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*Research Report on Human Capital*

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***Improve Per Hour Productivity  
So That Personal Life Is Not Sacrificed:  
Utilize the Latent Power of Women Now***

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In order to increase per capita income for a better life and to make work and private life compatible, improvement of the quality of human capital is an urgent priority for the Japanese economy. To improve productivity without sacrificing personal life, greater importance must be attached to the value of time. Another urgent requirement is to create an environment in which women, who have not been given a chance to take advantage of their talent for a long time, can fully realize their latent power.

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The future of the Japanese economy hinges on its human capital. How to nurture the human capital to support Japan in the future, and how to utilize this human capital in Japan's economy are important strategic priorities. With this in mind, the Japan Center for Economic Research (JCER) created a study group (headed by this writer) to conduct research and analyses on human capital. The following is a summary of our findings.

***Efficiency and Quality of Life Must Be Pursued Simultaneously***

Henceforth, Japan will have to value its "human capital (total labor force, including the knowledge and skills of the workers)" to an unprecedented level. There are two reasons for this.

First, there is ample room for improving per capita income and enriching the life of the people. In terms of purchasing power parity, Japan's per capita gross domestic product (GDP) in 2006 stood in 17th place among the 30 member states of the Organization for Economic Cooperation and Development (OECD). It was 59 percent below that of top-ranking Luxemburg and 27 percent below that of the third-ranking United States.

Second, work-life balance (compatibility between work and personal life) must be improved. Japan has always attached greater importance to production (work) and put life (personal life) in secondary position. This fact poses the question, "What is the economy for?"

We must improve the efficiency of economic activities in order to raise income levels and at the same time, pursue a higher quality of life. Human capital is at the juncture of these two goals. In order to achieve the two goals simultaneously, it is essential to improve per hour productivity by raising the quality of human capital. Our research group has approached this and other problems from three directions: 1) a macro analysis of production factors; 2) a questionnaire survey of enterprises; and 3) a questionnaire survey of individuals.

Human capital has different effects on economic growth depending on the worker's gender, period of employment, academic background, and other factors. Therefore, by estimating production functions, our group has analyzed how these attributes of human capital affect productivity.

As expected, we found productivity to be relatively high for workers who have been with the same employer for a long time and those who are male and college-graduates. By contrast, we found that the productivity of female, college-graduates is not necessarily high. Therefore, we divided these women into two age groups, those below 35 and those 35 or older. The reason we used age 35 as the dividing line is that this is the age when women tend to quit jobs. We then found the productivity of college-graduate women below the age of 35 to be low, while that of women 35 years or older rivals that of college-graduate men.

### ***Way Must Be Found for Continuing Employment or Re-entering Job Market***

Our findings can be explained as follows. When the labor participation ratio of Japanese women is analyzed by academic background, a large proportion of college-graduate women enter the labor market after graduation with the attitude of "making work the primary component of their lives." However, they withdraw from the labor market one after another, and once they withdraw, they do not return to work with the same attitude. By contrast, non-college women re-enter the labor market after they reach age 35, sometimes making "work the primary component of their lives." As Japanese college-graduate women have a high probability of leaving the company, businesses hesitate to bear the costs of training them to develop their abilities. This is why the productivity of college-graduate women below the age of 35 is low. On the other hand, those who continue to work can attain high productivity equal to men's.

In a nutshell, Japanese investment in human capital entails huge waste. If college-graduate women were able to continue to work or re-enter the job market, as their counterparts in other advanced, industrialized countries are able to do, it would not only enlarge the labor force but also improve productivity.

In order to ascertain the aims of enterprises in the hiring, development and utilization of human resources, we have conducted a questionnaire survey of businesses. Our major findings are as follows.

First, Japanese businesses seem to prefer the combination of "long-term employment, a performance-based wage system and training and education through job rotation." From the 1990s onwards, as Japanese business management and

employment systems were put under pressure to re-evaluate, a prevalent view was that the Japanese systems would head towards an Anglo-Saxon type employment system of “flexible hiring, a performance-based wage system and human resources development attaching great importance to the worker’s field of specialization.” However, today, Japanese businesses appear to be aiming at a path, which is neither the conventional Japanese model nor the Anglo-Saxon model. In the present survey, we interviewed several firms and found that many of them were very confident about the “employment system centering on long-term employment and job rotation.”

### Questionnaire Survey of Businesses on Human Resources Development

(%, No. of effective responses: 222)

	Strongly agree	More or less agree	Can't say	Do not agree
Increase the ratio of women hired	17.6	41.9	38.3	2.3
Should maintain the job rotation system (in human resources management)	34.7	46.8	17.1	1.4

Second, how to utilize women is of strategic importance. Many firms responded that they would like to increase the ratio of women in their employment. An analysis of the relationship between the findings from the questionnaire and financial indicators of businesses shows that the more aggressive an enterprise is about utilizing women, the higher are its profitability and future potential.

Third, there has been no change in the business stance toward using non-regular workers, such as part-timers, casual workers and temporary help (agency temps), and businesses are slow to switch non-regular workers into the regular worker category. As a result, youths who began their working lives as non-regular workers will always have to live with the disparity they suffered at the time of their entry into the labor market.

### *Maintaining Direction through Policy Support*

Even if businesses come up with suitable measures pertaining to the development and management of human capital and work-life balance, they will not function effectively if there is a gap between these measures and the viewpoints of ordinary workers. Therefore, this study conducted a questionnaire survey of young male and female workers to analyze their views on the development of their ability and work-life balance. Our findings are as follows.

First, there is a synergistic relationship between education offered by the employer and self-development efforts on the part of the worker. The proportion of those who are making efforts for self-development is higher among those who have participated in employer-offered training. Many of those who are working for self-development believe that, “The employer’s training was useful.”

Second, “time” is the largest constraint to self-development efforts. When asked why they are not working for self-development, the most often-cited reason among male workers and regular workers was “working hours and overtime are too long,” while that among female workers, part-timers and casual workers was “too busy with household work, childcare or caring for elderly relatives.”

Third, to the question of what conditions must be met for women to continue to work after childbirth, the answer was that the most effective means would be “making it possible to choose shorter working hours, while maintaining the status of a regular employee.”

Based on our study, it is possible to say that the key points of future human capital formation are as follows.

First, attach greater importance to the value of time. If working hours are increased, labor productivity appears to improve, but this is attained at the expense of personal life. What is necessary is to improve productivity per hour. Time is also important in terms of improving work-life balance. Long working hours impede men from realizing a personal life of quality. Time is the factor that businesses are most concerned with in terms of work-life balance, and it is also the greatest impediment to self-development on the part of individuals. Also, women attach great importance to time in determining whether or not to continue to work.

Second, greater importance must be attached to the value of women. So far, the Japanese economy as a whole has not fully utilized the latent power of women. Jobs have centered on men, and the wage gap between men and women has been large. Businesses have treated men as the core of their work force, but as the quantity and quality of human capital become increasingly important, treating women with high latent potential in the conventional manner will be a great waste of resources for the economy and enterprises.

Basically, Japan is moving in the direction of attaching greater importance to time and the value of women. In order to ensure that this trend continues, policy support is essential. For this reason, the following measures are called for.

1) Raise further the quality of human capital through education; 2) change the employment and tax systems to put greater importance on the value of time and women by realizing “equal pay for equal-value labor” and reviewing tax exemptions for dependents and 3) provide support for vocational training and career development, so that workers who started as non-regular workers will not be handicapped by various inequalities for their entire life.

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