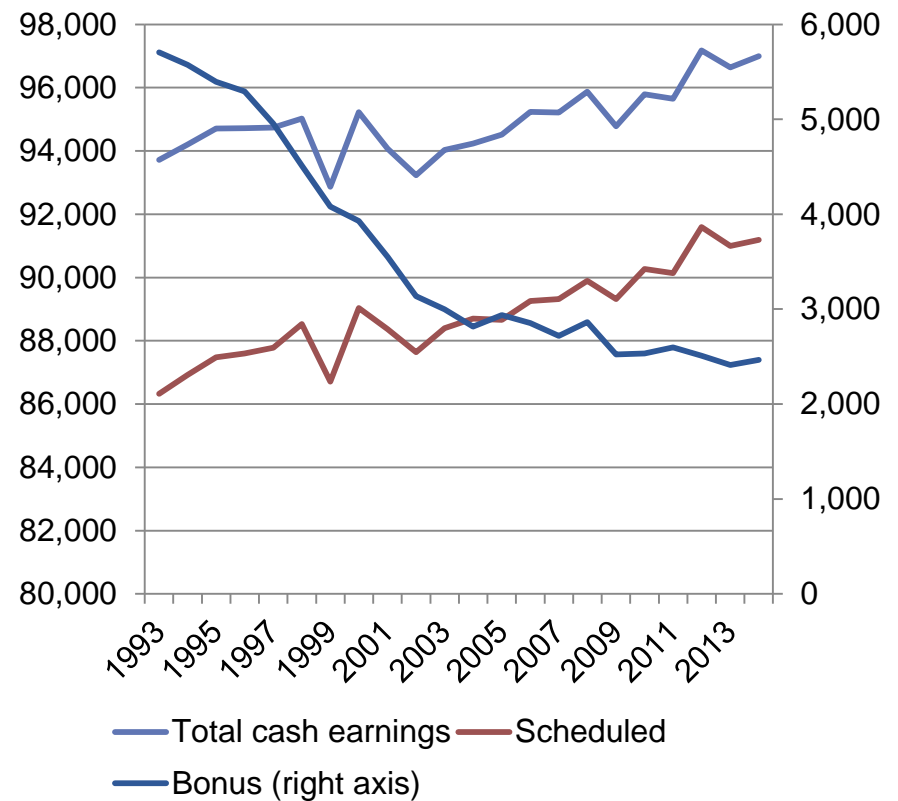
Scheduled vs Bonus

1993 - 2014

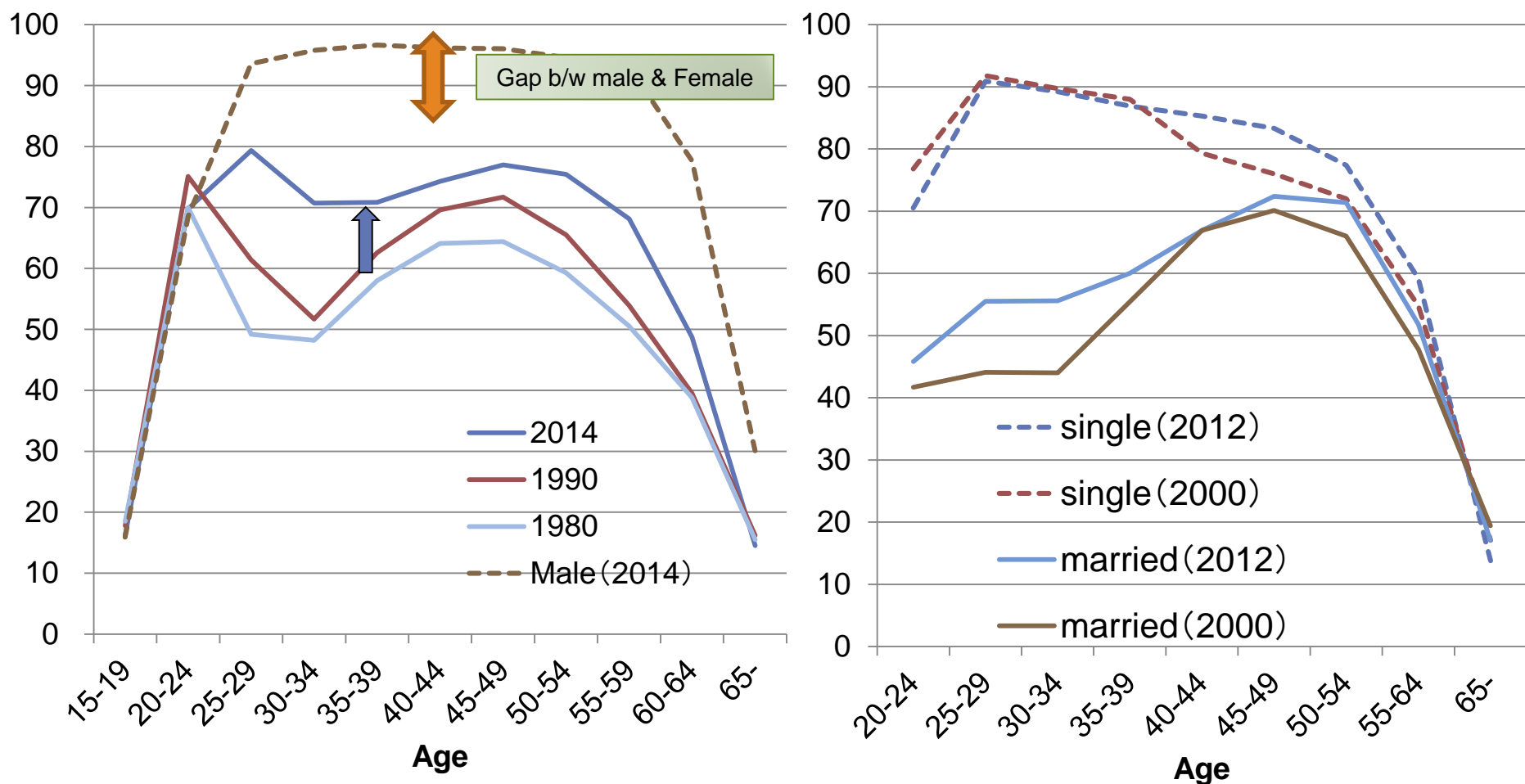
Regular Workers



Part-time Workers



Female labor force participation (%)



Source: Ministry of Internal Affairs and Communication

Labor turnover in Japan and the U.S.

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

- With a flexible labor market
 - Human resources 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

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4. Miyamoto, Hiroaki , 2015. "Growth and non-regular employment," Working Papers SDES-2015-20.