

News

The Kishida Administration's Near-term Policy Line Focuses on “Investment in People”: Hammering out Measures to Promote Wage Increases and Require Gender Wage Gap Disclosure

The Kishida administration has finalized its near-term policy menu. On June 7, the Cabinet Office convened a joint meeting of the “Council of New Form of Capitalism Realization” and “Council on Economic and Fiscal Policy,” which are chaired by Prime Minister Fumio Kishida. The meeting put together the “Grand Design and Action Plan for a New Form of Capitalism: Investing in People, Technology, and Startups” (hereinafter, the “Action Plan”) and “Basic Policy on Economic and Fiscal Management and Reform: Achieving a Sustainable Economy by Harnessing Processes to Overcome Challenges to Drive Growth” (the so-called “Big-Boned Policy”). Both were approved by the Cabinet on the same day. The new policy menu is characterized by its emphasis on investment in and distribution to human capital as well as economic growth. The Action Plan includes the promotion of wage increases and the mandatory gender wage gap disclosure, as the wage gap between men and women is larger than in other developed countries.

I. The Action Plan for a New Form of Capitalism

The Council of New Form of Capitalism Realization was established in the Cabinet Office in October 2021. Its tasks are to present a vision to realize “a new form of capitalism” based on the concepts of a “virtuous cycle of growth and distribution” and “building a new society following COVID-19 pandemic,” and to flesh out policies to fulfill that vision. Apart from Diet members, the council consists of private-sector experts and

academics, including the heads of three economic organizations and major corporations, as well as the president of JTUC-RENGO, Japan’s largest national confederation of trade unions. At the joint meeting, Prime Minister Kishida confirmed the content of the Action Plan, which calls for “perceiving social problems that cannot be solved by the market alone, involving considerable externalities, as sources of energy to achieve growth.” Concrete multi-year plans for investment in startups and green transformation (GX) and doubling asset-based income will be developed and executed during 2022.

1. “Investment in people” is essential to the exercising of creativity

The Action Plan states that the new form of capitalism must achieve sustainable well-being for all citizens. It states that “the fruits that will come in the form of solutions to social problems through public and private cooperation, and the new market creation and growth that will result thereof, must realize a virtuous cycle of growth and distribution, and must be fed back and shared widely to the citizens, regions, and domains.” In the era of digital transformation (DX) and GX, the source of competitiveness is no longer conventional machinery, equipment, and other goods. Instead, the importance of intangible assets rather than tangible assets is growing. People are becoming increasingly important to the exercising of creativity in the midst of such a wave of change. The Action Plan goes on to say that “increasing value by investing in people is becoming extremely important in the face of labor shortages for Japan, a nation which has tended to cut costs and

increase productivity in the past through dependence on a cheap supply of labor.” Furthermore, the plan emphasizes that people are also the key to solving the issues facing society, such as responding to climate change, the declining birthrate and aging population, correcting income disparities, and securing economic security including energy and food. It states that the government will strengthen human resources investment in terms of stock such as education and asset formation, in addition to investment in terms of flow such as wages, and in terms of preparing the environments necessary for each life stage. It adds that the government will also focus on investment in science, technology, and innovation; accelerating startups and promoting open innovation; and in GX and DX.

2. A continuing public/private-sector effort to cultivate a social attitude for wage increase in *shunto*

The Action Plan presents six policy pillars: (1) promoting wage increases; (2) facilitating labor mobility through skill increases; (3) formulation of the Double Asset-based Incomes Plan for shifting from “savings to investment”; (4) supporting the efforts of all generations; (5) respect for diversity and flexible selection of career path and (6) formulating guidelines and strengthening disclosure to the stock market of non-financial information such as human capital. A five-year timeline will be created to execute the following plan objectives in detail. Follow-ups will be conducted every fiscal year on the plan’s implementation, and the PDCA cycle will be applied.

(1) Promoting wage increases

(i) Increasing the minimum wage

The Action Plan states that the public and private sector will continue to work together to cultivate an attitude in society to increase wages in *shunto*, the spring wage offensive. The minimum wage will be increased as part of this, following raises over the past several years. The amount of the increase will be discussed by the Minimum Wage Council (which consists of representatives of the public interest,

labor, and employers) taking into consideration living expenses, wages, and the ability to pay those wages. In addition, further use will be made of the tax system for promoting wage increase. The system allows companies that actively invest in wage increases and human resources development to deduct a certain percentage of the increase in employee wages and other payments from the previous year from their corporate tax or income tax amounts. The tax credit rate was raised to a maximum of 30% for large companies and up to 40% for SMEs in April 2022.

(ii) Promoting appropriate business subcontracting at SMEs

The Action Plan calls for the government-wide optimization of small and medium-sized business subcontracting for priority industries. In December 2021, the Cabinet Secretariat, together with the Consumer Affairs Agency; Ministry of Health, Labour and Welfare; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; and Japan Fair Trade Commission, compiled what is called the “Package of Measures to Facilitate Pass-on for Value Creation through Partnerships.” Additionally, the Ministry of Economy, Trade and Industry formulated the “Five Initiatives to Optimize Transactions” in February 2022. The Action Plan calls for the development of an environment based on these initiatives that allows SMEs to appropriately pass on increases in labor costs, raw material costs, and energy costs to secure funding to increase wages.

Major factors interfering with such passing on of costs by SMEs include the risks of changing or losing business partners due to demands for price increases, difficulty of accepting price increases due to price competition by the seller, and the difficulty of price negotiations when the buyer is too powerful. The Action Plan calls for the carrying out of a survey on supply chain connections for roughly 100,000 companies in 22 industries regarding the abuse of dominant bargaining positions under the Antimonopoly Act, with such connections divided into the three categories of i) the manufacture and

sale of products for daily life, ii) the manufacture of parts and finished products, and iii) service provision.

The Action Plan presents priority industries for the optimization of business subcontracting. For FY2022, “road freight forwarding,” “metal products manufacturing,” “production machinery and equipment manufacturing,” and “transportation machinery and equipment manufacturing” were selected as priority inspection industries under the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors. The government will significantly increase the number of on-site inspections of these industries. In addition, it will conduct a further review of public prices to improve compensation for long-term care/disability welfare workers and childcare workers. Actually, the government has established a Committee for the Evaluation and Examination of Public Prices to examine the circumstances of public prices in order to increase the income of workers in these fields, and has already put in place measures to achieve a 3% raise in income. Looking ahead, the government will examine improvements in compensation for long-term care/disability welfare workers and childcare workers from the standpoint of “raising compensation to a level appropriate to the work of each job in order to secure the necessary personnel” based on the Committee’s mid-term report. For nurses, the government will consider the state of wage improvements according to career promotions and continue working to improve compensation in light of the outcomes of the above measures.

(2) Facilitating labor mobility through skill increases

(i) Improving the baseline digital skill level of the entire working generation

First, the Action Plan proposes the development of “an environment enabling people to choose jobs they want to do.” It explains that, in order to advance the smooth mobility of labor to growth areas, improve labor productivity, and further increase wages, it is important to increase the skill levels of workers and enrich human resources development systems not

only within individual companies but also through public-private partnerships. Accordingly, “weight will be placed on working to improve the baseline digital skill level of the entire working generation.”

For one month beginning in December 2021, the government solicited ideas from the general public on measures to strengthen human resources investment. The Action Plan presents a response policy that draws on the ideas that were received. The government will provide support in terms of capability development, re-employment, and stepping up by transfer to another company including in the form of a 400-billion-yen package of measures over three years. Those receiving this support will include people in non-regular employment. In addition, the Action Plan sets a course toward providing active support for “stepping up” careers via labor transfer by strengthening investment in education and training and promoting the accumulation of human capital beyond the corporate framework.

Focusing on the digital human resources who will implement digital solutions and take the lead in addressing issues faced by communities, the Action Plan also calls for gradually establishing a structure that can train 250,000 people annually by the end of FY2022 and 450,000 by the end of FY2024, and thereby increase those resources from the current one million people and secure a total of 3.3 million by FY2026. To that end, it looks to build an online platform; recruit participation from universities, educational institutions, and companies involved in digital human resources development; provide training content required of all digital human resources; and run practical case study training programs based on corporate examples.

(ii) Promoting companies’ information disclosure on side job policies

Given that “significant support has been voiced for side jobs” from both workers and companies, the government aims to expand side job and multiple jobs. The Action Plan calls for encouraging companies to disclose information about whether or not they permit side jobs and multiple jobs, and what

any conditions are when imposed. The Guidelines for Promotion of Side Jobs and Multiple Jobs will be revised for this purpose.

(3) Formulation of the Double Asset-based Incomes Plan

Shifting from “savings to investment” across all generations

The government will consider making fundamental reforms to NISA (tax exemption program for small investment) to encourage shifting of personal financial assets from savings to investment across all generations. In addition, taking into account that the obligation to make efforts to secure work opportunities is being extended to age 70, the government study making reforms to iDeCo (Individual-type Defined Contribution pension plan) and creating an environment that makes it easier for children of the elderly to build assets. The government will formulate the comprehensive “Double Asset-based Incomes Plan” by the end of FY2022.

(4) Supporting the efforts of all generations

Promotion of mental health measures amid the COVID-19 pandemic

The government will take measures to prevent people from quitting their jobs to care for family by doing more to enhance awareness of the nursing care leave system, and promote mental health measures, bearing in mind the effects of the COVID-19 pandemic. It will also work with companies and insurers to promote health management including revising its scoring methods.

(5) Respect for diversity and flexibility of selection of career path

Thorough implementation of a system of equal pay for equal work

The Action Plan stresses that “flexibility of selection will be ensured by creating an environment which respects diversity and where people can work whatever their gender is.” Specifically, the

government will press the industries to thoroughly implement and promote a system of equal pay for equal work, and to expand the introduction of diverse full-time employee systems such as those allowing shorten working hours or the “restricted regular employment” (where the full-time employees in that category are not assigned to work outside the premised location or on the premised occupation/duties). The government also indicates the plans such as the appointment of women, younger people, and other diverse personnel to executive roles, and the implementation of a sabbatical leave system as well as secondment to startups.

With the recognition that the gender wage gap across Japanese workers in both regular and non-regular employment is large compared to other developed economies, the Action Plan states that the disclosure of information showing the wage gap between men and women will be made mandatory in accordance with the Act on the Promotion of Female Participation and Career Advancement in the Workplace. It presents specific means of disclosure, among them are i) disclosure of information will be required for each standalone company, rather than on a consolidated basis, and ii) for all workers, disclosure shall be required not of the absolute amount but the ratio of female workers’ wages to male workers’ wages and, in addition, disclosure will be required of this ratio separately for regular and non-regular employees. Employers subject to disclosure requirements will be those who normally employ 301 workers or more. The government will consider companies with 101 to 300 workers based on the situation after the disclosure requirements take effect. Moreover, the government will require the disclosure of similar items to those stipulated in the Act on the Promotion of Female Participation and Career Advancement in the Workplace in Annual Securities Reports under the Financial Instruments and Exchange Act. System revisions (as a Ministerial Order) will be enacted and take effect in the summer of 2022. The initial disclosure is to be made along with the other disclosure items with the financial results of the business year concluding after the revisions take effect in July 2022.

Additionally, the Action Plan calls for the revision of social security and taxation systems that impose limitations on women's work, and for consideration toward expanding the coverage of employee insurance (employees' pension insurance and health insurance) and applying social insurance coverage to freelance and gig workers. It further calls for the rectification of long working hours by broadly diffusing the work interval system as well as support the establishment of regional satellite offices in Japan's regions and migration utilizing telework.

(6) Formulating guidelines and strengthening disclosure to the stock market of non-financial information

Adding human resources development policies to Annual Securities Reports

“From personnel expenses as a cost to personnel investment as an asset.” The Action Plan emphasizes that the visualization of non-financial information, including human capital, as well as strengthening mutual understanding with stockholders is necessary to create a virtuous cycle of growth and distribution. The government will move forward with strengthening disclosure of non-financial information—such as by requiring the listing of policies on human resources development and internal environmental improvement as well as indices and targets that express these—in Annual Securities Reports under the Financial Instruments and Exchange Act by the end of year 2022.

II. Big-Boned Policy 2022 on Economic and Fiscal Management and Reform

1. “Investment in people”

The Basic Policy on Economic and Fiscal Management and Reform, called the “Big-Boned Policy” (hereinafter, the “Policy”), presents key issues for the government and the direction of the budget compilation for the following fiscal year. The Policy 2022 is the second phase of economic and fiscal management following the government's efforts to deal with soaring international prices of

crude oil, raw materials, grains, and other commodities due to the situation in Ukraine, and to restore economic and social activities following the COVID-19 pandemic. The Policy states that the government will implement the measures contained within it as well as formulate immediately and put into practice comprehensive measures to jump-start the economy according to the Action Plan (see Section I). At the top of its list of priority investment areas is “people.” The Policy explains that in order to achieve autonomous economic growth, it is essential not only to encourage private investment to improve productivity and increase earnings and income, but also to create opportunities for further growth by investing in human capital. It states that the government will promote wage increases that strengthen the distribution of benefits to workers and accelerate the accumulation of human capital through investments in vocational training, lifelong education, and other areas. It includes the promotion of diverse work styles as a set. The government will thus create an environment in which people can choose their own work and select from a variety of work styles according to their individual wishes, with access to skill development and safety nets, regardless of their age, gender, or employment status.

2. Recurrent education: Visualization and appropriate evaluation of its results

In addition to the measures included in the Action Plan, the Policy states that the government will develop an environment that promotes relearning (recurrent education) throughout society, as well as initiatives to visualize and appropriately evaluate the results of recurrent education and to strengthen human resource development within companies. At the same time, the Policy looks to promote work style reform with the aim of increasing the engagement and productivity of workers. Through it, the government will strive to create an environment in which workers can choose from a variety of work styles, including job-based employment, according to their individual needs and thereby play active roles in the workforce. From this perspective, the government will work to clarify labor contract-based

relationships, including by requiring that the scope of changes in work location and duties be clearly stated in contracts.

3. Promotion of diverse work styles

As a measure to support young people, the Policy states that—from the perspective of enabling new graduates with specialized knowledge/skills and those for whom only a few years have passed since graduation to play active roles in the workforce—the government will join industry and academia in studying ways of facilitating job-finding and recruitment of such people and get a grasp on the direction to be taken toward this goal by March 2023. The Policy also includes the development of legal systems to bring clarity into contracts when businesses deal with freelance workers and the enhancement of a consultation system for such workers. It additionally seeks to promote high-quality telework as well as concurrent employment and side jobs in order to develop the use of diverse work styles in response to the “new normal” of the post-COVID-19 era. The Policy also mentions the widespread application of a selective three-day weekend system. Such a system could be used for the provision of childcare or nursing care and for concurrent employment in rural areas. Accordingly,

the government will promote its introduction at companies by gathering and presenting good practices of its application.

4. Minimum wage: At least 1,000 yen on a national weighted average

The government will promote the revitalization of mid-tier enterprises and SMEs and promote the use of a fundamentally expanded tax system for promoting higher wages. Through the Policy, it will extend the flow of wage increases to SMEs through appropriate distribution within the supply chain and build further momentum toward higher wage in all regions of Japan. And it will promote wage increases that include local SMEs by giving priority in government procurements and the like to companies that increased their wages. To further promote increases in regional minimum wages, the government will provide fine-tuned support to SMEs that are engaged in business restructuring and productivity improvement and work to optimize business subcontracting. At the same time, it will work to raise the minimum wage to a nationally weighted average of at least 1,000 yen as soon as possible, taking into account economic and price trends and paying attention to disparities among regions.