

Opinions

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Japan's Growth Strategy and Structural Reforms in its Labor Market



KIM Gyu-Pan

Ph.D, Head of Japan Team

Korea Institute for International Economic Policy 

The recently wide-spreading disappointment at 'Abenomics,' following the meager outcomes of its first arrow, quantitative easing (QE), drew attention to the third arrow, a comprehensive growth strategy focusing on structural reforms in Japan. In other words, although the Abe Cabinet has steered its economic policies toward monetary expansion since April 2013, which further developed into a Negative Interest Rates Policy (NIRP) on February 2016, their impacts on the real sectors, particularly on private investment and consumption, have been utterly trivial. Furthermore, the second arrow of Abenomics, fiscal stimulus, has reached an impasse due to a huge fiscal deficit mainly resulting from low fertility rates and population ageing.

The growth strategy first made public by the Abe administration in June 2013, and revised every year since, is built on the three main pillars of industrial revitalization, strategic market creation, and global outreach. The government has also taken various measures to implement the growth strategy. However, structural reforms should be put ahead of everything, since they can stimulate the movement of labor forces and capital into more productive industries and consequently transform the rigid market structure into a more competitive one. The potential economic growth rate in Japan has drastically dropped from an annual average of 4.4 percent in the 1980s to 1.6 percent in the 1990s, and 0.8 percent in the 2000s, primarily due to a reduction in labor contribution.

Japanese labor market institutions, for instance lifetime employment and the seniority-wage system, were given high credit for Japan's enviable economic growth in the 1970s and 1980s. However, faced with the prolonged slowdown of the 1990s, the institutions have been criticized as impediments in actively responding to the changing external environment. The Abe-nomics growth strategy has been seeking structural reforms in the labor market by more actively utilizing female labor forces and foreigners, but also by deregulating lay-off rules on regular employees and diffusing more flexible forms of employment such as semi-regular work. Contrary to these measures for labor supply expansion and labor market flexibility, the growth strategy approaches from the perspective of worker protection for non-regular workers and temporary employees dispatched to companies by staffing agencies.

However, the growth strategy has not yet produced outstanding structural changes in labor market institutions. In other words, the Japanese government is still facing difficulties in reforming the lifetime employment and seniority-wage system. First of all, the growth strategy has not confronted issues on the deregulation of lay-off rules, but instead endeavored to allow employers to compensate for their undue dismissal. In Japan, the undue dismissal of regular employees has been strictly regulated since the amendment to the Labor Standards Act in March 2003. Furthermore, the Japanese government has taken measures to renew the regular employee retirement age to 65 years since the amendment to the Act on Stabilization of Employment of Elderly Persons in April 2013. Besides the permission of pecuniary compensation for undue dismissal, the growth strategy also made promises to introduce the 'White Collar Exemption' system which applies purely performance-related pay to high salary and professional workers. As of April 2016, however, the government was unable to even propose the Act on pecuniary compensation, and the amendment to the Labor Standards Act which included the 'White Collar Exemption' system was not passed in the Diet due to the opposite parties' objection.

Notwithstanding these efforts, the growth strategy also failed to make strident progress in expanding labor supply through domestic female and foreign workers. On a separate note, in Japan, the working-age population has been decreasing every year by around one million in absolute numbers since 1995, and the total population has also been decreasing since 2005. As a result, Japan is facing a shortage in labor supply in agriculture, manufacturing, construction, and child-raising and elderly care service sectors.

The active utilization of female labor forces is one of the most attractive policy alternatives for the Japanese government. According to the World Bank, the labor force participation rate of females in Japan is 49 percent, while the rates in the U.S. and Germany are 56 percent and 54 percent, respectively. The growth strategy accordingly has focused its policy direction on smoothing out the 'M-shaped curve' phenomenon, which indicates that more Japanese women leave the labor force when they marry or give birth to children than in most other rich countries. The Japanese government has announced intentions to introduce a 'quota system' that sets lower limits in employing female labor forces in the Diet membership and private corporations' administrative position, and has taken some measures to amend the public pension and health care contributions that are disadvantageous to dual-income female labor forces. The government has also sought to increase job opportunities for female labor forces by improving child care systems.

In seeking the active employment of foreign labor forces, the government announced an 'emergency plan' to accept 70,000 foreign labor forces by the end of 2020, mainly through the reinforcement of the 'Technical Intern Training Program' for developing countries' young apprentice engineers, and the acceptance of foreign labor forces especially in the manufacturing, elderly care service, and housework service sectors. As of February 2016, however, performance in the employment of foreign labor forces according to the plan stands at a mere 293.

Lastly, the growth strategy has achieved some results in terms of diffusing a flexible form of employment contracts. The Japanese government proposed semi-regular work as an alternative to non-regular work, which ensures the same conditions as regular employees in terms of wage and employment, while work location and work time and job duties are not different from non-regular work. Many Japanese corporations like Uniqlo, Watami, Japan Post Group, and Ikea Japan have raised their share of semi-regular employees. However, the diffusion of flexible employment contracts in Japan rather seems to result from the amendment to the Labor Contracts Act in April 2013, which forced the transition of non-regular employees

that have worked more than five years at the same workplace to regular employees, thereby inducing corporations to switch their non-regular employees into semi-regular ones. **KIEP**