

ABENOMICS AND THE CHALLENGES OF THE LABOUR MARKET IN JAPAN

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Abstract

The aim of the paper is to discuss the challenges of Abenomics in the context of the Japan's labour market reform. Labour market reform is addressed by the so-called third arrow of Abenomics – the economic revitalisation policy of the current Japan's Prime Minister Shinzo Abe. Relatively low unemployment rate does not indicate the good condition of the Japan's labour market, when considering rapid aging of population, decline in average nominal wages and expansion of part-time jobs. Moreover, there is a problem of underutilisation of female, youth and elderly labour forces, lacking an access to regular employment, then, higher wages, better access to social security system and vocational stability.

Womenomics, aimed at promotion of female labour forces, enhanced the public debate on the social justice and gender equity, however, without significant changes of social norms and institutional models it is hard to eradicate the outdated, rigid scheme of employment. Moreover, it is hard to provide new permanent jobs in the country trapped in the long-term vicious circle of stagnation and deflation.

Therefore, effective aggressive monetary policy and fiscal consolidation need to accompany structural reform of the labour market to make the latter feasible and successful in the long-term.

Key words: Abenomics, Japan, labour market

JEL Code: J08, J11, J20

Introduction

Abenomics is a nickname of the multi-dimensional economic revitalisation program of Japan's Prime Minister Shinzo Abe, initiated in the early 2013, soon after victory in the Lower House Elections in December 2012. Abenomics was expected to liberate the country

from the long-term vicious circle of stagnation and deflation, enhance sustainable development under responsible, far-reaching governance.

Abe's economic policy has been based on the so-called three arrows, namely, aggressive monetary policy, fiscal consolidation and structural reforms. The latter address, among others, labour market facing significant challenges.

The Japan's labour market used to be characterized by the lifetime employment system, however, over two decades of stagnation and deflation encouraged enterprises to reorient toward non-regular employment, affecting negatively productivity growth. Among the major reforms to be undertaken under Abenomics in the context of the labour market is to promote the female labour force participation.

The aim of the paper is to discuss the challenges of Abenomics in the context of the Japan's labour market reform. For the purposes of research, critical analysis of the labor market policy in Japan and its determinants has been conducted, embracing both statistical data in terms of macroeconomic trends as well as sociocultural studies to address the specificity of the Japan's employment scheme and the social role of gender.

1. The third arrow of Abenomics

Impact of Abenomics on the labour market seemed to be apparent, when the absolute number of workers reached a peak in 2014, while unemployment rate fell to 3,1 percent in October 2015. The problem, however, was the negative trend in regular employment observed for over two decades. In the end of 2015, 21 percent of men and 55 percent of women were employed irregularly, that translated into lower earnings, no job security, as well as limited access to social benefits. Aforementioned phenomenon contributed to decrease in real wages and slowdown of productivity growth in the Japan's economy. Such a situation on the labour market discouraged Japanese companies from investing in human capital, an important source of competitive advantage.

The structural reforms, then, the third arrow of Abenomics, tend to be less tangible, more steady and gradual in the context of adaptation by the government, as well as the private sector to the changes and challenges of the global environment, however, seems to be successful in pursuing explicit objectives, such as (Bobowski, Drelich-Skulka, 2016):

- promoting women on the labour market;

- enhancing investment through deregulation and liberalization, including, among others, energy sector as well as procedures of land acquisition, in order to facilitate the consolidation of agricultural areas;
- strengthening shareholder rights vs. corporations and institutional investors;
- expanding daycare and after-school programs;
- establishing six special economic zones under liberal labour and zoning law;
- promoting exports and foreign investment;
- establishing corporate governance codex; and finally, following the British model;
- introducing individual savings accounts as a new pillar of the pension insurance.

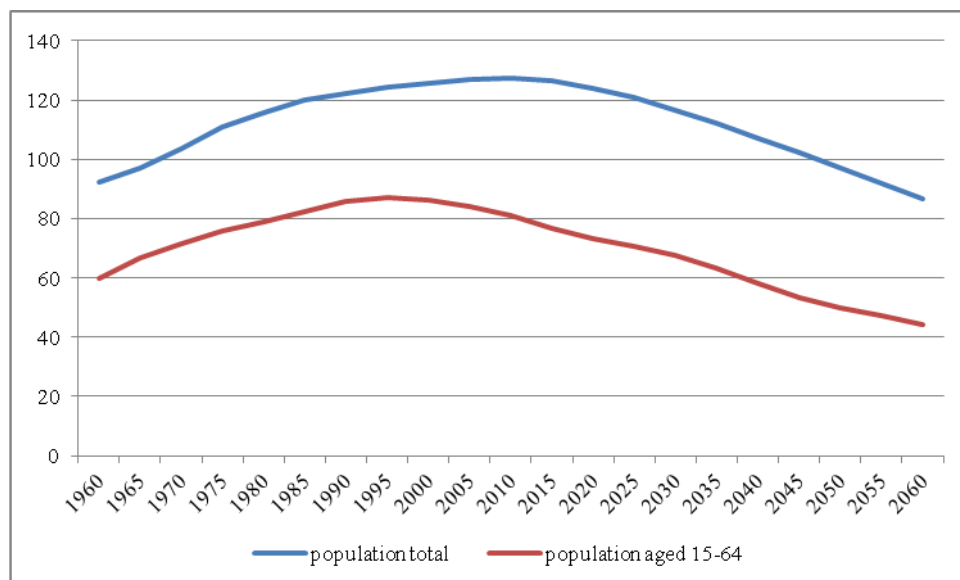
The third arrow of Abenomics, namely, structural reforms, used to be neglected for many years, however, provide an opportunity for stimulating higher economic and productivity growth, while the monetary and fiscal policy are focused on compensating for weak demand. An important initiative of the Prime Minister Abe was to establish the Industrial Competitiveness Council, aiming at implementation of legislative and administrative measures addressing, among others, improvement of the professional opportunities for women, opening up the domestic market to agricultural imports under the trade agreements with the European Union and the United States, simplification of employment procedures for well skilled foreigners, liberalization of energy market, promotion of innovations, small and medium-sized enterprises and tourism. In order to achieve more substantial productivity growth, Japan would need more uniform labour laws to eliminate the problem of duality between regular and irregular workers, shareholder-friendly corporate laws enhancing restructuring and startups, effective antitrust authorities, provision of the equal and fair rules of competition to dismantle the insider structures in the domestic industries. The aging problem should be addressed through, among others, promotion of women and families, as well as more liberal immigration policy.

2. Labour market in Japan – a brief review

Japan is suffering from labour shortages, induced by rapid aging of society. Namely, since the mid-1990s working-age population is continuously declining after reaching the peak. Perspectively, till 2060 population aged 15-64 would amount to 44 million, then, a half of the mid-1990s value, while total population – 87 million, then, slightly less than in 1960 (see: Fig. 1). Noteworthy, the shares of population aged 15-64 accounted for 65 percent of total

population of Japan in 1960, while in 2060 – according to forecasts – only 51 percent. At present, median age is 47 years with upward trend.

Fig. 1: Population of Japan, 1960-2060 (million).



Source: Tsuya (2015, 2).

According to Seike (2015), only between 1970 and 1994 Japan's population aged 65 and over doubled its shares in the total population – from 7 to 14 percent and will at least double again till 2035. In other words, Japan's population is aging twice as fast as Germany's and more than four times faster than France's.

Another important factor enhancing labour shortages is the rising mismatch across occupation and employment-type, namely, full-time and part-time positions. According to Statistics Bureau of Japan, the so-called non-regular workers, then, part-time and contract workers account nowadays for 37 percent of the labour force, while in 1984 – 15 percent. Noteworthy, non-regular workers used to be paid less, obtain limited access to social security system when compared to regular workers and, last but not least, little or no job security. While reducing the costs of the companies and providing more flexibility, non-regular employment discourage productivity and reduce training opportunities. Consequently, labour market imbalances are deepening, boosted by both unfavorable demographic trends, economic slowdown, low labour costs of non-regular workers, as well as strict employment protection of regular workers.

Moreover, average nominal wages in Japan declined by nearly 15 percent since 1997, as reported by Japan's Ministry of Health, Labour and Welfare. Interestingly, Japan is the only advanced country with downward flexible wages, then, wages declining in response to falling demand for labour.

Aforementioned decline in wages has structural determinants. Firstly, the average wages dropped due to rising shares of non-regular workers earning less than the regular. Secondly, even though base wages tend to be rigid, enterprises are able to reduce bonus and overtime payments depending on the short-term performance of a given employee. Thirdly, population aging contributes to decline in average wages through massive re-hiring of retirees as part-time workers at a lower wage rate (Miyamoto, 2016).

The main source of structural problems on the labour market is a dysfunctional employment system in Japan, characterized by life-long employment, seniority-based wages, internal training and promotion and enterprise unionism with trade unions operating within companies not across industries. While being effective in the 1960s and 1970s in terms of lowering unemployment in the pretty young Japan's population, specific employment system turned into the problem nowadays under long-term economic stagnation and rapid aging of society. Both enterprises and labour unions have failed to adapt to new employment conditions and the government has responded to unfavorable macroeconomic trends by tightening regulation of the labour market to discourage fixed-term employment contracts lacking guarantee of renewal, with special regard to non-regular and relocated workers, being employed in one company, while working in another. In the past, with dynamic economic growth up to 3,7 percent per year in the 1980s, enterprises invested in the employees' skills, keeping them during short recession episodes. The rigid employment guarantee encouraged workers to relocate from the declining to growing industries within internal corporate structures. The following two decades, with numerous long-term episodes of recession, enhanced enterprises to reduce the shares of regular workers with job guarantee at the expense of hiring non-regular workers to absorb business cycle fluctuations more flexibly.

Undoubtedly, relatively poor macroeconomic prospects discourage employers from hiring and providing full-time jobs. Therefore, enhancing economic growth is crucial in terms of improving business confidence and increasing employment. Importantly, an outdated wage scheme tend to be favoured by large enterprises, while generating inequalities between younger and older workers, as well as insiders and outsiders, discouraging excess workers from establishing their own companies due to high opportunity costs related to leaving the

job. On the other hand, labour unions tend to protect the interests of the senior regular workers, while prohibiting short-term employment arrangements. Both legislator and labour unions advocated the tightening of labour market ignoring the fact that those working in the fixed-term contracts may consequently lose the job without getting regular employment.

Another aspect of the problem is the lack of flexibility of the labour market that significantly reduces job opportunities of youth, female, elderly and part-time workers, when compared to regular male. Next to elderly workers, female workers need to be better utilized through, among others, abolishing tax and social security disincentives. For instance, the head of a household, then, usually a husband, can obtain a spousal income tax deduction assuming that the spouse earns less than 1,41 million yen per year, moreover, under 1,31 million yen, they are eligible for the national pension with no premiums to be paid. Thus, women are discouraged from working, the same as elderly, due to reduction of payouts from the pension system if increasing the earnings. In case of the latter, it seems to be crucial to reform the seniority-based wage system under which the wage of the employee is growing every year till reaching the mandatory retirement age. The wage curve should be flatten, while retirement age – risen. Reduction of imbalances and duality of the Japan's labour market requires relaxation of employment protection of regular workers, while strenghtening the social insurance coverage of non-regular workers. In case of the latter, the principle of „the same wage for the same job“ should be followed, alike in the other OECD countries (Yashiro, 2012). Furthermore, labour shortages and stagnating productivity need to be addressed by increasing immigration of skilled foreign workers, attracted by less restrictive and more favorable working conditions.

3. Womenomics

Among important reforms of the Japan's labour market mentioned above, there is the so-called „womenomics“ announced by the Prime Minister Abe as an integral component of the economic growth strategy to increase the ratio of female managers to at least 30 percent till 2020. An idea behind is to utilise the female labour forces, especially higher-educated, to a greater extent than hitherto – according to OECD data of 2013, only 64 percent of the Japanese women aged 15-64 participated in the labour market (Yashiro, 2014).

The main determinant of female human resources' underutilisation in Japan is the *nenko jyoretsu* system, whereby seniority in the enterprises is largely determined by how long a given person is working rather than his/her achievements. Thus, women tend to work

temporarily, namely, till they have children and need to take the „full-time” responsibility for the household, while the husband is working. In fact, Japan gained from gendered division of labour that assumed central role of male workforces, while using non-regular female workforces as a buffer to ensure stable employment for males. The seniority-based promotion system is outdated, however, deeply rooted in the corporate mentality. Interestingly, most Japanese have a guarantee of the long-term employment and seniority-based wages under the condition that the company decides what kind of job and where will be provided to the employee, forcing the workers to shift from one job to another in order to climb up the occupational ladder and overtime work.

Following results of research by Kazuya Oguro from Waseda University, volunteer overtime is pervasive, approximately 85 percent of full-time workers undertake overtime. Furthermore, 20 percent of population aged 20-40, then, prime parenting years, work more than 60 hours per week that indicates weekend work or four hours of overtime per day (Fabian, 2014)¹. This, in turn, has become a significant obstacle for married women to seek for the full-time job if willing to have children. In order to get a promotion at work, partner may have to relocate, therefore, in order to avoid separation of the family, women leave their job to take care of the household and children.

When studying extremely low ratio of the female managers in Japan, it should be noted, that an average length of the female employment is relatively short due to the household duties, minimizing opportunities for promotion at work under seniority system. Given the development of information and communication technologies, general skills should be more and more prevalent, thus, traditional promotion practices might be updated, while firm-specific skills requiring on-the-job training would probably preserve the age-related promotion system only where inevitable.

Although some Japanese enterprises have set a numerical target at 30 percent following womenomics, many newly appointed female managers lack any authority, then, appearances may be deceptive. In fact, internal promotion system in the enterprise stays the same, reflecting an aversion to market-based system, that, in turn, assumes implementation of the modern remuneration system independent of the seniority, while providing compensation scheme for some professional jobs, independent of the length of working hours. Furthermore, there is an urgent need to eliminate the unfavorable impact of the tax and social security

¹ On the other hand, overtime culture tend to undermine Japan's fertility rate, namely, hardworking young people neglect household duties and childcare or resign of parenthood and wedlock completely.

system on the division of labour within the family, pushing women out of the labour market so far. On the other hand, promoting female labour forces participation won't solve the problem of aging society by itself, but just delay it for another generation as working women retreat from raising children. Therefore, the expansion of childcare facilities is necessary, however, insufficient, when addressing the problem of overtime work². Potentially, improved child care provision may benefit casual and part-time female workers, disadvantaging those with full-time jobs. This, however, requires reform of gender roles to enhance sharing of duties between the men and a women, as well as focusing labour market reform on the productive work hours instead of long work hours. Finally, negative health outcomes of overtime work should be openly discussed.

Among recent initiatives there are the Ministry of Economy, Trade and Industry's (METI) „Diversity Management Selection 100 Project” and the „Nadeshiko Brand” program, jointly launched by METI and the Tokyo Stock Exchange (Macnaughtan, 2015). An idea behind is to publicise and officially appreciate Japanese enterprises making exceptional progress in encouraging women in the workplace, as well as promoting best practices and enhancing competition between leading companies aspiring to be female-friendly employers. Moreover, under the new legislation, both public and private organisation would be required to disclose information regarding the situation of the female workers, while the Japan Business Federation (Keidanren) has already proposed such a reporting scheme to the member companies on voluntary basis.

Last but not least, womenomics seems to have horizontal impact, thus, recruitment and retention of women is improving, however, female workers are still trapped in the rigid mode of employment, far from social justice and gender equality. Therefore, institutional models, as well as social norms need to catch up with very difficult reality.

Conclusion

Structural reforms under Abenomics gained a lot of attention recently, mainly due to significant challenges to be faced and resistance to be overcome. Labour market reform is a perfect manifestation of this regularity. Unfavorable demographic trends, rapid aging of society and underutilisation of female, youth and elderly workers deepened imbalances and duality of the employment policy in Japan, induced by macroeconomic uncertainty and fiscal

² For instance, Abe's decision to extend childcare leave up to three years may enhance further gender segregation, reinforcing women as primary carers of children (Macnaughtan, 2015a).

problems of the country. An increase in the non-regular and contract works, accompanied by rigid scheme of promotion and remuneration system based on seniority, contributed to decline in average nominal wages, while reducing training opportunities, productivity of employees and their access to social benefits.

It is unfortunate that the current tax and social insurance system discourage many skilled and well educated women from working, while childcare facilities tend to be insufficient to enhance parenthood of citizens in childbearing age.

Womonomics deserve appreciation as a move in the good direction, however, requires deeper consideration on the side of employers in the name of social justice and gender equity. Unquestionably, women cannot be kept at home for the purposes of solving the problem of population aging, while entrepreneurs cannot be forced to provide male, as well as female labour forces with regular jobs under the long-term economic stagnation of Japan.

Thus, both institutional models and social norms need to be modernized and adapted to reality to make the Japan's labour market more open, flexible and up-to-date, however, without sustainable dynamic growth in the mid- and long-term, employers lack incentives to seek for new workers. Therefore, the third arrow of Abenomics cannot be successful, if both the first and the second arrow, namely, aggressive monetary policy and fiscal consolidation, would fail in terms of economic revitalisation of Japan.

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