



Opinions


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The Implications of Japan's Labor Market Reform for Korea



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Labor market reform is among the top policy priorities in many major countries, including South Korea and Japan, who recognize the necessity to reform their labor markets if they are to continue economic growth and deal with other socio-economic issues, such as sharp increase in the aged population, rapidly expanding income gap and deterioration of job stability. Japan's Abe administration has made efforts for many years to push for fundamental labor market reforms. These efforts have led to the drafting of a package of policy measures submitted to the parliament in April this year. The labor reform package is currently going through the congress reviewing process and includes the following measures: setting a cap on overtime work hours to 720 hours per year to eliminate the bad practice of long working hours, and recommending for workers to use the remaining time to improve their labor skills or engage in consumption activities; ensuring the same level of compensation for identical labor activities, regardless of the type of labor contract, meaning that a regular worker and a non-regular worker should receive the same amount of wages if they provide the same labor in a company; adopting flexible labor hours for some professional jobs, such as foreign exchange dealers or professional consultants, for whom the important issue

determining their salary level is the quality and profitability of their work, not the length of labor time; and encouraging workers to use as many paid vacation days as they can.

Here in Korea, President Moon's administration has also been pursuing labor market reform ever since he took his office as president last year. There are, however, many differences between how the two countries are approaching this goal. These differences become evident when we watch what steps have been taken by Moon's administration. Major moves taken by the new administration up to now include the following. Raising minimum wages at an unexpectedly fast pace. During last year's presidential campaign, President Moon promised to raise the minimum hourly wage from 6,470 won up to 10,000 won over the course of three years. In reality the minimum wage rose by 16.4% in 2017 alone, likely dealing a major blow to small businesses. In addition, the new administration has set a cap on work hours to 52 hours a week to eliminate the practices of long working hours, an area in which Korea is even more restrictive than Japan; creating new jobs in public sectors, and mandated the conversion of non-regular workers to regular workers in public sectors. All these moves were driven by the government, not the labor market. Many economists, businessmen and even government officials in Korea are concerned that these measures are likely to cost even more in public spendings while having but a limited positive effect, or even negative effects, on the creation of new jobs in the private sector. Actually many small and medium businesses are strongly protesting against an abrupt hike in the minimum wage by replacing the costlier labor with labor-saving automated facilities. Given how the pace of job creation has weakened recently in Korea's labor market, the Moon administration needs to reassess its policy stance in more detail.

The biggest difference between the two countries' approaches is that Korea aims to stimulate and expand consumption and create more jobs in a direct and rapid way by boosting wage income and enlarging the number of regular workers in public sectors through the authority of the government and its budget. On the other hand, Japan prefers to establish the groundwork for the labor market to function as a mechanism of wage, labor supply and demand determination by improving traditional market practices and institutions. Japan's goal is to eventually push for higher growth in labor productivity. At the same time, Japan wants to mitigate the gap between regular and non-regular workers by realizing the very simple principle of "same treatment for the same labor," not by converting non-regulars into regulars. At the same time, fostering an environment for real wage levels to rise at a faster pace is also one of the main targets.

Up to date, unfortunately, wages in Japan have failed to show a strong upward trend even under the extremely favorable conditions created by unprecedented monetary easing policies for more than five years and labor shortage. However if the proposed labor market reform package were to be implemented, labor earnings are expected to grow at a higher rate and non-regular workers could expect higher wages and fairer treatment for their labor. For Japanese businesses, the Abe administration did what it could to improve private sector profitability, and they are now enjoying record-high profits coming into recent years. Japan is running out of labor slack because the so-called "Dankai generation" has nearly become 70 years old. All of these elements point in one direction with higher probability than previously thought: a modest but steady rise in wage in the near future. Then what is happening now in Korea? Perhaps the opposite of what happened in Japan, i.e., higher labor slack, unfavorable business profitability, job creation in the public sector, not in the private sector, sticky labor time regulations and stronger protection for regular workers. Korea now faces a different situation from Japan and it seems a timely opportunity for the nation to reconsider its policy direction again. **KIEP**