Mitigating Japan's Great Labor Shortage

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Abstract

This article focuses on efforts to mitigate Japan's ever-worsening labor shortage, which, if left unabated, could cripple the world's 3rd largest economy by 2050. The decline of Japan's birthrate has been well-document and researched for at least the past 30 years, and as the population in Japan continues to shrink, with the number of annual deaths now outpacing the number of births (Ministry of Health, Labor and Welfare, 2019), the country is on track to drop from its current high of 125.8 million residents to below 100 million by the year 2050 and less than 84 million by the end of the century (Ageing of Japan, 2020). At the same time, Japanese society continues to age at a rapid step with each year more and more of its 68.3 million workers moving on to retirement (Takenaka, 2019). As Japan's labor shortage grows larger, so too does the prospect of increased costs due to its impact on wages, child care and other labor-related reforms (Nikkei Asia, 2018). Efforts to stave off economic disaster are ongoing, such as bringing more women into the workforce, allowing more foreign workers into the country and extending the retirement age, but such initiatives may have an irrevocable impact on Japanese society.

Keywords

labor economics, human capital, employability, demographics

Introduction

Various sources consider the current, total population of Japan to be fluctuating between 125 to 126 million people. For example, Worldometers.info, a popular website that tracks global births, deaths and even COVID-19 infection rates, pegs Japan's population in the higher range of 125.9 million (Japan Population, 2021); whereas, Wikipedia, for example, estimates the number of people in Japan to number slightly less, at around 125.36 million (Japan, 2021). Regardless of the disparity between these estimates, looking at either of these sources, as well as other sources, reveals the harsh reality of Japan's problems surrounding an ever-decreasing population. While research and analysis of Japan's population issues, such as its graying society or the ratio of deaths to births has been studied for many years, a new concern has arisen. Specifically, fewer births and more deaths (Okuda and Takeuchi, 2018) in a graying society points to a crisis situation in the near future for the lifeblood of Japan's economic machine: its labor force. The latest data from the World Bank, shows that the labor force in Japan roughly stands at 68.8 million people (World Bank, 2021); however, this number is shrinking each year due to the large number of people reaching retirement age. Also, the tendency for Japanese men

and women to wait longer to marry as well the fact that Japanese women are having fewer children, means that the birthrate now hovers around 1.36, with 24,407 fewer births in 2020 than in 2019, which is a decrease that has continued for the past five years (Hisanaga, 2021). The implication is fairly straightforward that this trend of fewer births each year will ultimately result in fewer adults entering the workforce after 2030 when Japan's labor shortage will have reached its critical point.

In a joint survey project on labor in Japan, conducted by Persol Research and Consulting and Chuo University, one of Japan's leading, private research institutions, the data results revealed that by the year 2030, the nation's labor force will have slipped to 64.29 million people, while the demand for jobs will have hit 70.73 million (Kamei, 2018). Following the results of this survey, Masahiro Abe, an economics professor at Chuo University, where the survey was conducted, remarked that 'if wages fail to rise as projected, the labor shortage could hit 10 million' (Kamei, 2018). Moreover, both Persol and Chuo University suggested that certain measures could help ease, but not neccesarily solve the labor shortage. In particular, these measures, in part, would rely on the ability to attract more foreign labor to Japan as well as to encourage more women and elderly to re-enter the workforce (Kamei, 2018).

Although such measures would seem promising, these are still short-term solutions to long-term problems for Japan. According to Professor Abe, adding more women, elderly and foreign labor would potentially create an infusion of 3.46 million new workers to Japan's labor force, but this number would still be less than half of what would likely be needed to avert the shortage predicted by 2030, unless, for example, advances in artificial intelligence (AI) and other technologies were developed to shore up the remaining fifty percent (Kamei, 2018). Nevertheless, action must be taken and taken soon to avoid the labor shortage dilemma in Japan that is looming on its horizon. As reported by the government's National Institution of Population and Social Security Research, Japan's population could drop by 20% to 107 million in 2040, and perhaps as low as 97 million by 2050 (Johnston, 2015). Even more troubling, however, is a projection created by researchers at Tohoku University Graduate School of Economics, which illustrated the very real possibility of Japan having no children under the age of 15 by 3011 and effectively becoming extinct (Petersen, 2012).

The existence of a labor shortage in Japan has been acknowledged by its government, which has been researching and collecting statistics on this issue for years. In particular, the labor shortage is being closely watched by the Ministry of Health, Labour and Welfare and other Japanese ministerial agencies, as well various media outlets that have also been analyzing and reporting on this problem for decades. Despite the warning signs though, Japan has sadly been slow to address or fix its problem. The situation has been especially pronounced and exacerbated by the impact of COVID-19 on the job market,

which in the early stages of the pandemic, in April 2020, caused nearly six million workers in Japan to be laid off temporarily (Nagata, 2021). Two sectors in particular that have been especially hard hit in Japan have been tourism and technology. The former has been impacted by a government increase of the minimum wage by 3.1% which will raise labor costs for businesses, such as restaurants and hotels. As for the tech industry, the pandemic has made it even more difficult to recruit talented workers. As a result, the workers who are available lack the skills and training to do the work needed and are considered to have mismatched skills (Nagata, 2021).

The situation, however, is not entirely grim. Clearly, Japan does face economic challenges due to a real labor shortage. The prospect of encouraging women to give up child-raising in order to re-enter the workforce or to expect the elderly to postpone retirement are measures that would have immense social and cultural ramifications. Thus, this paper will focus on increasing the number foreign workers into the country, as it is an effort that is already underway and can draw upon an almost unlimited pool of overseas human capital.

Attracting Foreign Talent

Although this seems to be the most clear-cut measure for mitigating the labor problem, attracting foreign workers has been hindered for the better part of the past two years, due to a single force which has both complicated immigration and battered the economy: the COVID-19 pandemic. In order to contain the spread of this deadly pandemic, countries like Japan have been forced to close border entry points, thereby restricting the normal influx of overseas visitors of whom many would normally be coming to Japan by either invitation to work or to study and work. In Europe and North America, for example, such geographical regions have fairly flexible pathways for allowing immigration to occur in large numbers annually, and so the closure of borders and travel restrictions has primarily impacted tourism and trade. In Japan, however, the closure of its borders has not only hurt tourism and trade, but has also caused a drastic decline in the number of foreign workers coming into the country.

Considering Japan's graying society, which is not being replaced quickly enough due to a declining birth rate (Ministry of Health, Labor and Welfare, 2019), an inability to limit foreign labor into the country couldn't have come at a worse time. Japan is now facing its worst labor shortage since the early 1970's when the world economy was rocked by the 1973 Oil Crisis. In 2019, Japan's Ministry of Health, Labour and Welfare (MHLW) published an analysis of the labor economy in Japan and the data revealed that while the unemployment rate is at a 30-year low of just 2.4%, the ratio of actual jobs to job-seekers was at 1.62 in 2018; in other words, a ratio of 1.62 means that the country has more job openings than people to fill these positions (MHLW White Paper on the Labor Economy, 2019).

While Japan is undoubtedly a wonderful country to visit as a tourist, it has not always been such an easy place for non-Japanese to work and live. In terms of immigration and foreign relations, Japan has had a somewhat checkered history in relation to being an 'open door' country that welcomes outsiders. Historically, during the Tokugawa shogunate from 1603 to 1868, Japan effectively cut itself off from the outside world under an isolationist policy known as 'sakoku' or 'locked country' (Sakoku, 2021). It wasn't until America sent a naval armada, led by Commodore Matthew C. Perry, in 1853 that Japan opened itself for outside trade (Sakoku, 2021); however, up until that point and during the pre-WWII period in Japan, 'historian Yukiko Koshiro identified only three historically significant waves of immigration prior to 1945; the 8th-century settlement of Korean artists and intellectuals; the asylum offered to a small number of Chinese families in the 1600s; and the forced immigration of up to 670,000 Korean and Chinese laborers during the Second World War' (Brody, 2002).

It wasn't until after the Second World War that Japan began to allow large numbers of non-Japanese workers into enter the country. In fact, according to Japan's Immigration Bureau, 'a mere 18,000 or so (non-Japanese) entered the country in 1950 (Kuwahara, 2005). In 2020, the number of non-Japanese living in Japan represented 2.3% of the population or 2,887,116 residents (Demographics of Japan, 2021). Today, most non-Japanese residents in Japan are working and often joined by their families. Around 300,000 foreign students also live and study in Japan. In order to help alleviate the cost of living, foreign students are permitted to work part-time (Higher education in Japan, 2020).

Abenomics and Immigration

Perhaps not since the 1980s, when Prime Minister Nakasone called for increasing the number of international students in Japan, has any other Japanese politician or former prime minister been so effective on the labor shortage issue as former Prime Minister Shinzo Abe. Realizing Japan's population problems and labor shortage, in 2018, Prime Minister Abe pushed through revisions to Japan's Immigration and Control and Refugee Recognition Act, for which he was severely criticized by his opponents (Aoki, 2018), however, Mr. Abe said this regarding the revision:

"We have no intention of taking a so-called immigration policy (of unlimitedly accepting immigrants). Revisions are aimed at accepting industry-ready human resources for limited periods of time. We're considering improving the working environment, improving Japanese-language education, helping foreign workers find residences and encouraging them to take out social security insurance policies." (Shinzo Abe, Oct. 29, 2018).

Basically, the revision created two types of pathways to attract unskilled and skilled labor into Japan. The first pathway for unskilled labors allows applicants to work in Ja-

pan in one of fourteen employment sectors (i.e. construction, elderly care, service industries, etc.) for up to five years, but such workers cannot bring their families. The second pathway is for Specified Skilled Workers or SSW (i.e. engineers, machinists, computer technicians, etc.) and applicants in this group can bring their families with them to Japan and stay indefinitely (Ministry of Justice, 2021). In real numbers, the revision to the law allows up to 340,000 overseas workers annually. When the new law came into effect in early 2019, immigration into Japan witnessed a 13.6% increase and boosted the total number of foreign workers in Japan to 1.66 million foreign workers in Japan. In fact, the number of foreign workers between 2014 and 2019 nearly doubled. It should be noted that this number only reflects non-Japanese that are working in the country. As previously stated in this paper, the total number of non-Japanese living in Japan is estimated to be around 2.9 million or 2.3% of the country (Demographics of Japan, 2021).

Of course, this 1.66 million represents all foreign workers across all sectors and is not a single year increase; however, once travel restrictions into Japan resume, this target number of 340,000 will also return to normal. One non-economic issue that increasing immigration raises for any country is communication. The first language of Japan is, naturally, Japanese and the most popular second language to learn is arguably English as evidenced by the many English schools that are located around every train station and every city and town across the country. So, one of the difficulties for this program is the language barrier. It should be noted that many of these new workers are coming from China and Vietnam, where neither Japanese or English are widely spoken. Fortunately, the revision of the law does call for Japanese language education. Interestingly enough, the revision of the law does not contain a provision for language education for Japanese public servants, who work in the ward offices and town halls and others municipal entities that new arrivals in Japan will need. The revision also neglects the need for English education for medical staff, school teachers, police officers and other private and municipal sectors that these new foreign worker arrivals will rely upon, whether they live here for only five years or if they bring their families and stay indefinitely. For now, however, the majority of these workers are from developing countries in Asia, who usually take jobs in the manufacturing sector. It is worth noting, that it is estimated that nearly a third (29.1%) of foreigners in Japan are working in the manufacturing sector (Buccholz, 2020).

Conclusion

In conclusion, while an influx of foreign labor into Japan will clearly help the country economically and ease its labor shortage dilemma, it will certainly have an impact on the country socially, and perhaps even culturally. Japan is often said to be one of the most homogenous countries in the world, with 98% of the residents identifying as Japanese, unlike a country such as the United States, which prides itself on being a 'melting pot' of people and cultures.

As shown and evidenced in this paper, the stark reality is that the labor shortage is essentially the result of an aging society nearing retirement age in a country where people wait longer to marry and have fewer children. Based on these immutable facts, encouraging more Japanese women to enter the workforce would necessitate an increase in labor costs and demands for assistance with childcare. As for the elderly, expecting them to postpone retirement or to take on a new job would also be costly in terms of retraining, not to mention it simply would not be fair to expect the elderly to work longer after they have likely worked their entire lives. While both of these options are possibilities, it is simply not realistic given the high number of workers needed to offset the shortage. Even if these trends were reversed today, Japan will stay face a massive labor shortage by 2030. Therefore, Japan has but one hope to deter economic disaster and that is by maintaining an open-door policy that welcomes foreign labor.

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