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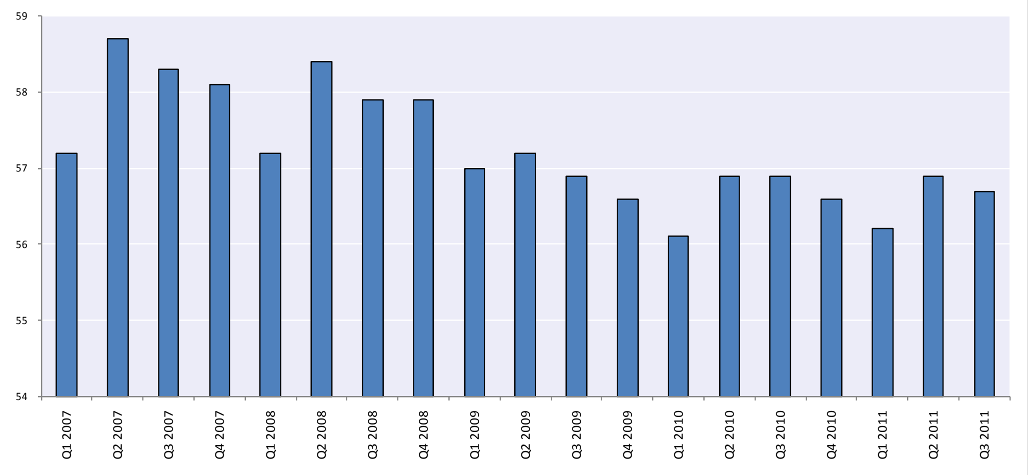
World of Work 2012
Snapshot of Japan

International Institute for Labour Studies

The labour market remains weak

- The disaster which hit Japan in March 2011, had significant consequences on an already fragile recovery from the global crisis. All quarterly GDP figures for 2011 showed a decline compared to the same quarters in the previous year.
- Japan's unemployment rate, which was below 4 per cent prior to 2007, increased to over 5 per cent in 2010. But, throughout 2011 unemployment decreased steadily and stabilized at 4.5 per cent by the end of the year. However, this stems from the fact that workers dropped out of the labour market, so the inactivity rate increased (from 40.1 per cent to 40.7 per cent between 2009 and 2011) rather than an improvement in employment.
- Indeed, as the *World of Work report 2012* shows, employment has been declining in Japan in the recent years. In the third quarter of 2011 the employment to population ratio was only 56.6 per cent, while it was as high as 58.3 per cent in the same quarter in 2007 (see Figure 1).
- The report also finds a decrease in Japan's non-standard employment (temporary or part-time jobs) in 2010. The share of those who were working with such contracts had been steadily increasing in recent years and reached one third of all workers in 2009. However, such a fall seems to be linked to the global crisis rather than an improvement in the quality of jobs—as initially the most precarious jobs were the first to be lost.

Figure 1. Employment to population ratio in Japan



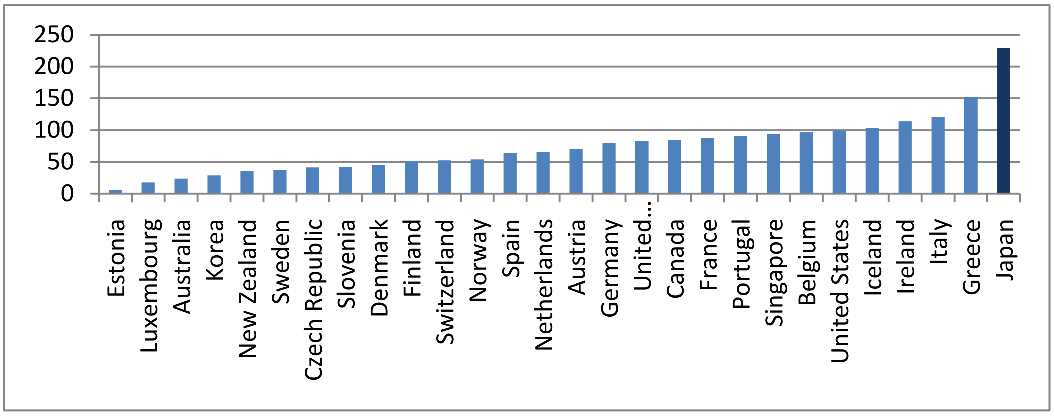
Note: The employment-to-population ratio is the proportion of the working-age population in employment.

Source: ILO, LABORSTA Database

Addressing fiscal imbalances while meeting employment goals is possible

- In order to cope with its debt problem (Figure 2), Japan is planning to introduce austerity measures similar to many other advanced countries, by cutting public spending especially that of social benefits. However, in the context of an increasing need for public investment after the disaster combined with an aging population, cuts in public spending might have significant negative social impacts.

Figure 2. Public debt as % of GDP among advanced economies, 2011



Source: IMF, World economic Outlook database, 2011

- The current economic situation in Japan makes public spending indispensable for reviving the economy. Therefore, budget consolidation should rely more on the revenue side through an increase in tax revenue instead of the expenditure side via spending cuts. There is a need to expand tax revenue by considering more innovative options such as environmental taxes. Even though this might seem difficult in the context of the energy bottleneck after the March disaster, in the longer term such taxes may contribute to revenue and the better use of natural resources.

- Additionally, as the *World of Work report 2012* points out, public investment in the form of infrastructure “crowds in” private investment and increases employment. In Japan, where total investment has significantly decreased since the beginning of the crisis from 23.7 to 20.2 per cent of GDP, and employment is weak, cuts in such spending can hamper the growth prospects in 2012. Besides infrastructure investment, public spending on education in Japan, which is the lowest of all OECD countries (less than 3 per cent) can be increased.

- Increases in tax revenue (on income, wealth, production and import taxes) are also planned in 2012. The VAT rate, which is relatively low in Japan (5 per cent) will be increased progressively to 10 per cent. Even though the VAT is a regressive tax, such an increase seems to be one of the best options for the short term. Any increase should, however be accompanied by measures to support the disposable income of poorer households.

World of Work 2012: Better jobs for a better economy (www.ilo.org/INST). For further comment, journalists are invited to contact Marva Corley (tel +41 22 799 7873; email: corley@ilo.org) or Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO’s International Institute for Labour Studies.