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## **New Challenges for Japan's Labor Market**

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## **Introduction**

It is my great pleasure to have the opportunity today to speak at this Japan Summit 2016. Today's summit brings to the fore the new challenges for Japan's labor market in responding to advances in technological innovation, globalization, and demographic change.

Whether Japan's economy will grow in the long-run depends on whether the country's labor market can successfully adapt to this changing environment. Indeed, labor market reform is a vital part of the current government's policy agenda. As for the long-term economic outlook, given Japan's aging population and low birth rate, an increase in labor force participation and a further rise in labor productivity are both essential if Japan is to lift sustainable long-run growth, in other words, to raise its growth potential.

Today, I offer my own vision of the future for Japan's labor market, and look at how it will strengthen the growth potential of our economy.

## **Feature of Japan's Labor Market**

IT-related developments and globalization have affected Japan's labor market. The manufacturing industry, in particular, has seen existing jobs being replaced with machines and outsourcing to other countries, resulting in downward pressure on wages and lost job opportunities.

However, there is a view that Japan's labor market as a whole has not undergone drastic changes. Our well-known system of life-time employment and seniority-based wages virtually continues to this day. This practice prevailed among Japanese firms especially throughout the period of high economic growth. Legal norms developed to support this system provided the firm foundations for the job security enjoyed in Japan's labor market. With the Japanese economy entering a period of stagnant growth in the second half of the 1990s, the economic situation underwent dramatic changes. Nevertheless, despite shifts to the use of non-regular workers, the employment and wage system for regular workers remained virtually the same. Indeed, the average number of working years at a specific firm is about 14 years for Japanese male workers, the highest among advanced economies; this compares, for example, with five years for those in the United States and nine years in the United Kingdom. When looking at the evolution of wages over male workers' lifetimes,

wages are seen to approximately double after 30 working years compared to when they first started working -- once again the highest such figure among advanced economies. In addition, labor mobility in Japan across firms and industries has been low, especially among regular workers who tend to stay at the same company or within the same industry throughout their careers.

The gradual pace of change in the labor market may arise because how we work is closely related to other aspects of our way of life as well as social values and norms. I believe that the rapid socio-economic changes of recent years mentioned here at this summit will, however, bring a significant change to the Japanese labor market over time.

### **Three Challenges for Japan's labor market**

It is my belief that labor markets should adapt to the changing economic environment in a flexible manner. In this sense, customs and institutions -- which have long structured Japan's labor market -- must be transformed in order to boost our country's growth potential. Although further discussion is needed on the nature of these transformations, today's summit has given us some insightful hints. From now on, I will refer to the three challenges for the labor market which I think are important.

The first challenge is how our labor market will respond to further advances in technological innovation. It is often pointed out that recent technological innovations, namely in robots, AI, and big data, will encourage substitution between workers and machines. There are concerns that such substitution may extend into a broader range of fields than we have hitherto experienced -- even into fields previously believed to be "sacrosanct" and reserved exclusively for humans. However, history tells us that technological innovation generates economic prosperity in the long run. Technological progress increases income and purchasing power, as well as demand for new goods and services; furthermore, it creates new jobs. In this situation, we should ensure the smooth transition of labor to growing sectors with new jobs so as to reap the benefits of technological innovation. Japan's labor market is, however, well known for its low labor mobility due to long-standing life-time employment practices. From now on, our labor market should embrace new practices that accommodate workers seeking transition from one job to another, with programs for re-training and a social safety net for the unemployed.

The second challenge is how our labor market will change in the face of further globalization. Since globalization often goes hand in hand with innovation, it will accelerate improvements in labor productivity. The next stage of globalization will entail both an increase in the number of Japanese workers abroad and an influx of foreign workers coming to Japan. Indeed, government policy has encouraged highly skilled foreign professionals to work in Japan. Through collaboration and cooperation across borders, firms will take advantage of growth opportunities overseas, generating new innovation and raising labor productivity. This process will be accompanied by increased competition, with domestic workers facing overseas competitors in a much broader range of industries and professions. A labor market characterized by a variety of workers will require a shift in our thinking regarding how people work and how they are paid for taking on particular responsibilities. Workers, as well as goods and services, confront the forces of globalization; the customs and institutions of the labor market will inevitably be exposed to rising pressure in global competition.

The final challenge is how our labor market will transform in response to demographic change in Japan. In addition to the policy issues just discussed, I also want to stress the significance of encouraging labor force participation. This is imperative for increasing Japan's potential growth rate; and indeed, promoting labor participation of senior citizens and women is an important pillar of the current government policy. For these policies to be effective, however, we need to acknowledge that we have reached a turning point with regard to norms of working style as well as employment and wage structures; these can no longer exist with the prime-age male worker alone in mind. Japanese firms are already fully aware that accommodating to changes in the demographic profile while maintaining an employment and wage system of life-time employment and seniority-based wages is indeed a challenging task: the aging workforce of baby-boomers has pushed up firms' personnel expenses substantially in recent years. With new entrants to the labor market in the face of the aging population, we need to offer a wide selection of choices in terms of working hours and locations. Furthermore, we should also transform the locus of responsibilities associated with child-rearing and nursing-care.

## **Conclusion**

The Japanese have long been praised for "working hard," -- in other words, for their diligent work ethic. I would like us to reaffirm our civic pride in this virtue; however, this time, I mean

"working hard" to have a different sense. From now on, we need to "work hard" to build and adjust to new customs and institutions that are highly adaptable to a variously changing environment. It is through providing these new institutional foundations for a remodeled labor market that we will form the basis for sustainable long-run growth. Finally, though there is regrettably no time to talk about monetary policy, I can only say that the structural reforms including labor market reform accompanied by the current easy monetary policy will contribute to sustainable development of Japan's economy.

Thank you.