



# Making the most of human capital: Removing policy obstacles to women's advancement



A woman pushing a baby stroller and going to work  
Photo: prof213003 / PIXTA

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At the May 20 meeting of the “Council for the Realization of the New Form of Capitalism,” it became clear that the direction of the proposal is to place investment in people at the core of its recommendations. Two points need to be further discussed in the compilation of concrete measures.

The first point is how workers’ skills are formed. In particular, since workers’ skills are formed through both schooling and training in the workplace, it is necessary to examine how each plays a role in forming such skills.

Let us take the example of the training of information technology (IT) engineers, who are in short supply. The meeting memo points out the need to “reorganize university majors in accordance with shifting industry demand.” To address this issue, it is necessary to clarify whether the IT personnel that are required are pure IT engineers that must be trained in engineering faculties of universities or specialists who can apply new IT technologies to existing fields such as science, engineering, economics and management. The decision to reorganize within a university major or between majors will depend on the understanding of the current situation.

Regarding the separation of school-based education and workplace education, it is also necessary to determine whether undergraduate university education should be limited to the basics of statistics, econometrics, and machine learning, which are the fundamentals of data analysis, or whether students should learn to implement these skills using various programming languages.



Prof. Kawaguchi Daiji

There is constant criticism from the private sector that universities do not provide adequate education. However, universities have the mission of systematically passing on to the younger generation the vast amount of knowledge accumulated in various fields, and curriculums are formed in accordance with this purpose. Students are granted the necessary credits and graduate based on the curriculum. The curriculum changes only gradually due to the characteristic of the knowledge taught at universities as it is the accumulation of past knowledge.

While it is useful to systematically teach how to practically apply the basic knowledge learned in the classroom in some fields, it is impossible to fit everything into undergraduate schools. Rather, the percentage of students entering professional graduate schools should be increased.

The role of firms is also important in nurturing the skills of their workforce. Some may believe that even if companies try to provide training opportunities, they will not recoup their investment costs for versatile skills, such as artificial intelligence (AI) skills, because employees will be headhunted by other firms. In fact, traditional labor economics has held this view. However, recent studies, together with some evidence, argue that the labor market friction prevents such headhunting from occurring<sup>1</sup>.

At this point, when a company invests in the skills of its workers, a phenomenon known as “wage compression” occurs, in which the increase in productivity exceeds the increase in wages, allowing the company to recoup its investment costs<sup>2</sup>.

The material submitted by Commissioner Matsuo Yutaka at the opening of the May 20th meeting states that “some staffing firms are providing opportunities to learn AI and other IT skills, improving the added value of their human resources.” This is considered to be an example of a private company investing in skills and recouping the cost of that investment. (Some technology companies in the U.S. are reportedly hiring workers who did not graduate from college and training them to become programmers<sup>3</sup>.

While friction in the labor market can reduce workers’ bargaining power and suppress wages, it also has the advantage of promoting human resource development at the expense of companies. Since the private sector has a strong incentive to respond immediately to new demand for skills, it is necessary to make appropriate use of the power of the private sector in human resource development in areas where significant human resource shortages are feared.

The second point that needs discussion is how to deploy and utilize the human resources that have been trained.

According to the International Survey of Adult Competencies (PIAAC) conducted by the Organization for Economic Cooperation and Development (OECD), the average reading and numeracy scores of people living in Japan are very high. On the other hand, labor productivity in Japan is low. When a graph is created with reading comprehension on the horizontal axis and labor productivity on the vertical axis, a rough trend can be seen: the higher the reading comprehension, the higher the labor productivity (see figure). However, despite Japan’s high reading comprehension, labor productivity remains low.

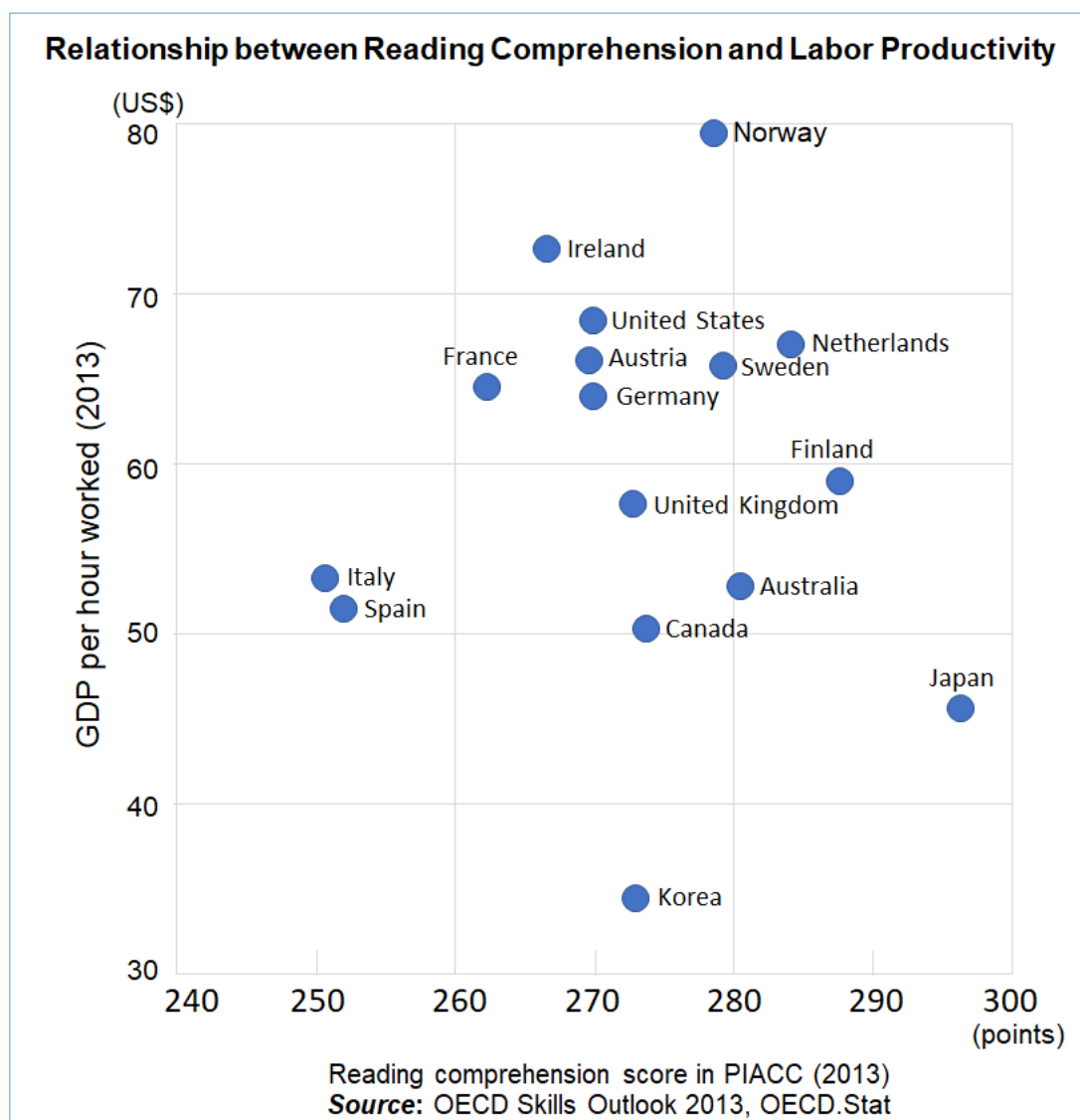
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<sup>1</sup> Ashenfelter, O. C., Farber, H., & Ransom, M. R. (2010). Labor Market Monopsony. *Journal of Labor Economics*, 28(2), 203-210. This issue is a special issue on buyer monopolies in labor markets.

<sup>2</sup> Acemoglu, D., & Pischke, J. S. (1999). The structure of wages and investment in general training. *Journal of Political Economy*, 107(3), 539-572. The existence of various institutions in the labor market, such as wages and labor unions, causes a phenomenon in which wages do not increase as much as the increase in workers' skills, which is called wage compression.

<sup>3</sup> Vanessa Fuhrmans and Kathryn Dill, Blue-Collar Workers Make the Leap to Tech Jobs, No College Degree Necessary, *The Wall Street Journal*, April 26th April 26th, 2022.

This figure highlights the problem in Japan of highly skilled workers who are not able to demonstrate their abilities. If this situation is left unchecked, regardless of how much we invest in people and help them acquire skills, they will not be used efficiently.



Particularly striking is the underutilization of women's abilities. According to a study conducted by Toriyabe Takahiro, a specially appointed researcher at the University of Tokyo, and myself, women in Japan have the same level of reading ability as men, but utilize their skill half as much as men do in their work, representing the largest gender gap among the OECD countries<sup>4</sup>.

The situation in which skilled women are unable to fully demonstrate their abilities can be attributed to the combined effects of various factors, including a deep-seated sense of gender role division of labor, discriminatory prejudice, lack of childcare support, and the tax and social insurance systems, all of which force many women to work at jobs with shorter hours and in short-term contract positions.

In Japan, there has been no real wage increase over the past two decades. Although the employment rate of women has increased, women's wages have remained low, and this mechanism has worked to

<sup>4</sup> Kawaguchi Daiji and Toriyabe Takahiro (2022) "Measurements of Skill and Skill-use using PIAAC" CREPEDP-119, forthcoming in *Labour Economics*. This paper proposes a method for measuring workers' skills and skill-use.

lower average wages, as the ratio of women to men in the workforce has increased. A joint study by Toriyabe, Kawada Keisuke, Associate Professor at the University of Tokyo, and myself found that real wages per hour for men and women combined fell 6.1% from 2000 to 2005, but that 4 percentage points of this decline was due to the increased labor force participation of women<sup>5</sup>. The increase in the number of women in the workforce is desirable. The problem is that many women work under shorter -term contracts with shorter work hours and earn low wages.

One reason that many married women prefer to work shorter hours is due in part to the distortion of the tax and social insurance systems, known as the 1.03-million-yen and the 1.06-million-yen barriers. The government has been trying to correct the unreasonable disparity in treatment between employment statuses and to solve the problem of low wages for women by raising the minimum wage. However, the more hourly wages are raised, the more the dilemma becomes apparent as people reduce their working hours to avoid hitting these salary levels.

A panel of experts that was convened to advise the government on achieving the policy goal of building a “social security system oriented to all generations” recently published an interim report on key issues that need to be addressed. It pointed out that the 1.06-million-yen barrier “is expected to be eliminated through an increase in the minimum wage.” However, the logic and evidence for this assertion are not clear. There are limits to the current labor policy in increasing intervention on the private sector, and it will be difficult to avoid initiating policy responses in order to resolve the contradictions created by the tax and social insurance systems.

The reduction of the spousal special exemption and the expansion of social insurance coverage will be necessary to resolve these barriers. Since these measures would in effect increase taxes, benefits must be introduced at the same time to help low-income households cope with the increased tax burden. Cross-ministerial institutional coordination led by the Ministry of Finance and the Ministry of Health, Labor, and Welfare will be important, and the use of digital information will be required in their implementation. In addition, since these tax and social insurance systems affect the division of roles within the family, changes in these systems may shake people's family values and raise sensitive issues. Therefore, careful communication will also be necessary.

These are difficult challenges and ignoring them is a very attractive proposition for that reason, but looking back at history, Japan has, without exception, responded to the changing times with effective policy measures such as the integrated reform of the tax and social security systems and the introduction of long-term care insurance. We hope that the conclusions reached by the Council for the Realization of New Capitalism will also serve as an impetus for new policy responses.

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\*RIETI: <https://www.rieti.go.jp/en/index.html>

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<sup>5</sup> Kawaguchi Daiji, Kawada Keisuke and Toriyabe Takahiro (2021) “An Assessment of Abenomics from the Labor Market Perspective,” *Asian Economic Policy Review*, Vol. 16, No. 2, pp. 247-278.

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