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Labour Market Reforms
in Japan to Improve Growth
and Equity

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Satoshi Urasawa**

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ABSTRACT/ RÉSUMÉ

Labour market reforms in Japan to improve growth and equity

Traditional Japanese labour market practices, which benefited both workers and firms during the high-growth era, are no longer appropriate in the context of slow economic growth and rapid population ageing. Reforms are needed in light of the upward trend in non-regular employment to break down labour market dualism and to encourage greater labour force participation by women, the elderly and youth. A comprehensive approach that includes improving the social insurance coverage of non-regular workers and upgrading training programmes for them, preventing discrimination against non-regular workers and reducing effective employment protection for regular workers would increase labour market flexibility and human capital. Moreover, such reforms would increase equity across different segments of the labour force. Drawing more women into the labour force requires removing financial disincentives to work, creating more family-friendly workplaces and increasing the availability of childcare. The labour force participation of the elderly should be raised by promoting continuous employment and abolishing mandatory retirement. More effective vocational training is needed for younger workers.

This Working Paper relates to the 2011 *OECD Economic Survey of Japan* (www.oecd.org/eco/surveys/Japan).

JEL classification: J11, J3, J5, J7

Keywords: Japan, Japanese economy, labour market, dualism, employment protection, non-regular workers, part-time workers, dispatched workers, fixed-term contracts, labour force participation rates, vocational training, female employment, older workers, fertility rates, work-life balance.

* * * * *

Réformer le marché du travail au Japon pour stimuler la croissance et améliorer l'équité

Les pratiques traditionnellement suivies au Japon sur le marché du travail, bénéfiques aussi bien aux travailleurs qu'aux entreprises en période de forte croissance, ne sont plus de mise dans un contexte de ralentissement de la croissance économique et de vieillissement rapide de la population. Au vu de la tendance à la hausse de l'emploi non régulier, des réformes sont nécessaires pour mettre fin au dualisme du marché du travail et encourager une participation plus intense des femmes, des travailleurs âgés et des jeunes à la vie active. Une démarche globale incluant une amélioration de la couverture sociale et une augmentation des programmes de formation professionnelle pour les travailleurs non réguliers, une exclusion des discriminations contre eux et réduisant la protection de l'emploi dont bénéficient les travailleurs réguliers permettrait de renforcer la flexibilité du marché du travail et d'accroître le capital humain. Les réformes devraient en outre contribuer à améliorer l'équité entre les différents segments de la population active. Pour attirer davantage les femmes vers la vie active, il convient d'éliminer les mécanismes financiers qui jouent contre le travail, en créant des emplois plus conciliables avec la vie de famille et en développant les services de garde d'enfants. L'intégration des plus âgés sur le marché du travail doit être renforcée en favorisant leur maintien en activité et en supprimant l'âge de départ obligatoire à la retraite. Il faut également offrir aux jeunes une formation professionnelle plus efficace.

Ce Document de travail se rapporte à l'*Étude économique de l'OCDE du Japon*, 2011 (www.oecd.org/eco/etudes/japon).

Classification JEL : J11, J3, J5, J7

Mots clés: marché du travail, dualisme, protection de l'emploi, travailleurs non réguliers, travailleurs à temps partiel, travailleurs intérimaires, contrats à durée déterminée, formation professionnelle, activité des femmes, travailleurs âgés, taux de fécondité, équilibre entre travail et vie familiale.

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LABOUR MARKET REFORMS IN JAPAN TO IMPROVE GROWTH AND EQUITY

By Randall S. Jones and Satoshi Urasawa¹

1. The sharp drop in the number of non-regular workers (Figure 1) in the wake of the crisis has brought renewed attention to Japan's labour market. Traditional labour market practices, such as long-term employment, seniority-based wages, firm-based training, flexibility in wages and working time and mandatory retirement, date back to Japan's high-growth era and contributed to its economic take-off. However, these practices are no longer appropriate in an era of slower economic growth, increased diversity in desired working patterns and the need to boost female labour participation. In particular, intensified global competition and the downsizing of many industries have prompted firms to reduce fixed costs, including labour. To enhance employment flexibility, firms have increased the share of non-regular workers, reducing labour costs at the same time.

2. While regular employment has a number of drawbacks, the rising share of non-regular workers has its own serious shortcomings. Non-regular workers receive less firm-provided training and accumulate less human capital, lowering their productivity and Japan's growth prospects. Equity is another concern as non-regular workers are paid substantially lower wages, bear the brunt of cyclical changes in employment and are not fully covered by the social insurance system. These factors, as well as population ageing, contribute to the high rate of relative poverty in Japan. The segmentation of the labour market may also tend to discourage women from working, at a time when rapid population ageing makes it important to boost their labour force participation rate. This paper begins by analysing the increase in non-regular workers and suggests policies to address it and then considers measures to increase labour force participation, particularly of women, the elderly and youth. Policy recommendations are summarised in Box 1.

Labour market dualism

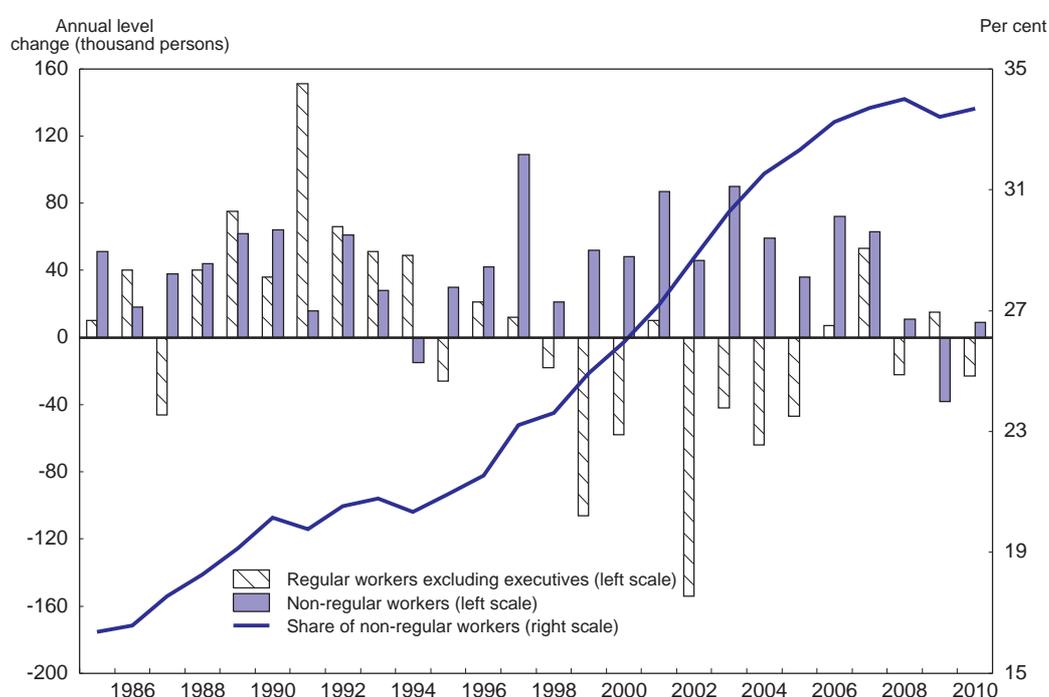
3. Traditional labour market practices remain strong in Japan, protected by the legal framework. In 2009, three-quarters of workers in the 55-to-59-age group at firms with more than 1 000 employees had been at the same firm for at least 20 years, and two-thirds had been there at least 30 years (Yashiro, 2010b).² Long-term employment is supported by seniority-based wages, which tie workers to the firm. Japanese male manufacturing workers with 20 to 29 years of experience earned 72% more than new entrants, significantly higher than the 41% in Germany and the 29% in France and the United Kingdom (JILPT, 2010). Most long-term workers are regular workers – full-time employees with indefinite contracts and a high level of job security.

1. Randall S. Jones is head of the Japan/Korea Desk in the Economics Department of the OECD and Satoshi Urasawa is an economist on that Desk. This paper is based on material from the *OECD Economic Survey of Japan* published in April 2011 under the authority of the Economic and Development Review Committee (EDRC). The authors would like to thank Andrew Dean, Robert Ford, Vincent Koen and Byungseo Yoo for valuable comments on earlier drafts. Special thanks go to Lutécia Daniel for technical assistance and to Nadine Dufour and Pascal Halim for technical preparation.

2. Long-term employment emerged in large firms during the 1950s, based on the mutual understanding that employers would invest in their employees' human resources and avoid dismissals, while regular employees would remain with the company until retirement. Long-term employment is less prevalent at small enterprises; for firms with five to nine employees, only 43% had been at the firm at least 20 years.

4. However, firms have reduced the role of long-term employment by doubling the number of non-regular workers between 1990 and 2008, boosting their share to a record high of 34% in 2008 (Figure 1). In contrast to regular workers, almost all non-regular workers have fixed-term contracts of some type. In addition to the upward trend in the number, there has been a diversification in the types of non-regular workers (Table 1): *i*) the share of part-time workers³ in non-regular employment has fallen from 80.6% in 1990 to 67.3% in 2010; *ii*) temporary workers' share has risen to 19%; and *iii*) the share of dispatched workers – persons employed by temporary worker agencies who are sent to firms on a fixed-term basis – also rose sharply to 8.3% in 2008 following the 1999 reform that allowed them to work in most sectors and job categories, with some exceptions, notably construction and health care.⁴ The number of temporary worker agencies increased from 12 thousand in 1993 to around 83 thousand at present (Duell *et al.*, 2010). However, the number of dispatched workers fell sharply in the wake of the 2008 crisis, triggering a national debate about the non-regular worker issue.

Figure 1. The share of non-regular workers is rising again¹



1. Data is as of February until 2001 and as of the first quarter since 2002.

Source: Ministry of Internal Affairs and Communications, *Special Survey of the Labour Force*, from 1984 to 2001 and the *Labour Force Survey (Detailed Tabulation)* since 2002.

-
3. Defined as those working less regular hours on a daily or weekly basis than regular workers in the same workplace. However, 30% of part-time employees work as many hours as full-time workers. In general, 35 hours a week is taken as the dividing line between full and part-time workers.
4. Dispatched workers were first allowed in 1985 for 13 specific job categories.

Table 1. Employed persons by status¹

Year	Total	Non-regular workers		of which			
				Part-time workers	Temporary workers ²	Dispatched workers	Other
	Million	Million	Per cent	Per cent	Per cent	Per cent	Per cent
1990	43.7	8.8	20.2	80.6	19.4	-	-
1995	47.8	10.0	20.9	82.4	17.6	-	-
2000	49.0	12.7	26.0	84.7	12.6	2.6	-
2005	49.2	15.9	32.3	68.8	17.4	6.0	7.8
2006	50.0	16.6	33.2	67.4	17.0	7.3	8.4
2007	51.2	17.3	33.7	67.5	16.9	7.0	8.6
2008	51.1	17.4	34.0	65.8	17.8	8.3	8.0
2009	50.9	17.0	33.4	66.6	18.7	6.8	7.8
2010	50.7	17.1	33.7	67.3	19.0	5.7	8.0

1. Data is as of February each year until 2000 and as of the first quarter since 2005 and excludes executives.

2. From 1990 to 2000, data include both dispatched workers and other.

Source: Ministry of Internal Affairs and Communications.

A comparison of regular and non-regular workers

5. A 2007 government survey found that non-regular workers tend to be older, less educated and concentrated in the service sector (Table 2).

- In 2007, 16.4% of non-regular workers were in the over-60 age group, which accounts for 8% of employees (Panel A). In contrast, only 2.9% of regular workers were over 60.
- More than half of female employees are non-regular workers (Panel B). Consequently, women account for 63.0% of non-regular workers, but only 27.9% of regular workers.
- Non-regular workers tend to be less educated; only 11.8% have at least a university degree compared to 36.7% for regular workers (Panel C).
- The proportion of non-regular workers is high among clerical workers, while they are under-represented among professional and technical workers and in management (Panel D).
- Non-regular workers account for almost one-half of employees in the service sector but less than one-third in manufacturing (Panel E).
- Non-regular workers are more prevalent in companies with less than 1 000 workers (Panel F).
- Most non-regular workers are paid an hourly wage while regular workers usually receive a monthly or annual salary (Panel G).
- Almost 80% of non-regular workers are paid less than 200 thousand yen (about \$2 450) a month, while 86.8% of regular workers are paid more than that amount (Panel H).
- The lower wages of non-regular workers reflect their shorter tenure. Only 12.8% have worked more than ten years in the same firm, compared to 49.4% for regular workers (Panel I).
- Nearly half of non-regular workers are the main income source for their family (Panel J).
- Non-regular workers receive significantly less coverage by the social insurance system (Panel K).

Table 2. A comparison of regular and non-regular workers

In per cent unless indicated otherwise

A. Age	Under age 30	30 to 59	Over age 60
All employees	15.7	76.3	8.0
Regular workers	15.0	82.1	2.9
Non-regular workers	16.8	66.7	16.4
B. Gender	Male	Female	Female's share of:
Regular workers	76.3	42.2	27.9
Non-regular workers	23.7	57.8	63.0
C. Education ¹	Middle school	High school	University
Regular workers	3.5	39.7	36.7
Non-regular workers	7.8	57.3	11.8
D. Occupation ²	Clerical workers	Management	Professional/technical workers
Regular workers	35.4	19.1	19.4
Non-regular workers	26.1	2.7	10.3
E. Sector ³	Manufacturing	Services	Construction
Regular workers	70.3	54.3	85.7
Non-regular workers	29.7	45.7	14.3
F. By size of establishment ³ (number of employees)	More than 1 000	30 to 999	5 to 29
Regular workers	74.2	61.8	61.3
Non-regular workers	25.8	38.2	38.7
G. Wage payment system	By hour	By day	By month or year
Regular workers	0.1	5.7	91.1
Non-regular workers	64.5	9.3	22.3
H. Monthly payment in yen	Less than 100 thousand	100 to 200 thousand	More than 200 thousand
Regular workers	0.2	11.8	86.8
Non-regular workers	40.5	37.4	21.5
I. Tenure ⁴	Less than 1 year	1 to 10 years	More than 10 years
Regular workers	3.7	45.1	49.4
Non-regular workers	21.0	64.3	12.8
J. Main income earner	The worker	Spouse	Parents
Regular workers	84.9	8.8	5.0
Non-regular workers	45.4	41.5	8.1
K. Coverage by social insurance	Employees' pension scheme	Employees' health insurance	Employment insurance
Regular workers	98.7	99.7	99.2
Non-regular workers	46.6	48.6	60.0

1. Highest level of education attained. University includes graduate schools. The remainder (20.2% for regular workers and 23.1% for non-regular workers) are graduates of specialised training colleges and colleges of technology.

2. For the top three occupations for regular workers.

3. Figures show the percentage of regular and non-regular employees in each sector and for each size of establishment.

4. Figures shown are from the 2003 survey, as this question was not included in the most recent survey in 2007.

Source: Ministry of Health, Labour and Welfare (2008b), *General Survey of Diversified Types of Employment*, 2007.

Factors explaining the rise in non-regular employment

6. In a 2007 government survey that asked firms why they hire non-regular workers, the most important reasons were related to employment flexibility. Close to a third of firms reported that they hired

non-regular workers to cope with fluctuations in demand (Table 3, Column B). In addition, around one-fifth did so to facilitate adjustment to business fluctuations and another fifth to reduce working time (Columns F and H). As Japan's average growth rate slowed during the past 40 years, the cost to firms of keeping excess workers has risen significantly. A recent study found that the increase in the responsiveness of employment to output trends over the past two decades in Japan is a result of the rise in non-regular employment (Steinberg and Nakane, 2011). Another study of 8 000 Japanese firms between 1994 and 2006 showed that the greater the volatility of a firm's sales growth, the greater the share of non-regular workers in the firm (Morikawa, 2010). The effect is strongest in manufacturing and for dispatched workers. Moreover, among firms facing highly volatile sales, the ratio of non-regular workers has a significantly positive relationship with total factor productivity. In sum, firms hedge against uncertainty about business conditions by using non-regular workers to enhance employment flexibility, which depends on the level of employment protection. Economic theory suggests that employment protection reduces productivity by distorting firms' production decisions. Indeed, a recent study found that firms in prefectures with tighter employment protection based on judicial decisions had lower total factor productivity, in part by discouraging innovation (Okudaira *et al*, 2008).⁵ The authorities believe, however, that other factors explain this variation between prefectures.

Table 3. Reasons given by firms for hiring non-regular workers¹

Year of survey	To reduce wage costs	To cope with daily or weekly fluctuations in demand	To hire work-ready and experienced workers	To work on skilled tasks	Difficulty in finding regular workers	To facilitate adjustment to business fluctuations	To cut non-wage costs	To cope with long business hours	To re-employ older workers	To specialise regular workers in key tasks
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1999	61.0	29.6	23.7	23.8	11.6	30.7	--	20.6	10.3	15.8
2003	51.7	28.0	26.3	23.1	20.1	26.5	22.5	18.1	14.2	15.4
2007	40.8	31.8	25.9	24.3	22.0	21.1	21.1	18.9	18.9	16.8
<i>Part-time</i>	41.1	37.2	11.6	12.7	17.6	18.0	21.3	21.7	7.9	15.3
<i>Dispatched</i>	18.8	13.1	35.2	20.2	26.0	25.7	16.6	3.4	2.6	20.4
<i>Temporary</i>	28.3	4.5	38.3	43.6	18.2	15.6	8.1	6.4	11.0	10.6

1. Firms were allowed to give multiple answers. The figures for part-time, dispatched and temporary workers are for 2007.

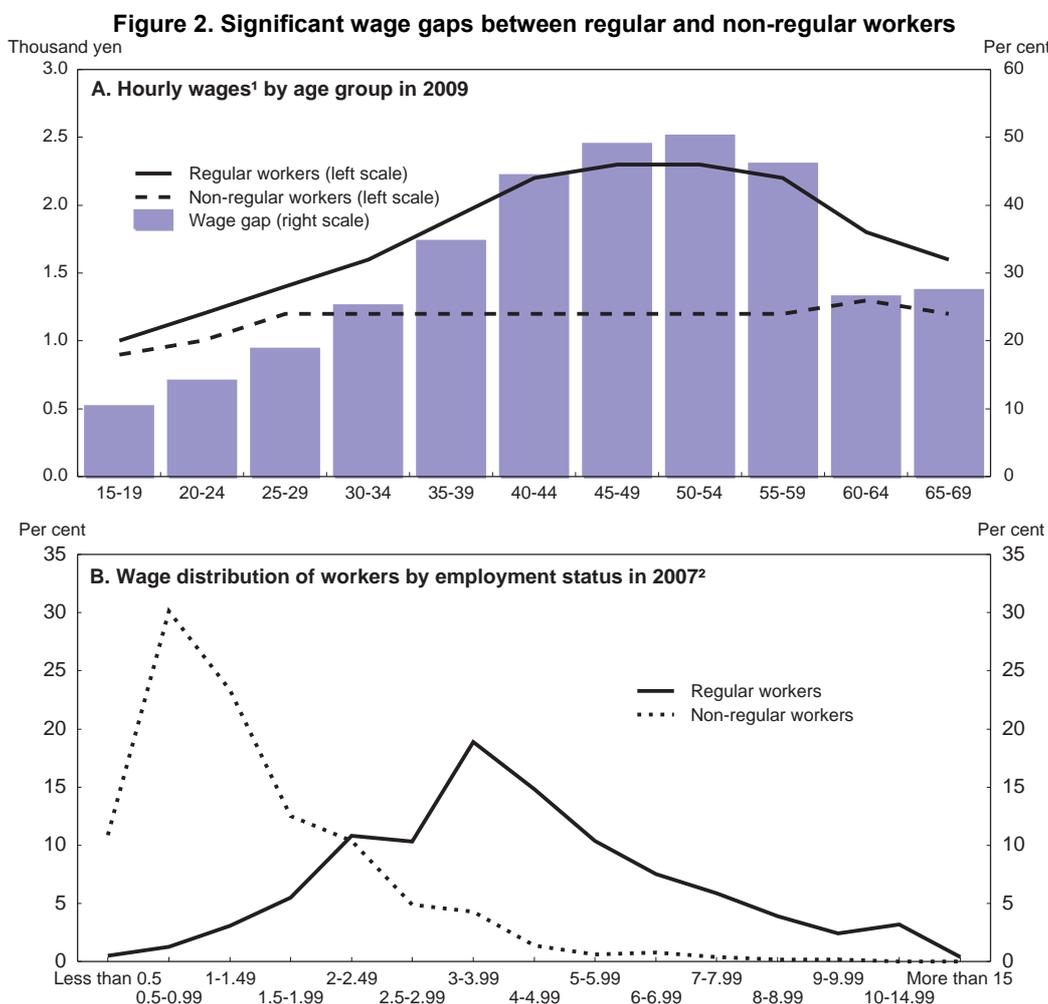
Source: Ministry of Health, Labour and Welfare (2008b), *General Survey of Diversified Types of Employment*, 2007.

7. One consequence is that non-regular workers play an important role as a buffer in protecting regular workers in whom firms have invested significantly. Non-regular workers effectively played their intended role in the wake of the 2008 crisis, as their number dropped by 0.4 million (1% of total employees) between 2008 and 2009, accounting for two-thirds of the fall in dependent employment over that period. The reduction mostly came from cuts in dispatched workers and the non-renewal of temporary employment contracts. Consequently, the unemployment rate of persons who had previously been dispatched workers tripled from 6% in 2007 to 18% in 2009. The impact of the 2008 recession on non-regular workers was significantly different than the recessions that began in 1997 and 2000, which recorded large reductions in regular workers (Figure 1).

8. In the 2007 government survey, cutting wage costs was another important reason for hiring non-regular workers, cited by 40.8%, of firms, although its importance has declined significantly during the past decade (Table 3, Panel A). Indeed, non-regular workers are paid only 60% as much as regular workers per hour (excluding bonus payments). Although the gap is smaller for younger workers, regular workers'

5. High employment protection in Spain was also found to reduce productivity, leading to recent reforms to relax it (Wölfl and Mora-Sanguinetti, 2011).

earnings rise sharply with experience, given the seniority-based wage system (Figure 2).⁶ For the 50-to-54-age group, their hourly wages are double those of non-regular workers, who are penalised by their relatively short tenure in the same firm (Table 2, Panel I).



1. Scheduled earnings excluding overtime and bonus payments.
2. Wages in million yen.

Source: Ministry of Health, Labour and Welfare (2009), *Basic Survey on Wage Structure*, 2009 and Ministry of Internal Affairs and Communications (2007), *Employment Status Survey*, 2007.

9. In addition to lower hourly wages, non-regular workers receive smaller bonus payments or none at all, further widening the earnings gap. The total income of non-regular workers, including bonuses and overtime, is only 54% of that of regular workers. On an annual basis, more than 70% of non-regular workers were paid less than 2 million yen (\$24 600), compared to 10% of regular workers (Figure 2, Panel B). Moreover, some non-regular workers are not included in the retirement allowance paid by firms.⁷ A related reason for hiring non-regular workers was to reduce non-wage costs (Table 3, Column G). Less

6. Under the seniority-based wage system, wages are below productivity for younger workers. The fact that wages will eventually surpass productivity gives workers an incentive to remain at the same company.
7. The shorter tenure of non-regular workers also reduces the size of the allowance, which is set at a minimum of one month of pay for each month of work.

than half of non-regular workers are included in employees' pension and health insurance, while less than two-thirds are covered by employment insurance, in contrast to virtually complete coverage of regular workers (Table 2, Panel K).⁸ Employing non-regular workers not covered by any social insurance scheme saves firms 13% in non-wage costs.

10. The 2007 survey also asked workers why they chose non-regular employment (Table 4). The responses tend to fall into three categories. *First*, a number of workers, particularly part-time workers, cited the flexibility and reduced pressure of non-regular employment: *i*) to work at convenient times (Column A); *ii*) to balance work with family and other activities (Column C); *iii*) to reduce commuting time (Column D); and *iv*) to limit working time (Column G). Regular employment is demanding, with long hours, overtime, intense pressure and frequent transfers to other work locations, making it difficult to balance family life with regular jobs for both parents. *Second*, 34.8% said that they worked as non-regular workers to support the family budget (Column B) and 20.8% that they did so to obtain discretionary income (Column E). Such workers presumably would have been happy to receive the higher wages and benefits of regular workers if it fit their schedule.

Table 4. Reasons given by workers for choosing non-regular employment¹

Year of survey	To work at convenient times	To support family budget	To balance family and other activities	To reduce commuting time	To obtain discretionary money	Cannot find regular employment	To limit working time	To make use of professional qualifications and skills	To work on easy and less responsible tasks	To avoid being tied down by the company	Easy to adjust hours and earnings
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1999	32.8	34.2	29.4	30.5	--	14.0	26.3	10.9	11.7	8.7	--
2003	30.9	35.0	22.6	28.1	24.6	25.8	23.2	14.5	9.4	8.6	9.5
2007	42.0	34.8	25.3	23.2	20.8	18.9	15.5	14.9	9.4	6.6	5.5
<i>Part-time</i>	55.9	42.4	32.0	19.2	22.7	12.2	19.2	9.0	8.6	5.8	7.1
<i>Dispatched</i>	17.7	16.1	15.9	8.8	17.4	37.3	8.8	18.5	12.4	12.3	1.6
<i>Temporary</i>	13.5	18.5	11.3	9.3	13.5	31.5	9.3	37.0	6.2	7.0	2.1

1. Workers were allowed to give multiple answers. The figures for part-time, dispatched and temporary workers are for 2007.

Source: Ministry of Health, Labour and Welfare (2008b), *General Survey of Diversified Types of Employment*, 2007.

11. A *third* reason for choosing non-regular employment is the failure to find regular employment (Column F). This proportion fell from 25.8% in 2003 to 18.9% in 2007, reflecting the strength and duration of the economic expansion. According to the same survey, the share of part-time workers who wished to become regular workers increased from 7% in 1999 to 21% in 2007, while the share rose from around 20% to over 50% for temporary and dispatched workers over the same period. For non-regular workers between ages 20 and 25, over 60% wish to become regular workers. These results point to a dichotomy between part-time workers, most of whom prefer the flexibility and low demands of non-regular employment despite lower wages, and temporary and dispatched employees, many of whom are involuntarily employed as non-regular workers.

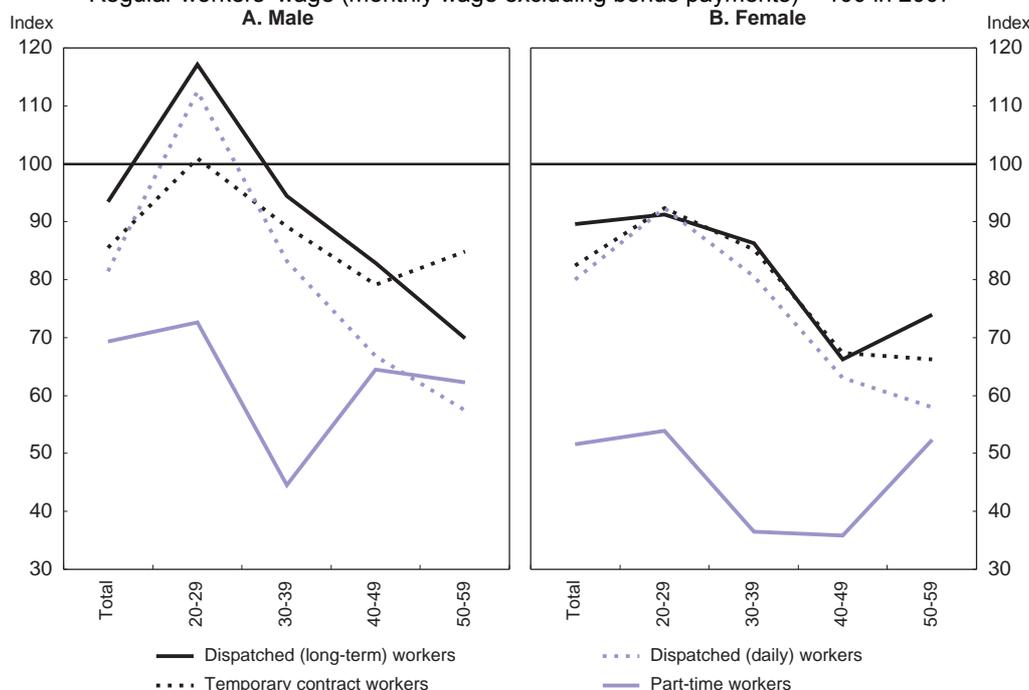
Problems associated with the rising share of non-regular workers

12. The falling share of regular workers has positive aspects, particularly for firms in terms of flexibility and labour costs, and for workers preferring more flexible work patterns. However, the increased reliance on non-regular workers also has negative implications for economic growth and equality:

8. Employees who work less than three-quarters of the hours worked by regular employees in a firm (on a daily, weekly or monthly basis) are exempt from employees' pension and health insurance contributions. Employees working less than 31 days or 20 hours a week are exempted from employment insurance.

- *Less firm-based training:* The short tenure of non-regular workers reduces the incentive for firms to invest in training them. Only 28% of firms provided systematic on-the-job training to non-regular workers, less than half the proportion for regular workers. In addition to the impact on the workers, the rising share of workers receiving limited training has negative long-term implications for growth.
- *A significant wage gap:* Even after adjusting for workers' type of job and educational attainment, the gap between the hourly wages of full and part-time workers is 31% for males and 48% for females (Figure 3). The gap is less pronounced for other types of non-regular workers, ranging from 7% to 20%. The fact that nearly half of firms hire workers to reduce wage costs also suggests that the gap in productivity does not match the wage difference. The upward trend in income inequality among the working-age population in Japan since the mid-1990s is largely explained by the increasing proportion of non-regular workers, as well as by population ageing (Cabinet Office, 2009). Non-regular employment also boosts the relative poverty rate; the 15% rate in Japan in the mid-2000s was the sixth highest in the OECD area (Figure 4).⁹

Figure 3. Wage differentials by employment status adjusted for employee characteristics¹
 Regular workers' wage (monthly wage excluding bonus payments) = 100 in 2007



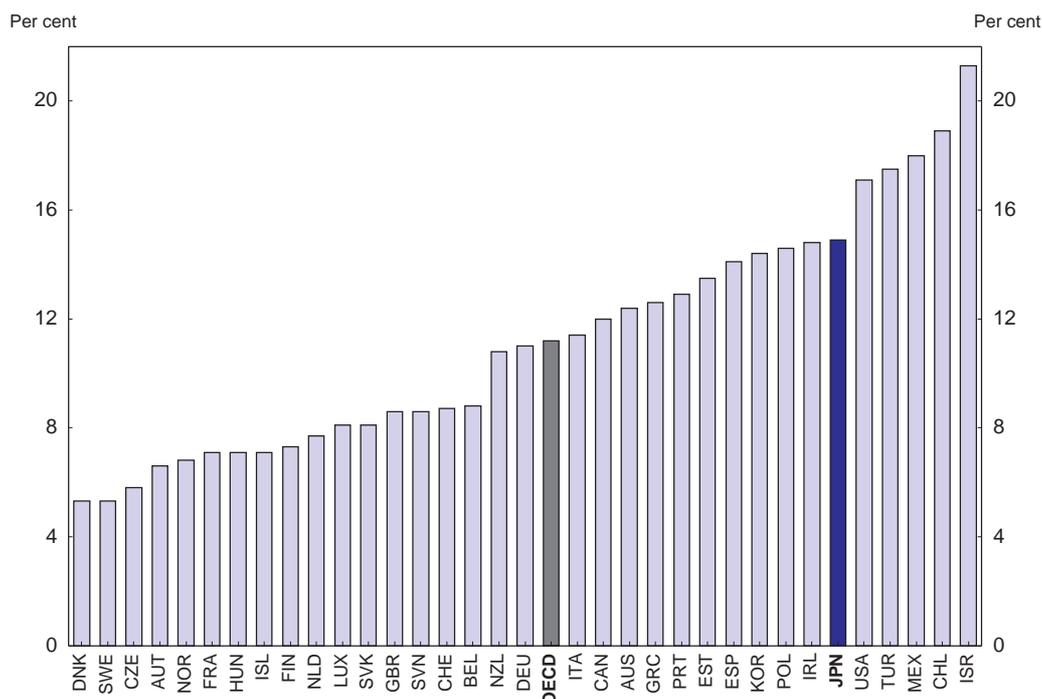
1. Controlling for employees' education and the industry in which they are employed.
 Source: Asao (2010).

- *Precarious employment:* Non-regular workers accounted for two-thirds of the fall in dependent employment between 2008 and 2009. Moreover, they face consistently higher unemployment rates.

9. In addition, it has reduced labour's share of income and squeezed household income growth.

- *Less coverage by the social safety net:* Around 40% of non-regular workers are not covered by employment insurance, even though that group is most vulnerable to unemployment during downturns. In addition, the share of households headed by someone of working-age receiving public assistance was only 0.7% in Japan in 2008. The rate ranges from around 1% to 7% in other OECD countries, with a median of about 3% (Duell *et al.*, 2010). Moreover, less than half of non-regular workers are covered by employees' pension insurance, and thus receive smaller benefits after retirement.

Figure 4. International comparison of relative poverty rates in the mid-2000s¹



1. Poverty rates are defined as the share of individuals with equivalised disposable income less than 50% of the median for the entire population. Countries are ranked, from left to right, in increasing order of poverty rates. The income concept used is that of household disposable income adjusted for household size.

Source: OECD (2011), *Income distribution questionnaire*.

Labour market segmentation: the lack of mobility between non-regular and regular employment

13. The negative consequences of dualism are exacerbated by the limited mobility between the segments of the labour market, in contrast to many other OECD countries, where a large share of temporary workers moves into permanent employment (OECD, 2006). Since 2002, only 370 thousand non-regular workers a year on average – about 2% of the total – become regular workers. Indeed, a recent study found that 23.7% of workers remained at the firm that hired them directly from school and retained their regular status, while another 11.9% had retained their regular status while moving from one firm to another (Table 5). In contrast, only 13.9% had shifted from non-regular to regular status, of which one-fifth had been promoted within the same firm. The study also showed that a smaller proportion of women are hired as regular workers and fewer females who are non-regular workers make the transition to regular status than males. Movement in the other direction is even smaller; only 3.8% were non-regular workers who had previously been regular workers, reflecting reluctance to lose the advantages attached to regular status. In sum, non-regular employment is not a stepping stone into regular jobs. Instead, a worker who accepts non-regular employment faces a high probability of never escaping this category, with its accompanying low wages, reduced training, precarious jobs and limited social insurance coverage.

Table 5. Employees by past employment history

Survey of 4 000 workers between the ages of 25 and 44, in per cent

	Men	Women	Total
Regular workers	75.0	34.9	58.4
Workers hired directly from school who maintain regular status	30.9	13.5	23.7
Workers who changed jobs while maintaining regular status	17.7	3.7	11.9
Non-regular workers who became regular workers in a different firm	11.5	9.6	10.7
Non-regular workers who became regular workers in the same firm	3.6	2.5	3.2
Workers who were self-employed or voluntarily unemployed	11.3	5.7	9.0
Non-regular workers	8.6	53.8	27.3
Workers with experience as regular workers	1.3	7.4	3.8
Workers who have remained non-regular workers	3.9	31.1	15.2
Self-employed, executives and family workers	16.4	11.4	14.3
Workers with experience changing from non-regular to regular status	1.7	1.1	1.5

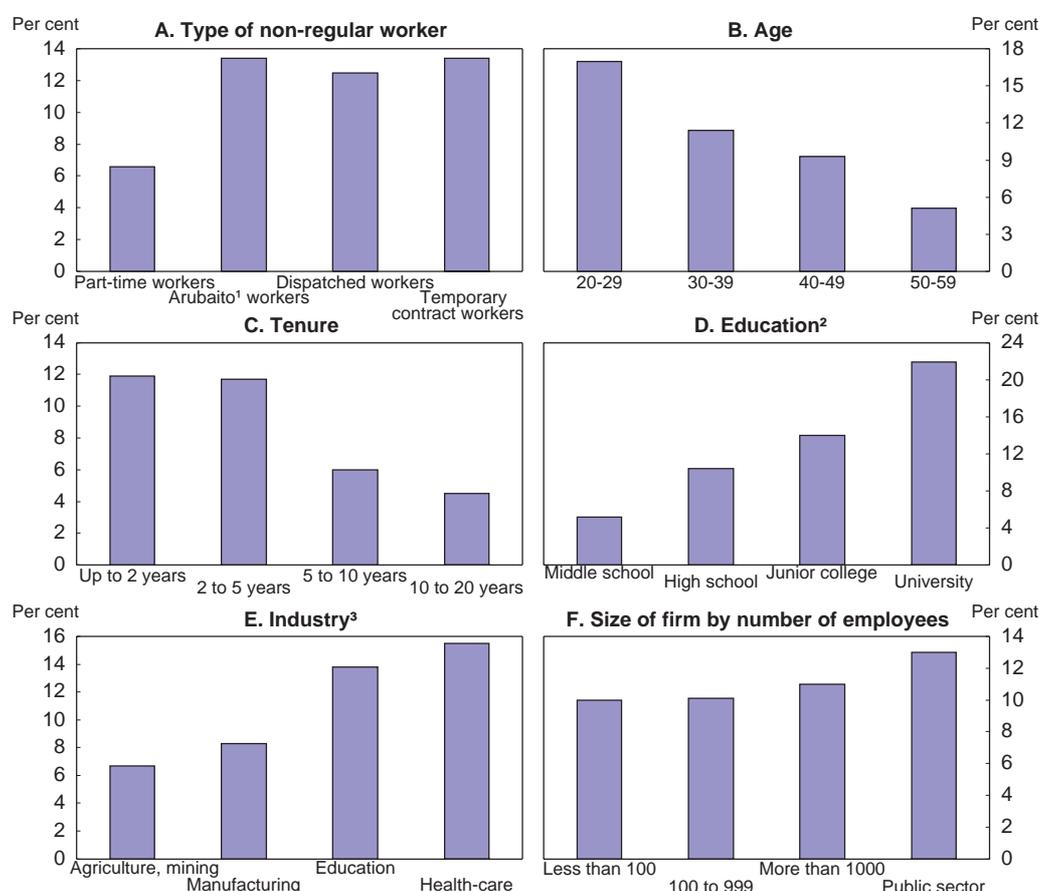
Source: Kosugi (2010).

14. Another recent study, which included around 23 thousand non-regular workers, found that 10.3% became regular workers. This study identified the characteristics that hindered or facilitated this transition (Figure 5):

- Part-time workers were the least likely to become regular workers, perhaps reflecting the fact that many prefer the flexibility associated with such employment. However, even the proportion of temporary and dispatched workers, who as a group are more desirous of regular status, is relatively low (Panel A).
- The probability of making the transition to regular workers is higher for younger workers. Beyond the age of 40, less than 10% make the transition (Panel B).
- The relationship between age and the transition to regular status is linked to tenure; the longer an employee remains a non-regular worker, the harder it is to find regular employment. After five years, less than 6% of non-regular workers make the transition to regular status (Panel C).
- Educational attainment is key. While 22% of non-regular workers with a university education make the transition, only 5% of those with only a middle school education do (Panel D).
- The possibility of becoming regular workers varies widely between sectors. It is only 8% in manufacturing, compared to more than 14% in health care and educational services (Panel E).
- The size of the firm, in contrast, has little influence on whether a non-regular worker becomes a regular worker. However, the chances are higher in the public sector (Panel F).

Figure 5. Workers making the transition from non-regular to regular status

Based on a survey of around 23 thousand non-regular workers



1. *Arubaito* refers to part-time work by students.

2. By the highest level of education completed. The junior college category also includes graduates of specialised training colleges, while the university category also includes graduate school education.

3. This panel selects the two highest and two lowest of 13 industrial categories.

Source: Genda (2010).

15. Another study found that workers who were initially unemployed after graduation had a better chance of being a regular worker than those who accepted non-regular jobs during the first 15 years after graduation, by which point the probabilities of finding regular employment converge (Esteban-Pretel *et al.*, 2009). The stigma attached to such jobs in a labour market segmented between regular and non-regular workers sends negative signals to potential employers. Nevertheless, it is not easy for unemployed workers to get regular jobs, as only 20% of large firms treat past graduates equally with new graduates (Cabinet Office, 2006). During economic downturns, the number of graduates who find jobs thus falls sharply, as reducing the hiring of new graduates is another way for firms to adjust employment without dismissing regular workers. Given that graduation is the key point of entry to regular employment, the timing of graduation from school has a major impact on lifetime earnings, as non-regular workers have significantly lower wages, bonus payments, retirement allowance and pension payments.

Policies to address the upward trend in labour market dualism*Revisions to labour law*

16. The government plans to take steps by FY 2013 to achieve the New Growth Strategy's goal of "equal and equitable treatment" of all workers, as well as to promote the shift of non-permanent workers to permanent status. In addition, the Labour Policy Council, a government advisory body, began deliberations in 2010 on fixed-term employment contracts with a goal of recommending reforms by 2012. One option under review is to put limits on the renewal of non-regular contracts. However, Spain's experience with limits on short-term contracts shows that firms tend to dismiss temporary workers, even when satisfied with their performance, to avoid the costs associated with permanent workers, leading to higher turnover and unemployment (Wölfl and Mora-Sanguinetti, 2011). In addition, the Japanese government proposed a law in 2010 to legally restrict the use of dispatched workers for less than two months. The use of dispatched workers for less than one year in manufacturing would also be prohibited. This would be accompanied by policies to promote their continued employment.¹⁰ Regular workers strongly support rules on the use of temporary workers, who substitute for regular workers, while non-regular workers are opposed in general to restrictions on such work.¹¹ In essence, labour market dualism can be viewed as a conflict between regular and non-regular workers.

17. Given the importance that firms attach to employment flexibility, restrictions on the use of non-regular workers may not necessarily prompt them to hire more regular workers. Instead, they may rely more on increased overtime by current employees, capital deepening or shifting production overseas.¹² Nevertheless, the negative implications of the rising share of non-regular workers call for reform. Indeed, the 2007 survey cited above suggests that almost 4 million employees are involuntary non-regular workers, well above the number of unemployed. Moreover, after declining in 2009, the number and share of non-regular workers resumed its upward trend in 2010 and the government expects that it will continue to increase.

18. Revisions of the Employment Insurance Law in 2009 and 2010 relaxed the eligibility requirement from workers employed at least one year to those employed 31 days or more. The priority now should be to improve the enforcement of the extended coverage. While the 2010 revision extended coverage to an additional 2.6 million workers, the number of contributors during the first six months of FY 2010 increased by only about 0.75 million (Duell *et al.*, 2010). Allowing the authorities to compare the wage bill an employer declares when calculating corporate or entrepreneurial taxable income with the wage bill on which social insurance contributions have been paid would promote compliance.¹³ Unifying the collection of taxes and social insurance contributions would also be one way of improving compliance.

10. The revised law would also request dispatched worker agencies to implement measures to shift dispatched workers from fixed-term to indefinite-term contracts and provide subsidies to the receiving firm to hire them directly, as well as to disclose the gap between the wages received by a dispatched worker and the fee paid to the dispatching company.

11. See the survey of non-regular worker views published by the Social Science Research Institute at the University of Tokyo (http://web.iss.u-tokyo.ac.jp/jinzai_20100927.pdf.)

12. Spain's experience in tightening restrictions on temporary contracts in the 1990s did not have much impact on permanent employment (Wölfl and Mora-Sanguinetti, 2011).

13. Japan has reportedly been rather tolerant of companies that evade payments for social insurance premiums, with almost no criminal indictments against firms evading payments (Duell *et al.*, 2010).

19. The government has introduced a number of policies to prevent discrimination against non-regular workers. *First*, the 2007 revision of the Part-time Workers Law encourages “balanced treatment” of part-time workers relative to regular workers and the shift from part-time to regular employment through a system of internal promotions and transfers. It also prohibits discriminatory treatment of part-time workers who have the same job description, job rotation and type of labour contract, *i.e.* indefinite, as regular workers. However, it is difficult to determine in practice when unequal treatment constitutes discrimination. The Minister of Health, Labour and Welfare can recommend firms to change labour practices but no penalties are imposed on firms that fail to provide equal treatment and the revised law still allows firms to pay non-permanent workers less than regular workers even if they perform the same job. *Second*, the government subsidises firms that offer permanent jobs to non-regular workers. Between April 2010 and January 2011, subsidies were given to firms that promoted a total of 30 thousand non-regular workers to regular status. However, the number of workers was around 0.8% of non-regular workers who wish to become regular workers, suggesting that the impact of the subsidies was more symbolic than real. In general, subsidies to firms are not the preferred option, given high deadweight costs.

Employment protection

20. Another aspect of reducing non-regular employment is to relax effective employment protection for regular workers so that firms do not have to hire non-regular workers in order to have the flexibility to adjust employment over the business cycle. The Labour Standards Law requires firms to give prior notice of 30 days or pay 30 days of salary when they dismiss employees, with no mandatory severance pay, conditions that are not particularly onerous. Overall, Japan ranks below the average of member countries in the OECD index of employment protection.¹⁴

21. However, the key problem of employment protection in Japan is not its strength but its ambiguity. The 2007 revision of the Labour Contract Law states that any dismissal of workers that is not objectively justifiable and that is not considered to be acceptable by society’s standards shall be deemed an abuse of power and is therefore invalid. The vagueness of the law leaves the legal system broad scope for interpretation. Judicial precedents have set four criteria to determine whether employment adjustment as a result of corporate downsizing can be deemed an abuse of power by a firm: *i*) the necessity of the firm reducing its workforce; *ii*) whether efforts were made to avoid dismissals, such as by taking alternative measures that could achieve the necessary reduction; *iii*) whether the selection of employees for dismissal was reasonable and objective; and *iv*) whether the overall dismissal procedure was judged to be acceptable. If a dismissal fails to meet these criteria, it may be rendered invalid.¹⁵ When firms have to reduce the number of regular workers, they tend to use “honourary retirement”, accompanied by benefits for departing workers, which does not always achieve the desired goals.¹⁶

14. The OECD index of EPL strictness for regular employment covers eight indicators related to the procedures involved in individual dismissal, such as the prior notification requirement, severance pay provision, and remedial measures for an unfair dismissal.

15. In that case, the court usually orders reinstatement with back pay. There is no time limit on when former workers can make a claim of unfair dismissal. Moreover, it is difficult to dismiss a worker for incompetence. Given the importance of firms in the skill development of its employees, courts have ruled that it is the firm’s fault if a worker is incompetent.

16. Japan Airlines Groups, facing \$25 billion in debt and a bloated work force, filed for bankruptcy in January 2010. Its restructuring plan, which included reducing employment by 16 thousand, was accepted by the Tokyo District Court in August 2010. However, only 1 460 employees accepted the offer of early and voluntary retirement. At the end of 2010, the company fired 165 employees to make up part of the difference. However, 146 of those employees filed a suit challenging the dismissal on the grounds that Japan Airlines Group’s earnings are recovering.

22. The unpredictability of judicial procedures to review *ex post* employment adjustment increases the cost and uncertainty for firms, thus discouraging them from hiring workers on indefinite contracts.¹⁷ Indeed, international evidence demonstrates that the creation of temporary jobs is a common response by firms to high costs of reducing permanent jobs (Kahn, 2010). Some observers in Japan have proposed mitigating the problem by introducing a new type of contract. Under this third option, workers would accept less employment protection than regular workers but would receive higher wages than non-regular workers. However, such a system would be complicated to implement in practice and is likely to be strongly resisted by regular workers, who would view it as a first step to eventually reducing their employment protection as well. In short, further segmenting the labour market by introducing a “third way” does not appear to be feasible.

Encouraging greater labour market participation

23. Population ageing presents an important challenge to Japan. Its population between the ages of 15 and 64 fell by 5% between 1994 and 2008, although the upward trend in the labour force participation rate offset almost 90% of the impact on the size of the labour force (Figure 6).¹⁸ The government projects an additional 10% decline in the working-age population by 2020 and a nearly 40% fall by 2050. Rapid population ageing will keep Japan’s elderly dependency ratio the highest in the OECD area (Panel B). The ratio of working-age persons to the elderly will fall from 2.8 in 2009 to 1.3 in 2050. Immigration could partially offset falling population (see the 2011 *OECD Economic Survey of Japan*), although it would have to rise by a factor of 54 to stabilise the population (Nyce and Schieber, 2001).¹⁹ The priority therefore should be to boost labour force participation, particularly among women, the elderly and youth. The New Growth Strategy set an objective of increasing the female employment rate in the 25-to-44-age group from 66% to 73% by 2020 and raising the share of women who remain in the labour force following the birth of their first child from 38% to 55%.²⁰

Boosting female labour force participation

24. The participation rate of prime-age women (the 25-to-54-age group) rose from 65% in 1994 to 71% in 2009. The increase has smoothed the M-shaped pattern of female labour force participation, which reflects the withdrawal of a majority of women at the time of childbirth and their later return (Figure 7). Rising female participation reflects a change in the economic and social environment, the delayed age of marriage, the fall in the birth rate and institutional reforms aimed at promoting equal employment opportunities for female workers and “work-life balance”. Despite the increase, the participation rate of prime-age women in 2009 was the sixth lowest in the OECD area, reflecting the fact that around 60% of female workers still withdraw from the labour force when their first child is born, generally between the ages of 25 and 34.²¹ Moreover, the rise in the participation rate since 1994 has been driven by a growing

17. Moreover, it may discourage the renewal of fixed-term contracts. Japanese case law interprets repeated extension of contracts, or even a reasonable expectation of continued employment, as sufficient to treat refusal of renewal as dismissal and thus subject to case law concerning proper dismissal.

18. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

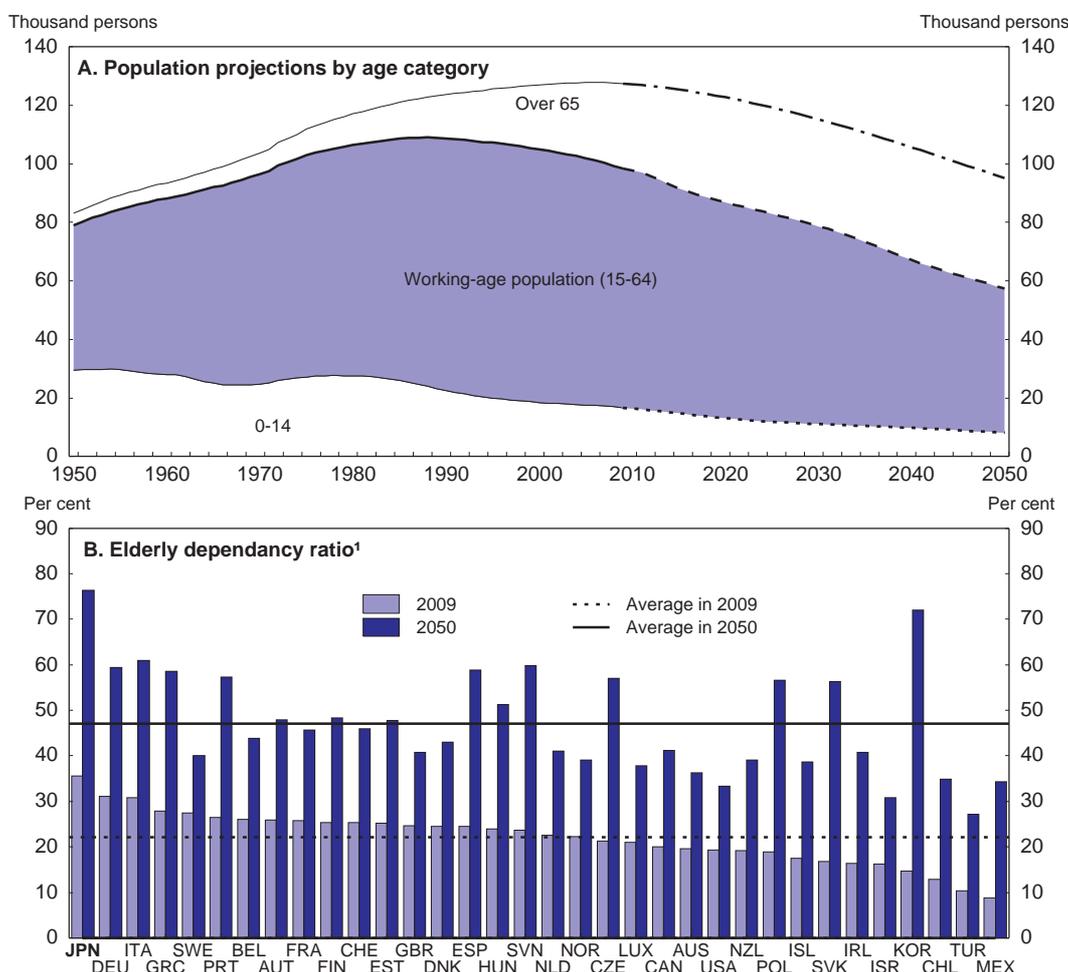
19. The assumptions in the 2001 study – a fertility rate of 1.4 and net migration of 56 thousand -- were close to the 2009 figures of 1.4 and 54 thousand, respectively.

20. An additional objective is to increase the share of fathers who take child-care leave from 2% to 13%.

21. About 26% of women who left their job at the time of pregnancy or childbirth stated that they faced difficulties in continuing to work while raising a child and 9% of them said that they were dismissed or encouraged to leave the job.

number of young non-regular workers, who accounted for more than 90% of the increase in female employees in the 25-to-34-age group, indicating a relatively tenuous connection to the labour market.

Figure 6. Rapid population ageing in Japan



1. The over-65 population as a share of the working-age (15 to 64) population.

Source: National Institute of Population and Social Security Research, *Population Projection for Japan* (December 2006 version), and *OECD Society at a Glance* database.

25. The government should address factors that discourage female labour force participation. One priority is to enhance the availability of affordable and high-quality childcare, in part by integrating childcare and kindergarten (see the 2011 *OECD Economic Survey of Japan*). A second key is to reform the tax and benefit system to remove disincentives to work by secondary earners. Spouses with annual earnings below 1 million yen (about 30% of average full-time earnings) are exempt from income tax, and can be claimed as a tax deduction by the primary earner. Many family allowances paid by firms are based on this threshold. In addition, second-earners are covered by the primary-earner's pension, health and long-term nursing care insurance, without paying contributions themselves, if their earnings are below 1.3 million yen. A survey of married part-time workers reported that a quarter reduced working hours to avoid taxes and social insurance contributions.

Figure 7. Changes in labour force participation and the share of non-regular workers by age and gender¹

1. The share of non-regular workers is available for six age groups: 15-24, 25-34, 35-44, 45-54, 55-64 and over 65.

Source: Ministry of Internal Affairs and Communications, *Labour Force Survey*, and *Labour Force Survey (Detailed Tabulation)*.

26. More fundamentally, the traditional labour market system, which is based on a model of one earner in a household working long hours, makes it difficult for both parents to work as regular workers, leaving most women to work part-time or not at all. In 2008, 24% of all employees worked 49 hours or more per week and one-fifth of male employees in their thirties worked at least 60 hours. The participation rate for university-educated women, at 68% in 2009, is only 4 percentage points higher than for women with a high school degree. For the OECD area, the rate for university-educated women is 82%, more than 11 percentage points higher, reflecting the higher opportunity cost of not working for women with higher education (OECD, 2010). Female workers employed as regular workers prior to interrupting their careers for children are likely to end up in non-regular employment, with its negative aspects. Moving away from traditional labour market practices is thus key to promote female employment.

27. One priority is thus to improve work-life balance to facilitate female employment, especially as regular workers. The government and private sector addressed this issue in the 2007 Work-Life Balance Charter, which aims at creating a society where people can achieve economic independence with jobs, have sufficient time to enjoy healthy and affluent lives and choose diverse work styles (Cabinet Office, 2010). The revision of the Childcare and Family Care Leave Law that took effect in 2010 expanded childcare leave from 12 to 14 months if both parents take leave.²² It also established five days for employees to care for one family member and ten days for those who care for two or more family members. In addition, it limits overtime work and shortens working hours for parents with a child less than three years old. In April 2010, the requirement that firms draw up an action plan to promote work-life balance was expanded from firms with more than 300 workers to those with more than 100. In addition, the government provides subsidies to family-friendly companies.

22. The proportion of female workers taking child-care leave increased from 56% in FY 1999 to 86% in FY 2009.

28. In 2010, the government revised 14 quantitative targets for 2020 to measure progress toward work-life balance.²³ However, Japan is on track to achieve only four of the 14 targets by 2020, notably those related to increasing the employment rate and reducing working hours. The number of days of annual leave taken as a share of the total entitlement is below 50% in recent years, far below the 70% target. Meanwhile, only 1.7% of men took childcare leave in 2009, compared with the target of 13%. In sum, traditional workplace practices and the culture of long hours make it difficult to achieve work-life balance. More effort to ease the combination of work and family life by changing workplace practices is necessary to boost female participation.

29. The rise in female participation since 1984 has been accompanied by a sharp fall in the fertility rate to 1.4 (Figure 8), although it has risen slightly from 1.3 in 2005. Achieving the government's goal of boosting both the fertility rate and female labour force participation requires expanding the availability of childcare. Indeed, OECD studies have found a positive relationship between childcare and female employment (OECD, 2009a) and between childcare and the fertility rate (D'Addio and Mira d'Ercole, 2005). In addition, improving work-life balance would help Japan attain both targets. On the other hand, policies that reduce the direct cost of children, such as the child allowance that was introduced in Japan in 2010 (see the 2011 *OECD Economic Survey of Japan*), tend to boost fertility rates while reducing female employment (Jaumotte, 2003).

Promoting more efficient use of older workers

30. The employment rate for older workers (aged 55 to 64) in Japan was 65.5% in 2009, well above the OECD average of 54.5%, reflecting in part relatively low pension benefits (OECD, 2009c). Employment is high despite mandatory retirement (the *teinen* system), which most firms set at age 60.²⁴ Mandatory retirement is a key element of traditional Japanese labour practices. *First*, given that employment protection makes it difficult to dismiss regular workers, firms rely on mandatory retirement to reduce staff. *Second*, firms agree to steep seniority-based wage profiles on the condition that they can force older workers to retire when wages surpass productivity. However, a large number of retirees are re-employed as non-regular workers: the share of non-regular workers in the over-65 age group was 70% in 2010, an increase of almost 20 percentage points since 1994.

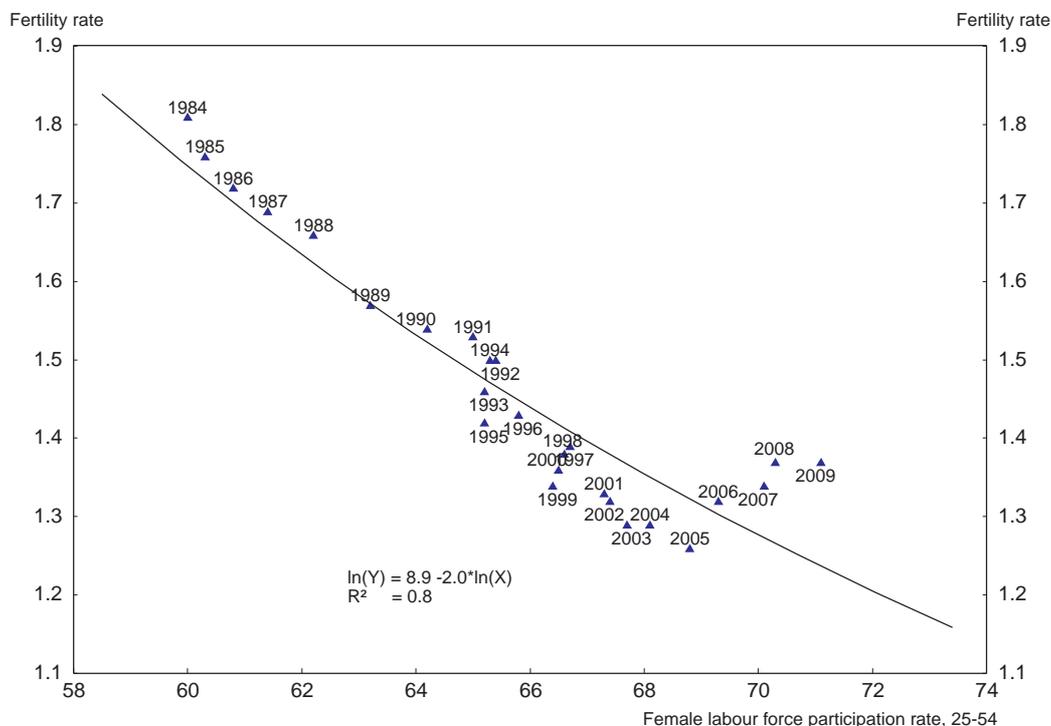
31. Despite rising non-regular employment, the employment rate falls with age from 75% of the 55-to-59 group in 2010 to 57% of the 60-to-64 group and 36% of the 65-to-69 group. Given that Japan has the longest life expectancy in the OECD, at 82.6 years, mandatory retirement at age 60 is not appropriate. With the gradual increase in the eligibility age for the flat-rate portion of the pension to age 65 by 2025 for men and 2030 for women, a 2004 law gave firms a choice of: *i*) raising their retirement age; *ii*) abolishing the mandatory retirement age; and *iii*) introducing a continuous employment system in which firms allow some workers to continue working until the pension eligibility age. In 2010, 41% of firms rehired older workers without any condition, while the remainder require certain standards, such as health and performance. In 2009, 82% of firms maintained their retirement age at 60 and introduced a continuous employment system, while only 15% raised their retirement age and 3% abolished it. This helped lift the

23. The targets, which were originally set in 2007, are: 1) the employment rate; 2) labour productivity growth; 3) the number of part-time workers; 4) the ratio of firms providing labour-management consultations; 5) the share of employees who work more than 60 hours a week; 6) the take-up rate of paid annual leave; 7) the share of firms that provide mental-health care; 8) the number of teleworkers; 9) the share of firms that provide a short standard work system; 10) the ratio of workers pursuing self-development, including education; 11) the job continuity rate of female workers after their first child; 12) the share of children with access to care services; 13) the share of male workers who take childcare leave; and 14) hours of housework by male workers who have a child younger than age six.

24. The government has prohibited firms from setting the mandatory retirement age at less than 60 since 1998.

employment rate for the 60-to-64-age group from 53% in 2006 to 57% in 2010. The New Growth Strategy set a goal of raising it further to 63% by 2020

Figure 8. The fertility rate and female labour force participation in Japan



Source: OECD ELS Database and OECD Country Statistical Profiles 2010 Database.

32. The current system has a number of drawbacks. *First*, mandatory retirement requires firms to dismiss efficient workers whose productivity is still above the seniority-based wage at age 60, while high employment protection forces them to hoard inefficient workers until age 60. *Second*, the ability to hire retired workers on fixed-term contracts (mostly one-year) increases participation, but at the same time, the accompanying 30% to 40% drop in wages prompts many workers to leave the labour force. Moreover, another government survey reported that only half of firms have a continuous employment system beyond age 65, suggesting that many older workers are forced to retire at that age regardless of their preferences or ability.

33. The government should reduce disincentives to continued work by older persons, including those over 65, by improving work opportunities (OECD, 2004). Rather than encourage a higher retirement age, the objective should be to abolish the right of firms to set mandatory retirement and move to a flexible employment and wage system that is based on ability rather than age. This would encourage productive workers to remain employed and reduce the number that retire once they reach age 60. In addition, firms should be discouraged from setting age limits in job announcements. In 2007, 36% of announcements included age limits, although this was a big drop from 65% in 2004 (Duell *et al.*, 2010). Promoting higher participation of older workers would enhance Japan's growth potential and help sustain the social security system.

Labour force participation of youth and the problem of NEETs

34. The labour force participation rate for youth (aged 15 to 24) was 43.9% in 2009, well below the OECD average of 48.5% (OECD, 2010). Labour market conditions have worsened over the past 15 years,

in part due to slow economic growth. *First*, the youth participation rate has declined from 47.6% in 1994, in contrast to the upward trend in other age groups, although this is partly due to higher participation in tertiary education. *Second*, the rate of new graduates hired fell from 68% to 56% over the same period. *Third*, the proportion of non-regular workers in the 15-to-24-age group doubled from 22% to 47%. The experience of other OECD countries shows that a high level of employment protection for permanent workers hinders the integration of young people in the labour market (OECD, 2008c). In addition, youth who are engaged “neither in employment nor in education nor in training” (NEETs) have emerged as a major problem. The number of NEETs in the 15-to-34-age group rose from 0.4 million in 1994 to 0.6 million in 2009, about 2% of the age group.²⁵ The New Growth Strategy aims to place 100 thousand NEETs in jobs between FY 2011 and FY 2020 using “Local Youth Support Stations”.

35. Most students have one opportunity – at the time of graduation – to enter a firm as a regular worker, as noted above. Consequently, employment status when leaving school has a large role in determining an individual’s subsequent career. To provide more opportunities for youth, the government set a guideline in 2010 to encourage companies to treat persons who graduated during the preceding three years on equal ground as new graduates in making hiring decisions. The reduced hiring of new graduates as regular workers in recent years has pushed more youth into non-regular work or unemployment. At the same time, the share of firms that have hired non-regular workers due to difficulty in finding regular workers nearly doubled from 11.6% in the 1999 survey to 22.0% in the 2007 survey (Table 3, Column E). This suggests a problem of mismatch, given the rising number of involuntary non-regular workers. Better vocational education and measures to facilitate the school-to-work transition are needed to address this problem (see the 2011 *OECD Economic Survey of Japan*). Practical work experience needs to be promoted through co-ordinated efforts by educational institutions, businesses and the government, as well as by encouraging tertiary schools to expand internship requirements. Such policies would also facilitate the transition from non-regular to regular contracts.

36. The role of job training outside of firms is relatively limited in Japan, as job training has been primarily a company responsibility, especially in large enterprises, in the context of long-term employment. Indeed, public spending on training in Japan was only 0.04% of GDP in FY 2008, less than one-third of the OECD average of 0.14% (OECD, 2010). It is essential to provide adequate training opportunities to non-regular workers, who account for one-half of employment between the ages of 15 and 24. Both the public and private sectors provide vocational training, with the public sector accounting for one-third of facilities and one-fifth of expenditures. In the private sector, schools and for-profit companies account for over half of training facilities, with non-profit organisations and foundations providing the rest, in co-operation with the central government. In FY 2010, public vocational training covered 220 thousand unemployed (around 7% of the total), 130 thousand employed and 23 thousand new graduates. Public institutional training is mainly focused on vocational skills in manufacturing and construction, while training for other sectors is contracted out to private training institutions, which number around 175 thousand (Duell *et al.*, 2010). Public training for the unemployed, which lasts up to six months, in most cases, is free of charge. In FY 2009, 74% of the participants in public institutional training were employed three months after the end of the programme, close to the target of 80%.

37. In addition to traditional training programmes, the government has launched several initiatives focused on youth that combine practical work experience with training to enhance the transition from non-regular employment and NEETs to regular jobs.²⁶ Perhaps most important is the Job Card system, which

25. The Ministry of Health, Labour and Welfare defines “NEETs” as those aged between 15 and 34 who are not in the labour force or education and not engaged in housework.

26. These programmes include: *i*) “Community Youth Support”, which provides counselling services and career development programmes in connection with local support networks based on government and educational institutions; *ii*) “Youth Independence Camps”, which provide a three-month residential training

combines new and existing programmes targeted on recent graduates, *freeters* (young people who hold a series of non-regular jobs), women who left the labour force to care for children, and single mothers.²⁷ The Job Card is a document that records the individual's education, training and employment history, and can be used for further training and job search (Duell *et al.*, 2010). The New Growth Strategy targets an increase in the number of Job Card holders from about 0.4 million in 2010 to 3 million by 2020.

38. The Job Card system covers participants in the Japanese Dual System, introduced in 2004, in which time spent in a training institution is matched with employer experience, as well as other types of training. OECD experience indicates that a dual system helps to integrate disadvantaged young people into the labour market, assuming that the training programme has a good reputation among employers. In the New Growth Strategy, the government pledged to create a "Japanese national vocational qualification system" as one of the 21 National Strategic Projects, following the British example, which utilises a Job Card System. A standardised system of recognition of acquired skills is a priority. The success of these initiatives to improve training and establish a system of skill recognition depends on their acceptance by firms, suggesting a need for close links between government programmes and the labour market. Successful implementation of these measures would improve employment conditions for youth and help develop the secondary market for experienced workers.

39. In 2009, the government introduced "life security benefits" for participants in labour market training programmes who do not receive unemployment benefits and whose annual income from other sources does not exceed 2 million yen (about \$24 600) and have assets of less than 8 million yen (about \$100 thousand). The programme is targeted mainly at former non-regular workers who were dismissed due to non-renewal of a temporary employment contract. Support can take the form of a benefit of 100 thousand yen (about \$1 250) per month. This programme, which is part of the so-called "second safety net", compensates for the limited coverage of social assistance in Japan, as noted above, and the short duration of unemployment benefits, which are limited to half a year in most cases. While the government provides counselling to guide participants to appropriate training, making income support conditional on participation in training creates a risk of unnecessary training.

Conclusion

40. With Japan's working-age population projected to decline by nearly 40% by 2050, it is essential to make efficient use of the country's human resources. *First*, it is important to reverse the rising share of non-regular workers, with its negative implications for growth and equity. *Second*, it is essential to raise women's labour force participation rate and make better use of older workers and discouraged youth. Resolving these problems requires a comprehensive approach that is summarised in Box 1.

programme; and *iii*) "Job Cafés" – one-stop service centres, which were visited by 1.6 million youth in FY 2007, with 88 thousand finding jobs.

27. The Job Card system is described at http://www.mhlw.go.jp/english/policy/affairs/dl/job_card_eng.pdf.

Box 1. Summary of recommendations to reform the labour market**Breaking down labour market dualism**

- Expand the coverage of non-regular workers by workplace-based social insurance systems, notably by improving compliance, to reduce the cost advantages of non-regular workers and improve their security.
- Increase training and career consultation to enhance human capital and the employability of non-regular workers as well as to promote their transition to regular employment, thereby improving Japan's growth potential.
- Prevent discrimination against non-regular workers.
- Reduce the effective employment protection for regular workers so that firms can realise adequate employment flexibility without hiring increasing numbers of non-regular workers.
- Be cautious in legally restricting the use of short-term dispatched workers as it may aggravate the cost of inflexibility and reduce overall employment.

Encouraging labour market participation of women, elderly and youth

- Reform aspects of the tax and social security system that reduce work incentives for secondary earners.
- Encourage better work-life balance, in part by better enforcing the Childcare and Family Care Leave Law.
- Increase the availability of affordable, high-quality childcare, while avoiding generous child-related transfers that may weaken work incentives.
- Encourage greater use of flexible employment and wage systems to improve working conditions for older workers, in part by abolishing mandatory retirement at age 60.
- Emphasise practical training, combining on-the-job and classroom learning, in part through expanding the Job Card system, to equip youth with the skills needed in the labour market.
- Promote the development of a standard system of recognition of acquired skills to ensure effective training.

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