Measuring progress towards inclusive capitalism in Japan

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The *Measuring Progress towards Inclusive and Sustainable Growth in Japan* report proposes a set of metrics to examine key drivers of sustainable and inclusive growth – in the areas crucial to deliver the Japanese government’s vision of “Investing in People for a New Form of Capitalism” in the context of the post COVID-19 recovery and current global challenges.

Key findings organised across the four analytical pillars of the report are the following:

- **Sustainable growth and equitable sharing of benefits from growth**: Income inequality in Japan has slightly increased over time, while wealth inequality remained low relative to OECD average. Income disparities also vary significantly across age groups and genders, Japan displaying the third largest gender wage gap in OECD countries. In addition to addressing structural inequalities, Japan will also need to double down efforts on the climate front. The carbon intensity of Japan’s energy mix remains indeed one of the highest among OECD countries. As Japan takes step to decarbonise the economy, attention should be paid to ensure that the green transformation does not exacerbate inequalities.

- **Equal opportunities and foundations of future prosperity**: The quality of human capital in Japan is high, although the share of female graduates from STEM disciplines is low compared to other OECD countries, and the application of ICT skills is limited especially for the elderly. At the same time, the willingness of Japanese to improve their skills beyond work is low, partly due to long working hours that also weigh on mental health; with one-quarter of Japanese at risk of depression or anxiety.

- **Inclusive and sustainable business dynamism and innovation**: Japan has long been a front-runner in technological developments, but it is now losing its edge to other OECD countries. While Japan has more researchers per thousand workers than most other OECD countries, the share of female researchers among internal R&D personnel is the second lowest among OECD countries. At the same time, Japan is characterised by low firm entry and exit rates, and particularly women face substantial challenges to create and run businesses, which holds back productivity growth. In general, productivity disparities between industries, within industries and across firm size groups are larger in Japan than in other OECD economies; and come with substantial wage disparities.

- **Enhanced trust for responsive and inclusive governance**: Japan has high quality public services such as health, education and justice, and the confidence of the general population in government is above the OECD average. However, women and young adults are underrepresented in policy-making processes. At the same time, Japan’s business sector remains among the most gender-unequal in OECD countries despite some recent progress.
Towards inclusive and sustainable growth in Japan

Like many other OECD countries, Japan is facing a challenging economic context related to the post-COVID-19 pandemic, the cost of living crisis, and subdued global growth in the context of Russia’s war of aggression in Ukraine. However, Japan is also racing against the clock to address long-term structural challenges for more sustainable and equitable growth. The pandemic has exposed systemic inequalities from the past, with the impacts hardest felt among disadvantaged groups. The report presents an array of opportunities to strengthen sustainability of the Japanese growth model aligned with the programme “Investing in People for a New Form of Capitalism” (Box 1).

Box 1. What to measure? The metrics for monitoring inclusive and sustainable growth in Japan

Since the establishment of the OECD Inclusive Growth Initiative and the launch of the OECD Framework for Policy Action on Inclusive Growth (OECD, 2018[1]), a number of OECD countries have started taking actions to make their growth models more inclusive and more people-centred. This has been documented, for instance, in the OECD Inclusive Growth Review of Korea (OECD, 2021[2]), published in 2021. The OECD Framework for Policy Action on Inclusive Growth (OECD, 2018[1]) has also informed initiatives across OECD regions, for example, in Costa Rica (e.g. the 2050 National Development Strategy – Hacia un Desarrollo Sostenible e Inluyente), Israel (e.g. the Israel Inclusive Growth Inter-Sectional Forum’s Recommendations) and in the United States (e.g. the work of the Select Committee on Economic Disparity and Fairness in Growth to address the income and wealth disparities in the United States) as well as in the international fora.¹

Building on these efforts, the OECD WISE Centre, in cooperation with the Japanese Minister of Economy and Trade (METI), has developed the report Measuring Progress towards Inclusive and Sustainable Growth in Japan (OECD, 2023[3]). The evidence included in the report supports the implementation of the Japanese government’s vision of Investing in People for a New Form of Capitalism. The key objective of the statistical analysis is to go beyond the statistical averages that indicate overall strong performance of Japan, and reveal some of the main drivers of well-being and economic success in Japan for different groups of population.

The metrics distinguish four main aspects that are relevant for policy consideration:

1. **Sustainable growth and equitable sharing of benefits from growth.** This dimension looks at the pace and trickle-down of economic growth, as shaped by the post COVID-19 recovery and broader megatrends. To understand whether growth is inclusive and translating into improvement of living standards across the board, the metrics expand beyond GDP and look at the distribution of household income and wealth. This dimension is contextualised by taking into account the current socio-economic situation in the light of both short-term challenges (e.g. the post COVID-19 recovery) and long-term ones (e.g. ageing and shrinking of the Japanese population, digitalisation and climate change).

2. **Equal opportunities and foundations of future prosperity.** This dimension focuses on the quality of human capital as one of the key foundations of sustainable growth. It considers various dimensions of material and non-material well-being by different groups of population, such as inclusion and diversity in workplaces, wage gaps, education, training, health, and work-life balance and satisfaction.

3. **Inclusive and sustainable business and innovation.** This dimension explores economic dynamism in conjunction with productivity dynamics across enterprises and sectors. It also considers the financing of small and medium sized enterprises (SMEs) relative to the rest, environmentally related and inclusive innovation, business entries and exits, and composition and participation in value chains.

4. **Responsive and inclusive governance,** providing selected information on trust and participation of women in a decision-making process. This dimension looks at broader factors that matter for inclusivity, including the empowerment of women in political and business decision-making, as well as across different cohorts of population. It takes into account Japan’s specific demographic structure skewed towards middle-age and elderly groups of population.

**Sustainable growth and equitable sharing of its benefits**

While the pandemic has underscored the importance of economic and social resilience, the recovery provides an opportunity to catalyse the green transition in a way that can be socially acceptable and politically feasible. On the climate front, Japan has made progress in decoupling greenhouse gas emissions from population and GDP growth, as well as keeping domestic material consumption below the OECD average. Still, more efforts are needed to pace the trend and meet Japan’s Nationally Determined Contributions in the context of Japan’s strong reliance on imported fossil fuels and material resources.

In Japan, income inequality has slightly increased in the last thirty years and varies across age groups. First, the Gini coefficients for 60-year-old Japanese and above are much higher than among other groups (Figure 1). Second, the Gini coefficients for Japanese in their mid-forties have increased since 2002 until 2017, including due to the increasing share of non-regular workers who earn about 60% of the regular workers’ pay. Third, the gender wage gap in Japan is still the third largest in OECD countries: reaching 22% in 2021. However, unlike a relatively high income inequality, the wealth inequality in Japan is among the lowest in OECD countries: the top 10% of Japanese households owns less than half of the total wealth.

**Figure 1. Income inequality gap between generations in Japan**

![Graph showing income inequality gap between generations in Japan]

Income inequality is significantly higher for 60-year-old Japanese and above, the largest population group in Japan.

The Japanese people’s concern about income disparities has traditionally been modest; with just 59% of Japanese considering that government has the responsibility to reduce income differences, compared to 80% of people on average in OECD countries. However, perception of society as meritocratic may be vanishing as younger generations are losing faith in equality of opportunity. Rather than hard work, the socio-economic factors – such as family wealth, slow economic performance, ageing and growing dualities in the labour market – are increasingly perceived by younger generations as shaping their economic success (Figure 2).

Figure 2. Youth are losing faith in hard work leading to economic success


Equal opportunities and foundations of future prosperity

Continuous improvement of human capital is key to realising Japan’s ambition of stronger and sustainable growth. The overall quality of human capital, as defined by educational outcomes and skills of both youth and adults, is rather high in Japan. However, there remains scope for increasing the participation of women in key fields while allowing for more regular education and trainings for adults. Merely 8% of women graduated from STEM disciplines in 2019 – the lowest rate among OECD countries. Japan also has the second lowest share of female researchers among OECD countries (Figure 3).

Disparities among socio-economic and gender groups continue to persist in terms of education outcomes, and the participation rate of adults in formal education and training remains very limited despite the fact that these will be key to making the most of digitalisation and other structural changes. In addition, public spending on training is well below what can be observed in other OECD countries. Finally, the Survey of Adult Skills estimated that in the early 2010s, 35% of adults in Japan engaged in work-related training in a given year, somewhat below the 39% OECD average.

Attention needs to be paid to the development of youth and children, building up the stock of quality human capital on an equitable basis. Early estimates suggest that the pandemic could lead to significant rises in child poverty across the OECD.2 Available evidence also points to a higher prevalence of mental distress among young people, which has at least doubled since the onset of the pandemic. Young people have faced higher risks of job and income loss than others during this time.

By international standards, Japan performs less well in terms of the quality of working conditions than most other OECD countries. A relatively high share of workers experience job strain and suffer from excessively long hours of work, which can have a negative impact on their health (Figure 4). The situation has nevertheless improved for regular workers, as their average annual hours worked in Japan have declined since 1990, but the share of non-regular workers has increased especially among female and older workers. In 2022, 53.4% of female workers worked as non-regular employees and the share of women’s unpaid work is 85% in Japan, the highest among the OECD countries with comparable data (Figure 5, Panel A).

The average time-off in Japan is limited: just over 14 hours per day for full-time employed people, below the OECD average of around 15 hours per day, including personal care and leisure time (Figure 5, Panel B). The lack of time is also one of the reasons why the willingness of Japanese workers to participate in training is, on average, very low. In total, 60% of employees willing to participate in trainings cannot due to time-related issues. This share is far higher than what can be observed in other OECD countries (besides Korea, which shares a similar pattern with Japan).

A poor work-life balance negatively affects the health of Japanese workers, which has become particularly apparent during the pandemic. According to the OECD (2021), 10.2% of the respondents in Japan reported severe mental distress and 15.3% were at risk of moderate mental distress from April to December 2020. The rate of severe mental distress rose slightly to 9.3% between January and June 2021 from 8.8% between April and December 2020. Approximately one-quarter of the respondents in Japan were also at risk of anxiety and depression in 2020, although with signs of improvement in 2021 (OECD, 2021). The negative impact of job strain on mental health is shown to be particularly strong for elderly women in Japan – due to stress factors, such as high work intensity, intimidation and discrimination at the workplace, which can hold back the productive potential of female workforce (Box 2).
Box 2. Why focus on good working conditions and mental health?

Promoting good working conditions at all ages is essential for ensuring that people have the ability and motivation to continue working at an older age. The OECD has investigated different factors causing mental health problems among Japanese workers using microdata from the Japanese Panel Study of Employment Dynamics (JPSED) in 2015 and 2016 (OECD, 2019[7]).

Results confirm that working hours have a significant effect on mental health, by showing that:

- Persons working 45-59 hours per week are exposed to high mental stress by 5 percentage points more than persons working 40-44 hours. This impact becomes larger as people work longer hours.
- By age, when controlling for other factors, older men are more likely to report higher mental stress. In particular, working more than 80 hours per week has a substantial impact on stress, which could indicate some cumulative adverse impact of working conditions over careers and lower tolerance of stress at older ages.
- The workplace environment and work-life balance factors also have a significant impact on mental health. A lack of work-life balance has a strong negative influence on a worker’s mental condition, especially for older women.
- A worker’s own mental health is negatively affected by the exposure to other colleagues who are experiencing mental stress.

The OECD examined the relationship between the quality of working environment, workers’ health and well-being (Murtin et al., 2022[8]). The analysis shows that the quality of the working environment, and particularly the quality of social interactions at the workplace, are associated with workers’ well-being as measured by mental and physical health, days of sickness, job satisfaction as well as job motivation, and the associated effects are potentially large. With regards to mental health “Intimidation and discrimination at the workplace” has by far the largest association with these two outcomes, followed by “unsocial work schedules” and “long working hours”. Conversely, “social support at work”, “Opportunity for career advancement” and “Opportunity for self-realisation” are positively related to mental health (Figure 4).

Figure 4. Effects of job demands and resources on mental health, on average across 28 OECD countries

Inclusive and sustainable business dynamism and innovation

Japan has long been a front-runner in technological developments; however, it is steadily losing its edge to other OECD countries in different areas. The R&D expenditures per capita have been stagnating over the past decade and the intensity of R&D expenditure has been lacklustre; though with pronounced differences across industries with services generally lagging behind, in the construction and transportation industries, for example. Sustaining efficient investment towards human capital improvements is crucial especially in the context of digital transformation, where coordinated public and private investment efforts are needed. For example, while Japan’s young adults are getting ready to use technology for problem solving, performing above the OECD average, there are important digital divides between age groups that need bridging.

While Japan has more researchers per thousand workers in the labour force than the OECD average, the situation has not changed over the past decade. Moreover, the share of female researchers in enterprises’ internal R&D personnel was at 10% in 2019, the second lowest among OECD countries. Women, in addition, also face challenges to create and run enterprises as they generally find it more difficult than men to pursue networking and learning opportunities. Female entrepreneurs are more likely to be part-time entrepreneurs than male entrepreneurs: 40% of part-time entrepreneurs are women (Figure 6).
The entry and exit of firms has been weak, implying little job creation by small and new companies, keeping old and low-productive enterprises in business. Over the period of 2000-14, small and new companies created less than half of the jobs lost in small and old companies. During the most acute phase of the pandemic, government support has helped to keep firms and households afloat across the OECD. Bankruptcies were effectively reduced and stood at a level 26 percent lower at the end of 2020 as compared to the previous year (OECD, 2020[9]). However, firms could manage to survive without adopting improved practices to increase productivity growth, with uneven uptake of new technologies particularly by small and medium-sized enterprises (SMEs).

There is a gap between high-productivity firms and lagging firms in Japan, which is larger than in many other OECD countries, particularly between the services and manufacturing firms, and between SMEs and large firms. Between 2013 and 2019, the productivity growth in terms of value added per person has been virtually nil and even declined in the primary industry and services sectors (OECD, 2020[10]).

Responsive and inclusive governance

Japanese women and youth, in particular, are underrepresented in decision-making processes. In politics, women are largely underrepresented in the House of Representatives (with one woman for ten men) while positive developments have been seen in the House of Councillors, which is gradually becoming more gender inclusive than in the past (with four women for ten men). At the same time, Japan’s business sector remains among the most gender-unequal in OECD countries; even though, the share of women on the executive boards in the largest publicly listed companies has increased: in 2021, it was twice the level observed five years before (Figure 7).
KEY RECOMMENDATIONS

Addressing structural inequalities in Japan is key. This requires action along four key dimensions:

1. **Sustainable growth and equitable sharing of benefits from growth**
   Enhance human capital and business dynamism and innovation; for example, by eliminating the unequal treatment of men and women, reducing labour market segmentation, adapting social protection systems and leveling the opportunities for non-regular workers. In addition, a combination of environmental policies with equity in mind is needed to increase resource efficiency and decarbonise the economy in line with the just transition principles of the Paris Agreement.

2. **Equal opportunities and foundations of future prosperity**
   Strengthen inclusion in the workplace and invest in skills for life; for example, continuing "work-style" reforms, enhancing vocational education and training to boost productivity and offset the effects of an ageing population, improving guidance for informed choices about career and skill...
3. **Inclusive and sustainable business dynamism and innovation**

Promote business dynamism, and co-ordinated public and private investment in human resources; for example, with targeted spending in innovation, consolidation of resources in viable firms, revisions of SMEs’ support and personal bankruptcy rules, and more broadly, increasing diversity and inclusion of the workforce as well as openness to foreign knowledge and technology.

4. **Enhanced trust for responsive and inclusive governance**

Promote women and youth’s participation in inter-generational dialogues, democratic processes and broadly in decision-making across government institutions and the society at large.

**Further reading**


Resources

Measuring Progress towards Inclusive and Sustainable Growth in Japan:

Contacts

For more information contact us: wellbeing@oecd.org.

OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE)
www.oecd.org/wise

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