

## 2 Characteristics of Recent Labor Issues

### Trends in the Japanese Economy and Employment Since the Bubble's Collapse

After the collapse of the late 1980s asset price bubble in 1991, Japan fell into prolonged economic stagnation, albeit interspersed with multiple periods of recovery, known as the “lost 20 years”. During this era, particularly from the late 1990s onward, the nation was caught in long-term deflation. During these troubled decades, the labor market underwent the following structural changes.

1. The employment rate among men in their prime working years (aged 25-34, 35-44, 45-54) was on a downward trend. This was the outcome of the so-called “employment ice age”, roughly 1993-2005, when many job seekers could not find the kind of jobs they wanted, eventually leaving the labor force and remaining marginalized.
2. There was consistent growth in non-regular employees as a percentage of the total labor force. Workers other than regular employees made up approximately 20% of the working population in 1991, but this percentage topped 30% in 2003 and has continued rising since. In addition to an increase in the number of part-time workers as more women and senior citizens joined the workforce, a rise in the percentage of non-regular employees among younger workers (aged 25-34) was a contributing factor.
3. Methods of employment adjustment changed as well. During the recession period from 1998 to 2001, a rising percentage of enterprises took direct approaches to downsizing their workforces, such as soliciting voluntary early retirees and laying off employees, in addition to already prevalent methods such as reducing overtime hours and curtailing mid-career hiring. Later, during the slump accompanying the global financial crisis of 2008-9, hiring of temporary, part-time, and dispatched workers was suspended.
4. Wage growth was stagnant. As service industries

gained an increasing share of the economy, average wages were driven down by a growing number of part-time workers in the relatively low-productivity service sector. Meanwhile, wages in the manufacturing sector were held down by ever fiercer price competition as globalization advanced.

### The Japanese Economy and Status of Employment in Recent Years

After the global financial crisis beginning in fall 2008, the Japanese economy entered a recovery phase in 2009, and overcome a temporary slump following the Great East Japan Earthquake of 2011 to gather steam in 2012. Afterward, growth weakened once again, as exports and production fell with the slowdown of the global economy and reduced automotive sales following a surge in demand accompanying the eco-friendly vehicle subsidy. In 2013, aggressive monetary easing as part of Prime Minister Shinzo Abe’s “Abenomics” policy contributed to a resurgent stock market and more positive corporate and consumer mentality, with personal consumption-centered domestic demand driving an economic recovery. The economy was subject to downward pressures for a time as consumption slumped after the consumption tax hike of April 2014, in a backlash against last-minute demand before the tax hike, but as of this writing (summer 2015) Japan is back on a gradual yet sustained growth trajectory.

Under these circumstances, employment is steadily improving. The jobs-to-applicants ratio in fiscal 2014 was 1.11, the highest in 23 years, and the total unemployment rate at 3.5% was the lowest in 17 years, while companies’ perceptions of understaffing grew stronger. As corporate profits rose with the economic recovery, wages rose in 2014 by a percentage that, while low, was the highest in 15 years, and further wage growth is projected for 2015

as part of what appears to be an economic virtuous cycle.

## Shrinking Population and Changing Demographics

In Japan, the total fertility rate (the estimated average number of children a woman has in her lifetime) fell below 2 in 1975, and in 2005 had plunged to 1.26. It has since rebounded, to 1.42 in 2014, but the annual number of births continues to dwindle. As a result the population peaked in 2008 at 128.08 million and began declining, and is projected to fall to 116.62 million in 2030.

Age demographics have seen a significant shift as well. In 1990 the percentage of the population aged 14 or younger was 18.2%, the working-age population percentage (aged 15-64) was 69.7%, and the percentage aged 65 and above was 12.1%, but in 2010 these figures stood at 13.2%, 63.8%, and 23.0% respectively. This reverse pyramidal structure is expected to grow more pronounced over time, with the above figures projected at 10.3%, 58.1%, and 31.6% in 2030.

A shrinking population, declining birth rate, and aging society have the effect of diminishing the labor force, and as a trend for the future, increased labor demand accompanying economic recovery is expected to be met with supply constraints, driving an increase in perceived understaffing at Japanese enterprises.

## Labor Policy in the Context of “Abenomics”

The second Abe administration, launched in December 2012, set forth an integrated economic policy (nicknamed “Abenomics”) comprising the “three arrows” of aggressive monetary easing, flexible fiscal stimulus, and structural reforms aimed at boosting private-sector investment. In this growth strategy, labor policy includes comprehensive measures to boost the birth rate over the long term, while to address labor supply constraints in the short term, there is a perceived need to improve productivity and heighten earning potential. To do so, curtailing excessively long working hours and transforming working styles so as to maximize the potential of each individual worker are seen as crucial

first steps. Decreasing quantity (of working hours) and diversifying working styles will raise the quality of labor and boost earnings, while enabling workers to balance jobs with childcare or nursing care, further advancing women’s participation in the labor force. These measures are thus viewed as effective means of propelling economic growth, through improvements in both quality and quantity of labor supply.

The amended Japan Revitalization Strategy formulated on June 30, 2015 announced the start of the second phase of Abenomics, which will revolve around measures to overcome labor supply constraints as the population shrinks. In terms of labor policy, this entails strategies to bring forth the latent potential of individual employees to the fullest extent, by 1) curbing overlong working hours to improve the quality of work performed, 2) promoting increased participation by women, senior citizens, and other underrepresented groups, and 3) integrated reform of education and employment practices to strengthen human resources for an era of change and innovation.

## Countermeasures for Fields with Insufficient Human Resources

Insufficient labor supply as the population shrinks is a concern for the future, but in more immediate terms, while hiring has been steadily increasing, companies are finding themselves understaffed. In terms of industrial sectors, this is particularly pronounced in the categories of Construction, Transport and Postal Activities, and Medical, Health Care and Welfare, among others. While market mechanisms ought to correct the balance of supply and demand in the labor market, in sectors like these there is a need for proactive government intervention.

In the fields of long-term care for the aged and persons with disabilities, child care, and nursing, demand for human resources is expected to continue growing as society ages and more women work, but labor conditions in these fields are often severe, and there is a need for government action to improve employment management and workers’ treatment and compensation.

In the construction sector, investment amounts are declining, while structural problems are becoming entrenched as skilled laborers age and competent

personnel are in increasingly short supply. There is a need for effective measures to secure human resources, not only for the temporary surge in demand in the run-up to the 2020 Tokyo Olympics and Paralympics, but over the long term.

In transport (road freight transport), personnel needs are growing with the recent surge in online shopping, but the labor force is largely middle-aged or older, and when current workers retire there is a risk of endemic understaffing setting in, pointing to an urgent need for measures to secure human resources for the future.

### **Regional Employment Strategy**

The Abe administration is calling for government-wide policies to promote the growth of regional economies and reverse population declines in rural areas under the banner of “vitalizing towns, people, and jobs”.

A critical mass of people is indispensable for stable growth in local communities, which means ensuring that people live there and stay there, which in turn requires creating stable, high-quality jobs.

To ensure sufficient populations in rural areas, it is essential to alleviate the overconcentration of people in Japan’s three major conurbations, particularly the greater Tokyo area. Migration is most prevalent among young people aged 15 to 24, who are moving to cities to attend school or start jobs, and to stem the outflow of this demographic from regional communities, there is a need to boost attendance at universities and hiring at enterprises in these communities, and to encourage young people to return to their regions of origin to work after completing university in Tokyo or other urban areas.

To stabilize populations in local communities requires jobs, but the reason young people most commonly give for not seeking jobs outside major urban areas (including among young people who would be returning to their regions of origin) is a lack of desirable employers there. However, it seems likely that appealing small and mid-sized enterprises exist but are not reaching potential recruits, and one key task is to create new, high-quality jobs in regional communities by publicizing these enterprises and encouraging them to hire more workers.

### **Promoting Labor Force Participation by Women and Older People**

Women’s presence in the workforce has been growing, and many years have passed since the number of households where both husband and wife work surpassed the number of single-income families in the mid-1990s, with the trend expected to continue in the future. Meanwhile, as the population ages, there is sustained growth in the number of older people certified as requiring long-term care. Under these circumstances, there is a significant segment of the population balancing work with childcare or care for elderly family members, and a need for flexibility and diversity in working styles.

Promotion of women’s increased participation in the labor force not only benefits women, it is also crucial for the sustainability of Japanese society, the growth of businesses, and the economic security of individual households. Today, there is a need for both men and women to work, and thus for both sexes to participate in housework, childcare and other household responsibilities as well. To achieve this requires an environment where women can continue working after marrying and having children, or can return to the work even after resigning for these reasons.

Older people’s participation in the labor force will also be increasingly essential for Japan’s sustained growth as the low birth rate and aging of society lead to a decline in the working-age population. With the April 2013 amendment of the Act on Stabilization of Employment of Elderly Persons, it is already mandatory for companies to offer employment to workers up to the age of 65, and going forward it will be necessary to promote further participation by people over 65 as well. In particular, as the baby boom generation (estimated at 6.54 million people) passes the age of 65, Japan must accommodate a wide range of work formats and provide diverse opportunities to older people who wish to continue working, so as to capitalize on the skills and experience these workers have amassed over their careers, and realize a society that literally enables “lifetime employment”.

## **Lifetime Competency Development: Maximizing the Potential of Human Capital**

The wellsprings of economic growth can be placed in three categories: in addition to rising capital input and labor input, there is increased “total factor productivity” (TFP), which encompasses all that cannot be explained by either of those.

In a country with shrinking population like Japan, even if steps are taken toward achieving a “full-participation society”, labor input can only be expected to have a negative impact from now on. To achieve stable growth and improve the physical and mental wellbeing of Japan’s people, in terms of improved standards of living and so forth, despite the constraints of declining labor quantity, it is crucial to improve individual labor quality to the greatest possible extent.

To boost the quality of labor, it is vital that each individual worker continue developing and heightening his or her professional skills over a lifetime. “Development of professional skills” is often perceived as something that takes place soon after hiring, but in fact it is something that ought to continue over the entire course of a career. It begins before someone is hired, while they are still at school, and never ends as long as they are in the workforce.

Considering that competencies required on the job are subject to change and workers’ professional lives are steadily growing longer and longer, members of the workforce today must play proactive roles in forming their own careers. Also, taking into account people’s longer working lives and the increasing number of opportunities to change employers, there is a need for measures to promote clarification and appropriate evaluation of workers’ professional skills, including certification programs.

## **Increase in Non-regular Employees and Fair and Equal Treatment of Employees**

Japan has thus far adhered to a dualistic approach in which regular employees receive seniority-based wage increases and are subject to seniority-based human resource management as part of the traditional Japanese lifetime employment system, whereas part-time, fixed-term contract, dispatched, and other non-regular employees are not part of this system and

there is a substantial gap in treatment and compensation. Meanwhile, non-regular employees have made up an ever-increasing percentage of the workforce, as enterprises sought to curb personnel costs amid increasingly ferocious global competition during the more than 20-year economic slump after the collapse of the economic bubble. In 1990, non-regular employees accounted for 20% of the workforce, but in 2014 the figure stands at 37.4%. In the past, the typical non-regular employee was a homemaker working part-time, a student working for a short period of time, etc., earning money “on the side” while engaged in some other activity, but recently there have been more and more people working as non-regular employees out of necessity, unable to secure regular employment after graduation. Among young people the percentage of both male and female non-regular employees has been rising, and their classifications have been diversifying—contract employees, temporary employees, dispatched employees, and so forth. Until the early 2000s in Japan, the rise in non-regular employment was viewed as inevitable diversification of the employment structure, but from the late 2000s onward it has emerged as a significant social problem. The most pressing issue is correction of the imbalance in treatment and compensation of regular and non-regular employees.

Under these circumstances, laws have been revised in order to narrow the gap between regular and non-regular employees. For instance, there has been clarification of rules prohibiting irrational disparities in labor conditions based on whether workers are on fixed-term or unlimited contracts, under the Labor Contract Act. Meanwhile, the Part-Time Employment Act is in the process of being amended to broaden the scope of workers protected against discriminatory treatment based on employment status. Regulations have also been implemented under the Worker Dispatch Act to facilitate equal treatment of dispatched workers and employees of the companies to which they are dispatched.

Despite these countermeasures, however, it has been pointed out that the actual disparity remains as wide as ever, and in addition to steps aimed at

narrowing the gap, there need to be further measures such as converting non-regular employees into regular employees or “limited regular employees” (with limitations on the content of their duties or region of placement).

### **Alleviation of Excessive Working Hours and Prevention of Death by Overwork**

In Japan, the average annual hours actually worked by full-time employees have stayed consistently above 2,000 hours. The percentage of employees working 60 or more hours per week has been declining and currently stands a little under 10%, but it remains significant, and the statistic for male workers in their 30s is 17.0%. International comparisons show that Japan has a notably high percentage of people working 48 or more hours per week. Meanwhile, the percentage of paid vacation days actually taken per year has stayed consistently below 50%.

Excessively long working hours have the effect of limiting participation in the labor force, particularly among workers who also have childcare or long-term care obligations, but also among older workers who have considerable skill and experience but want to avoid overly long working hours for health reasons. This presents a disadvantage to employers, as well, who are unable to secure these human resources even as they face a decline in the absolute number of younger employees due to the low birthrate. There is a need to curtail overlong work hours and promote work-life balance so that experienced employees have enough time to cultivate the juniors who will replace them, and so that female workers, young people, and older employees can fulfill their full potential as members of the labor force.

Above all, curtailing overwork is crucial for the mental and physical health of workers. In June 2014 the Death from Overwork Prevention Act was passed, but the nation is still struggling to prevent tragic situations in which excessively long working hours result in loss of mental health and even the deaths of employees.

### **Wage Increases**

For improvement in the quality of human capital

to lead to increased productivity, and for this to be appropriately reflected in wage increases that in turn drive consumption, is an essential process for stable economic growth.

In the annual springtime labor-management negotiations in 2014 and 2015, both sides reached a consensus on connecting the economic recovery’s improvement of corporate profits to higher wages, and a similar consensus was reached at the Government-Labor-Management Conference on Realizing a Positive Cycle of the Economy, resulting in the largest wage hike in 15 years in 2014 and a more substantial one in 2015. Moving forward, there must be continued efforts to ensure that improvements in corporate profits due to increased productivity are appropriately reflected in workers’ wages.

To ensure that workers’ wages go up across the board, there is also a need for adjustments of the business environment aimed at achieving a minimum wage increase. In particular, various kinds of support must be provided to boost productivity, etc. at small and mid-sized enterprises and small businesses especially prone to impact from minimum wage hikes.

### **Establishment of a Collective Labor-management Relations System**

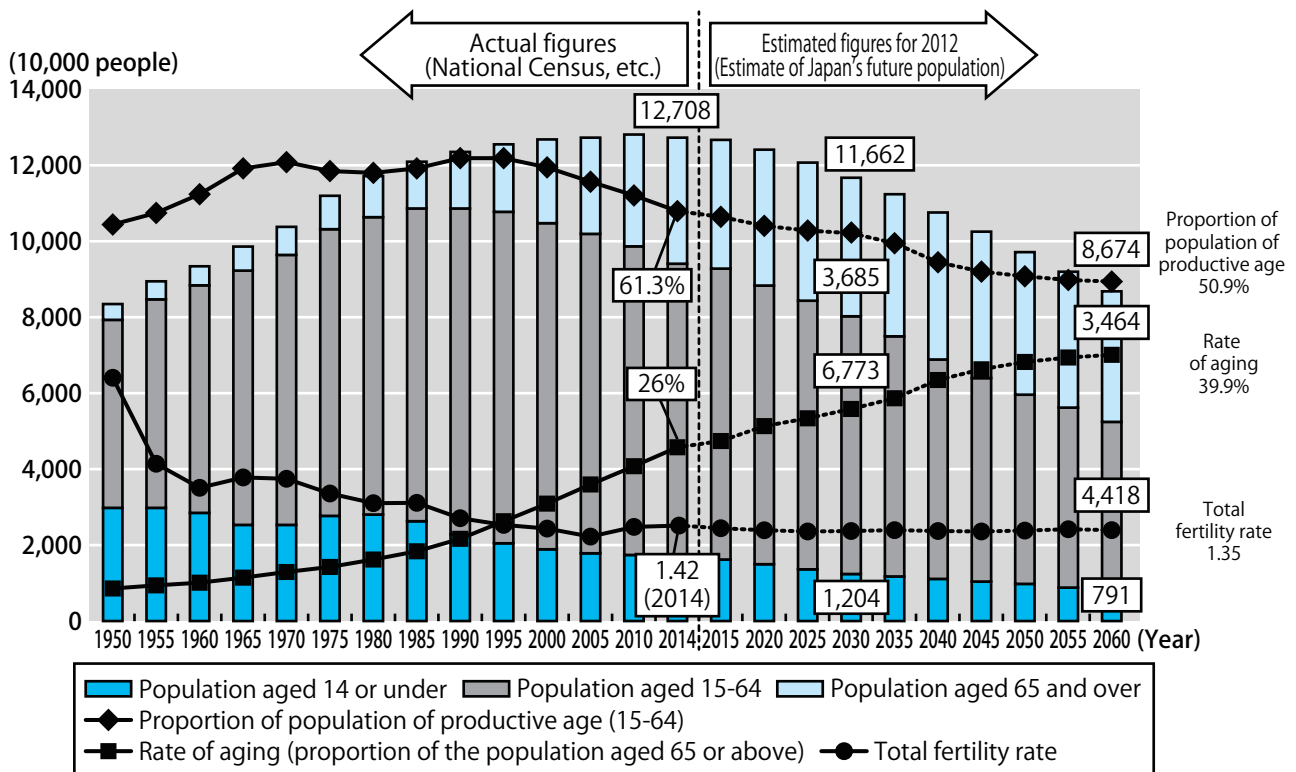
The labor union membership rate fell below 20% in 2003, and in 2014 was down to 17.5%. In Japan, enterprise unions (labor unions organized within specific companies) are dominant, and the overwhelming majority limit membership to regular employees. As a result efforts to organize non-regular employees are stalled despite the dramatic increase in the number of these employees. In the 2000s the national trade union center led a campaign to organize non-regular employees at unions throughout Japan, but although there have been signs of improvement, the union membership rate among part-time workers is still only 6.5%.

Enterprise labor unions face these and a range of other issues related to changing labor-management relations: declining union membership rates, rising percentages of non-regular employees in diverse formats, an increasing number of individual labor

disputes, and expansion of the role and authority of majority representatives. Particularly in labor-management relations at the company or workplace level, where enterprise labor unions have functioned effectively in the past, the opinions and needs of a

diverse range of non-regular employees are not being adequately reflected, and there is a pressing need to consider new channels for the collective voices of all employees.

**Figure I-6 Trends in Japan's Population**



Sources: Ministry of Internal Affairs and Communications, *Population Census and Population Estimates*  
 National Institute of Population and Social Security Research, *Population Projections for Japan (Jan. 2012 estimates): Medium Fertility (Medium Mortality) Projection* (population as of Oct. 1 each year)  
 Ministry of Health, Labour and Welfare, *Vital Statistics*