

## 1 The Current Status of the Japanese Economy and Its Future Prospects

### The “Lost Two Decades” Following the Collapse of the Bubble Economy

In the latter half of the 1980s, the Japanese economy achieved high real economic growth in excess of 5%. This high growth potential in the real economy was also reflected in financial and securities markets, as well as in the asset value of companies. With stock prices reaching an all-time high of ¥38,915 at the end of 1989, Japanese companies were acquiring foreign companies and assets, encouraged in part by the impact of the strong yen at a time when corporate mergers and acquisitions (M&A) were a major trend. In response to these moves, Japan was highly praised by other advanced nations as the world’s number one. However, on reaching 1990, asset prices such as stock prices and land values immediately began to fall, and this decline was not stopped for a long time. Following this collapse of the so-called economic bubble, Japan entered a prolonged economic slowdown.

Thereafter, on at least three occasions to date, Japan has experienced deep recessions that could be described as the worst since the Second World War. Firstly, the decline in stock prices and land values that had been underway since 1990 eventually extended so far as to result in the bankruptcy of major financial institutions in November 1997, immediately after which a severe financial shrinkage began, which plunged Japan into a deep recession. Lending by financial institutions continued to decline sharply from 1998 and continued to fall for a long time, until a moderate increase reversed this process in mid-2005. Moreover, the unemployment rate (3.5% in November 1997) rose sharply in 1998, reaching 4.8% in June 1999, and the employment environment

increased the level of severity. In particular, with regard to the employment of those who had newly graduated from university, the period from graduation in around March 1994 to around 2005 is generally called the employment ice age, when there was a continuous period in which it was extremely difficult to find employment. The university graduate employment rate underwent a sustained decline from 66.6% for those graduating in March 1997, falling to 55.1% in March 2003.

The second recession occurred at the end of 2000 until the first half of 2002, when the financial shrinkage was still underway, caused by a worldwide recession in the field of semiconductors. Focusing primarily on electrical appliances, there was a major decrease in production in export-related areas of manufacturing industry; coupled with the deflationary effects of the financial shrinkage, this led to the unemployment rate beginning to rise from around May 2001, reaching 5.5% – the highest-ever rate – in June 2002 and again in August of that year. With regard to the job market for university graduates, as mentioned above, the job market for those graduating in March 2002 and March 2003 in particular was exceedingly harsh.

The third recession covers the period from September 2008, when the so-called “Lehman shock” (the bankruptcy of Lehman Brothers) took place, until the present day. From January 2002, the Japanese economy continued a moderate recovery (the period up to October 2007 alone became the longest since the war), and lending by financial institutions began to increase again from mid-2005, but from the end of 2007, in response to the worldwide economic slowdown, the economic situation became patchy. At

this point in time, the Lehman Shock occurred. In Japan, exports of goods such as motor vehicles fell significantly, which led to a major decrease in production in machinery-related industries. This decrease in production swiftly spilled over into all industries, as a result of the interindustry-relation effect, becoming a very fast-paced recession that was the largest since the war, with the index of industrial production demonstrating a fall of 30% compared with the previous year toward the first half of 2009. In addition, as if to add insult to injury, the East Japan Great Earthquake occurred in March 2011, when the economy had not yet completely recovered from the Lehman Shock.

Thus, over almost 20 years since the collapse of the bubble economy, Japan has been struck by a number of recessions. In recent years, apart from exceptions such as corporate profits, which have been achieving record highs, most economic indicators, including stock prices, GDP, capital investment, employee incomes and average wage levels, have either remained below the levels they were at in late 1997, when the financial shrinkage began, or are currently at levels below the 1997 levels after having exceeded them at one point. It is because of this that the period is referred to as the “lost decade” or the “lost two decades”.

### **Financial Shrinkage being a Major Reason for the Prolonged Recession**

Opinions may differ slightly between experts, but in our own approach, the biggest reason why the “lost period” has been so prolonged is considered to be the occurrence of the financial shrinkage.

At the time, amidst the progressive introduction of current value accounting, the major fall in asset prices was detrimental to the assets (stock) not only of financial institutions, but also of ordinary companies, and in order to deal with the reduction of excessive debt, they were compelled to achieve cost reductions (flow adjustment) by cutting back production and employment. This was the occurrence of the so-called “three excesses” (capacity, employment, debt).

With regard to this mechanism, it is currently a well-known phenomenon, with the term “balance-sheet recession” having been coined, but in the early

1990s, when the fall in asset prices had only just begun, there was no awareness in Japan of what this might bring about. As the economic growth rate had not decreased by a particularly great amount, there was not even any awareness that an economic slowdown had begun. Triggered by a book written by an expert, in the autumn of 1992, when about two and a half years had passed since the fall in asset prices had commenced, people started to be aware that an economic slowdown had begun that was different from those experienced hitherto. The delay in recognizing the recession might also be one reason why it became so prolonged.

However, it did not stop here. As stated above, stemming from the failure of major financial institutions at the end of 1997, financing shrank over a long period of time. Finance is truly the lifeblood of economic activity: it is behind all production activities, with the provision of operating capital (discounting of bills), as well, of course, as finance for capital investment. As a result of this shrinkage, economic activity itself was forced to contract, and a succession of companies went bankrupt.

With regard to the cause of financial shrinkage, firstly, it is related to the structure in which, unlike in the USA (Note 1), Japanese financial institutions held a large quantity of cross-owned company shares. The major decline in stock prices and land values resulted in a swift, large-scale deterioration in the financial situation of financial institutions. In addition, it was caused by finance provided to companies rapidly becoming bad debts due to the prolonged recession, and also by an impact from moves toward international finance-institutional reforms, through which financial institutions at that time were forced to strengthen their equity ratio. As well as speeding up the recovery of debts from companies, in order to ensure that the inevitable asset deterioration was not aggravated, these financial institutions curbed new lending to a significant degree (Note 2).

### **The Economic Policy of the Government and the Bank of Japan and Structural Issues in the Japanese Economy**

In response to these recessions, the government implemented a series of emergency economic

measures. In addition to pump-priming government expenditure, the government used public funds (taxes) to introduce capital injections to financial institutions, in order to ensure that the deterioration of loan assets into bad loans and measures to deal with this would not restrict the loan functions of these financial institutions.

At the same time, particularly from the latter half of the 1990s, in addition to the promotion of a policy of zero interest rates, the Bank of Japan implemented a quantitative easing policy as a deflationary measure, supplying a considerable amount of liquidity to commercial banks. Entering the first decade of the 21st century, with a mild economic recovery underway, the Bank of Japan was seen to explore the possibility of an “exit policy,” but up to the Lehman Shock, in the same way as the central banks of other advanced countries in the West, it adopted the unusual measure of widespread purchases not only of government bonds, but also of the negotiable securities of companies held by financial institutions, such as company bills, corporate bonds and CP, seeking to build up a supply of liquidity to the market.

However, despite these economic policies of the government and the Bank of Japan, the Japanese economy continued to experience low growth in the long term. It is thought that excessively low growth rates give rise to a vicious circle by causing the anticipated growth rate to decline, which brings about a structural stagnation in capital expenditure, as a result of which the low growth rate continues. In order to promote an internationally-competitive, technology-oriented nation, aggressive investment is essential (Note 3). Moreover, low growth not only causes increases in unemployment and wage stagnation, but also tears apart socioeconomic systems through such issues as the dissolution of employees’ pension funds and health insurance unions by companies that cannot sustain the increase of costs due to the aging of the population, conjointly with operational deterioration resulting from low interest rates, or major decreases in the national pension scheme receipt rate.

Major issues can also be seen elsewhere in terms of the economic structure. The biggest issue is believed to be the delay in improving (reforming) the

economic structure. This problem can be seen as being symbolic of the performance of the Japanese economy in regard to the strong yen since the 1980s. With regard to the strong yen and the recession, many Japanese companies responded by transferring their production hubs overseas and implementing cost reductions and operational rationalization based on an approach of “selection and concentration.” At that time, taking into consideration the fact that the rate of return on investment (investment efficiency) had been diminishing for a long time and that cost competition had become increasingly harsh due to the strong yen, this was rational behavior for companies. However, what remained as a result were an even stronger yen and the hollowing-out of domestic industry and employment. Rational behavior at the microeconomic level brought about even more deflationary tendencies and the contraction of domestic production at the macroeconomic level. What brought about the “fallacy of composition” was perhaps the fact that although the government had a plan in which it would join together with the business community to create new industries and seek a strategic switchover in the industrial structure, it did not implement initiatives that would lead to the development of projects that would attract businesses and investment from overseas utilizing yen being bought. This is a problem that many experts have been united in pointing out.

Secondly, various labor problems will be taken up in detail in the chapters that follow, such as the hollowing-out of employment, the explosion in the number of non-permanent workers, long working hours concentrated at specific workers, and the long-term stagnation of wages; although they are problems that have emerged as a result of the deterioration of the economic situation, they themselves form one of the most serious economic problems facing Japan at present.

Thirdly, the economies of Japan’s provinces are exhausted and stagnating. In combination with the deterioration of local government finances, it has also been affected by the fact that public investment has been on the decrease for a long time. The current state of the provincial economies is very serious and, as if to add insult to injury, the impact of the East Japan Great Earthquake is giving rise to even greater

concern.

Finally, because a large quantity of government bonds were issued as part of the aforementioned fiscal stimulus, Japan's public bond balance increased dramatically from the 1990s onwards, reaching 1.98 times GDP in 2010 (incidentally, with regard to the figures for other countries, 0.93 times for the USA, 0.81 for the UK, 0.92 for France and 0.80 for Germany = OECD survey), giving Japan far and away the highest proportion among all advanced countries. Furthermore, government bonds account for more than 30 – 40% of the national budget in each fiscal year, and outstanding debt is rising further. The steep rise in the public bond balance is increasing the sense of anxiety about the future destabilization of government bond markets and whether it might not result in crowding out private capital investment funds.

### Prospects for the Economy in the Immediate Future

The recent East Japan Great Earthquake occurred before the economy had properly recovered from the Lehman Shock.

Companies making materials and components for manufacturing industry are concentrated in the disaster-struck area, which form the backbone supporting this technology-oriented nation. The damage afflicting these producers made it difficult for companies not only in Japan but also across the globe to procure components and other materials, leading to production stoppages and a major decrease in the capacity utilization rate. Moreover, this region is one of Japan's foremost agricultural and fishery production regions; in addition to the production areas being ruined and the producers suffering major damage, the impact of radiation contamination, therefore, has led to shipments of agricultural and marine products being ceased or restricted (including

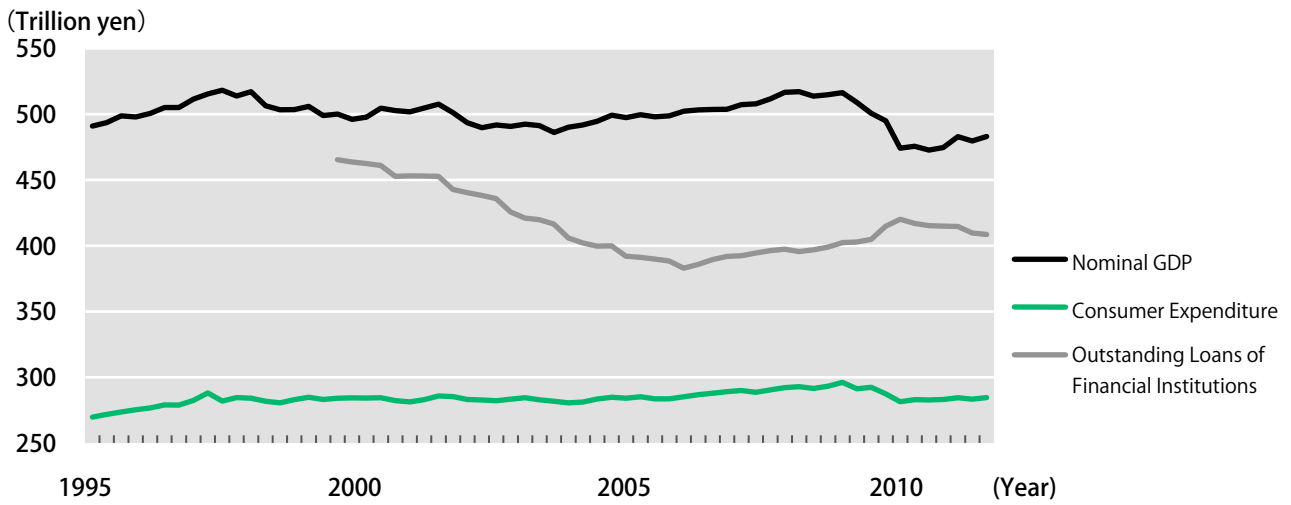
exports), which has had an immense impact on markets and ordinary households across the country, plunging them into chaos.

In the future, how can the industries and the living environment of the populace be restored? What effects will the damage to the producers and the impact of the nuclear power station accident have on economic activities and the lives of citizens across the country? Moreover, what impact will the problem of inadequate power supply have on industry in particular? Furthermore, in the medium- to long-term, companies (including those overseas) will generally replace components that have become impossible to procure with those produced by alternative companies and regions (including those overseas), which endangers the producers in the disaster-struck areas, if the recovery is delayed, to find their own business partners to supply once they have recovered. How can they overcome this situation well? Moreover, it is uncertain how the nuclear power policy will be revised and how this will affect electrical power supply? While praying that the producers and the lives of citizens will recover at the earliest juncture possible, it will be necessary to observe carefully to see how Japan can overcome the aforementioned short-, medium- and long-term challenges (Note 4).

Notes:

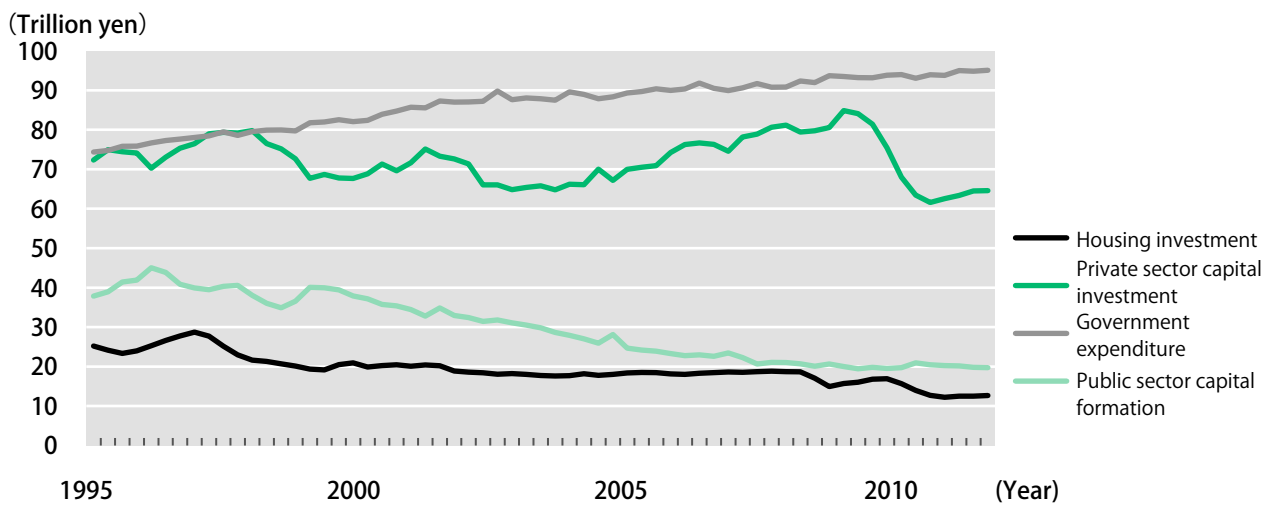
1. In the USA, as early as 1933, immediately after the Great Depression, the Glass-Steagall Act was enacted, prohibiting commercial banks from investing in company shares, which was one of the causes of the depression, to achieve the separation of duties by bank type.
2. The outstanding loans of financial institutions continued to decrease from late 1997 to mid-2005. Usually, a decrease in stock data is an extremely abnormal economic phenomenon.
3. The economist J. A. Schumpeter argued in his *Theory of Economic Development*, the original of which was in German translated under this title in the English version, that creative destruction and innovation have an important role to play in economies. In addition, at the same time, he emphasized that credit creation is vital to innovation. In relation to this paper, which also refers to financial shrinkage, this will be a crucial point that we ought to recall.
4. This is our concern as of in May 2011, when this chapter is being produced.

## I-1 Developments in GDP, Capital Investment and the Outstanding Loans of Financial Institutions (All Nominal Values)

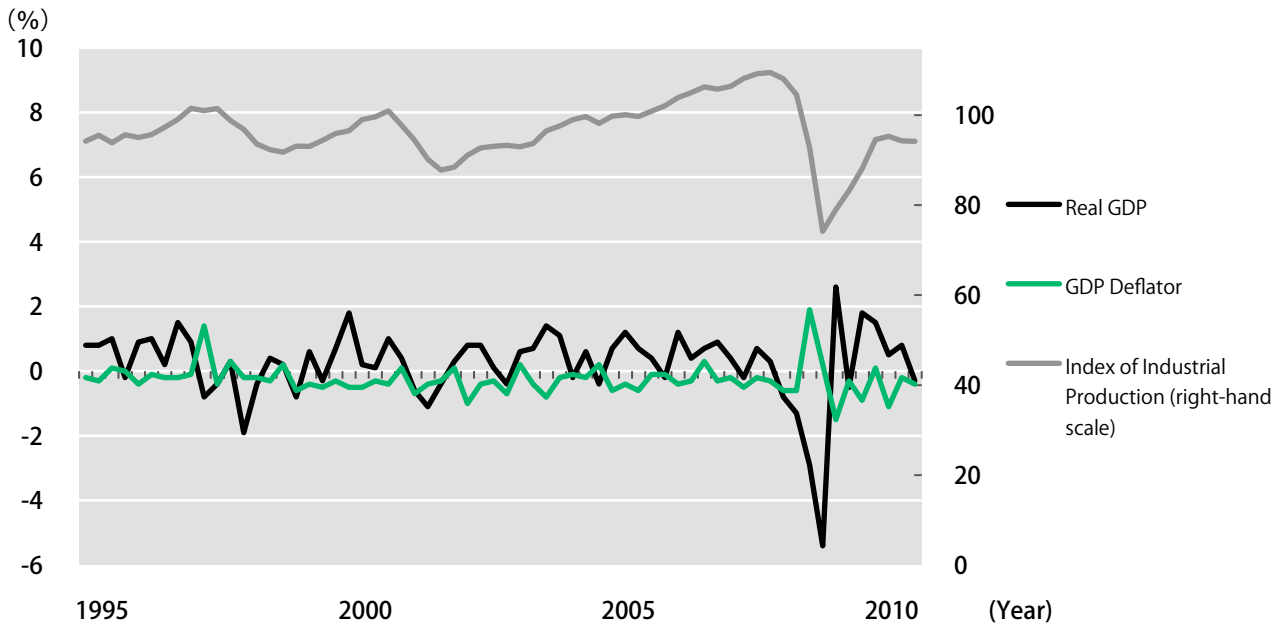


Note: Nominal GDP and consumer expenditure are seasonally-adjusted figures for each quarter. The figures for outstanding loans of financial institutions were compiled from the three-monthly average of the monthly data. In addition, it was not possible to obtain data for the outstanding loans of financial institutions before the January-to-March period 1999 (this was previously carried on the Bank of Japan website).

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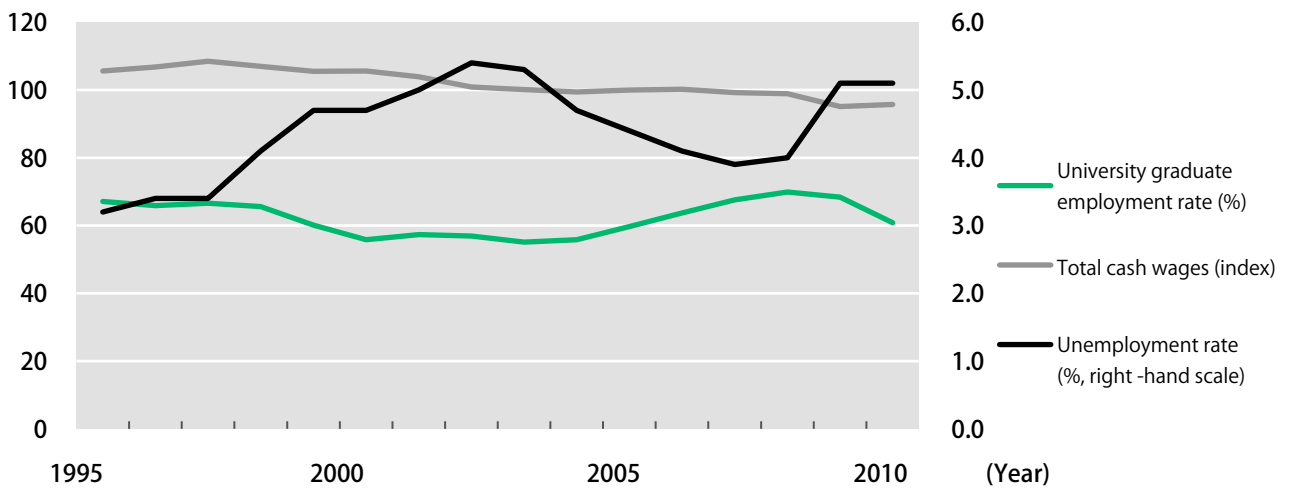


### I-2 Real GDP Growth Rate, GDP Deflator and the Index of Industrial Production (Seasonally-adjusted Figures for Each Quarter)



Note: Real GDP and GDP deflator figures are the rate of change compared with the previous period. The index of industrial production is an index (2005 average = 100).

### I-3 Labor-related Indicators



Note: In the index for total cash wages, 2005 average = 100

### **The Post-bubble Recession – Economic Expansion – Economic Crisis – Major Earthquake**

The Japanese economy has gone through many twists and turns since the 1990s, after the collapse of the economic bubble, up to the present day, and debate has surfaced about revising the employment and labor situation.

The Japanese economy, which was beset by a serious recession as a result of the collapse of the economic bubble, underwent a harsh restructuring process; by the early 2000s, it had eliminated the three excesses (capacity, employment and debt) and emerged from recession as its exports to the U.S. and China intensified. The economic uptrend lasted a record 69 months from February 2002 to October 2007, exceeding the 57-month period of high growth during the late 1960s. However, during this period, the real GDP growth rate remained around 2%, so it is characterized by a very small growth rate, compared with the fact that the high growth rate during the period of economic expansion reached 10% in real terms.

Lehman shock, the worldwide economic crisis, which was triggered by the collapse on September 15, 2008 of the U.S. investment bank Lehman Brothers, completely transformed the Japanese economic landscape, and the real GDP growth rate recorded negative figures for two consecutive years, in FY2008 and FY2009. During this time, exports recovered from around the spring of 2009, and the economy was rallying, albeit weakly. Just at that point, the Great East Japan Earthquake hit the Japanese archipelago on March 11, 2011. In addition to the direct damage, the Japanese economy was overcast with dark clouds as a result of disruption to the supply of components, the nuclear power station disaster and constraints on the supply of electricity.

If one looks back over the employment situation, one can see that the problem of unemployment intensified as a result of the large-scale financial

meltdown in 1997, with the overall unemployment rate recording a record high of 5.5% in April 2003, with the figure for the whole of 2003 reaching 5.3%. During the subsequent period of economic recovery, the unemployment rate took a favorable turn and mostly remained at around the 4% level between 2004 and 2008 (falling to 3.9% in 2007). However, as a result of the storm that was the worldwide economic downturn that was triggered by the Lehman Shock, the employment situation suffered an unprecedentedly sharp deterioration, the unemployment rate once again returned to around the 5% level for two years in succession, in 2009 and 2010.

Furthermore, due to the impact of the earthquake, the prospects are anticipated to be bleak. It goes without saying that support for employment is vital in order to achieve economic recovery, and measures to support the maintenance and creation of employment will come under even closer scrutiny than before.

### **Changes Affecting Employment and Labor**

This immense earthquake occurred amidst the aftermath of the historic transformation symbolized by the Lehman Shock and the chaos that followed in its wake. Therefore, Japanese society is even more strongly in need of a new vision for recovery and reconstruction. The employment and labor situation is no exception either. Various changes in the employment and labor situation have taken place due to adjustments that have occurred during periods of prolonged economic slump through to periods of economic expansion, and a number of issues have surfaced. In developing a vision for a major depression and the aftermath of the earthquake, there is renewed awareness that these issues should be confronted.

One was the increase in non-regular employees and widening of the wage gap. Factors including moves by companies to cut fixed costs and diversifying outlooks among workers caused the proportion of non-regular employees to rise to the

point that they now account for over 30% of employees. A serious problem was the sudden decrease in the proportion of young people in regular employment from the mid-1990s. Many of those who were unable to find regular employment during the employment “ice age” during the recession remain in non-regular employment or without jobs altogether. The number of so-called “freeters” is declining, but the situation regarding “older freeters” has not improved conspicuously and their number still remains high.

This situation has given rise to a variety of problems. Lacking much financial leeway, most non-regular employees are poorly placed to plan their lives, and there are concerns that their number could hasten the decline of the birthrate due to their tendency to marry later or not at all. They have fewer opportunities to undergo education and training, widening the gap in vocational skills between regular and non-regular employees, and there is evidence of a broadening wage gap among young people that, it is feared, could increase further and become entrenched. One consequence of the rise in non-regular employment has been the emergence of the problem of the “working poor,” i.e., people on low incomes of not more than 1.50 million yen a year who now account for at least 20% of employed workers.

A second issue concerns regular employees. As companies have narrowed down their regular workforces, many such employees now find themselves having to work longer hours. To take a specific example, around 20% of 30-year-old males work 60-hour weeks or more. Japanese men spend less time on housework and with their children than their North American and European counterparts, placing a consequently greater burden on their spouses. For women, being a regular employee means having to make a choice between either remaining in employment or leaving the workforce to marry and have children, a factor that is regarded as contributing to the decline of the birthrate. This is also an issue that can have implications for mental health and even lead to death through overwork.

Although the annual number of hours actually worked per employed worker in Japan is shrinking, a more detailed breakdown shows that this has

generated an increase in part-time workers (the majority of whom are non-regular employees), as a consequence of which there has been no conspicuous shortening of regular employees’ working hours. Instead, working hours are becoming polarized around each end of the spectrum.

While regular employees enjoy strong job security, they tend to have to follow their employers’ wishes as regards, for example, working hours and place of work. Thus while they enjoy security, they are also restricted to a considerable degree. Non-regular employees, on the other hand, face fewer restrictions in terms of overtime and so forth, but do suffer a lack of job security. The existence of a rigid barrier between regular and non-regular employment has drawn severe criticism on the grounds that it prevents a diversity of human resources, such as women, older people, and the young, from exercising their abilities and impedes their use. The creation of a mechanism that provides procedures that ensure continuous treatment and a means of transitioning between the stages, rather than forcing working people to make a choice between either regular or non-regular employment, is surfacing as a challenge.

A third characteristic is the lag in improvement in wages compared with the improvement in corporate earnings during the present recovery. An examination of changes in wages over time in all industries combined according to the Laspeyres wage index (a weighted average index employing fixed attributes in each year that is used to compare the wage levels of workers of the same age profile in each year) calculated by the Japan Institute for Labour Policy and Training (JILPT) reveals that while wages increased continuously from 1986 to 2001 before declining in 2002 and then leveling out according to the simple wage index, the rate of growth in the Laspeyres index was zero in 1998, since then it has declined continuously except 2007. This reflects companies’ efforts to improve their financial soundness in the face of growing globalization, which has led to their adopting an aggressive approach to curbing personnel expenditures.

Workers have thus not felt the full benefits of economic growth in their everyday lives, and it is due in part to this that growth in consumption expenditure



has been lackluster and the recovery has, with the exception of capital investment, tended to be driven largely by growth in exports. During the worldwide economic crisis in the autumn of 2008, this dependence on exports dealt a blow to the Japanese economy, which people thought had already overcome the financial crisis, and was the reason why Japan recorded the biggest drop in GDP of all the advanced nations.

In relation to this kind of curbing of labor costs, companies have been undertaking revisions of the wage system for regular employees since the 1990s. This is the fourth characteristic. Many have opted, for example, to link bonuses to corporate results, introduce performance- and results-based pay, and downsize or discontinue regular wage hikes. Generally speaking, in order to curb overall labor costs, one can say that companies have controlled the wages of regular workers by revising wage system, while seeking to increase the number of irregular workers. However, one can also see cases in which the rapid change in wage systems has had a deleterious effect on the motivation of employees and from around the middle of the first decade of the 21st century, companies began to repent regarding the introduction of performance-based pay, which “went too far,” and moves toward remedying the situation emerged. Nevertheless, arrangements for determining wages and forms of treatment taking into consideration individual workers’ performance, results, personal approach to work, and vocational skills are now more widespread than they were before. The Shunto spring wage offensive system, which can be described as the noble cause promoted by the post-war labor movement in Japan, is a system through which in-house company unions form ranks by industry, with the unions in each industry conducting negotiations aimed at wage increases at more-or-less the same time, creating a “going rate” for wage increases, which has a ripple effect. In particular, during the postwar high economic growth period, this system significantly contributed to expanding domestic demand and equalizing the wages of Japanese workers. However, this ripple effect has been diminishing. This has also played a part in forcing the Shunto spring wage offensive, the

distinctive Japanese system of determining wages, to change and adapt.

The fifth characteristic that may be identified is the individualization of these labor relations. While collective labor disputes between employers and labor unions are down sharply compared with in the past, individual labor disputes between employers and individuals are rising. With regard to the labor legislation system in Japan, laws concerning individual labor disputes were lax because collective labor relations were emphasized, but in recent years, measures have been introduced, such as the entry into force of the Act on Promoting the Resolution of Individual Labor-Related Disputes (2001), which contains provisions relating to advice, recommendations and mediation by prefectural labor bureaus, the creation of a labor tribunal system (2006) in which judges and those with expert knowledge of labor-management relations reach a consensus, based on labor arbitration, and the enactment of the Labor Contract Act (2008).

One development to be noted in this context is the downward trend in the unionization rate. The unionization rate is facing a situation in which it is falling below 20%. In Japan, where in-house company unions form the mainstream, there are many unions whose membership is restricted to regular employees, and despite the fact that the number of irregular employees is rising sharply, their unionization is lagging behind the actual situation. Entering the first decade of the 21st century, although labor unions have begun to make an effort to unionize irregular employees as well, the unionization rate of part-time workers is still only around the 5% level.

Japan’s labor legislation system has been constructed on the basis of the approach that laws are used to determine the minimum standard for working conditions, while labor conditions in excess of these levels should be determined through negotiations between management and labor. For small companies and irregular workers, the reality is that this public stance is losing substance, because the unionization rate is so low. Consequently, the construction of a system of collective labor-management relations that reflects the interests of these sectors is also emerging as a challenge.

## Measures to Reverse Birthrate Decline and Promotion of the Work-life Balance

In view of these changing circumstances, the primary focus of Government action has been the decline of the labor force. Japan's birthrate is declining rapidly and the population went into decline in 2005. If this trend continues, people aged 65 and over may account for approximately 30% of the total population in 2017, and 40% in 2055. The declining birthrate is causing growing public anxiety about the sustainability of Japan's society and economy. Raising the employment rate and productivity will be crucial to maintaining Japan's social and economic dynamism under conditions of demographic decline.

In June 2010, the government determined its New Growth Strategy. This set out such targets as i) achieving an economic growth rate of 3% in nominal terms and 2% in real terms, and ii) reducing the unemployment rate to 3% as soon as possible. In particular, it prescribed the creation of new demand and employment in four fields: the environment, health, Asia, and tourism. It also set forth the Employment and Personnel Strategy as a pillar supporting the growth strategy, stipulating specific figures concerning the employment rate to be achieved, with 2020 as the target year. The rate for those aged between 20 and 64 was set at 80%, with specific target figures being prescribed for four particular sectors of the labor market: young people, women, older people, and persons with disabilities.

A key element of the strategy to help workers to achieve a better work-life balance is a charter established in 2007 and now being promoted by the Government. Balancing work and personal life is considered essential to enabling workers to lead rich social lives, and is also argued to be necessary to preventing harm to health, slowing the decline in the birthrate and maintaining social security, raising the employment rate, and increasing productivity through the promotion of more efficient ways of working.

## Development of Safety Net and Employment Adjustment Subsidies

The financial crisis that originated in the U.S. brought about a contraction in the worldwide economy, and the employment situation in each

country rapidly deteriorated. Amidst this situation, what characterized Japan was the fact that unemployment among irregular workers, whose numbers had swelled sharply over the previous decade or so, reached remarkably high levels. The recession has dealt a direct blow to the export industries, such as automobile and electrical and electronics manufacturing, that were the mainstay of the Japanese economy, and it is in manufacturing that the problem of unemployment among temporary agency workers first became prominent, leading to terms such as *hakengiri* (dismissal of dispatched workers) and *yatoidome* (non-renewal of contracts) gaining common currency in the media.

Since the summer of 2008, the Japanese government has implemented emergency measures concerning the economy and employment on six occasions. One of the pillars of its employment-related measures is the enhancement of employment safety nets, whose defects had become apparent with the steep rise in the number of unemployed people. One of these was the reform of the employment insurance system; the system had hitherto set as a condition for enrolment "having the prospect of being employed for at least a year," so many dispatched workers fell through the gaps. Accordingly, the system was revised and the requirement was eased in 2009 to "having the prospect of being employed for at least six months," with the scope of application being further expanded from April 2010 to "having the prospect of being employed for at least 31 days."

Moves also progressed with the aim of constructing a "second safety net" to support the employment of those who were not eligible for employment insurance and create a multi-layered safety net. Firstly, an emergency program was implemented that supplemented the rent of people who had lost their homes as a result of becoming separated from their employment. From July 2009, the "emergency human resource development support project" began, which was aimed at jobseekers who were not eligible to receive employment insurance and which involves providing free vocational training and support for their living costs during the training period. The latter was made permanent in FY2011, with the establishment of the "jobseeker support

system.”

Another key element is the enhancement of the employment aid subsidy. This is a system that provides a subsidy from the state to cover costs in the event that a company is forced by recession to downsize its business and maintains employment by giving employees a temporary leave of absence from work, providing them with education or training, or dispatching them to a subsidiary company. It was established as an employment measure at the time of the first oil crisis in 1975, with reference to Germany’s “system of subsidies for workers subject to short-time working.”

In December 2008, the payout requirements were relaxed and measures aimed at a significant expansion in the content of the subsidy were implemented. For example, the proportion of wages subsidized was increased from two-thirds to four-fifths in the case of small and medium-sized enterprises. As a result, as of July 2010, the number of people on temporary layoffs in regard to whom the system was being utilized had climbed to approximately 1.21 million.

Since the collapse of the economic bubble, some have argued that the employment adjustment subsidy should be abolished, on the grounds that it aids the survival of so-called “zombie companies” and hinders the transformation of the industrial structure. However, one can say that it has had the policy effect of preventing the employment crisis during the worldwide recession becoming more severe on the margins.

Following the Great East Japan Earthquake, special measures relating to the employment adjustment subsidy have been applied to companies in the disaster-hit areas, such as reducing the production volume verification period to the last month, rather than the last three months.

## **Economic Crisis and Japanese-style Employment Systems**

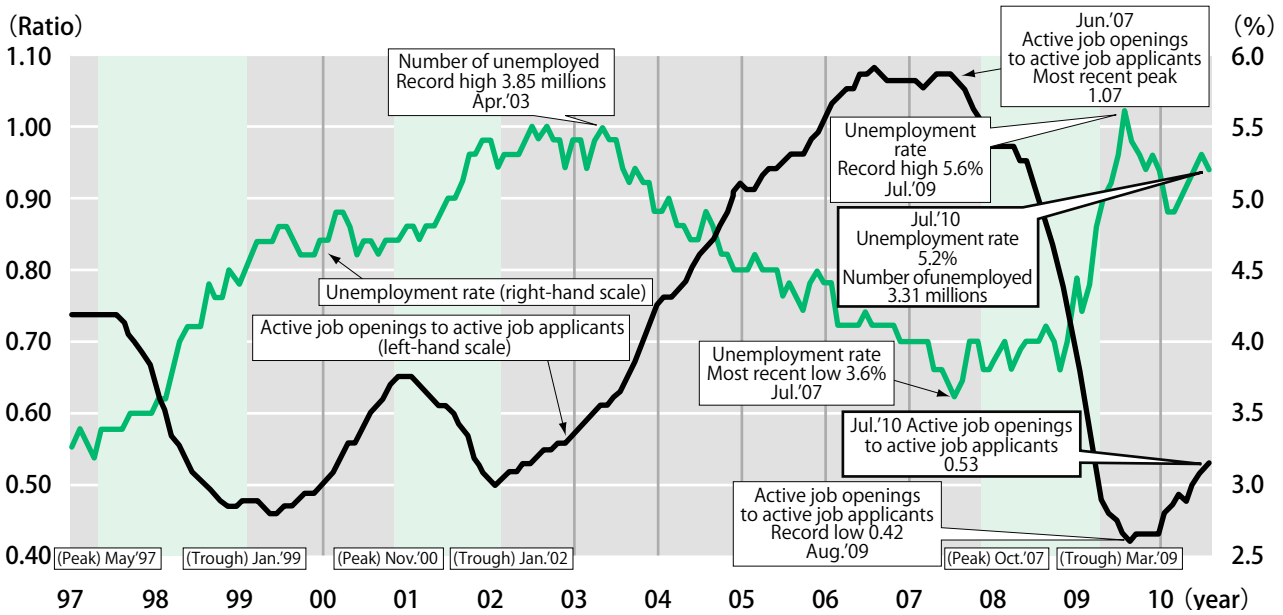
The assessment of “Japanese-style employment

systems,” which revolve around the practice of long-employment, wavered during this period. Going back slightly earlier, the Japan of the 1970s and 1980s maintained stable growth at a time when Europe and North America were mired in a prolonged slump, and Japan became the world’s largest trading nation. Following the Plaza Accord drawn up in response, Japan enjoyed unprecedented but unsustainable prosperity. During the 1980s, advocates within Japan and overseas attempted an approach that sought to get a lot closer to the prosperity of the Japanese economy, which was in contrast to the stagnation seen in the West. One area to attract interest was Japan’s employment systems, which revolved primarily around the practice of long-term employment, seniority-based wages, and enterprise unions.

During the recession of the 1990s, however, the view of Japanese-style employment systems suddenly became more critical. Looking back now, the change in the assessment was surprisingly significant. As the economy recovered, companies regained their management confidence and opinion surveys of workers, too, suggested that the perception of long-term employment practices and seniority-based wages was also recovering. The sense of solidarity with the organization and career development premised on continued employment at the same company, which had been widely criticized as weaknesses of Japanese-style employment, are also being increasingly viewed in a positive light.

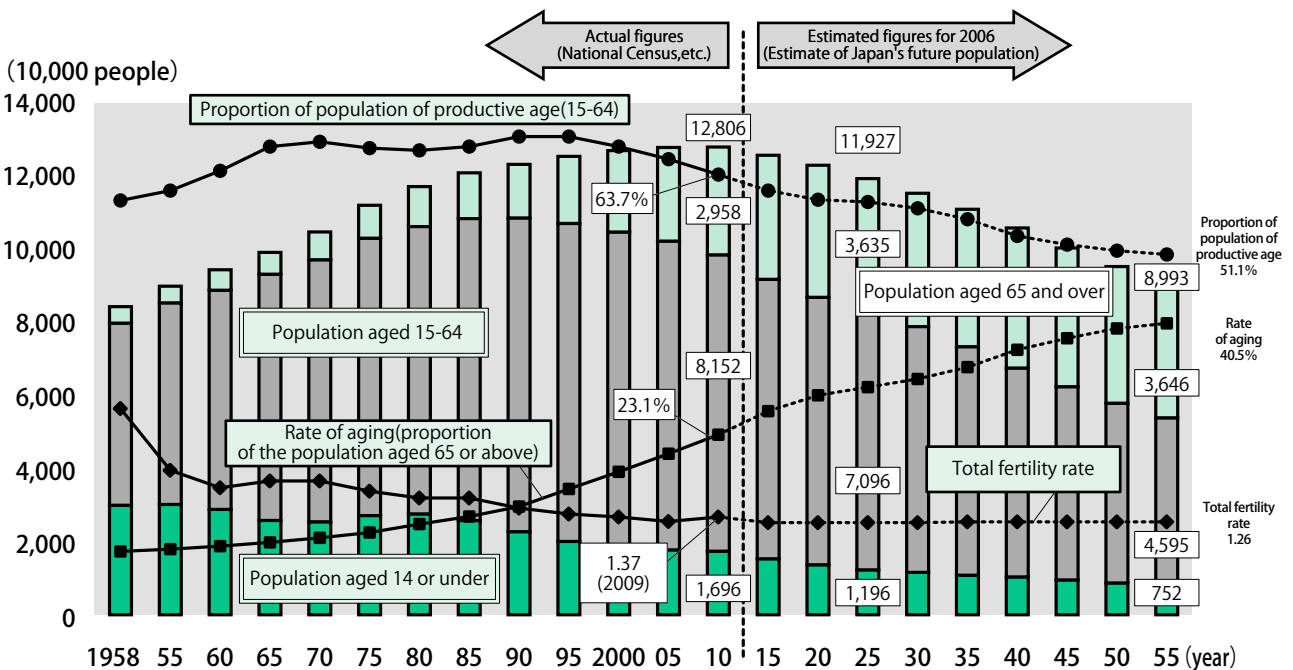
Having said that, it is hard to get away from the fact that the employment structure is changing, with irregular employees accounting for more than 30% of all employed workers, and Japan is facing the aforementioned issues. How can the virtues of the Japanese-style employment system be maintained and how can it be reformed, with a view to resolving such issues? These can be described as the questions being asked as Japan seeks to create a vision for getting through an unprecedented economic crisis and recovering from a major earthquake.

### I-4 Trends in Unemployment Rate and Ratio of Active Job Openings to Active Job Applicants



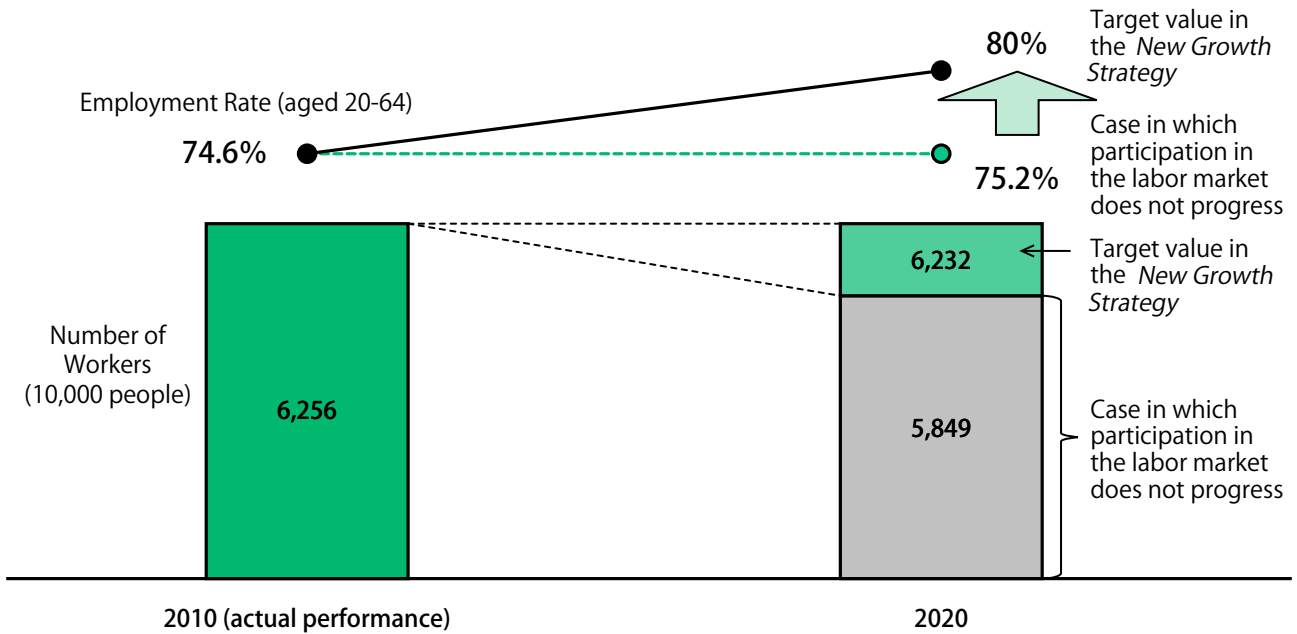
Sources: Ministry of Internal Affairs and Communications, *Labour Force Survey*  
 Ministry of Health, Labour and Welfare, *Corporate Goods Price Index, Report on Employment Service*  
 Note: The shaded sections indicate periods of economic downturn.

### I-5 Changes in the Population



Sources: Figures up to 2005 are from the Ministry of Internal Affairs Communications Statistics Bureau *National Census*, figures to 2010 are from the Ministry of Internal Affairs and Communications Statistics Bureau *Population Estimate (as of October 1)*, and figures from 2015 onwards are from the National Institute of Population and Social Security Research *Population Projections for Japan (Estimates Dated December 2006) Intermediate Projections*

## I-6 Prospects for the Number of Workers and Employment Rate



Source: Ministry of Health, Labour and Welfare, *Reference of Important Point for Labor Policy, FY 2011*

Notes: 1) In the New Growth Strategy, the target employment rate among those aged 20-64 is set at 80%(2020), with the employment rate among those aged 15 and above(56.9%) being maintained through 2020. The number of workers focuses on those aged 15 and above, and is the projected value in the event that the target employment rate for 2020 is achieved.

2) "Case in which participation in the labor market does not progress" is a case that hypothesizes that the employment rate by gender and age in 2009 does not change by 2020.

The number of workers in 2020 is calculated by multiplying the National Institute of Population and Social Security Research's projection for 2020(*Population Projections by Sex and Age Group [2020]*) by the employment rate for 2009 at each level. The 2020 employment rate(aged 20-64) is calculated by dividing the calculated number of workers(aged 20-64) by the 2020 population aged 20-64.

## I-7 Laspeyres Wage Index

(Growth rate compared with the previous year)

Year	All industries		Construction industry		Manufacturing industry	
	Laspeyres wage index	Simple average index	Laspeyres wage index	Simple average index	Laspeyres wage index	Simple average index
1986	2.3	3.2	1.7	2.6	1.9	2.9
1987	1.2	2.5	2.0	4.1	1.0	2.1
1988	2.5	2.5	2.8	2.0	2.1	2.5
1989	3.1	4.3	4.8	5.8	2.9	3.6
1990	4.6	5.3	6	6.5	4.4	5.4
1991	4.1	4.6	4.4	5.8	4.3	4.7
1992	3.4	3.3	5.6	5.2	3.2	3.7
1993	1.6	2.1	2.7	1.7	1.7	2.8
1994	1.3	2.6	1.4	2.0	1.2	3.1
1995	0.1	1.0	0.2	0.9	0.1	0.8
1996	0.5	1.5	-0.4	-0.9	0.5	1.8
1997	0.3	1.1	0.1	1.8	0.6	1.2
1998	0.0	0.1	-1.5	-1.1	0.5	0.8
1999	-0.7	0.5	-0.1	1.0	-1.1	0.5
2000	-0.7	0.5	-1.4	0.0	-0.4	0.7
2001	-0.1	1.2	-0.2	1.6	0.2	1.5
2002	-1.3	-1.0	-3.5	-3.7	-1.1	-0.4
2003	-0.7	-0.2	-0.3	1.0	-0.7	0.0
2004	-0.7	-0.2	-0.5	0.8	-1.3	-1.1
2005	-0.2	0.1	-1.1	0.6	-0.2	-0.3
2006	-0.1	-0.1	0.5	0.6	1.5	2.6
2007	0.1	-0.2	-0.9	-0.7	-0.3	-0.9
2008	-0.5	-0.7	-0.9	-1.4	-0.7	-1.1
2009	-1.7	-1.5	0.2	0.6	-2.1	-2.0

Sources: Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure*, The Japan Institute for Labour Policy and Training, *Useful Labor Statistics* 2011

## I-8 Polarization of Working Hours

(Million persons)

Working hours per week	2004	2006	2008	2009	2010
60 hours and more	6.39 12.2%	5.80 10.8%	5.37 10.0%	4.91 9.2%	5.02 9.4%
30 and more, less than 60 hours	33.54 64.0%	35.53 66.4%	34.37 63.7%	33.77 63.6%	33.83 63.6%
Less than 35 hours	12.37 23.6%	12.05 22.5%	14.07 26.1%	14.31 26.9%	14.14 26.6%
Total	52.43	53.53	53.94	53.13	53.16

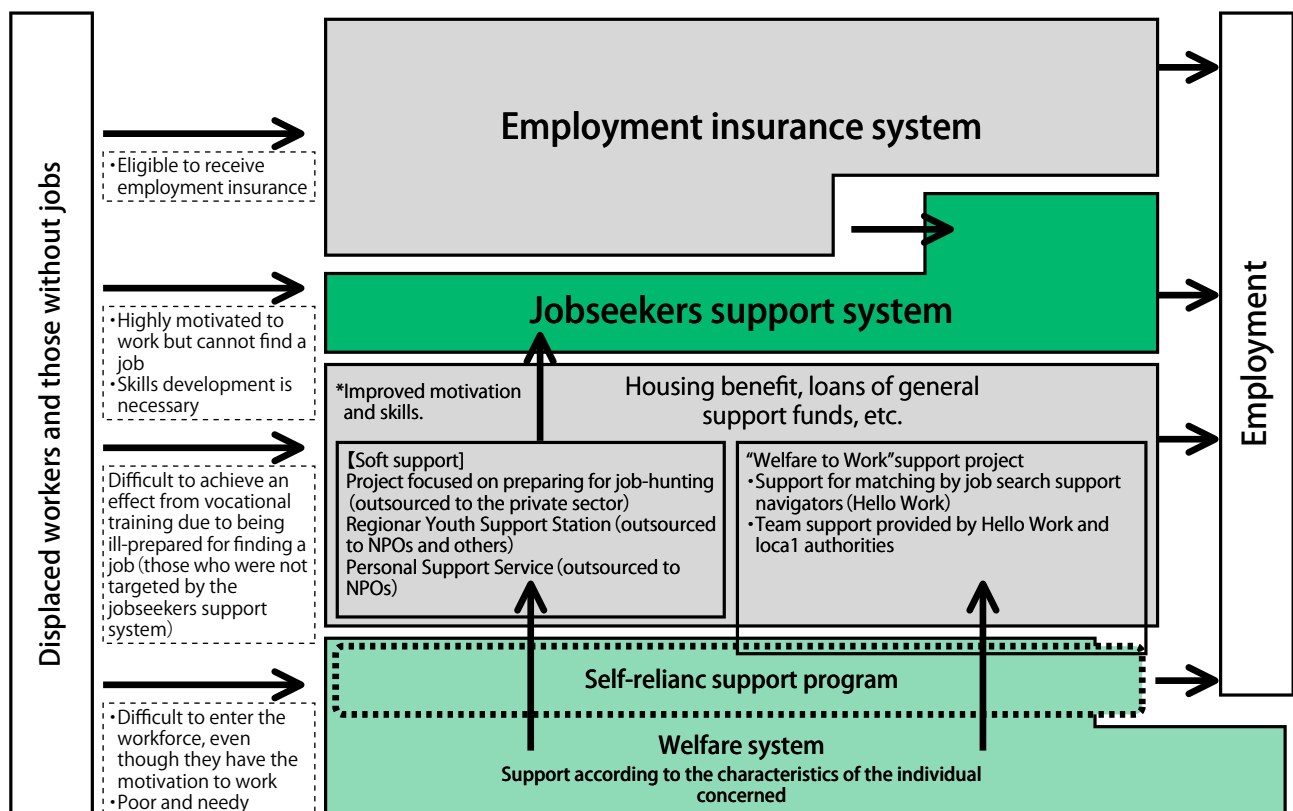
(Males in their thirties working at least 60 hours per week)

	2004	2006	2008	2009	2010
60 hours and more	1.53 20.3%	1.88 21.7%	1.72 20.0%	1.50 18.0%	1.53 18.7%

Source: Ministry of Internal Affairs and Communications, *Labour Force Survey*

Note: The top table gives the figures for employees. As it was not possible to obtain information on "Male in their thirties at least 60 hours per week" for employees only due to statistical constraints, however, the bottom table was produced based on statistics for all workers, including the self-employed workers in family businesses.

## I-9 Concerning the Safety Net for the Unemployed



Source: Ministry of Health, Labour and Welfare, *Reference of Important Point for Labor Policy, FY 2011*