

“How to Make ‘Work Style Reform’ Meaningful,”  
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Many U.S. and European experts are gravely concerned that there is no political will in their countries for the labor market reforms required to cope with the age of artificial intelligence. From this vantage point, Japan is in an enviable position. The Abe administration has made “work style reform” and “the human resources revolution” top policy priorities. The question in Japan is not one of political will, therefore, but one of policy substance and implementation.

The work style reforms have multiple goals, but raising productivity is a particular priority because Japan’s population is declining. Japan’s population of 126 million is predicted to drop to around 90 million by 2050. Meanwhile, Japan lags other major industrial countries with \$46.0 average output per work hour, compared to \$51.9 for the OECD countries as a whole and \$69.6 for the United States in 2016.

The Abe administration has recently come under harsh criticism for presenting unreliable survey data in Diet deliberations, but the work style reforms are basically moving in the right direction. That is, the reforms have the potential to produce win-win solutions that raise productivity and improve worker welfare. Companies could promote both goals by upgrading the status of non-regular workers, for example. They might even reduce working hours and boost productivity at the same time if they could shift the focus from clocking hours to delivering results. And workers who are happier with their workplace and better matched for their jobs should perform better.

Companies could also improve productivity by enhancing diversity. They could provide a better work environment for women, including day care facilities and child and elder care leave, more restricted working hours, and more opportunities for advancement. Measures to support female workers should increase productivity because gender discrimination implies that companies are underutilizing a key pool of talent.

But just because Japan is moving in the right direction with its labor market reforms does not guarantee that it will get it right. The government

will have to be vigilant to monitor behavior at the firm level. Industry associations and labor unions will have to implement follow-up plans. And firms themselves will have to go beyond perfunctory compliance to fundamentally rethink the organization of work.

Moreover, the productivity effects are likely to be more modest than advocates hope because the Japanese employment system cannot instantly convert from long-term employment to flexible labor markets – no matter what legislation is passed and what enforcement measures are deployed. In addition, Japan has benefitted from a stable employment system that gave employers the incentive to invest in training their workers and to collaborate with their workers to incrementally improve productivity. So any transition will entail costs as well as benefits.

Ultimately, I believe that the work style reforms will be more critical for social goals – such as improving work life, moderating inequality, and increasing diversity – than for raising productivity. If the government really wants to enhance productivity, it will have to look at measures beyond labor market reform. Specifically, government and industry will have to invest more in research and development to promote future innovation, and deploy information technology more aggressively to boost productivity. These are key differences that contribute to the gap between labor productivity in the United States and Japan.