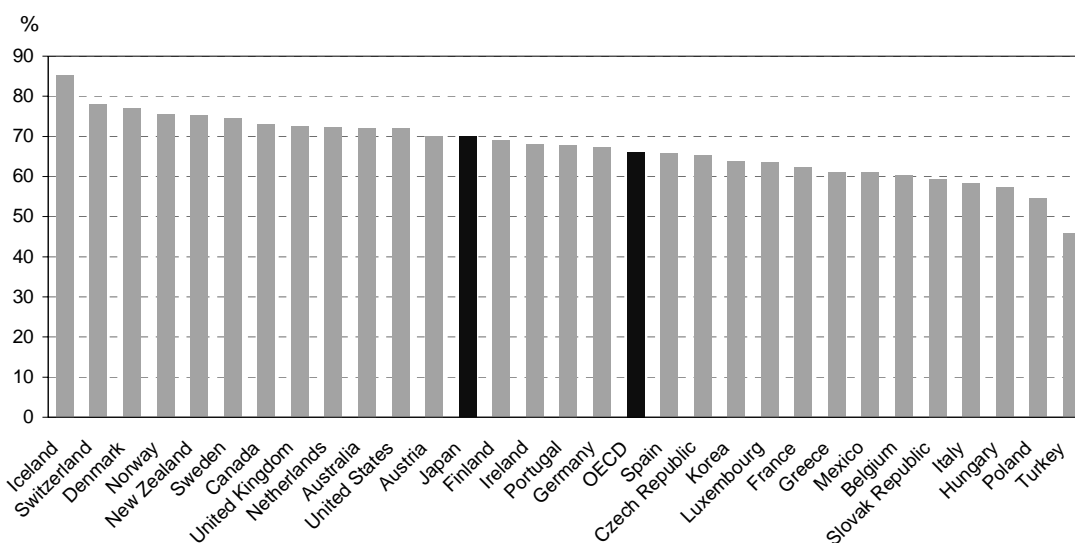


Employment Outlook 2007 -- How does Japan compare?

Labour market performance in Japan has improved. In 2006, the employment-to-population ratio stood at 70%, substantially higher than the OECD average of 66% (see Figure 1). Likewise, the unemployment rate is among the lowest unemployment in the OECD. In 2006, the unemployment rate was around 4% --down from 5 ½ % in 2002-- compared to an OECD average of 6% and an EU15 average of 7 ½ %.

Figure 1. Proportion of people of working age who are employed, 2006
Employment as a percent of population aged 15-64



Source: OECD Employment Outlook 2007.

Despite the improved employment picture, a number of groups remain under-represented in the labour market and are often trapped in unstable jobs. Young people and women find it increasingly difficult to obtain stable employment in Japan. To some extent this is related to the weakening of the lifetime employment system of which the on-the-job training of young graduates was an essential part. Moreover, the declining importance of the lifetime employment system has brought to the fore a growing mismatch between the education system and labour market requirements. The gap between the strong protection of permanent employment on the one hand, and rules governing temporary and part-time jobs (for which social security provisions are lower) is another factor explaining reluctance among employers to provide stable jobs.

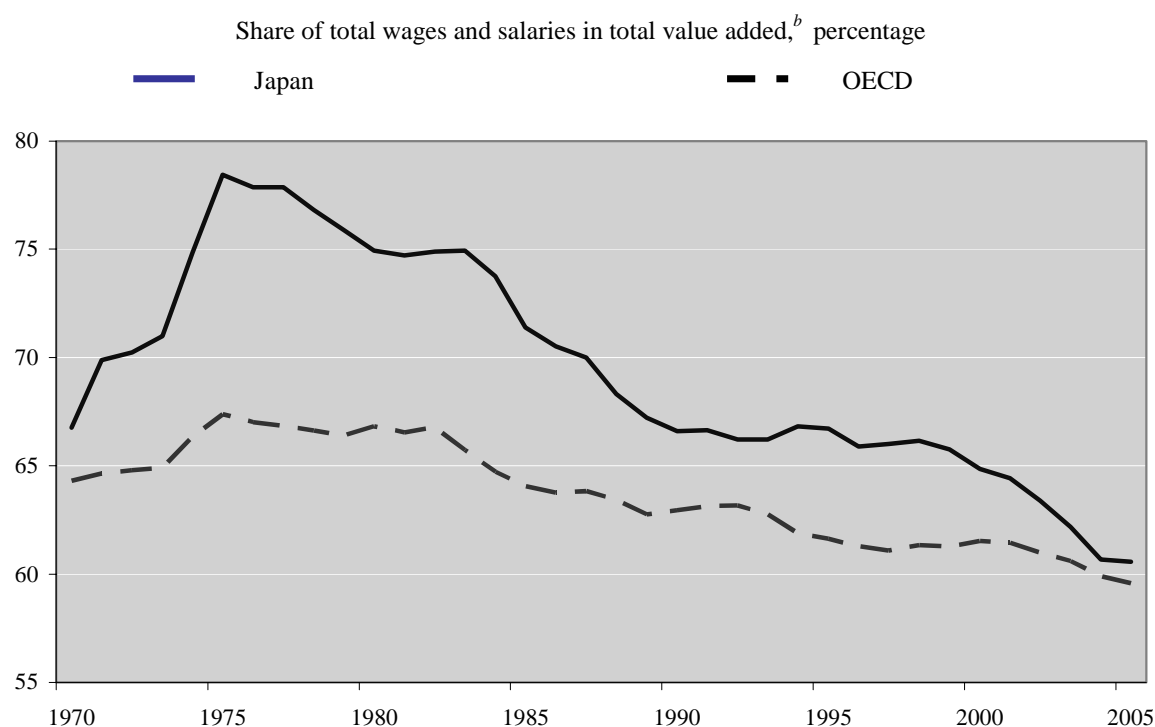
Vertical production networks in East-Asia have significantly deepened during the last decade. The *OECD Employment Outlook 2007* shows that employment has tended to become more responsive to changes in labour costs. The practice of offshoring related to the development of vertical production networks may have been one of the drivers of this trend. For Japan, this would imply that the incentives for firms to have recourse to temporary workers have grown, further deepening labour market duality.

Japan's average annual labour productivity growth over the period 1995-2005 was 2%, just below that in the United States. The *OECD Employment Outlook 2007* shows that productivity performance could be improved by a reform of employment protection, in the direction of better protecting workers rather than jobs themselves. Greater focus on family-friendly policies, like greater availability of child-care

support, could also enhance productivity by helping workers with family responsibilities to maintain their links to the workforce and capitalise on prior investments in firm-specific human capital.

Japan has witnessed a sharp decline in its national wage share. While in most OECD countries, the share of wages in national income has declined, this trend has been particularly strong in Japan where the wage share fell from 75% of total national income in 1980 to 61% in 2005 (see Figure 2). This means that, on average, wages have grown less than labour productivity. This may reflect the adoption of capital-intensive technologies by Japanese firms and the shift from labour-intensive to capital-intensive sectors, stimulated by increased competition from low wage countries.

Figure 2. Wage share of national income in Japan and the OECD area^a, 1970-2005



a) GDP weighted average of the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States

b) Total labour compensation, including employers' social security and pension contributions and imputed labour income for self-employed persons.

Source: OECD estimates using the OECD Economic Outlook database.

OECD Employment Outlook 2007 is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on Japan, journalists are invited to contact Alexander Hijzen (tel: +33 1 45 24 92 61 or e-mail: Alexander.hijzen@oecd.org) from the OECD Employment Analysis and Policy Division.