

Roundtable with Yuri Okina, Kazuhiko Toyama, Prof. Kotaro Tsuru & Masakazu Toyoda

# Roundtable on Labor Mobility & Human Capital Investment

By Japan SPOTLIGHT

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 (Online Roundtable on Feb. 20, 2023)

## Participants



Yuri Okina



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Prof. Kotaro Tsuru



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## Stagnant Economy & Employment System in Japan

**Toyoda:** The Japanese economy has been stagnant for a very long time – referred to as “the three lost decades”. There has been increasingly strong criticism that this has prevented wages from rising. For example, in the early 1990s the GDP per capita of Japan was one of the highest in the world, but by 2021 it had fallen to 27th in the world and closer to the lowest among the G7 nations. It was not clear whether it was a macroeconomic or microeconomic issue. One certain thing is that the wide range of policies adopted since the beginning of the administration of late Prime Minister Shinzo Abe have not necessarily been successful.

Recently, I think there has emerged an increasingly prevailing view that one important factor behind this stagnant Japanese economy could be the limited capacity of the Japanese development model, as characterized by lifetime employment and its seniority wage and promotion system, which was dominant in the high-growth era, to adjust to the current low-growth economy. There seem to be stronger calls for labor market mobility as a key to achieving better

economic performance. Moreover, it is now being emphasized that human capital investment should not to be considered a cost but a future profit-earning activity.

Today, we have three distinguished experts to discuss these two issues of labor market mobility and human capital investment, namely Ms. Yuri Okina, chairperson of the Japan Research Institute and an expert on macroeconomic systems, Mr. Kotaro Tsuru, professor of Keio University and expert on employment systems, and Mr. Kazuhiko Toyama, chairman of Industrial Growth Platform Inc. and expert on business and local economy restoration.

First of all, I would like to start discussions with the argument that the post-World War II Japanese economic development model with its lifetime employment and seniority system has reached its limits. Many companies in Japan today are changing their general employment system, in which new recruits become long-term members of the organization, into job-specific employment, which evaluates workers based on their skills and competence to replace inefficient ones. Prof. Tsuru, will this become the new Japanese economic development model? There may be concerns that it could end up in increasing inequalities.

**Tsuru:** The importance of labor market mobility has been unchanged since we took the first step in employment system reform in discussions on regulatory reform under the Abe administration. Thinking about the impact of the labor force on economic growth, the continuing decline in the population will naturally mean a shrinking of the quantitative contribution of the labor force to growth. In this light, it is said that we will need to raise its qualitative contribution and for this purpose human capital management has been considered crucial. We will also need to expand an individual worker's capacity and skills in tandem with this.

We must not forget about another possible positive impact of labor mobility, that is, labor productivity being enhanced by relocations and resources being transferred to high labor productivity sectors. With closer matching between workers and their job type through improved labor mobility, both labor productivity and economic growth would be encouraged.

Many economists say that raising labor mobility would always lead to better economic performance and Japanese dismissal regulations could prevent labor mobility. But there seem to be fewer who talk about solutions specifically. I believe we should address this sensitive issue carefully.

On the effect of labor relocation on economic growth, among many different analyses, looking at data on economic growth by industrial sector or firm, we see rather less impact on economic growth since the 2000s. In international comparisons as well, its impact in Japan is today less than in the United States. In addition, looking at an individual company's labor mobility by turnover or mid-career recruitment, raising labor mobility a little more is expected to enhance a company's business performance but raising it too much could be detrimental to the company's performance, according to my econometric analysis.

I think what we need to do to improve our labor market situation is to change the general employment system that developed in the postwar era into a job-specific employment system. In my definition, job-specific employment is one which sets no limits on working duties, venues or hours. Japanese permanent workers are working under the general employment system without limits on any of these three conditions. Such a traditional employment system in Japan has resulted in high and stable economic growth, but with this condition starting to collapse, it cannot be maintained. The Japanese general employment system has worked very well with progressive innovation to improve quality. But when more disruptive innovation is needed, could the majority of a homogenous workforce under this system initiate such innovation?

I also believe that the Japanese seniority-based salary and general employment systems are closely connected, and that this prevents labor mobility, since a salary would likely decrease with a change in job-specific employment. So I think what is most important for raising labor mobility is to adopt job-specific employment instead of general employment.

On income inequality, I think there are two main reasons for this. One is that with too robust Japanese general employment, Japanese

companies have firmly protected the job specifics of middle-aged and elderly workers but have failed to raise their wages. The other is that they have been trying to employ non-permanent workers as much as possible instead of permanent ones to save on personnel costs. This has resulted in the income gap between permanent and non-permanent workers. So I think income inequality in Japan has been caused by Japanese general employment as well. The next question is how to reform general employment into job-specific employment.

**Toyoda:** A question for Ms. Okina. Innovation and increased productivity are needed in the Japanese economy. To achieve this, labor mobility is allegedly needed. But in reality, there are very few people in Japan changing their jobs, though many workers are not happy with their current job. There must be many people in Japan concerned about a possible decline in their wages in a more mobilized labor market. One of the reasons for such concern is the wage gap between permanent and non-permanent workers. Do you think this should be corrected? Saying that the same wages should be applied to the same job-specific workers is fine, but in reality there is a distinct difference in wages between permanent and non-permanent workers. What do you think about this situation?

**Okina:** Looking at Japan's economic growth potential, it has been flat or a little downward these past 10 years. Since around 2013, thanks to Abenomics, more women and elderly people have joined the labor force, which raised labor input a little and supported growth potential. Nonetheless, with a continuous decline in productivity growth, Japan's potential growth rate is only 0.6 %, with productivity growth at around 0.5%. This shows a severe reality compared with 30 years ago when the potential growth rate was around 4% and the productivity growth rate was around 2%.

In international comparisons of labor productivity among developed nations, not only the rate of increase but also its level is extremely low, indeed almost the lowest. Such stagnant labor productivity has resulted in the stagnant wages of today and the wage difference between Japan and other developed nations is enormous. Therefore, with such a low level of wages, large Japanese companies cannot recruit competent workers overseas in the global competition for competent human resources. This is another reason for Japan's stagnant economy due to its lifetime and general employment.

In addition, non-permanent employees are today drastically increasing, but investment in these human resources is not making good progress. This is another big issue.

Productivity growth is significantly affected by a changing business environment. Hereafter, industrial structural changes triggered by GX or DX will affect it in our great revolutionary period. On such occasions, without a system promoting the smooth transfer of labor into high-growth potential sectors, overall productivity will remain in an extremely serious situation. Failing to achieve labor mobility by transforming general and lifetime employment will be a

serious bottleneck for Japanese economic growth.

There may be psychological issues here, such as concerns about job-specific changes impeding labor mobility, but also I believe there are institutional issues affecting people's behavior and preventing employees from changing job-specifics. The government's providing of a safety net is not working in favor of promotion of labor mobility, and once you fail, you cannot start the next step.

The labor market in Japan is in a situation where a match-up between labor capacity and businesses striving for competency is not easily achieved. Retirement allowances are greater, the more years employees have worked for the same company. The Japanese tax system works in favor of such a retirement allowance system. An employee who quits job-specific employment for his or her own reasons will lose the provision of unemployment benefits for a short period. This is another institutional hindrance to job-specific changes or starting up new businesses. I think changing such systems is very important.

Though the legal institution of "the same salary for the same specific job" has been gradually introduced from FY 2020, the latest data still show around a 600-yen per hour wage difference between permanent and non-permanent workers. It is extremely important that we rigorously check corporate wage payments to prove "the same salary for the same specific job" principle is being strictly implemented equally among non-permanent employees who want to be permanent, along with provision of reskilling opportunities.

At this moment, non-permanent workers' wages are increasing due to labor demand. But with insufficient social insurance for them, they have concerns about the future and the risk of dismissal. Such concerns directly lead to a lower birthrate. We should reform a social insurance system that fails to meet the needs of an increasing number of people pursuing diversified working styles, and create a new one that meets a wide range of needs.

**Toyoda:** Do you think the Japanese government is aware of the need to reform the social insurance system and is working on it?

**Okina:** Discussions have already started, but what needs to be examined from now on is how it should cover non-permanent workers, freelance workers and other workers pursuing a diversified work style.

**Toyoda:** Mr. Toyama, do you think the countermeasures to deal with business stagnancy and business restoration will contribute to labor mobility? In recent media reports, the news of the dismissal of 100,000 IT engineers in the US technology industry was considered positive rather than negative. This is because there has been a steady demand for technology experts in the environment sector that has never been fulfilled due to their being in the IT business, but with these dismissals many of them will be able to join the environment sector. Could you tell us your story about business restoration and labor mobility?

**Toyama:** Working in the real world, I find there is an enormous gap between what the media talks about and actual business. Regarding business restoration, I do not think labor is so rigid in Japan and difficult to transfer. I think Japan is probably one of the best places for restructuring in the world. In particular, since the start of the second Abe administration, if you ask for 500 applicants for voluntary retirement you will get more than 1,000 applicants. In the case of companies in need of business restoration, more than half of the employees working for such companies would give up continuing to work for them. When seeking voluntary retirement with good conditions, there will be many more applicants than expected and many competent workers will apply. This is why Japan is in general a country with a labor shortage.

In this regard, I do not think changes in dismissal regulations will be important. In Japan, even the labor unions are ready to cooperate with companies on restructuring, which often surprises Americans and other non-Japanese. Japan has extremely high labor mobility in terms of business restoration. In Japan, labor mobility may be an issue among large companies' permanent employees, but apart from that the Japanese labor market is rather mobile.

For example, most of the employees of a bus transportation company are drivers and are working in job-specific employment. Their labor mobility is high. At this moment, as the Covid pandemic comes nearer to ending, 90% of the demand for bus transportation has returned to the pre-pandemic level. We see now in this situation a serious shortage of bus drivers, but it is much more expensive to employ freelance drivers using their own cars in service than an employed company driver. The labor market for drivers is mobile and their wages rise in accordance with demand and supply, as with all markets in Japan. If the market principle works in a mobile market, wages will always increase.

A tighter labor market is going to be brought about by aging and declining birth rate. With general employment, the cost of switching labor becomes extraordinarily high and that makes it difficult for an individual as well as a company to achieve labor mobility. In this system, in terms of the structure of a work contract, a permanent employee in a company does not need to have any skill set other than being a permanent member of the company.

When we work on supporting a person's job-specific change, what embarrasses us most is that half of the skill sets of those we are helping are connected to human relations within their company. Separated from such relations, the value of those people's working skills would be lost and their salary lowered.

General employment works well in the industrial sectors where progressive efforts to improve the quality of products among homogenous colleagues in a moderate transformation process leads to enhancing the competitiveness of the whole company. In the high economic growth era in Japan, this was effective in most of the mass production industries in Japan. However, at this moment, this does not work at all in sectors like electronics. Arguments about ethics and ideology concerning this issue are useless; this happened after the 1990s during the disruptive innovation era when the speed of an

industry's transformation exposed the failings of the general employment system.

This can be explained by the following figurative story. A company needs to set up its own football team but has always done only baseball. In general employment, they only have employees who play baseball, and the coach and manager know only about baseball. Would there be any young employees who could start playing football, if they are told to do so by their boss? Something like this happened to electronics, and Japanese electronics companies have been defeated by GAFA.

With the emergence of Chat GPT, I think this disruptive technology could achieve unprecedented social transformation, such as most job-specific vacancies at call centers being lost. Specific jobs at call centers are mostly for non-permanent labor and they will be gone. This would be a drastic change in the labor market. Some Japanese industrial people may worry about the survival of the traditional Japanese industrial model under GX, but I do not. Most likely, I suspect a brand-new company that we have never heard of or a US or European company purchasing such a company through M&A will dominate GX in Japan. Insisting on general employment will not result in winning in GX.

In this regard I fully agree with both Mr. Tsuru and Ms. Okina on the need for job-specific employment to be expanded in Japan. I would not say that sectors successful with general employment must be changed as well. Let them carry on as they do now. But so many legal systems and business customs, including retirement benefits and support systems for victims of unfair dismissal, encourage workers to remain in the same company. These institutions constitute a whole social system in Japan that evidently favors general employment rather than job-specific employment, and permanent workers rather than non-permanent ones, as the authentic employment system and this enforces most labor to be kept within this system. This works to the disadvantage of female employment and lowers the productivity of Japanese labor. We must neutralize all these systems that work against alternative ways of employment. Otherwise, productivity and wages will not rise, and nor will the birth rate.

## Human Capital Investment

**Toyoda:** The three of you agreed that the traditional employment system needs to be corrected to raise labor mobility. On this issue, a key must surely be human capital investment. Ms. Okina is warning in her papers that the level of human capital investment in Japan is the lowest among developed nations. Companies are concerned about the high possibility of their human capital investment during increased labor mobility resulting in their employees' transfer to other companies. So they do not seem to be highly motivated and worry about their human capital investment being a waste. What about other nations? With high labor mobility, will there be less human capital investment? Companies may not have an incentive for human capital investment in non-permanent employees. Does the

classification of permanent and non-permanent employees hinder human capital investment?

**Okina:** Prof. Miyagawa at Gakushuin University and others made an international comparison of data on intangible asset investments such as data processing, IT software services and intellectual property rights in 2020. It showed that Japan and Germany are the lowest among the developed countries. Above all, Japan's score is overwhelmingly the worst in the domains of human capital investment and capacity for organizational reform. In this regard, I think low human capital investment level has affected Japan's competitiveness and productivity. The quality of labor made a rather high contribution to productivity growth until the 1970s, but now its contribution has become zero. In this light as well, I think efforts to enhance human competency will become extremely important. Human capital investment will be necessary at all levels for all people. Japan in particular has been ignoring until now the need for reskilling for data- and digital-related work.

This is commonly true of all sectors. In the case of job-specific employment, we need to define all the necessary skills for a certain specific job, and applicants for that job among a company's employees and from outside the company must be prepared to do it and there must be investment in human capital to meet the skill requirements for that job. This process could result in higher labor mobility. A company should provide reskilling opportunities for employees. This should be done not only to improve the value of the company but also to lead to an increase in wages and career development for the employees. I think companies should introduce job-specific employment as best they can and at the same time provide a reskilling program for their employees.

Providing reskilling opportunities should be a means of retaining those employees. If a company succeeds in convincing its employees that their wages match their capabilities produced by its reskilling program, their engagement with the company's mission and their incentive to work hard would be strengthened and would lead to a rise in productivity. And if a company's reputation for its good contribution to employees and its simultaneous growth are universally acknowledged, it would be able to attract high-quality human resources.

For example, AT&T did such reskilling and succeeded in attracting competent human resources.

Also, in Northern European nations, job-specific changing is common and the goal is to transfer labor from low-productivity sectors to higher ones. This is why their economic growth and productivity continue to increase, enabling them to overcome recession. Japan is expected to move in the same direction. In Northern European nations, labor unions and employers are working together on the smooth transfer of workers and reskilling. Japanese labor unions must also change their mindset.

The classification of permanent and non-permanent employees is problematic. We must think about this issue from a lifelong perspective. Both women and men must occasionally work for only a

short time due to family commitments. We must give up this mindset of measuring work performance by hours and instead choose the best work-life balance from a lifelong perspective and employ people who want to be permanent employees as permanent ones. This is how we can make the diversity of a work-life balance commonly accepted by society.

**Toyoda:** The idea you mentioned that reskilling must be aimed simply at retention of workers does not seem to be prevalent among Japanese companies. A question for Mr. Toyama. You are giving MBA lectures at university. What do you think about the relations between business restoration and human capital investment? In your view, in Japan how well does human capital investment achieve its goal and what role does this play?

**Toyama:** When I studied the MBA program at Stanford University in 1990, Japanese companies seemed to have sent most of their employees to US universities for MBA or other programs. They invested more in human resources then than they do now. But when those employees who earned MBAs after a couple of years' study at US universities came back to Japan to restart working for their mother companies, they were told by their bosses to "forget about what you learned in MBA programs". This was because the companies' sources of competitiveness were not especially management skills but progressive efforts for product quality improvement at production sites, namely Total Quality Control (TQC) and the Toyota Production System (TPS), as general employment with lifetime employment and seniority wage and promotion systems were predominant.

What we learned in MBA programs in the US was about strong leadership and taking the initiative in directing management strategies. However, we were all still very young, around 30 years old, and we could not be head of a division after coming back to our Japanese companies with their robust seniority systems. So we were told that we should conceal what we learned in our MBA programs for the next three decades until we became the president of our companies, as we would become unpopular if advocating for a revolutionary business strategy among our Japanese colleagues, who were used to only progressive process improvement under much less creative leadership. As a result, many MBA holders quit job-specific employment in response to these words. Thinking about why companies would be afraid of such employees leaving, as mentioned in my story of baseball and football, it is because Japanese business people have never thought in any logic but that of baseball. If you aim to maintain the competitiveness of a company only with baseball logic, you will have to invest in human resources to win a football game or a breakdance. And assuming that demand for baseball is decreasing, you would not be able to retain your human resources. If you live in a situation where the external labor market functions well without any barriers to job-specific changes, the more competent workers will move to a company where they can play football or breakdance. This is simply natural.

In this sense, human capital investment would naturally be a key to the retention of human resources. With an increasingly well-developed labor market, mobility is significantly enhanced, and in order to retain competent human resources you will need to raise salaries as well. Managers who worry about competent and skillful employees quitting are not qualified to run a company today.

At this moment, many young people are quitting job-specific employment easily, especially the more competent ones. The Japanese labor market is now seeing polarization. There is high labor mobility among the extremely competent students. They move from a large company to a consulting company or a start-up company. High labor mobility is seen among non-permanent employees as well. But there is a highly rigid labor market between those two, and with this market prevailing among existing large companies and large industries, unfortunately Japan as a whole nation is gradually declining.

Meanwhile, as in the reality of business restoration, we are facing labor shortages in general. This is true of management as well and there is a strong demand for well-trained human resources in management. There are lots of potential human resources among large companies, so if they adopt job-specific employment, labor mobility among industries or large companies and SMEs will be raised and the overall productivity of Japanese industries will be raised as well.

Strangely enough, while we are running seriously short of human resources among local service industries with job-specific employment, the large companies in Tokyo business districts are always restructuring. In other words, in large companies with general employment, there are always excess human resources among the middle-aged and elderly. With the emergence of Chat GPT, there will certainly be more excess labor. This is how we see a very distorted labor market in Japan.

Labor shortages made it difficult to achieve business restoration, as I mentioned. Restructuring would not be a solution for it. We need to build up a system with labor mobility under which each company pursues human capital investment, and unless we have job-specific employment we cannot achieve it. In this situation, if we seriously pursue job-specific employment, there will be a big opportunity for the Japanese economy. I believe that now, right after the serious stage of the pandemic is over, is the best time to achieve a large-scale reform of the labor market. Above all, business leaders must change their attitudes and those who insist on old-style thinking must be replaced. With such reforms, Japan would be reborn with a much improved business performance.

**Toyoda:** Three or four decades ago, large companies, especially large banks, sent many employees abroad to study. But now there are very few. The number of people going abroad to study from Japan has become much lower than those from China, and from South Korea as well. I am worried that young Japanese people are losing their ability to be "international". What do you think about this, given that human capital investment would be good for retaining

human resources? Many of the employees sent from Japanese companies did not return to their companies, or as you said the companies told them to forget about what they learned abroad.

**Toyama:** The easy answer to that question is that companies should not treat such employees merely as rank-and-file workers. With general employment, this happens. Japanese corporate culture in many organizations like government offices and banks would not allow a 30-year-old person with an MBA to be the boss of 50-year-old employees. In this culture, those with MBAs would quit, and the companies, having seen many such employees quitting, say they will give up their human capital investment programs for study abroad. They are not even aware of being wrong, and I think such companies or industries should disappear.

Meanwhile, consulting businesses are more active in sending employees overseas to study with a money loan system. This is same as in the US and Europe. They send more and more employees overseas with loans and the employees do not have to return the money if they stay in the company for three years after returning from abroad. Our consulting business believes that three years stay in the company after studying abroad would be good enough for a contribution to the business. This is how our consulting business, on the premise of mobility, approaches human capital investment. In the end, there will be many people with good potential joining a company actively engaged in human capital investment. Without making this virtuous cycle between labor mobility and human capital investment, the more competent workers would be more likely to switch from specific jobs, as the skill set is changing as time goes by and each specific job becomes more based on expertise.

Meanwhile, traditional Japanese management pursues slavery. It is used to the concept that your social status is fixed as a company's permanent employee and job-specific changes are out of the question. This Japanese "common sense" is wrong. We work in a flexible manner and do different specific jobs in different places in our life. We meet and work together temporarily in many places. This is the world's common sense. Young people in Japan will not follow Japanese common sense. We must change our mindset.

For example, we are now running a bus transportation company in local Japanese regions and around 5,000 employees are working for this company. We have also been purchasing a variety of local companies through M&A. Most of our management teams of those companies used to work for big Japanese companies such as trading houses, banks and various manufacturing firms. Their ages vary from the 30's to the 60's and all moved from those big companies, including the Certified Public Accountant (CPA). If they had remained at those companies, they would be rank-and-file employees, but in our companies they could be a president even while still in their 30's. This is how a traditional Japanese company wastes human resources.

**Toyoda:** A question for Prof. Tsuru. You also argue that the value of a company lies in human resources and intangible assets. What

human capital investment, including studying abroad, do you think should be pursued? I think large companies would like to retain human resources, while they cannot step into job-specific employment without assuming labor mobility.

**Tsuru:** I fully agree with both Ms. Okina and Mr. Toyama. I think "autonomy of career" is the main reason why we need to pursue job-specific employment. With general employment, an employee's life is in the hands of his or her organization, and not his or her own. There used to be a consensus between the company and its employees that nothing would be to their disadvantage regarding salary and promotion. But today it is not necessarily the case anymore, as our economy has been in low growth for many years.

It is extremely difficult for a large Japanese company's management in charge of personnel affairs to secure "autonomy of career" for an employee. They would have to start in-house recruitment. But without this, labor mobility cannot be achieved. I believe reskilling is indispensable to ensure "autonomy of career". It is often said that there are general skills and company-specific skills. A company cannot pay for a reskilling program for general skills in the US or Japan, as it would be a waste of money if the employees enrolled in it quit afterwards. An individual employee must pay for it. But a company can pay for a reskilling program for a company-specific skill, as this skill would only be used for the company.

In Japan, the main reskilling programs are on-the-job-specific ones. The company-initiated training programs are not for developing an expert's skill but for improving the skills of an already good employee. Reskilling is not done uniformly, as what is needed as a skill for each individual naturally differs among employees. Reskilling is limited to each specific job and thus, unless career autonomy is secured, we can have very little meaningful discussion about it.

Looking at examples of many companies' reskilling programs, I find the cafeteria method interesting. This gives employees a choice between all kinds of reskilling programs where they can learn about general skills – even those that prompt concern on the company side about employees changing job-specifics after learning those skills. Employees can choose freely whatever they want by considering their future career path and what skills are needed for it. Some people leave their companies with those general skills. But such a good opportunity for retraining and capacity-building attracts more people to these companies. Traditional Japanese companies do not have such ideas. But companies that appreciate the need for career autonomy and an individual employee's capacity for development and how to raise innovative human resources have already taken a step into a new stage.

The Japanese government does not understand this point very well. It is still thinking about policies on general employment and has wasted expenditure on training that has nothing to do with career autonomy. We must make reskilling programs that enable employees to choose for the sake of their career autonomy.

**Toyoda:** This cafeteria method sounds very interesting. Are such reskilling programs increasing in Europe and the US?

**Tsuru:** No, they employ people with such skills in the US and Europe. It is a very typical Japanese idea to develop skills *after* joining a company. Traditionally, Japanese companies recruit people without any skills, and so they need training. In the old days, Japanese companies had a long-term perspective on capacity building. But they have lost this now and their human resource development quality is much lower, I think. In the US and Europe, someone with an MBA can work at a managerial level from the beginning of their career. It is assumed that they already have the qualifications to be a manager. Those with such special skills will pursue a different career path from those without.

## Strengthened Labor Mobility & Local Economy Restoration

**Toyoda:** Would raising labor mobility or consolidating human capital investment also be desirable in terms of local economy restoration and supporting start-ups? Or what do you think is lacking in Japan in these two areas? The Japanese government currently seems to be making great efforts to support start-ups. What do you think will be necessary to avoid Japan being a Tokyo- and Osaka-oriented nation as a result of these government policies?

**Toyama:** I have been working on start-up support mainly at the University of Tokyo for 25 years, starting with founding the first Technology Licensing Organization (TLO) in Japan. So far, unfortunately, these start-ups have been Tokyo-oriented, but start-ups have now become the first choice of specific jobs among graduates from the University of Tokyo and Keio University. They want to start up a business even while at university if they can find good seeds during their student days. And if they can't find such seeds while studying, they get job-specific employment tentatively at consulting companies or thinktanks or government offices and then whenever they find good seeds for a start-up, they quit. This is often seen now among young people in Japan. So even in Japan we see an ecosystem of start-ups growing, like that at Stanford 30 years ago, as there is a small market of experts who have founded ventures. They are not particularly insisting on working in Tokyo. They are rather liberal people. I think it is important to expand such a labor market. It is also important to diversify the university intake with more foreign students on campus to join the Japanese students.

Looking at the Asian and global political economy at this moment, Japan is an attractive nation and it will be important to create venues in prestigious universities such as the University of Tokyo, Waseda University, Keio University and the Tokyo Institute of Technology where liberal and confident diversified talents can come together, and then expand this to universities throughout Japan. This will be critical in expanding the start-up movement today.

One more thing that should not be ignored is that a start-up is still

regarded as a marginal existence by those in the large business establishment. They still believe large companies are the mainstream and tend to consider start-ups as "people doing something unusual". Yet it is the start-ups that have been driving economic growth in Europe and the US for the past 30 or 40 years, and so start-ups have now become a mega-industry. It is common sense that start-ups are the main engine of growth in our age of disruptive innovation, so for large enterprises to grow, a start-up's new technology would be the biggest engine for them.

In Japan, however, the government has committed the stupid mistake of supporting existing pharmaceutical makers to develop a vaccine for Covid-19. Pfizer's vaccine was not developed by itself: it was the German venture BioNTech that developed the vaccine and Pfizer applied it for general use. BioNTech was founded by a German-Turkish immigrant couple and the technology itself was invented by Dr. Kariko Katalin, who was born in Hungary and moved to the US. In this light, I think it is better to stop providing finance for large companies. The current boom in Japanese start-ups will be a very important development for economic growth and Japanese universities may as well strengthen their efforts to raise human resources for start-ups. It would be better if we made education on start-ups an obligatory subject in liberal arts course at universities.

On the issue of local economies, there has been no lifetime employment in local labor markets for a long time, since there were no industries assuming general employment in local economies. There are instead many job-specific employment opportunities in local economies that need to be restored. Tourism is based on job-specific employment and health care and caregiving are also a type of job-specific employment. These are the core industries in local economies and this trend cannot be reversed.

In this regard, young people in local Japan regions have already started building their career paths on their own. They cannot maintain their lives by continuing to work for a single company and it is common for them to have a side business, and also many are working in agriculture as well as their principal specific job. The Japanese education system seems to fail to adapt to this reality. Professional training or junior high-school, senior high-school and university education are all part of a system for educating students to join companies with general employment. We should change a large part of education in Japan into technology college education, corresponding to community colleges in the US and professional and vocational universities in Germany. Good local universities and in particular private ones are mostly shifting to become such schools and we should encourage this further and provide a variety of recurrent education to create local societies where young people without much interest in working in Tokyo can enjoy their life.

In local Japanese economies there are many middle-scale companies and SMEs and it would be rather difficult to expect them to invest much in human resources development. It would be better to have human resources investment with public support, as human resources are a kind of public commons and we had better think about strengthening it as a whole society.

The government may as well stop its subsidies for companies investing in education like reskilling. With these subsidies, enterprises would always fail to catch up with changes in industries, because they would have an existing industry bias. Therefore, we must have a system of subsidizing an individual directly or providing options for everyone. With subsidies for an automobile company, the money should not be used for investment in education for individuals but for reform of the existing model of the automobile industry. In the US and especially in Europe, subsidizing individual workers is the trend. This is crucial for local economy restoration and particularly important for the tourism industry. The number of employees in the automobile sector and in the tourism sector are almost the same in Japan. The Japanese tourism industry currently does seem to be providing a minimum wage for the labor market, but if we can achieve a middle-class income in the tourism industry it would herald a real transformation.

Employment in the automobile sector in Japan will definitely decline. If the tourism industry can absorb this decrease in employment and workers in this sector earn wages close to those in the automobile sector, the Japanese economy will be wholly changed. This is what happened in Europe. The tourism sector there is providing middle-class employment. In particular, in Switzerland and Austria tourism is evidently a high-income industry. They have many professional schools for experts in tourism, even graduate schools. Graduates from these graduate schools can earn the equivalent of around 20 million yen in the tourism sector. Japan is very rich in touristic resources and boosting tourism would be a solution for the restoration of our economy.

**Toyoda:** I would like to ask Prof. Tsuru about the role of provincial universities in promoting start-ups to help restore local economies, as well as the role of human capital investment and what is most needed for such investment.

**Tsuru:** I think it would be extremely difficult to achieve fundamental reform of a university compared with other institutions. Universities are exactly the opposite of a world dominated by general employment. Each professor is an independent business owner and they do as they like. When any of them exercises a veto in decision-making, nothing can be achieved. So I think it would be difficult for universities to respond quickly to any developments in society at large. There would be no need for it.

Young people in Japan today, even if they do not start up a business, are more interested in consulting businesses or other ventures than large enterprises. Although the Japanese education system is good for producing well-behaved people in a large traditional company, people who are not well suited to that system are the ones leading the ventures. The current Japanese education system at all levels – elementary school, junior high-school, senior high-school, and universities – does not aim at producing such people. It is true, though, that for students in humanities as well, some Japanese companies have started job-specific recruitment and

in some mega-banks professional recruitment has also started for college graduates. As this process continues, I guess students' thinking about job-specific employment will gradually change.

**Toyoda:** A question for Ms. Okina. I think the one merit of the pandemic is that remote working has become fixed as a business practice. Will this lead to local economy restoration or start-up support, and will it also encourage more women to work?

**Okina:** Around 30% of the nation's workers have been forced to stay and work at home. Most of them have been drastically changing their thoughts about work styles and work-life balance. They are now fundamentally skeptical about the utility of their previous work style, such as commuting by crowded train every day, and have come to acknowledge the importance of work-life balance after having worked with their spouses in raising their children or doing domestic chores. A hybrid style of working remotely and working at the office has now become customary and a more flexible working style is now considered important. Companies failing to provide such a working style are losing their attractiveness. Consequently we now have a big change in our business world, and it is important not to reverse the direction of such progress.

This must of course contribute to the restoration of local economies and we now have more business opportunities online and more online education opportunities, so we can both work and rest simultaneously at home. This is how an increasing number of people living in regional towns are engaged in a wide range of work. Meanwhile, it is also possible to help local companies as a side business while living in Tokyo. People in their 40's or 50's working for a large company who could not fully take advantage of their potential capacity are now given an opportunity to use it with the help of DX. This has enormous implications. The moment has finally come to think about how to take advantage of DX for the restoration of local economies in alliance with universities, business firms and local governments.

Working at home could have certainly a positive impact on start-ups or working women, and this is good news for people obliged to stay at home to raise children or support their family or who wish they could do housework and office work at the same time. There are an increasing number of women engaged in regional start-ups, but start-ups by women still account for only 34% of all start-ups. Of this figure, incorporated ones account for 14% , and in terms of procured capital, only 2% of the companies have women as top management. This is how women initiating start-ups are facing challenges such as limited access to funds and lack of a supportive community.

However, young people, in particular women, are very keen on resolving social issues and they have their own unique ideas. I think it is a very good idea for women to take a leading role in start-up businesses. Young people are flexible in their thinking and working, and more of them can become role models.



## Final Words

**Toyoda:** Lastly, I would like each of you to give your final words on what you would most want to emphasize.

**Tsuru:** Without breaking the solid Japanese employment system and general employment, the wide range of economic challenges facing Japan cannot be resolved. Reskilling and raising labor mobility, as the Japanese government is promoting, cannot be achieved without the realization of job-specific employment. I would also recommend promoting work on side businesses. This should also be achieved on the premises of job-specific employment and career autonomy. The government must do its utmost to realize this, but the key is a change in business management and labor union policies.

Both management and labor unions advocate for the current unbound permanent employee system or general employment. With the introduction of job-specific employment, for management, the existing simplified personnel policy decision should be given up. For labor unions, though there may be many who enjoy a more comfortable working environment with it, they do not like taking any risk with any member's specific job. In return for keeping the existing employment system, they would not ask for any rise in wages. This has continued for several decades and has been binding the whole Japanese economy.

In talking about employment of senior people until the age of 70, whether they stay in the same company or go out of it, there would be nothing but job-specific employment for them. So we must introduce job-specific employment at an earlier stage of life. As society is aging, our economy will hit a stumbling block if we do not convert our employment system into a job-specific one. This pressure from the aging of society in Japan could be a trigger for fundamental reform.

**Okina:** First, we must introduce more creativity and the capacity for problem solving in the early stages of education at elementary schools or junior high schools. This should lead to entrepreneurship. Correcting our uniform education system and uniform human resources management would lead to the creation of added value.

My second point is that we must have an employment system in which individuals can choose from a variety of options for their working life until around 70 years old. With reskilling or recurrent education in this employment system, we could overhaul our existing seniority system and achieve high labor mobility. That would lead to the restoration of the Japanese economy.

Lastly, we should build up a safety net for non-permanent employees so that they can have opportunities for reskilling and get better job-specific employment.

**Toyama:** More than 150 years have passed since the Meiji Restoration in 1867. At the beginning of our modernization, we pursued a wealthy state and strong military. The pursuit of a strong military led to failure in World War II, but pursuit of a wealthy state

has been continuing. In our industrialization in this pursuit, we adopted a system in which men were bound to their companies as permanent employees and their lifetime security was assured until retirement age as long as they were bound to it and their wives were bound to home. This was the standard model in which progressive product reform was conducted stably and which worked particularly well in the Showa period.

This model, however, has recently reached its limits. There is a perfect mismatch with the current Japanese social and industrial structure. This is the fundamental reason behind our three decades of depression. Without changing the old system, Japan will have another three lost decades. It is now that we must start thinking seriously about reforming it.

Meanwhile, people are living around 30 years more after retirement in our now aging society. To ensure a happy life for our elderly people, we must take advantage of the current labor shortage and take the opportunity to introduce job-specific-type employment replacing general employment that does not cover people beyond retirement age. Without leaving this general employment system behind, we cannot achieve renewal of our industries or business corporations. Our safety net has been dependent on companies and homes up to now. With the collapse of this dependency, there could be a risk of social collapse in Japan, and this is why we may have been trying to avoid drastic reform. But our productivity has not been rising and wages have been decreasing. The percentage of permanent employees covered by general employment has been declining and the percentage of unionized labor is now less than 20%, meaning around 80% of the nation are now not covered by the old system. Therefore, as the authentic majority are the people outside permanent general employment, politically speaking the nation must change direction to include individuals in the safety net, without depending upon intermediary organizations or homes. This would be possible for the first time with the introduction of job-specific employment. Now is our opportunity for social transformation.

**Toyoda:** Thank you all so much and we sincerely hope you are playing leadership roles in our social reform. We are happy to support your initiatives.

JS

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