

Executive summary

As Japan is recovering from the COVID-19 pandemic among other current global challenges, it 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. Disposable personal income has been stagnating amid widening labour market disparities, with the economic model being increasingly perceived by the Japanese as less effective and fair. Clouded by the ageing and shrinking society, younger generations in particular believe that socio-economic factors – such as family wealth, slow economic performance, ageing and growing dualities in the labour market – are shaping economic success and their odds for improving well-being.

The ability to move within the same social class without changing the level of power in society is constrained by dualistic practices in a segmented Japanese labour market. While in many OECD countries temporary work provides a vantage point to career opportunities, a relative inequality of opportunity and lacklustre business dynamism hamper mobilisation of talent across the economy. At the same time, it risks de-skilling and passing on disadvantages to younger generations. Disparities are also acute for the elderly and women, limiting their meaningful participation in the labour markets that not only weighs on productivity growth, but hampers Japanese people's prospects for living meaningful lives.

The report presents an array of opportunities to strengthen sustainability of the Japanese growth model, with due attention paid to specific issues that matter for different groups of the Japanese population. Building on strong foundations of an innovative and knowledge-based economy, the Japanese government has aspired to change their “job-for-life” model of growth by considering equality of opportunity as part of policy design in the new programme “Towards a New Form of Capitalism”. Its main idea is to reduce systemic inequalities and support productivity growth simultaneously.

Based on rigorous statistical analysis, this report highlights the importance of the following dynamics:

1. ***Sustainable growth and equitable sharing of benefits from growth:***

- As the pandemic unveiled structural inequalities to be addressed, concrete measures to promote productivity gains need to provide incentives to create prosperity in the first place. In order to understand whether growth is inclusive and translating into living standards' improvements across the board, it is key to go beyond GDP and look at the distribution of household income. Good jobs are key to reducing inequality and poverty, whereby the quality of people's working environment is an important driver of increased labour force participation, labour productivity and the overall economic growth. 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.
- Main areas for policy consideration include measures to 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:*

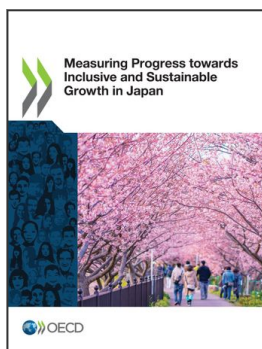
- Investment in education in Japan went hand in hand with strong educational equity, but more purposeful training and upskilling over the life cycle, particularly to adjust to digitalisation, will be key to ensure that people have the ability and motivation to keep on working when aging. Japan excels in skills development, however, there is further scope for their adequate application at work. More workers would need to engage in work-related training, but many experience job strain that negatively affects their well-being, mental health and productivity.
- Main areas for policy consideration include measures to 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 development opportunities, and considering other non-economic aspects of jobs and working-time arrangements to be improved.

3. *Inclusive and sustainable business dynamism and innovation:*

- Japan has long been a front-runner in technological developments, but is now losing its edge to other OECD countries. Against a rather rigid business environment, the widening productivity gap between large enterprises and SMEs drags down productivity performance, particularly in the services sector. There is scope for increasing reallocation of activity between firms and sectors to boost productivity, jobs and cross-utilisation of talent across the economy.
- Main areas for policy consideration include measures to 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:*

- Given a relatively low participation rate in Japanese national elections, it is crucial to increase representation and participation in the political process of all groups of population. Women are underrepresented with the gender gap particularly large in the House of Representatives. The situation is improving in the House of Councillors, becoming more gender-inclusive than in past.
- Main areas for policy consideration include measures to promote women’s and youth participation in inter-generational dialogues, democratic processes and broadly in decision-making across government institutions and the society at large.



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