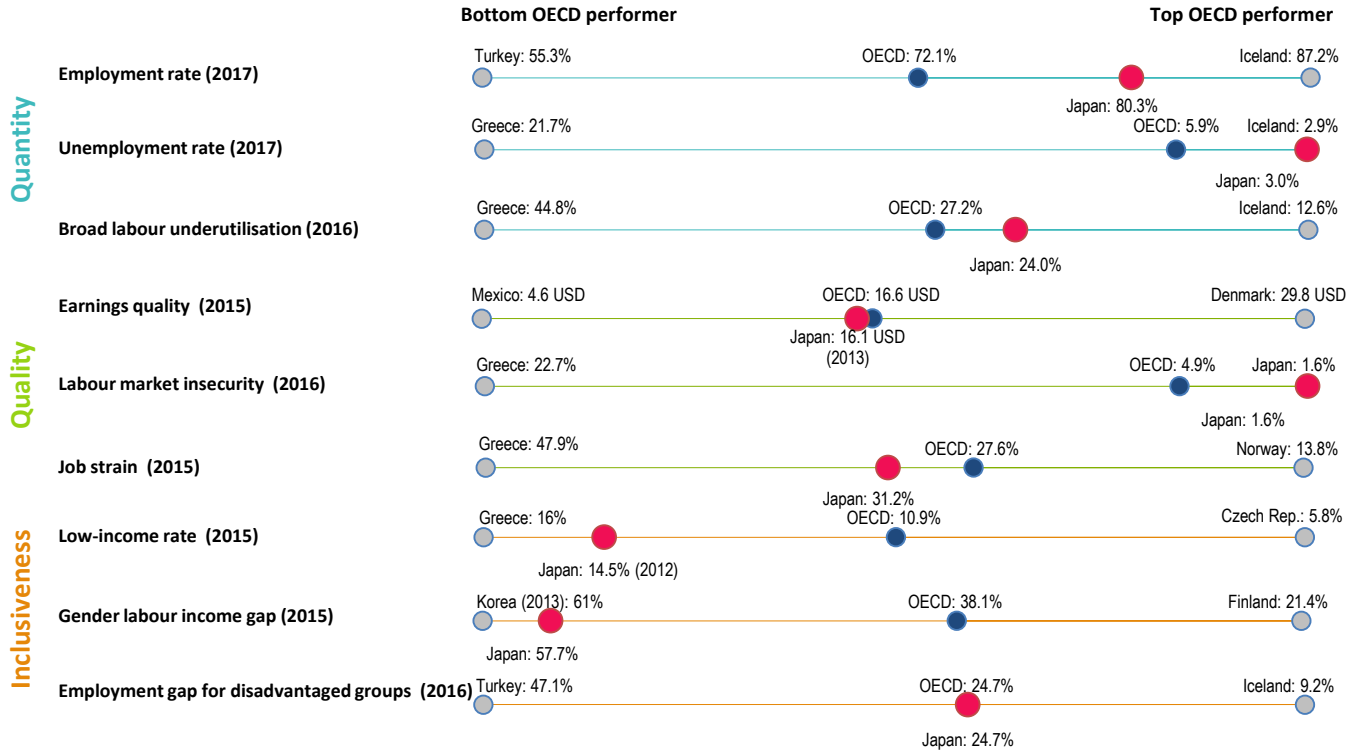
# How does JAPAN compare?

The digital revolution, globalisation and demographic changes are transforming labour markets at a time when policy makers are also struggling with slow productivity and wage growth and high levels of income inequality. The new ***OECD Jobs Strategy*** provides a comprehensive framework and policy recommendations to help countries address these challenges. It goes well beyond job quantity and considers job quality and inclusiveness as central policy priorities, while emphasising the importance of resilience and adaptability for good economic and labour market performance in a rapidly changing world of work.

**Dashboard of labour market performance for Japan**




Notes: Employment rate: share of working age population (20-64 years) in employment (%). Broad labour underutilisation: Share of inactive, unemployed or involuntary part-timers (15-64) in population (%), excluding youth (15-29) in education and not in employment (%). Earnings quality: Gross hourly earnings in PPP-adjusted USD adjusted for inequality. Labour market insecurity: Expected monetary loss associated with the risk of becoming unemployed as a share of previous earnings. Job strain: Percentage of workers in jobs with a combination of high job demands and few job resources to meet those demands. Low income rate: Share of working-age persons living with less than 50% of median equivalised household disposable income. Gender labour income gap: Difference between per capita annual earnings of men and women (% of per capita earnings of men). Employment gap for disadvantaged groups: Average difference in the prime-age men's employment rate and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and persons with disabilities; % of the prime-age men's rate).

## ASSESSING JOB QUANTITY, QUALITY AND LABOUR MARKET INCLUSIVENESS

The new *OECD Jobs Strategy* presents a dashboard of labour market performance that provides a comprehensive overview of the strengths and weaknesses of different national labour markets, going well beyond the standard measures of employment and unemployment rates. These include measures of job quantity (employment, unemployment and broad underemployment), job quality (pay, labour market security, working environment) and labour market inclusiveness (income equality, gender equality, employment access for potentially disadvantaged groups). Some countries score well on most or all indicators, implying that there are no hard trade-offs that prevent countries from performing well in all areas.

- The decline of the working-age population has led to the tightening of Japan's labour market, as reflected in the rise in the job offer to applicant ratio to above 1.6, its highest level in more than 40 years. The unemployment rate has fallen below 2½ per cent, the second lowest in the OECD, while the employment rate is in the top third. However, the underemployment rate

is near the OECD average, as the number of involuntary part-time workers has increased.

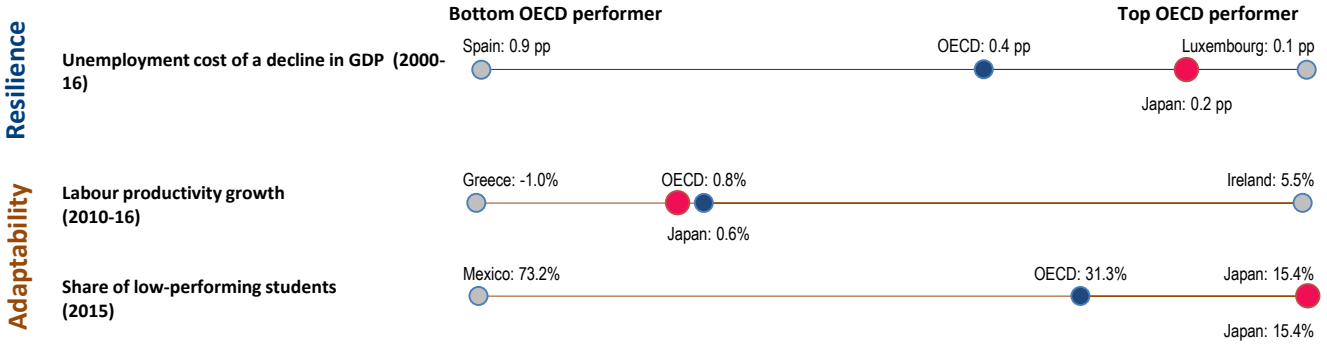
- Labour market insecurity is the lowest among OECD countries, in part reflecting Japan's tradition of lifetime employment. However, job strain is higher than the OECD average due to the role of long working hours. The proportion of men working more than 60 hours a week is one of the highest in the OECD.
- Japan performs poorly on inclusiveness indicators, as entrenched labour market dualism leads to large wage gaps between regular and non-regular workers. The low-income rate is the sixth highest among OECD countries while the gender labour income gap is the second highest, in part due to the concentration of women in low-paid, non-regular jobs. In addition, the share of leadership positions held by women is relatively low. The employment rate for older people is held down by the practice of mandatory retirement, which four-fifths of firms set at age 60, although some workers continue past that age as non-regular workers.

## FRAMEWORK CONDITIONS FOR RESILIENCE AND ADAPTABILITY

Labour market resilience and adaptability are important to absorb and adjust to economic shocks and make the most of new opportunities. Resilience is crucial to limit the short-term costs of economic downturns. Labour productivity is a key pre-condition for high growth of output, employment and wages and central to long-term growth in living standards. Finally, skills are key to improving workers' productivity and wages and provide an indication of the readiness to respond to future challenges.

- Japan's labour market is one of the most resilient in the face of economic shocks due to the tradition of lifetime employment. In addition, the flexibility of wages, which are negotiated at the firm level, limits increases in unemployment. Moreover, bonus payments, which are linked to firm profitability, are an important component of employee compensation, thus enhancing pay flexibility.
- Labour productivity growth is below the OECD average despite the high level of education and skills in Japan and relatively strong business investment. The decoupling of productivity growth and skill levels reflects low productivity in the service sector and in the SMEs that are prevalent in that sector. Labour market dualism has contributed to weak productivity growth through the underutilisation of non-regular workers' skills and the hoarding of skilled regular workers in non-viable firms. Breaking down labour market dualism and relaxing regulation in the service sector would boost productivity growth.
- The share of low-performing students is the lowest among OECD countries, reflecting Japan's high quality education system

**Framework conditions for Japan**




Notes: Resilience: average increase in unemployment rate over 3 years after a negative shock to GDP of 1% (2000-16); Labour productivity growth: annual average productivity growth (2010-16), measured in per worker terms. Share of low performing students: Share of 15-year-olds not in secondary school or scoring below Level 2 in PISA (%) (2015).