



Why is inflation rising so little in Japan?

The level of long-term inflation is far lower in Japan than in other advanced countries, partly because of weak household consumption. Consumption was first severely affected by the banking crisis in the early 1990s and then by the debt deflation dynamic that followed. Since the beginning of the 2000s, the structural weakness in private consumption has mainly been due to sluggish wage growth. Two explanatory factors emerge: (i) capital has absorbed a substantial share of the (modest) gains in growth due to the weakening of workers' bargaining power; and (ii) chronic corporate underinvestment caused by weak expected demand and the resulting very weak productivity gains (particularly in sectors sheltered from international competition) has curtailed wage growth.

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JEL codes
E2, E3,
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$\approx 2/3$

the level of real wages and labour productivity compared with the United States

-2 percentage points

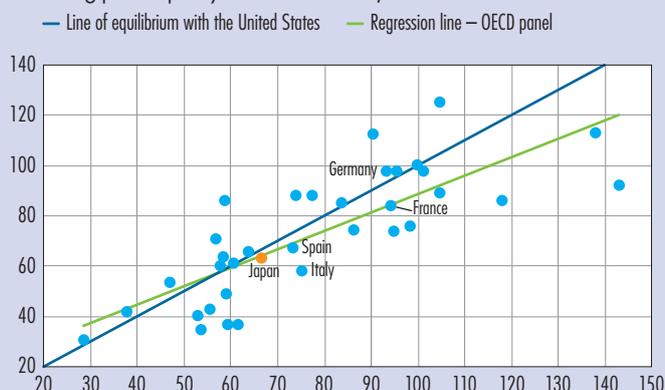
the difference in annual average (headline and core) inflation since 1997 between Japan and the United States

-1.6 percentage points

the annual average growth differential since 1997 between Japan and the United States

Low wage levels in Japan due to poor labour productivity

(gap compared with the United States in 2019 in %; x-axis, hourly worker productivity gap; y-axis, real hourly wage gap, purchasing-power parity – current dollars)



Sources: OECD and Banque de France calculations.

Key: Hourly worker productivity and the real hourly wage in Japan are both around 35 to 40 percentage points lower than in the United States.

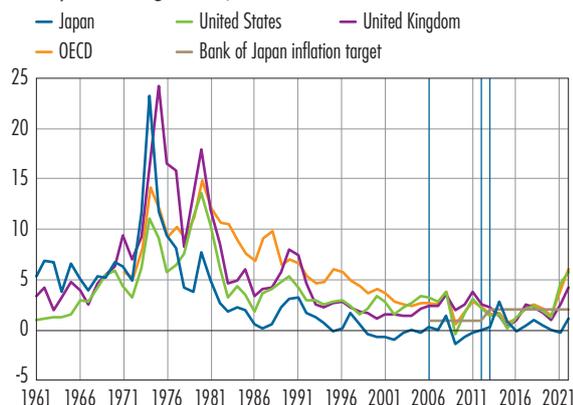


1 Weak consumption momentum weighs on inflation

Since the first oil crisis in 1973, inflation has been lower in Japan than in other advanced countries. This was still the case in 2021-22. With the exception of the most recently reported figures (since spring 2022; 3% in September), inflation has even remained below the Bank of Japan target since the 1990s banking crisis (see Chart 1). The initial demand shock, followed by a debt-deflationary spiral (Fisher, 1933), and declining inflation expectations have weighed on consumption since the end of the 1990s (see Chart 2). The “three arrows” of the former Prime Minister Shinzo Abe’s¹ recovery plan, which was launched in 2013-14, temporarily stimulated inflation by increasing household consumption and inflation expectations (Maruyama and Suganuma, 2019).² However, the momentum in consumption quickly lost traction due to the absence of wage increases³ (see Chart 3) and with the rise in VAT. It was also adversely affected by the perception that inflation was structurally higher than it actually was (see Box 1 below).

C1 Inflation measured with the consumer price index (CPI)

(year-on-year change, in %)

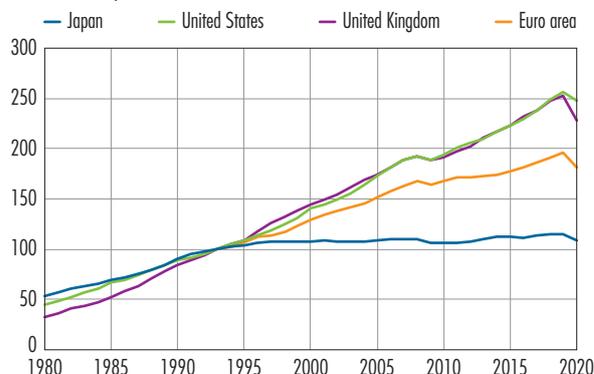


Source: OECD.

Note: Three milestones in the Bank of Japan’s monetary policy are indicated by vertical lines: (i) the publication of the opinions of the Bank’s Policy Board members on a rate of inflation compatible with price stability in the medium and long term in March 2006; (ii) introduction of an inflation target of 1% in February 2012; and (iii) raising the inflation target from 1% to 2% in January 2013.

C2 Change in per capita household consumption

(1993 = 100)



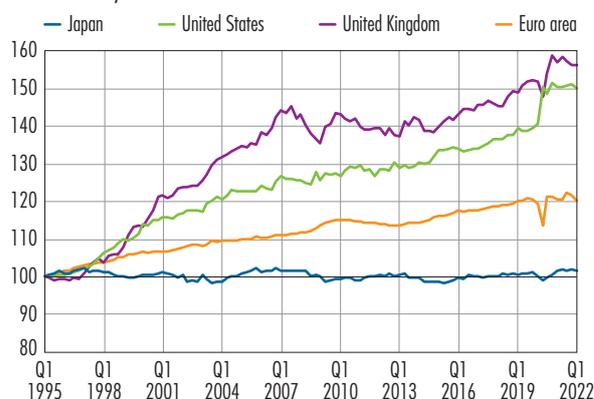
Sources: European Commission (Ameco database) and Banque de France calculations.

The weak real wage dynamic (see Chart 3) has weighed on consumption since the end of the 1990s. These low wages are due to two simultaneous and interdependent factors:

- distorted income distribution, mainly associated with the loss of workers’ bargaining power and the duality of the labour market between regular and non-regular employment (see Appendix 1);
- poor productivity directly linked to chronic corporate underinvestment.

C3 Change in the rate of real compensation of labour per employee

(1995 = 100)



Sources: OECD and Banque de France calculations.

Note: Data in accordance with the consumption deflator.

¹ On his return to power in 2012, Shinzo Abe put forward a vision for Japan’s recovery that became known as “Abenomics”. It involved a policy bundle of “three arrows”: fiscal stimulus, a highly accommodative monetary policy and a long-term growth strategy.

² The combination of the rise in energy prices and in VAT announced in October 2013 for April 2014 also affected inflation and expectations.

³ Koji Ishida, member of the Policy Board of the Bank of Japan, pointed out as early as 2013 that a rise in wages was needed to continue stimulating consumption and therefore inflation (see Ishida, 2013).



BOX 1

Inflation expectations and perceived inflation

In Japan, perceived inflation appears to be structurally higher than real inflation, particularly for older households, which are proportionally more common than in most other countries. According to Diamond et al. (2019), inflation expectations tend to increase with age and also with the price of the purchased articles. The main factor in inflation rate variations is the different quantities of the different goods consumed in a common basket. In other words, the elderly face higher inflation rates because proportionately they consume more high-inflation items, albeit in smaller quantities, than the other age groups (even though these goods are also consumed by the youngest workers, while those that are not are also a factor of variation).

Other factors also affect household perception of inflation, such as socio-demographics, concerns about unemployment, knowledge of the Bank of Japan's target inflation rate, the credibility of the Bank of Japan, etc. These are all likely to influence household consumption habits and their sensitivity to the Bank of Japan's "price stability target". Equally, the perception of unemployment risk, which is also underestimated (Takahashi and Tamanyu, 2022), can weigh on inflation expectations.

Furthermore, despite high apparent wealth, Japanese households fail to maximise their financial incomes, due either to a lack of knowledge or to "financial repression" (see Appendix 2). The weak financial income gains therefore cannot compensate for the small wage gains.

2 The duality of the labour market and the loss of workers' bargaining power curtail the wage dynamic

The share of labour compensation in value added is dropping because real wages are not increasing

Since 1995, the share of value added allocated to labour compensation in Japan has declined significantly. This trend had already begun at the beginning of

the 1980s (as in France and the United Kingdom) but accelerated sharply in the 2000s, following the same decline witnessed in the United States.⁴ National accounts data can be used to break down the distribution of income from production (real GDP growth) between the two production factors, i.e. capital and labour. This allows us to distinguish between the relative change in the capital stock and the number of working hours⁵ used on the one hand (the volume effect), and the relative change in compensation of capital and of labour (the real wage effect) on the other.⁶ Marginally, this breakdown can be extended to domestic terms of trade, defined as the ratio of domestic production prices (GDP prices) to domestic demand prices, and can thus indicate what is levied⁷ by the rest of the world (see de Waziers et al., 2019). The diminishing share

4 The causes of this decline diverge between Japan and the United States. According to Hiraoka and Koike (2019), the elasticity of substitution between capital and labour is larger than one for the United States but less than one for the Japanese economy. Thus, while technological shocks have contributed to a decline in the labour share in the United States, they would have exerted a labour-augmenting pressure in Japan.

5 For example, a decrease in capital intensity through an increase in the number of hours worked (stable in the balanced growth path of a Solow model) can explain a rising labour share. Conversely, the production process can be increasingly capital intensive with a capital stock that grows faster than the quantity of labour (adjusted for technical progress).

6 The real wage effect is defined as the difference between the surplus distributed to labour (growth rate of real hourly wages, deflated by domestic demand prices) and the "distributable surplus" which is the sum of total factor productivity (TFP) gains and the change in domestic terms of trade. Thus, if real compensation of labour grows faster than the distributable surplus, the labour share in value added increases, driven by the wage dynamic.

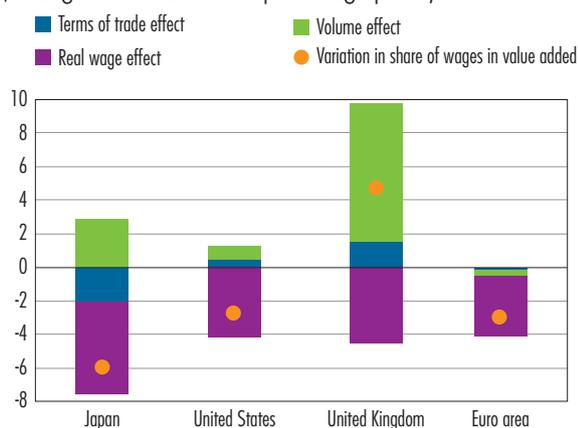
7 For example, an acceleration in import prices (through raw material prices passed on to domestic demand prices) causes a decline in the terms of trade. The distributable surplus is thus allocated between the production factors, i.e. labour and capital, as well as indirect taxes.



of compensation in Japan is mainly due to the slowdown in real compensation of labour (see Chart 4). The decrease in capital intensity linked to the fall in investment (see Section 3) slightly offsets the relative decline in the wage share (volume effect). A negative domestic terms of trade effect also ensues, with a lower rise in prices at home than abroad. This has weighed on purchasing power through the relative deflator of domestic demand, indicating an external levy on domestic production. This factor, which for many countries has zero effect in the long term, is particularly relevant in Japan given the sustained weakness of domestic inflation relative to global inflation.

C4 Variation in the share of labour compensation in value added between 1995 and 2019

(%; change in contributions in percentage points)



Sources: European Commission (Ameco database) and Banque de France calculations.

The share of labour compensation in value added is dropping because capital absorbs a share of the modest productivity gains

In the long term, the increase in income created at an aggregate level and that can be allocated to production factors defines the “distributable surplus”⁸ (see de Waziers et al., 2019). It mainly results from productivity gains, but also includes the effect of domestic terms of trade. In most countries, the distributable surplus is essentially allocated to wages. However, in Japan a substantial part (almost half) of the surplus has gone to the compensation of capital (see Table below). Therefore, while the decrease in the share of labour compensation is a consequence of the slowdown in labour compensation itself, in Japan it is further accentuated because part of the productivity gains are absorbed by capital compensation.

The distortion of income distribution is due to a growing proportion of workers on low wages

While the economy seemingly operates at full employment in Japan, weak wage growth can be attributed to three factors.

- The drop in the number of hours worked per employee, in line with the growing duality of the labour market (end of the “job-for-life” model and an increased proportion of non-regular employment, particularly part-time work for which wages rise more slowly on average – see Chart 5).

Share of “distributable surplus” in annual average GDP growth between 1995 and 2019

(points of GDP)

	Productivity gains (a)	Variations in terms of trade (b)	Distributable surplus (a) + (b) = (c) + (d) + (e)	Share of surplus absorbed by:		
				labour (c)	capital (d)	indirect taxes (e)
Euro area	0.6	0	0.6	0.5	0	0.1
France	0.7	0	0.7	0.6	0	0
United Kingdom	1.1	0.1	1.2	0.9	0.1	0.1
United States	1	0	1.1	0.9	0.2	-0.1
Japan	0.9	-0.3	0.7	0.4	0.3	0.1

Sources: European Commission (Ameco database) and Banque de France calculations.

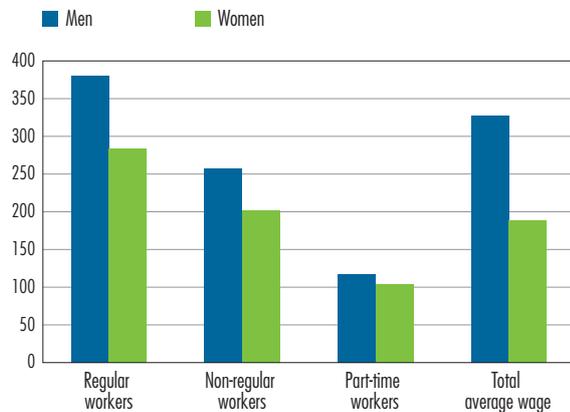
Note: The “distributable surplus” is defined as total factor productivity gains corrected for variations in domestic terms of trade. It is allocated between the two factors of production – labour and capital – and indirect taxes.

⁸ The distributable surplus is therefore defined as the share of real GDP growth available to improve real unit compensation of the factors of production.



C5 Disparities in the average monthly basic wage in Japan

(Q3 2021, in JPY thousands)



Sources: Japanese Ministry of Health, Labour and Welfare (MHLW) and Banque de France calculations.

- An ageing population and the increase in the participation rate of the over-55s, who have to accept a reduction in their earnings to keep their jobs (see Appendix 1).
- The increased participation rate of women, who are paid less than men (a lower basic wage, coupled with the negative impact on seniority pay of temporarily exiting the labour market for maternity reasons). Many women are also in part-time work (see Appendix 1).

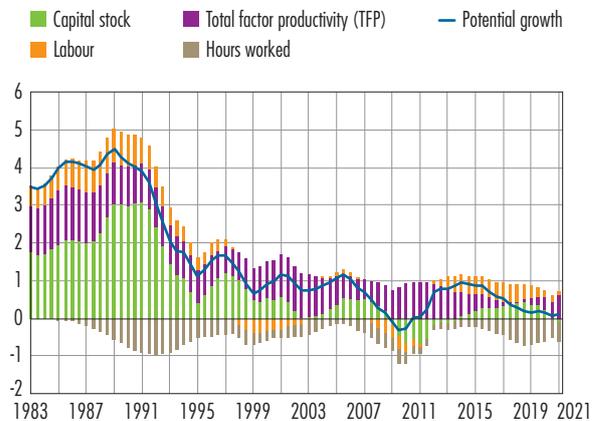
3 The sluggish investment and weak productivity gains of VSEs and SMEs curb the possibility of wage increases

Weak investment momentum weighs on potential growth

Potential growth fell sharply following the 1990s banking crisis due to credit rationing which hampered investment and consequently the capital stock (see Chart 6). It has not recovered since (up around 1% since the mid-1990s)

C6 Change in potential growth in Japan and contributions

(annualised variation in %; contributions in percentage points of potential growth)



Source: Bank of Japan.

Notes: Most recent data for Q3 2021.

Six-monthly data series. First data point = Q2-Q3 of year N; following data point = Q4 N-Q1 N+1, due to the Japanese fiscal year starting in April.

due to the lack of an upturn in productive investment and the decline in the number of hours worked.

While the closing of the output gap⁹ since 2014 has pushed up wages (due to the elasticity of output to labour), the sharp decline in productivity after 2008 and the significant drop in the number of hours worked since the mid-2000s has curtailed wage growth (Meunier, 2018). Chart 7 below presents the contributions to nominal wage growth using an “augmented” Phillips wage curve (taking into account changes in inflation expectations, measured in this case using a backward-looking method based on past inflation). The analysis incorporates the output gap as well as trends in productivity and number of hours worked.

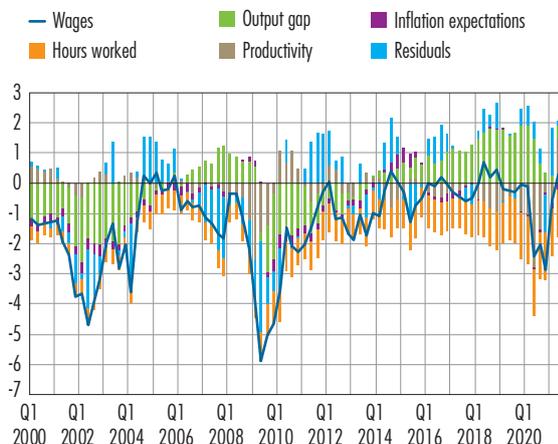
After an extremely rapid catch-up in the 1970s and 1980s, Japan’s productivity gap with the United States has stayed almost unchanged since the beginning of the 1990s. Japan’s labour productivity is now at about two-thirds of that of the United States, and is lower than that of all the other G7 countries (see Chart 8 and Box 2 below).

⁹ The difference between real and potential production. Its “closure” indicates a return to potential GDP.



C7 Change in nominal wages in Japan and contributions

(year-on-year change in %; contributions in percentage points)



Sources: OECD and Banque de France calculations.

Notes: Output gap, the difference between real and potential production.

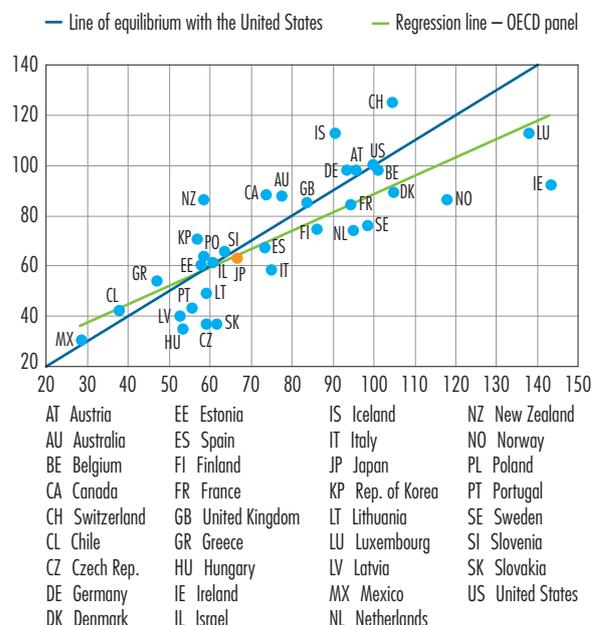
For wages, a Phillips curve equation estimated for Q2 1985 to Q2 2021, with variables expressed as deviations (in percentage points) from their long-term growth.

Inflation expectations are calculated as the difference between growth in the consumer price index (CPI) over the previous three quarters and the CPI's year-on-year average.

Equally, the average real hourly wage in Japan is about 60% of that seen in the United States (see Chart 8). Thus, productivity and real wages are almost in equilibrium (see position on the two lines shown in Chart 8) meaning that Japanese wages are not too low compared with the level of productivity.

C8 Gap in labour productivity and real wages with the United States in 2019

(%; x-axis, hourly worker productivity gap; y-axis, real hourly wage gap, purchasing-power parity – current dollars)



Sources: OECD and Banque de France calculations.

Key: Levels of productivity and wages in Japan are 35 percentage points and 40 percentage points lower than in the United States, respectively. In theory, labour compensation is equal to its apparent productivity, shown by the blue line relative to the US level. In practice, compared with the OECD panel, compensation in Japan appears to follow the level of productivity. According to this simplified approach, compensation would be somewhat lower in France or in Italy than in the United States.

BOX 2

Difficulties in measuring labour productivity

International labour productivity comparisons are not free of measurement errors. The numerator of labour productivity (GDP) is converted to US dollars using the relative price level in the two countries, i.e. purchasing-power parity (PPP). Calculating PPP on the basis of the cost of goods and services in each country is a delicate exercise. Services in particular, which account for a significant share of the economy, often vary in quality while appearing identical, making price comparisons extremely difficult. According to recent research, adjustments to take into account the quality of services (better in Japan than in the United States) would augment Japan's productivity by around 10%. However, the conclusion that labour productivity in Japan is much lower than in the United States stands, especially as the trend in recent years towards a weak yen exchange rate is not the cause either. On the contrary, given the low inflation rate in Japan, the effect of PPP since the 1990s has constantly shifted towards a stronger yen in real terms, pushing towards an augmentation of the level of GDP in Japan in US dollars. Nonetheless, productivity remains a fundamental factor in determining workers' wages and economic prosperity.

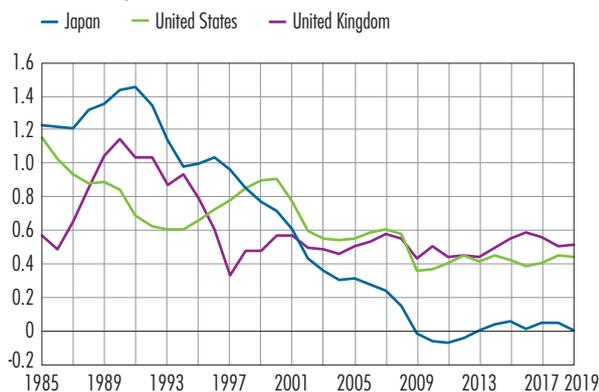


Chronic underinvestment appears to be the chief cause of poor productivity

One of the main reasons for the poor productivity level of Japanese firms since the beginning of the 2000s lies in the trend of underinvestment, mainly in the non-technological field, which has resulted in a slowdown in GDP (see Chart 9). The underinvestment is particularly evident in the sheltered (non-tradeable) sector of the economy, which essentially includes VSEs and SMEs. The low rate of capital accumulation or renewal¹⁰ is the chief cause of productivity stagnation¹¹ in the Japanese economy.

C9 Contribution of the capital stock to GDP growth

(points of GDP)



Sources: OECD and Banque de France calculations.

Will Japan escape the low inflation trap?

Japan could use the opportunity offered by the recent imported inflation shock to kick start domestic inflation. However, this is unlikely as Japan is trying to do everything in its power to combat the “cost disease”. According to Baumol and Bowen (1965),¹² the sheltered sector of the economy is characterised by technological

stagnation, a lack of productivity gains and the incompressibility of labour, which makes up an integral part of the finished product. As wages tend to align with those of the productive sector, the increase in production costs exceeds inflation and consequently, in a Balassa-Samuelson (1964) type framework, firms’ selling prices rise. By contrast, in the case of Japan, where consumption is not particularly dynamic (due to a high price elasticity of demand), firms are restricted and find it more difficult to pass their cost increases on to their selling prices. Consequently, firm’s costs rise far more quickly than their selling prices. They therefore have two options.

- Treating the causes of the disease by raising investment in order to boost sheltered sector productivity and ultimately lift wages. Wage growth would in turn stimulate consumption¹³ and could finally mean that selling prices could be raised to limit the drop in the margin rate.
- Treating the symptoms of the disease by restricting wage growth through greater flexibility in the labour market.

Given the context of an ageing and declining population, firms appear to have chosen the second option, but this leaves the vicious circle that set in following the banking crisis in the early 1990s unbroken (see Chart 10 below). The drop in demand and the resulting slump in prices have contributed to a reduction in expected demand, prompting a downturn in investment, which in turn has dampened growth in productivity and therefore in wages.

The current equilibrium is therefore one in which Japanese firms do not pass their cost increases on to their selling prices for fear of losing market share, even if it means

¹⁰ Accentuated by a composition effect linked to the rapid decline of the manufacturing sector and heavy industry.

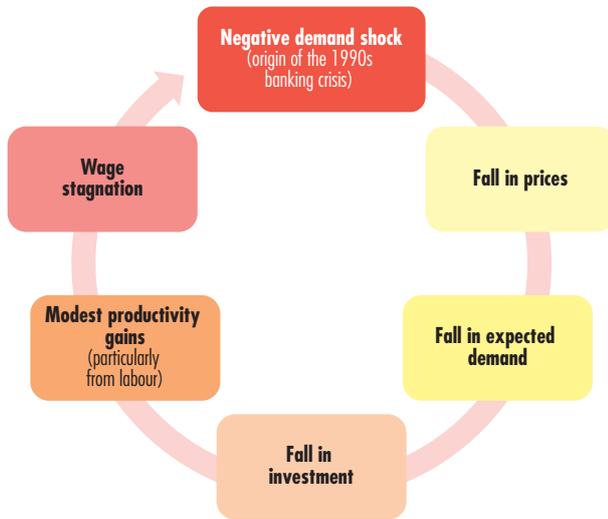
¹¹ While Japanese firms were able to benefit from the first wave of new information and communication technologies (NICT) at the end of the 1990s and thus penetrate foreign markets (particularly the United States) and increase their productivity (Hogen et al., 2017), this has not been the case since the 2008 financial crisis. Therefore, like in the United States (Gordon, 2015), the slowdown in productivity in Japan stems from diminishing returns from the digital revolution.

¹² The “cost disease” is when a rise in wages in highly productive sectors is passed on to sheltered sectors with traditionally lower productivity.

¹³ Assuming that the “frugal” habits of Japanese households are not too entrenched.



C10 The vicious circle of low inflation in Japan



Source: Banque de France.

compromising on quality (the smaller “slice of the pie”¹⁴ syndrome). However, the day when certain firms’ cash flow becomes insufficient to cushion the shock or the “slice of the pie” becomes too small, firms will be forced to raise prices (which may already be the case as core inflation rose to 3% in September). This will establish a new equilibrium characterised by higher core inflation. Nevertheless, the probability of boosting inflation in the long term is quite remote. Weak wage growth has blocked any stimulus to consumption and therefore expected demand by firms. The disappointing wage negotiations in spring 2022 and the limited increase in the minimum wage (3% on average) in October 2022 will not be enough to safeguard purchasing power, and a wage-price spiral appears unlikely at this stage.

14 In certain sectors with sharply accelerating costs, such as food services, the listed prices may remain unchanged, but the quantity served is reduced. This will mainly occur in services where it is more difficult to measure quality and quantity. For example, a stable price for a night in a hotel may suggest that there is zero inflation in the accommodation sector but in reality inflation exists if the quality of the service declines (for example, if the rooms are no longer cleaned each night) – see the statistical treatment of hedonic prices.



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Appendix 1

The duality of the Japanese labour market: regular employment versus non-regular employment

1 The sharp rise in non-regular employment, compensated at a far lower rate than traditional regular employment, is curbing wage growth

Historically, the Japanese social model has been rooted in a job-for-life culture (regular employment), steady career progression based on seniority (*nenkō*) and the fair distribution of value added. In return, employees accept that wage flexibility is achieved through a significant proportion of overtime and bonuses (a little over 22% of annual wages in Japan on average, compared with only 11% in the United States). Companies therefore tend to adjust this variable portion of pay rather than raising the basic wage. This policy holds back incomes as a pay rise one year can be followed by a decrease in the next.

However, the Japanese social model has been weakened by poor economic performances and has been gradually replaced by a two-speed system. On the one hand, regular workers (*seishain*) continue to enjoy the benefits of the Japanese model (a job for life, social protection), while on the other, a growing percentage of the labour force work in insecure and less-well paid conditions. On average, the basic wage of non-regular workers is 35% lower¹ than that of regular workers (excluding part-time employees). This percentage can fall even lower as firms are authorised not to pay bonuses to non-regular workers due to their status.² Since the 1990s, measures to improve labour market flexibility have greatly increased the proportion of non-regular workers (part-time and temporary workers and employees on fixed-term contracts) from 20% of total employment in 1994 to 38% in 2021. During the same period, other countries, such as

the United States, reacted to the same economic conditions by making all jobs more flexible. The persistence of highly protected regular jobs in Japan appears to be linked both to the entrenchment of the social model in Japanese culture and to an “insider/outsider”³ effect, with trade unions almost exclusively representing and defending the advantages of regular workers. The growing trend towards non-regular employment is not only due to firms preferring greater flexibility but also due to job seekers themselves preferring this type of contract. Due to uncertainty with regard to the vitality of the global economy and to the significant inflexibility of regular employment contracts, firms are tending to recruit non-regular workers, particularly in Japan where the long-term domestic demand outlook is poor.

2 Women and seniors prefer non-regular employment

When it comes to the labour supply, women and seniors, who account for a growing proportion of the labour force, are turning to non-regular employment for structural reasons.

The rise in the participation rate of women pushes down average wages, as women account for a significant proportion of non-regular workers and because there is a major gender disparity in wages, even in regular employment (see Chart 6 above), making Japan – alongside South Korea – one of the most unequal countries in the OECD. Women are often unable to take up regular employment (with long hours) due to family obligations. The poor work-life balance – particularly due to the high levels of overtime – prevents women from applying for regular positions, especially given

1 Corrected for the volume of hours worked, the average hourly wage for regular workers amounts to JPY 2,100, compared with JPY 1,400 for non-regular and part-time employees.

2 Particularly the seniority bonus, which represents a substantial part of average income.

3 The separation of the labour market in this case between employees on stable contracts (insiders) and employees on uncertain contracts (outsiders).



that childcare facilities are lacking. Furthermore, households are entitled to tax breaks if a spouse's wages remain below a certain limit.

A specific principle is also at play in Japan, whereby at 60 years old, employees renegotiate their employment contracts to accept less favourable terms while staying in their jobs. This is because firms are legally obliged to keep on anyone over 60 who wants to carry on working, but are not required to renew the terms of the previous contract. In practice, this means that regular employees receive a substantial pay-off at retirement age based on their seniority and other factors. In return, they acknowledge the termination of the regular employment contract with the firm. Their contract is then revised to reflect a lower wage and/or status, sometimes for doing the same job. This allows firms to reduce their payroll and also allows employees to maintain a higher income as a full pension is only paid at the age of 65,⁴ even though the retirement age is set at 60. Besides, for many older workers, even a lower wage can be better than their pension. In addition, even after leaving their firms, more and more seniors are returning to the labour market to compensate for the cuts to pensions that have escalated since 2013. Lastly, longer life expectancy is putting a strain on the pension system in which the "repartition" (pay-as-you-go) pillar is limited and the "capitalisation" (funding) pillar dates back to the 1990s.

3 The tertiarisation of the economy and the financial sector crisis promote non-regular employment

The increase in the proportion of non-regular workers is also the result of a composition effect from both the tertiarisation of the Japanese economy (manufacturing sector decline) and the impact of the crisis in the financial sector (a major employer of regular workers). Furthermore, non-regular employment appears to be the adjustment variable for managing exchange rate fluctuations (Yokoyama et al., 2018),⁵ particularly for exporting firms.

In 2019, the government introduced the "work-style" reforms to combat the culture of presenteeism in Japan (limiting overtime to 100 hours a month) and to curb the duality of the labour market (prohibiting wage discrimination between regular and non-regular workers engaged in the same type of work). According to the Prime Minister's office, this latter measure, which came into force in April 2020, has reversed a trend that started in 2012: as a result, the number of women on non-regular employment contracts decreased by 320,000 while the number of women on regular contracts increased by 460,000 (compared with end-2019 levels). Nevertheless, these reforms do not tackle the source of the problem, i.e. poor productivity due to structural underinvestment, particularly in the sheltered sector, since the end of the 1990s.

⁴ 60 years old prior to a law of 2013 which gradually raised the age to 65 by 2025.

⁵ According to an analysis of panel data of Japanese manufacturers, the appreciation of the Japanese yen spontaneously decreases the volume of exports as well as the employment of non-regular workers, but also moderately reduces regular employment (with a time lag). Firms that rely heavily on exporting tend to adjust non-regular employment more significantly in response to exchange rate shocks. This finding supports the claim that in an uncertain business environment firms are more likely to adjust non-regular work to absorb exogenous shocks and to insulate regular workers.



Appendix 2

No wealth effect to compensate for the lack of income

The net financial wealth of Japanese households is greater than that of households in France¹ or the United Kingdom and, as a proportion of income, is even equivalent to that of the United States. Nonetheless, it does not sustain consumption.

Essentially, this wealth generates little financial income.

More than 50% of net assets are held in deposits, 16% are invested in life insurance (in low-yield government bonds)² and only 10% are invested in equities, which is the highest-yielding asset class (by way of comparison, 37% of US households' net assets are invested in equities).

This poor allocation of Japanese household wealth is likely linked to several factors:

- The long period of deflation that encouraged holdings of demand deposits.
- The painful memory of the stock market crash in 1991 (an eight-fold decline in the stock market index in 2003) which tended to discourage investment in equity (Malmendier and Nagel, 2009).
- A lack of knowledge and understanding of economics and finance.

- The fact that after the Second World War, the Japanese government strictly controlled the domestic financial markets in order to pursue its reindustrialisation objectives. **It designed regulations in such a way as to increase household savings and mobilise them towards bank deposits ("financial repression").** This model, with the bank at its core, helped Japan to channel financial resources towards designated domestic sectors and to spark rapid industrialisation in the decades that followed. However, it also corralled household savings in bank deposits.
- A lack of liquidity in the housing market linked to the limited resale value of existing homes combined with an underdeveloped mortgage market (Miyamoto, 2014). As a result, households are likely to put greater emphasis on cash in their financial portfolios in order to compensate for their real assets' lack of liquidity and security. After the sharp real estate price correction following the 1990s banking crisis, the price dynamic in this market remained weak, in line with declining demand (due to an ageing population).

Moreover, the increase in wealth is concentrated in the hands of the richest strata of the population, which have a lower marginal propensity to consume.

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¹ The wealth of French households is mostly in real estate, which is not accounted for in financial wealth.

² Even zero-yield bonds since the government scrapped its yield floors.

