

Foreign Help Wanted: Easing Japan's Labor Shortages



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Take a walk in Tokyo and you will see the sign “Staff Wanted” outside many restaurants and convenience stores. These businesses often find it impossible to recruit the workers they need. According to recent statistics, for each job seeker in Japan applying to work as a waiter, there are more than three available positions. Home helpers and long-term caregivers are equally in demand. If you want to work as a security guard, you can choose from around five openings, and for some positions in the construction business the job-to-applicant ratio is over six. While Japan needs to still increase under-utilized human resources, especially its female and elderly workforce, it could address the labor shortage issues by opening its doors to more foreign workers.

The Labor Shortage — Significance & Causes

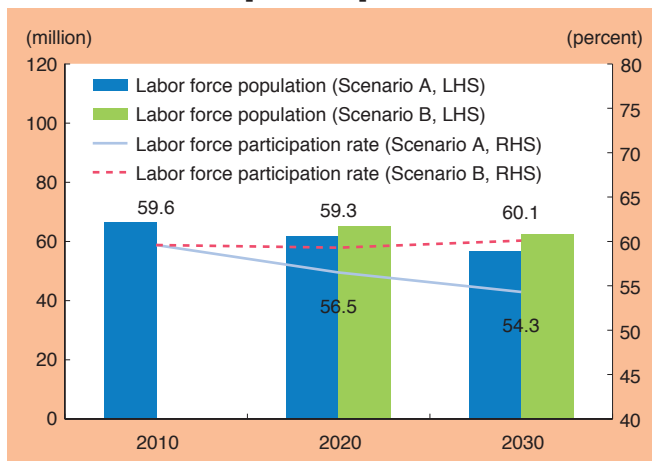
Japan's labor shortages are the result of both a shrinking population, which limits the overall pool of workers, and skill mismatches. According to government projections, Japan's labor force is projected to shrink in the next two decades. The labor force is expected to decline from 66.3 million in 2010 to 56.8 million in 2030 under a “negative” scenario in which real growth remains near zero percent and the labor force participation rate drops from 59.6% in 2010 to 54.3% in 2030. Even in a “positive scenario” with real average growth at 2% and the labor participation rate increasing to 60.1% by 2030, the labor force would still decrease to 62.9 million. The number of persons in employment is also expected

to decrease from 63.0 million in 2010 to 54.5 million in 2030 under the negative scenario.

Estimates of the Beveridge curve suggest that Japan also suffers from labor market shortages defined in a narrower sense. Ipeei Shibata presents estimates of the Beveridge curve, which plots the vacancy rate (a measure of labor shortages) against the unemployment rate, in his study “Is Labor Market Mismatch a Big Deal in Japan?” (*IMF Working Paper*, 13/196). As can be seen in *Chart 2*, Japan's Beveridge curve has shifted towards the right over time. The rightward shift implies that, for the same unemployment level, the vacancy rate tends to be higher. This suggests the labor market has become less efficient, i.e. unemployed workers are not matched to job vacancies owing to skill and other mismatches.

CHART 1

Outlook for the labor force population & labor force participation rate

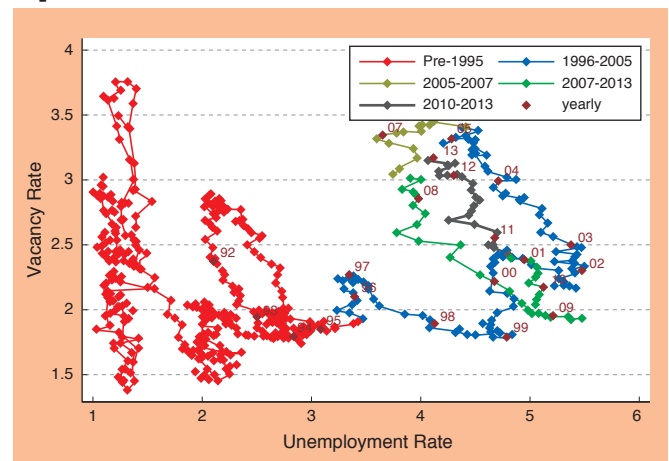


Note: Scenario A (negative scenario) assumes real growth remains zero. Scenario B (positive scenario) assumes real average growth rate will be at 2%.

Source: Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communication, Cabinet Office

CHART 2

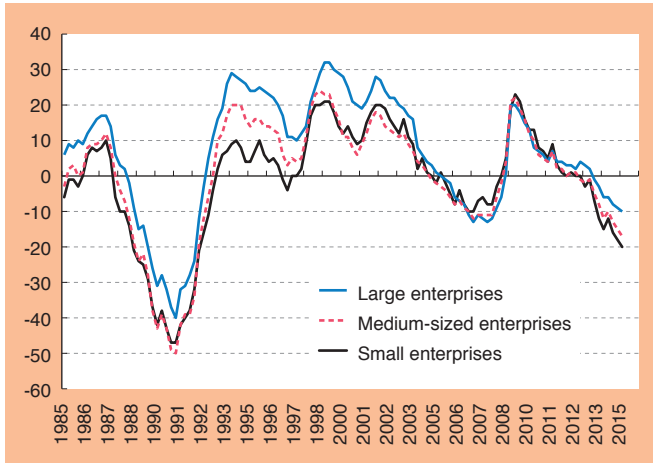
Japanese Beveridge curve: 1963-April 2013



Source: Shibata 2013

CHART 3

Employment condition by size of enterprise
(diffusion index, “excess” minus “shortage”)



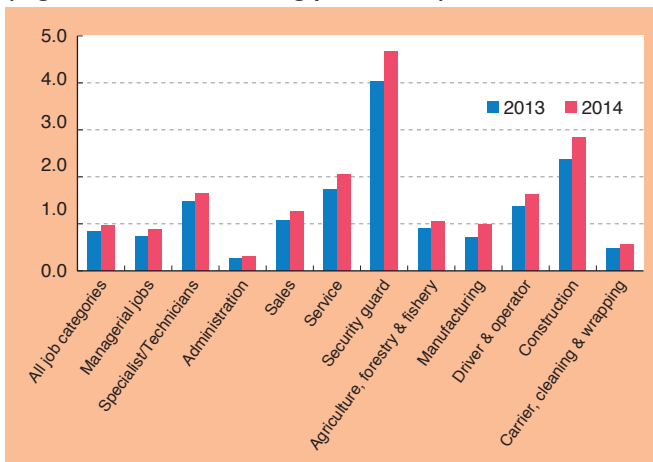
Source: Bank of Japan “Tankan survey”

Recent Bank of Japan Tankan survey data also confirm that labor market shortages are on the rise. The Tankan diffusion index, which takes a negative value when companies have perceived labor shortages, suggests that shortages are increasing for companies of all sizes, although the problem is more acute for small and medium enterprises.

The job-to-applicant ratio, another measure of labor market shortages, is currently above one in Japan. At a disaggregated level by sector, shortages are particularly severe amongst security guards (ratio above 5) and in the service sector (ratio above 2). Japan’s

CHART 5

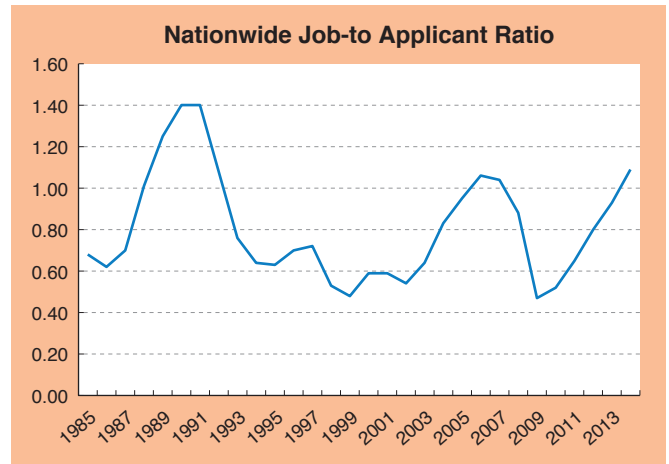
Job-to-applicant ratio by occupation
(regular workers including part-timers)



Source: Ministry of Health, Labour and Welfare “Employment Referrals for General Workers”

CHART 4

Job-to-applicant ratio



Source: Ministry of Health, Labour and Welfare “Employment Referrals for General Workers”

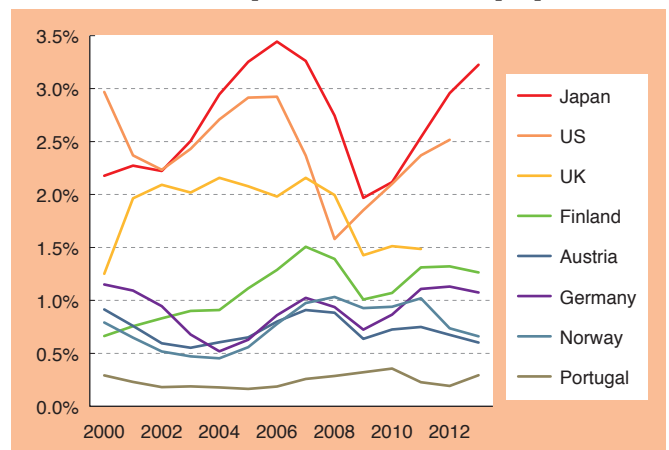
shortages are large from an international perspective. The ratio of job vacancies as a percentage of the labor force population — an indicator of labor shortages — stood at 3.2% in 2013 in Japan. The same figure is 1.1 in Germany and 2.5 in the United States.

Addressing Negative Impacts from Labor Shortage

The reduced supply of labor is one of the factors bringing down medium-term potential growth, which the International Monetary Fund estimates at just 0.6%. Labor market shortages are also bad for

CHART 6

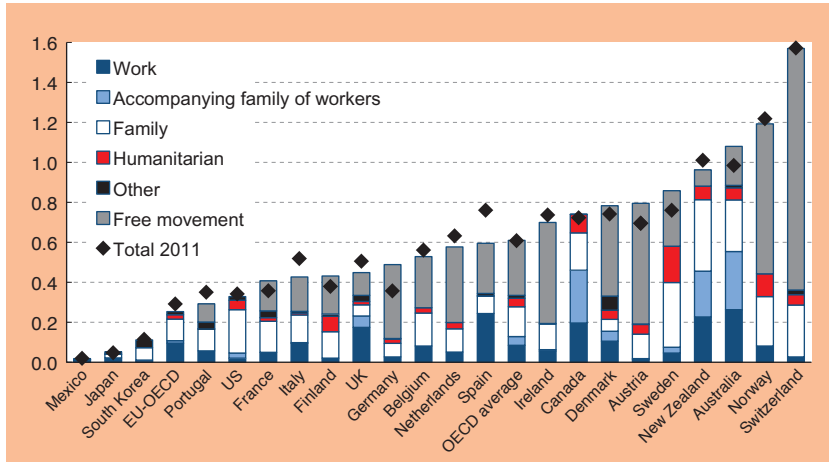
Job vacancies per labor force population



Note: Australia and Czech Republic data contains anomalies during the Lehman Shock period.
Sources: OECD; and IMF staff calculations

CHART 7

Permanent immigration by category of entry or of status change into selected OECD countries (percent of total population, 2012)



Source: OECD

short-term growth, because they reduce the effectiveness of the monetary and fiscal stimulus that the authorities are using to try to boost demand.

Against this background, a recent IMF Working Paper (“Foreign Help Wanted: Easing Japan’s Labor Shortages”, 15/181) looks at possible policy solutions. These include:

- Moving toward more capital intensive technologies by increasing investment
- Attracting more workers into the labor force by increasing wages
- Increasing labor supply from under-represented demographic groups
- Training, and other active labor market policies
- Increasing the supply of foreign labor

In several of the above areas, progress is underway. Ongoing corporate governance reforms, for example, are expected to encourage investment, and the recent increase in female and elderly labor participation can help reduce shortages. The authorities’ efforts to attract more women into the labor force by increasing the availability of child care will also help reduce labor shortages. Further reforms in this area could include removing tax distortions which discourage women from joining the labor force on a full time basis.

Current efforts to encourage wage growth, for example through the Tripartite Commission, can also help attract more workers into the labor force. In addition, Japan could consider further deregulation and devoting more fiscal resources to active labor market policies. It should also be noticed that Japan spends less

than other advanced countries for active labor market policies. In 2010, for example, it amounted to 0.6% of GDP, compared to 4.0% in Spain, 2.6% in France, and 2.3% in Germany, but close to the US level at 0.7%. Increasing such spending could therefore be part of the strategy followed to reduce labor shortages, but such policies should of course take into account fiscal sustainability concerns, given Japan’s high public debt.

Foreign Labor as Option for Solutions

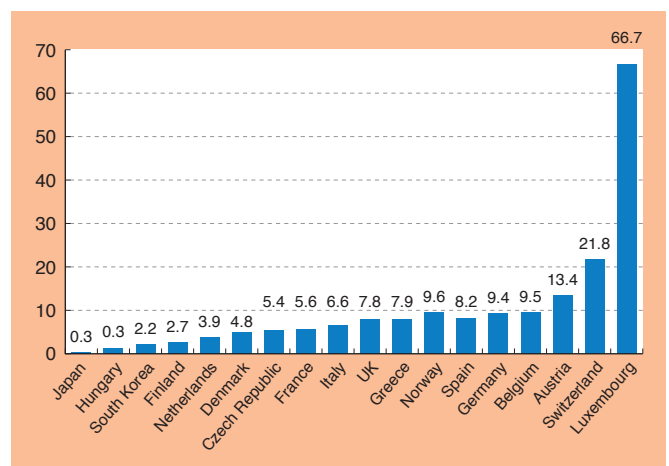
Increasing the supply of foreign labor, however, has received less attention in the policy debate, despite the fact that there seems to be scope for it.

As can be seen from *Chart 7*, Japan has the second-lowest (after Mexico) immigration rate (immigration as percentage of total population) among OECD countries. Furthermore, while the majority of OECD countries saw positive growth in the number of immigrants between the 2007–2011 average and 2012, Japan faced a modest decrease. While most OECD countries had positive net migration in the last few years, Japan, along with Mexico and Poland (and for a shorter period the Netherlands), experienced net outflows.

Low immigration rates are reflected in the fact that, while most OECD countries have more than a 5% share of foreign workers in the

CHART 8

Stocks of foreign labor force (percent of labor force; 2008)



Source: OECD “International Migration Outlook 2010”

labor force, Japan's reliance on foreign labor is only 0.3%, the lowest amongst advanced countries.

The current growth strategy — the so-called “third arrow” of “Abenomics” — includes some measures to increase foreign labor supply:

- The requirements for highly skilled foreign professionals to work in Japan (e.g. in terms of salary level and research achievements) have been relaxed (in December 2013), and a new type of residence status with unlimited period of stay has been created for such professionals (in June 2014).
- Plans are under consideration to allow foreign housekeeping support workers to work in Special Economic Zones.
- The government is also considering allowing businesses to bring foreign employees with technical backgrounds to Japan for training for a short term. The program is meant to target employees at overseas subsidiaries of Japanese corporations with technical backgrounds.

While these measures go in the right direction, they will have only a limited impact in reducing labor shortages, particularly in the most severely-hit sectors such as construction, security guards, services, and nursing. While Japan is very welcoming of highly skilled professionals, it offers very limited avenues for lower-skilled foreign worker entry. In principle Japan does not accept low-skilled foreign workers. It does not announce a quota on total admission and does not have guest work programs which target lower skilled workers.

Drawing on the experience of other countries, Japan could consider some additional steps to attract more foreign workers, such as introducing guest worker programs, and loosening entry requirements in sectors with labor shortages, including for lower-skilled jobs. Japan could move in the direction of policies adopted by other countries (e.g. Australia, Canada, Singapore, South Korea) which use quota systems aimed at making decisions on admission of foreign workers on the basis of economic needs. It could also consider allowing certain industries — as the mining sector in Australia does — to enter into direct agreements with the government to fill labor shortages. Introducing a uniform and comprehensive qualification framework to perform skill accreditation would also help. Education and training programs for foreign workers and their families should be enhanced in order to support integration and social cohesion.

These reforms might face some political hurdles, but opinion polls suggest that attitudes toward immigration in Japan are in line with those in other OECD countries. This suggests that the political obstacles to introducing temporary guest worker programs, as many other advanced countries have done, are not insurmountable.

Conclusion

Labor shortages have negative economic implications both in the short and the long term. In Japan, “demographic” labor shortages due to a declining population are contributing to bringing down medium-term potential growth. At the same time, “labor market” shortages — the fact that companies cannot find the workers they need to carry out specific projects — imply that the effectiveness of monetary and fiscal stimulus is also reduced. Increasing foreign labor supply could be an effective strategy to reduce labor shortages, given this policy option has received less attention in the literature and in policy debate with regard to Japan.

While recent steps taken by the authorities to increase foreign labor supply go in the right direction, Japan could also push further reforms in this area. These could include introducing guest workers programs, and loosening entry requirements in sectors with labor shortages using a sector-based, skill-based approach. Japan could move in the direction of policies adopted by other countries, which use various quota systems aimed at making decisions on admission of foreign workers on the basis of economic needs, allow in certain cases lower-skilled foreign workers in guest worker programs, and allow certain industries to enter in direct agreements with the government to fill labor shortages. Another area in which the framework could be strengthened is that of portability of qualifications and recognition of skills. The establishment of a qualification framework, similar to the one adopted for example by Singapore in 2003, could therefore be another reform which Japan could undertake to rationalize its foreign-labor policy and help fill labor shortages in specific areas.

In addition to increasing reliance on foreign labor, other policy recommendations to deal with shortages include measures aimed at increasing female labor participation, encouraging wage growth, and increasing investment, as well as expanding training and other active labor market policies. **JS**

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