

Secular Stagnation and the Labor Market in Japan

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Probably in response to the disappointing results of the structural reform policies, the Japanese government in October 2015 introduced Abenomics 2.0, labeled “All 100 Million Playing an Active Role (Ichi-Oku Sou-Katsuyaku),” which consists of four pillars: (1) a strong economy (continuation of active monetary and fiscal stimulus); (2) support for child-rearing; (3) improvement of the social security system; and (4) the introduction of an “equal work, equal pay” rule. The government also introduced life-work balance policies in an attempt to reduce overtime work. These reforms focus more on labor market and social policy issues than the first round of reforms.

Utilizing workers’ proficiency to a greater extent would raise Japan’s productivity and labor input in efficiency terms. Since one of main causes of Japan’s insufficient demand problem is the stagnation of capital formation, which is partly caused by the shrinking working age population and low TFP growth, labor market reforms will also contribute to relieving Japan’s two structural problems.

This paper analyzes two key issues in Japan’s labor market: the non-regular employment problem and the productivity and wage gaps between large and small firms (dual labor market problem).

In Japan, the percentage of non-regular employees in total workers has increased substantially since the end of 1980s. It appears that in an environment of slow economic growth and increasing international competition, firms are reluctant to employ most of their workers as regular employees under Japan’s traditional life-time employment system. On the other hand, workers accumulate less human capital when they are non-regular workers (as most non-regular workers are part-time workers). In order to resolve non-regular employment problem, Japan needs to enhance labor market flexibility.

Japan’s market economy has been characterized by large differences in labor productivity and wage rates between large firms and SMEs since the interwar period (the so-called “dual economy,” Nakamura 1983). These differences have widened since the 1990s, especially in the manufacturing sector (Fukao 2013). By a level accounting analysis, we study about what factors cause these differences.