

## Structural Unemployment Measures in Japan\*

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### 1. Introduction

The unemployment rate in Japan has remained in the five percent range for about one year. In the last six years, since 1998, the government has introduced five employment policy packages. Except for a brief period immediately following World War II, the unemployment rate has been low, and little attention had been directed to positive employment policies until the mid-1990s. Even so, on several occasions measures to combat unemployment have become major issues in government policy: 1) during the period of high unemployment right after the war, 2) when unemployment policies were implemented for unemployed coal miners, 3) when unemployment policies were taken in the wake of the first oil crisis, 4) when the five employment policy packages were introduced recently in response to rising unemployment, and 5) between 2002 and 2003 when employment measures were taken to cope with the fallout from non-performing loans. The goal of this article is to present an overview of these postwar employment policies.

One of the basic goals of economic policy is to bring prosperity and stability to the economic life of a country. Hence, reducing unemployment and anxiety over employment prospects naturally constitutes an important part of an economic policy. For this reason, analyzing unemployment rates has been a major theme in macroeconomic studies.

Differences over employment policies exist. First, there is the Keynesian view in which unemployment is, for the most part, thought to be involuntary, caused by the slowness of nominal wages to change. Therefore, an important tool to combat unemployment is a policy of managing aggregate demand through tax cuts or increased public spending. Full employment can only be achieved through the pursuit of such

policies.<sup>1</sup> In response to periods of prolonged inflation in many of the developed nations, this viewpoint gradually evolved into one that opted for tradeoffs between inflation and unemployment. In many countries that underwent inflation in the 1970s, however, such tradeoffs no longer seemed applicable. Consequently, the idea of a natural unemployment rate came to be more widely accepted among economists than that of nonvoluntary unemployment. According to the theory of “natural unemployment rate,” demand management policy can create only short-term effects, and is ineffective in the long run under conditions of rigid nominal wages. Taking this idea a step further and assuming that nominal wages are not rigid, it has been argued that demand management policy is ineffective even in the short run when inflation has been predicted. There have been new theories that seek to explain that changes in unemployment rates are caused by factors other than a change in aggregate demand. For example, one such theory has been called structural unemployment, according to which, unemployment increases when people in a particular sector or firm need to seek employment in different sectors and different companies not because of a shock that evenly affects the entire economy, but rather because of a shock or a series of shocks affecting a particular sector or firm.<sup>2</sup>

Essentially, widely differing employment policies evolve from these two theories. If unemployment is thought to be caused by rigid nominal wages, then creating systems that allow nominal wages to shift more flexibly will become important. Moreover, since aggregate demand management policy is assumed to be effective in this case, expanding aggregate demand through public investment and tax cuts and creating employment will become a chief unemployment measure. On the other hand, if unemployment is thought to be caused by structural shocks resulting from, for example, technological innovation or deregulation, the main goal in combating unemployment will be facilitating transfer of human resources among sectors.

This article begins with a brief overview of postwar Japan’s principal employment policies and then discusses the contents and effects of recently

\* I am most grateful for data and other materials provided by the Employment Policy Division of the Ministry of Health, Labour and Welfare. This paper is based on Ohtake (2000), with substantial additions and revisions.

<sup>1</sup> The formulation of employment legislation in the United States was based on such a view. See Inoki (1999).

<sup>2</sup> For discussion on the concept of structural unemployment, see Genda and Kondo (2003).

adopted policies. The article is organized as follows. Section 2 summarizes the history of postwar employment policies. Section 3 describes the five employment packages implemented since 1998. Section 4 covers unemployment measures targeting displaced workers resulting from the liquidation of non-performing loans implemented since 2002. Conclusions are drawn and future measures are suggested in Section 5.

## 2. Employment Policies after World War II<sup>3</sup>

### 2.1 Summary of Employment Policies after the War

Essentially, the Emergency Unemployment Countermeasures Law (1949) following World War II was a demand management policy using public works (see Appendix 1). While it sought to curb unemployment through both direct job creation measures for the unemployed and indirect job creation via public works, the latter dominated. The Temporary Law to Deal with Redundant Coal Miners, adopted at the end of the 1950s, was an example of an unemployment policy aimed at an adjustment of the labor market structure by encouraging labor turnover. The policy, which coincided with high economic growth, prompted many workers to move into the manufacturing sector.

Subsequently, the unemployment rate remained low and no substantial active employment policies were implemented. This changed considerably during the period of employment adjustment that followed the first oil crisis. In 1975, the unemployment insurance system was drastically revised and, concurrently with the existing unemployment benefit system, a new employment insurance system was established. Under the new scheme, subsidies were provided aiming to positively maintain employment.

Since 1998, employment policies have followed three principal courses of action. The first one involves an expansion of the traditional policy of maintaining employment. A typical example includes raising the rate of subsidies for employment adjustment, such as subsidies dealing with the suspension of business operations, for the education and training of employees, and for the transfer of employees to an affiliated or related firm (*shukko*). The second is also based on traditional policy involving the use

of public works to absorb the unemployed and maintain employment. The third one involves a new type of employment measure involving subsidies for job creation, with the goal of increasing demand for labor. The subsidies cover, for example, the cost of lump-sum wage subsidies for firms newly hiring middle-aged and elderly workers, and for establishing new subsidies or raising existing ones for small and medium-sized enterprises that require human resources for new business conversions.

### 2.2. Unemployment Policies Immediately after the War

The basic framework for current labor policy was established when Japan was under U.S. occupation following World War II. In 1947, the Employment Security Law and the Unemployment Insurance Law were enacted to combat rampant unemployment and poverty. However, these laws were somewhat ineffective because of the limited employment opportunities at the time and most of the unemployed were from the agricultural and self-employed sectors and were not eligible for unemployment benefits (Takanashi, 1999). Rather it was unemployment measures centered on public works projects that played an important role in this period.

The Emergency Countermeasures Law (1949) was a comprehensive law consisting of measures nationwide to fight unemployment. Its initial purpose was to secure temporary jobs for unemployed people, until they once again obtained a permanent position. In the national budget of 1949, public works started to be treated as a separate category from those projects that were undertaken as unemployment measures, and the former Ministry of Labour\* took responsibility for such projects.

In principle, projects that were undertaken as an unemployment measure were carried out in large cities, and workers were chosen if they were introduced by a Public Employment Security Office, had no regular job, and if they would make their living from such work. Unemployed people who did not satisfy these conditions were to be absorbed in jobs created via public works projects.

Actual projects that were intended to serve as unemployment measures commenced in the second quarter of 1949. However, because the measures were taken to stabilize private companies in accordance with the Dodge

<sup>3</sup> The information contained in this section is taken from Takanashi (1995, 1999).

\* Currently the Ministry of Health, Labour and Welfare.

Line, the number of those who were registered as unemployed sharply increased, from 104,000 workers in May 1949 to 410,000 workers in May 1950. The projects, on the other hand, were only able to absorb 41,000 workers per day. Thus in January 1950, eligibility requirements were tightened, with one having to be unemployed for a minimum of a month, and those who received welfare benefits were excluded outright. Despite these changes, the number of applicants for jobs did not fall.

### 2.3 Responses to Structural Unemployment

In the 1950s, the Japanese economy made a turn around because of the Korean War. At the same time, however, a serious problem — structural unemployment — emerged, both among miners and those employed by the Occupation Forces. To solve this problem, two special laws were enacted: The Temporary Law to Deal with Redundant Workers on U.S. Military Bases in Japan (1958) and the Temporary Law to Deal with Redundant Coal Miners (1959). Under these laws, workers who had been forced to leave either of those two sectors and move elsewhere were given generous allowances to help them find re-employment and to transfer, as well as having housing provided at their new locations (based on the “employment encouragement housing program”). In addition, new public works projects (The Emergency Measures to Promote Employment of Displaced Coal Miners, 1959) were instituted in those areas with mining industries, thereby expanding the government’s attempt to absorb the unemployed directly into public works. By the latter half of the 1960s, as the coal industry shrank further, more and more miners flowed into such public works projects. The policy of dealing with unemployment via public works projects was substantially revised in 1971, when the Law Concerning Special Measures to Promote the Employment of Middle-aged and Older Persons came into force.

In 1966, the Employment Measures Law was enacted to tackle structural unemployment. This law systematized and extended to all industries the measures that emerged in the process of transformation of the industrial structure. It also regulated procedures for mass job reductions, including dismissals, and later led to policies strengthening employment security.

### 2.4. Employment Measures during the First Oil Crisis

The mass unemployment that resulted from employment adjustment on a large scale during the first oil crisis brought a major shift in employment policy towards supporting policies that actively prevented unemployment. It is noteworthy that, at that time, the unemployment rate soared from the one percent level that had been pretty consistently maintained up to this period, to two percent from 1975 onwards.

An employment insurance system was established at the height of this large-scale employment adjustment. The most outstanding innovation of that system was the addition — to the existing unemployment benefit schemes — of a series of measures to prevent unemployment. Specifically, three new types of measures were established: measures to stabilize employment<sup>4</sup>, measures for human resource development, and measures related to workers’ welfare. Of these, the scheme most utilized to forestall unemployment was the system of subsidizing employment adjustment that formed part of the employment stabilization measures. This scheme attempted to prevent a drop in production and employment levels caused by economic fluctuations. This was done by providing business owners who were forced to suspend operations with assistance in areas such as allowances for business interruptions, subsidies for training and other costs involved in transferring employees to related firms. More precisely, the Minister of Labour identified particular industries that were facing a drop in production and reduced employment, and partially subsidized such allowances to firms in these industries upon request. As discussed in more detail in Section 4, the scheme to provide subsidies for employment adjustment later played a central role in employment measures.

### 2.5 The Second Oil Crisis and Successive Strong-Yen Recessions

In 1978, when the economy was suffering from a recession due to the first strong-yen shock, the Temporary Law to Deal with Displaced Workers in Specified Areas in Recession was enacted, thereby launching a subsidy program for workers who had lost their jobs in areas that were negatively affected. In December of that year, the former Ministry of Labour embodied its ideas on emergency employment measures in its New Employment

<sup>4</sup>Known as “Employment Improvement Undertakings” when first established.

Policy Program. The focus of this program was the creation of “employment development works,” with the aim of creating some 100,000 jobs.

More specifically, the plan involved “subsidies to develop employment of middle-aged and elderly workers.” Through this strategy, if employers increased the proportion of such workers among their newly hired staff, or increased the number of such workers during periods specified by the former Ministry of Labour and in accordance with economic fluctuations, the wages for such workers were partially subsidized. The period of eligibility for the subsidy was one year for employees between 45 and 54 years old, and one-and-a-half years for those between 55 and 64 years of age. The proportion of wages subsidized was high, three-fifths (or in the case of SMEs, four-fifths) of the total salary. The employment measures taken during the recession caused by the second oil crisis and by the second strong-yen shock were extensions and revisions of existing schemes. As indicated below, a similar system was adopted as part of a series of employment measures after 1998.

### **3. Five Employment Packages from 1998 and 2002**

#### **3.1 The First Employment Package**

##### **(Emergency Employment Development Program, April 1998)**

A financial upset in autumn 1997 sparked a sudden economic recession. As the unemployment rate began to soar at the beginning of 1998, the government incorporated measures for employment into its comprehensive economic measures of April 1998. These were in the form of an emergency employment development program, with a budget of ¥49.5 billion.

Broadly speaking, the program consisted of two parts: an extension of existing measures and a series of new ones. The former included an increase in the ratio of subsidies for employment adjustment, and a relaxation, in terms of employee age, of the conditions for employers hiring middle-aged and elderly workers who would receive subsidies. The new measures included the Education and Training Benefits System, commencing in December 1998, and — as a new job creation measure — an increase in the amount of subsidies to SMEs to enable them to secure personnel. The subsidy scheme for training costs was epoch-making in that it

directly subsidized individual workers, in contrast to previous labor market training measures which had been executed mainly through subsidies to organizations in charge of training. Where the expansion of subsidies to SMEs was concerned, similar measures up until then had aimed at preventing unemployment. The expansion, however, was a positive approach to creating new jobs.

The Education and Training Benefits System that was introduced in December 1998 takes the form of a direct subsidy, with a maximum of ¥200,000 to individuals belonging to the employment insurance scheme, to help pay for various vocational training programs conducted by private firms. This can also be seen as a kind of voucher system. Because the subsidies are paid after completion of vocational training, actual payments started in March 1999. From March 1999 to August 2000, the number of recipients totaled 262,213, with males accounting for 144,605 and females for 117,608. Overall expenditures totaled ¥24.6 billion. If the utilization of the scheme by such a large number of workers resulted in increased incentives to undertake vocational training, this would mean that the scheme had the desired effect of increasing the level of human capital.

However, some drawbacks have been identified: First, the subsidy is low; ¥200,000 is not enough to receive proper vocational training. Compared with free public training programs, the cost that individuals have to bear is too large. Second, because the scheme is carried out under the employment insurance scheme, it applies exclusively to those who are part of the insurance scheme. This means that the self-employed, the long-term unemployed, and jobless new graduates are not eligible. This, in turn, means that it will be necessary to modify the scheme, by measures such as tax benefits or scholarship programs, to make it available to workers who do not belong to the employment insurance system. In addition, it will be necessary to conduct empirical research on the extent to which the payment of subsidies has increased the employability of the recipients.

#### **3.2 The Second Employment Package**

##### **(Emergency Economic Package, November 1998)**

In 1998, an emergency package was drafted, with a total budget of ¥17 trillion, the goal of which was to create one million new jobs and stabilize

employment prospects (the package, incorporating over ¥6 trillion in permanent tax deductions, was well over ¥20 trillion in total).

Of the one million jobs, more than 370,000 were expected to be created due to the job creation effect. The figure was seen as a combination of the number of new jobs created through expansion of the GDP due to economic measures (as estimated by the former Economic Planning Agency\*), plus 58,000 jobs resulting from job creation subsidies, such as the Subsidy to Create Employment Securing Human Resources in Small and Medium-sized Enterprises. At the same time, the effect of employment stabilization measures was set at approximately 640,000 jobs.

About 700,000 of the one million jobs were expected to be created via the Comprehensive Plan to Revitalize Employment, with a budget of ¥1 trillion. The plan included, for example, undertakings to support the creation of jobs and improve the business environment for SMEs; an extension of unemployment benefits for those who were receiving vocation training; an extension of the period for which the Emergency Employment Development Program was effective; reinforcement of measures to help middle-aged and elderly workers switch jobs without having to become unemployed; and the extension and inclusion of private vocational training institutes in public training programs for those white collar workers who are being displaced and forced to seek new jobs.

At the same time, to respond flexibly to the employment situation and provide necessary employment opportunities for middle-aged and elderly people who are involuntarily unemployed, the Special Fund for Emergency Job Creation was established.

### **3.3 The Third Employment Package (Emergency Package of Employment Measures, June 1999)**

In contrast to the previous two packages, the third emphasized the potential effect of an increase in employment opportunities. These measures were designed to create some 700,000 jobs. Key aspects of each of these measures follows:

- *Special Grants to Create Employment in New and Growth Sectors (150,000 jobs)*

These grants should be awarded to enterprises if they bring forward their plans to hire certain types of workers, such as middle-aged and elderly people who are involuntarily unemployed, or if they conduct on-the-job or other practical vocational training.

- *Special Emergency Fund for Job Creation (200,000 jobs)*

The requirements to receive subsidies in this special fund — which is to assist enterprises that plan to hire middle-aged and elderly people who are involuntarily unemployed — have been relaxed.

- *Emergency Special Subsidies to Create Local Employment (300,000 jobs)*

A fund is to be set up in each prefecture and financed by special grants, with the amount of each to be determined by the level of unemployment and the population in the particular prefecture. This is to help local governments at the prefectural or lower level create employment opportunities, mainly via undertakings entrusted to private firms, non-profit organizations (NPOs) and others.

- *Special Subsidies to Transfer Human Resources (70,000 jobs)*

These subsidies go to a portion of the wages paid by enterprises planning to hire workers who have been transferred from related firms or who wish to find a new job, as well as a portion of the training costs for enterprises which transfer employees to — or accept employees from — related or affiliated enterprises. (At the same time, similar existing measures were modified. Eligibility for the Special Subsidies to Aid in the Transfer of Middle-aged and Elderly Workers was, for example, extended to workers younger than 45 years old).

In addition, the number of workers covered by the Project to Support the Employment of Middle-aged and Elderly Workers was increased by another 100,000.

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\* Currently called the Cabinet Office.

### 3.4 The Fourth Employment Package (The Second Supplementary Budget for Fiscal 1999, November 1999)

The fourth package, the implementation of employment measures worth a combined ¥273.9 billion, was incorporated in the fiscal 1999 supplementary budget. The contents of this package are outlined below. It is important, however, to note that most of the money in this package was diverted to compensate for deficiencies in the employment insurance fund, and that this was followed by measures to support SME start-ups. In this sense, Japan's employment policy at this stage can be said to have shifted from employment maintenance to employment creation. At the same time, this series of employment measures included a newly allocated component to the budget for measures affecting young people, though the amount of money committed to this was small. The package included:

- Job creation and stability measures via assistance in business start-ups among SMEs and the reinforcement of their basic business standing: ¥65.7 billion. This included:
  - (1) The creation of employment opportunities by supporting SME start-ups (the Special Grant to Create Local Employment in SMEs): ¥51.4 billion. This refers to measures that financially support SMEs with regard to the costs of human resource development, personal management and related issues, when they hire new employees. The amount of the grant would vary, in accordance with the number of workers to be hired, and within a range of ¥7.5 million (four to nine workers) to ¥15 million (20 or more workers).
  - (2) The expansion and stabilization of employment opportunities by reinforcing the basic business standing of SMEs: ¥14.3 billion
- Measures to create employment opportunities and assist workers in finding employment: ¥33.7 billion. This includes:
  - (1) Job creation measures targeting specific regions (Grants to Encourage Re-employment of Displaced Workers in Specified Areas and Subcontracting Work): ¥32.1 billion. This refers to measures to give grants to enterprises that employ — on a temporary or regular basis — workers who have given up jobs in designated areas, or in firms

that are engaged in subcontract work. The amount of the grant can range from ¥100,000 to a maximum of ¥600,000 per month.

- (2) Measures to secure employment opportunities for care workers: ¥0.5 billion
  - (3) Measures to help new graduates and other young people find jobs: ¥0.5 billion
  - (4) Measures to help disabled people find jobs: ¥0.3 billion
  - (5) Reinforcement of the information systems at the Silver Human Resources Centers: ¥0.3 billion
- Measures to shorten unemployment periods and establish safety nets: ¥172.8 billion. This includes:
    - (1) Measures to secure safety nets for unemployment: ¥170.9 billion to i) compensate for the deficiency in employment insurance funds to pay unemployment benefits, and ii) make up for the deficiency in funds to pay allowances to encourage job finding.
    - (2) Measures to encourage prompt and smooth job finding via computer: ¥1.9 billion (1,000 personal computers).

### 3.5 The Fifth Employment Package (Emergency Package Employment Measures, Primary Emphasis on Eliminating Mismatching in the Labor Market, May 16, 2000)

In May 2000, in response to persistently high unemployment rates and an increase in the number of unemployed among new graduates, the government announced a fifth package of employment measures. A summary of the key features is indicated in Appendix 1 at the end of this article. There are a number of significant aspects to this employment package, which includes measures for jobless new graduates, and ensures that these measures — which previously had disproportionately targeted middle-aged and elderly groups — are now aimed more evenly among the age groups. Such modifications reflect the seriousness of unemployment among young people. There is also a significant shift in emphasis from employment maintenance policies to employment creation and the improvement of employability. This includes an increase in subsidies to firms that hire workers, and the expansion of vocational training programs.

### 3.6 Progress of the Emergency Package of Employment Measures Enacted in Spring 1998

It is important to ensure an ongoing and rigorous examination of the effectiveness of these five packages since their inception in 1998. At this stage, and as a prelude to any rigorous evaluation and analysis of the policies, we can examine to what extent the measures have in fact been implemented. Table 1 shows the status of each measure as of September 2000.

The ratio of targets achieved out of the 1999 emergency package of employment measures, intended to increase jobs by 700,000, turned out to be fairly low. The Special Grants to Create Employment in New and Growth Sectors, the Special Emergency Grants for Job Creation, and the Special Subsidies to Transfer Human Resources were all central features of the special grants to create jobs which were promoted as a new direction for employment policies.

The Special Grants to Create Employment in New and Growth Sectors were established to provide employers in new and growing industries who sped up their plans to hire as regular employees — via the Public Employment Security Offices — workers qualified to be covered by this

grant, with ¥700,000 to be granted per worker. The scheme was initially limited to workers 30 to 59 years old who had lost their previous jobs involuntarily. In May 2000, however, the lower age limit of 30 was removed, and eligibility was extended to cover those who were receiving vocational training and who had failed to get a regular job after graduation.

Under the Special Emergency Grants for Job Creation scheme the employer is to be granted ¥300,000 per worker under the following conditions: when (on a quarterly basis) a particular regional unemployment rate exceeds 5.4 percent for two successive periods, or when the nationwide unemployment rate exceeds five percent, if an employer hires as regular employees — via the Public Employment Security Offices — workers between 45 and 59 years old who had lost their previous jobs involuntarily. Employers are not eligible, however, if they have recently dismissed employees. By September 2000, the scheme had been put into effect in Okinawa Prefecture, the Kinki district and Hokkaido. Approximately 185,000 people were employed under this scheme in fiscal 2002.

The Special Subsidies to Transfer Human Resources are designed to facilitate smooth transfers and to prevent dismissal of workers by defraying the training costs paid by firms, which are then obliged to transfer their employees to non-affiliated firms.

In fact, the Special Grants to Create Employment in New and Growth Sectors scheme had reached a mere three percent of the targeted number of workers one-third of the way through its expected life. The Special Emergency Grants for Job Creation had achieved only 1.4 percent of its aim and the Special Subsidies to Transfer Human Resources had achieved approximately eight percent of the target. The subsidy for direct employment by local governments has, however, been spent approximately as planned, and will create some 230,000 new jobs over two years. The net outcome is that the employment measures planned to create 700,000 jobs have produced few results apart from the 300,000 jobs created by the public works projects initiated by local governments.

The Emergency Special Subsidies to Create Local Employment earmarked for public works projects undertaken by local governments has had a steady impact in increasing employment. Even so, it is necessary to consider whether such projects are actually useful to society and to examine

**Table 1: Status of the Government's Emergency Packages for Employment Measures (as of September 2000)**

Measures	Budget and targeted increase in jobs	Actual results	Ratio of target achieved
Special Grants to Create Employment in New and Growth Sectors (August 1999 – August 2000)	Approx. ¥90 billion, 150,000 jobs	4,463 people (as of September 14, 2000. Subsidies applied for: 8,633)	Job creation: 2.9%; Number of applicants to projection: 5.75%
Special Emergency Grants for Job Creation (January 1999 – March 2002)	Approx. ¥60 billion, 200,000 jobs	2,806 people (as of September 14, 2000. Subsidies applied for: 4,019)	Job creation: 1.4%; Number of applicants to projection: 2.0%
Special Subsidies to Transfer Human Resources (January 1999 – March 2001)	Approx. ¥40 billion, 70,000 jobs	6,077 people (as of August 2000. Subsidies applied for: 10,316)	Job creation: 8.7%; Number of applicants to projection: 14.7%
Emergency Special Subsidies to Create Local Employment (August 1999 – August 2002)	Approx. ¥200 billion, 300,000 jobs	1999: ¥38.7 billion, 73,164 people. 2000 projection: ¥102.4 billion, 155,000 people	

the extent to which these projects have been able to produce enduring job creating effects. According to a six-month follow up survey by the Ministry of Health, Labour and Welfare on workers absorbed into public works projects carried out as unemployment measures in fiscal 2001, 57 percent were employed as of September 30, 2002. This appears to indicate that these projects can play an intermediate role between employment and unemployment, but a more detailed analysis is necessary to support this.

#### 4. Unemployment Policies from 2002 to 2003

The series of employment measures implemented from 2002 to 2003 were based on the Comprehensive Measures to Accelerate Structural Reform was drawn up by the Council on Economic and Fiscal Policy on October 30, 2002. The plan identified three principal policy targets regarding unemployment. The first concerns responses to unemployment resulting from the liquidation of non-performing loans, which is part of accelerating structural reform. The second concerns job creation. The third concerns re-vitalization of demand-supply adjustment in the labor market through private-sector involvement and responses to diverse forms of employment.

The basic direction outlined in the plan was concertized in the fiscal 2002 supplementary budget and the fiscal 2003 budget, as well as through various forms of deregulation, which are discussed below.

##### (a) Measures concerning unemployment resulting from the liquidation of non-performing loans

With the aim of providing comprehensive assistance to finding new jobs for workers displaced because of the liquidation of non-performing loans, the following measures are to be implemented: 1) creation of new subsidies to encourage re-employment, either through employment on a regular or trial basis, by using the Special Emergency Fund for Job Creation; 2) special measure to assist business owners in transferring workers to affiliated firms (*shukko*), starting a new business, or entering a new business field as well as the amount of employment adjustment subsidies, 3) measures to provide career counseling at Public Employment Security Offices, dispatch

of officers from the Public Employment Security Offices for counseling, and free vocational training for those expected to lose jobs while still employed.

Concerning the first group of measures, an outlay of ¥52.7 billion was incorporated in the fiscal 2002 supplementary budget (covering up to fiscal 2004). Subsidies were created to help jobless people between the ages of 30 to 59 find new jobs — either on a regular or trial basis — as well as in starting new businesses. The subsidies cover finding regular work (¥600,000 per person, ¥700,000 per firm in new or growth sectors), finding work on a trial basis (monthly allowance of ¥50,000 per person and lump-sum allowance of ¥450,000 at the time of transition to full employment, and ¥550,000 per person for new or growth sectors), and for starting an enterprise (¥600,000 per person).

##### (b) Measures to create new jobs

While many employment measures and funds are not fully utilized even when budgets have been appropriated, the Emergency Special Subsidies to Create Local Employment has been used successfully to create new jobs.

The problem with the subsidy, however, was that it covered only an employment period of up to six months, too short for a person to develop necessary skills. Hence the coverage was extended up to 12 months if specific conditions are met. Concrete examples of successful projects for which the subsidy has been used include employment of forest workers with the aim of preserving the great scenery and forests around Kumano Ancient Road and planting broadleaf trees in the forests in Wakayama Prefecture (116 new jobs with a budget of ¥56 million), and employment of people with rich experience as a teacher's aide in schools in Iwate and other prefectures (in the case of Iwate Prefecture, 76 new jobs with a budget of ¥24 million).

Regarding the goal of creating new employment opportunities for middle-aged and elderly workers, measures include 1) creation of new subsidies to aid in the development of newly established business enterprises that serve social purposes and are willing to hire middle-aged and elderly workers, 2) utilization of the Special Grants to Create Employment in New and Growth Sectors to subsidize new or growth sector enterprises that are



willing to accelerate their plans to absorb involuntarily displaced middle-aged and elderly workers, and 3) relaxation of the age requirements included in the Subsidies for Cooperative Job Creation by the Elderly, which aims to encourage elderly people to start joint-enterprises with the purpose of creating steady employment opportunities for themselves.

**(c) Revitalization of labor supply-demand adjustment by private sector involvement and responses to diverse forms of employment**

In order to enhance its job-finding capability, the Public Employment Security Offices are now making available a list of enterprises that are currently recruiting via the Internet. Furthermore, the information provided by the Public Employment Security Offices on the “Job Information Network” had previously covered only major cities, but from January 29, 2002 provides information from around the country. The Job Information Network is an Internet job information service jointly supported by the government and private organizations (3,791 participating organizations with approximately 490,000 job listings). Since 2002, this service has been accessible via mobile phones (March 7 for EZweb, March 13 for J-SKY, and March 18 for i-mode). In January 2003, the site had approximately 330,000 hits per day via PCs and approximately 390,000 hits per day via mobile phones.

In the area of vocational training, a plan has been put forward to provide practical vocational training which combines classroom training at private vocational training institutes with on-the-job training at companies as well as vocational training for those starting their own business.

Measures have been taken to change the fee-charging job placement industry and to revitalize the ability of the private sector to facilitate job placement through, for example, relaxation of regulations concerning the fees charged and prohibitions on running a fee-charging job placement business concurrently with other businesses. To be more specific, it has now become possible for fee-charging job placement businesses to collect fees from managerial-class job-seekers (managers, and scientific and technological experts with an annual income of ¥12 million or more), and the maximum fee that can be collected from host companies has been abolished (effective February 16, 2002). It has become possible for worker dis-

patching businesses to dispatch workers to sales jobs in finance and IT-related industries for up to three years. Moreover, a special temporary measure has been devised to extend the period of dispatch, previously restricted to one year, to three years for middle-aged and elderly workers.

**(d) Enhancement of re-employment assistance by the Public Employment Security Offices**

To provide vocational counseling and job placement in the greater Tokyo and Kansai areas, Employment Support Centers for Urban Areas have been established, and Public Employment Security Offices in designated major cities have begun to operate on week nights and weekends in order to actively assist those who are seeking new jobs or those without a job. Moreover, in order to improve the quality of counseling services at the Public Employment Security Offices, approximately 800 employment assistance counselors and skill development assistance counselors have been deployed in Public Employment Security Offices across the nation. In 2002, skill development assistance counselors counseled 611,146 people. In addition, officers have been designated to find new employment opportunities. In January 2003, new employment opportunities for 206,928 people were facilitated by the Public Employment Security Offices and other services, and, out of this figure, 104,040 were facilitated by such officers.

Furthermore, a budget of ¥480 million was appropriated for two objectives in fiscal 2003. The first is to strengthen the ability of the Public Employment Security Offices to provide vocational counseling by increasing the number of career counselors and establishing booths for career counseling. The second is to enhance a variety of mechanisms for skill development through such measures as increasing the number of officers responsible for discovering new companies and organizations to be entrusted with practical vocational training, clarifying and specifying skills that companies are looking for, and deploying advisors who design skill development training courses and evaluate the effectiveness of such courses.

**(e) Revisions of the rules regarding limited employment contracts and the discretionary labor system**

As a result of certain revisions, more occupations (certified tax account-

ants and registered management consultants) are no longer limited to a term of three years for limited employment contracts. Also the discretionary labor system for specialized occupations is now applicable to more occupations (system consultants, interior coordinators and security analyst). The revisions were decided by the Council for Labour Policy on January 23, 2002, and took effect on February 13, 2002, with some exceptions.

#### **(f) Revision of the Employment Insurance System**

The Employment Insurance System was revised in May 2003. Regarding benefit payments, the following were identified as major priorities: 1) to encourage early re-employment among displaced workers, 2) to respond to diverse working forms, and 3) to give priority to payment of benefits in cases where re-employment is extremely difficult. Furthermore, the premium was increased to 1.6 percent. (However, it was to remain at 1.4 percent until the end of fiscal 2004, and flexible clauses can be exercised).

##### **1) Encouragement of early re-employment**

The basic daily allowance for employment insurance benefits often exceeds that of the daily wage a re-employed worker would receive. To reduce the gap between the two, the rate and upper limit of the daily allowance have been revised, especially for groups with high wages and high benefit payments. The “Employment Promotion Allowance” has been established. Accordingly, in addition to the daily wage, 30 percent of the basic daily allowance is paid to those who find a job (excluding regular employment) before two-thirds of their benefit coverage period has passed.

##### **2) Responses to diverse types of employment**

The requirements for full-time workers and part-time workers have been unified. Both full-time and part-time workers now receive allowances for the same duration. Regardless of whether one was a full-time or part-time worker, those who have become involuntarily unemployed due to bankruptcy or dismissal will be eligible for benefits longer than those who are jobless for other reasons.

##### **3) Giving priority to groups facing difficulty becoming re-employed**

For people between the ages of 35 and 44 who are jobless due to bank-

ruptcy or dismissal and who have been paying premiums for more than 10 years, the period one receives benefits has been extended by 30 days.

#### **(g) Response to displaced workers**

Other measures for assisting re-employment of displaced workers have been planned. First, loans to cover living expenses will be provided to support re-employment. Second, measures will be taken to help cover the cost of educating their children and for housing loan repayments (such as creating more scholarships and policies to assist those having difficulty repaying their housing loans). Third, utilization of the system of advance on unpaid wages.

#### **(h) Policies regarding skill development**

The utilization of private vocational training institutes has been a trend in the area of policies for skill development. Specifically, an increasing number of private vocational schools, private enterprises, universities and graduate schools have been entrusted with the task of vocational training especially targeting unemployed middle-aged and elderly white-collar workers to provide them with a variety of vocational training toward re-employment. In fiscal 2001, 520,000 displaced workers received vocational training, and 330,000 of those received training at designated private vocational institutes. As for vocational training at designated universities, 27 universities offer 48 courses, and 924 people have received training at these locations. As for training provided by designated private companies, 909 courses were available as of November 2002, and 1,100 people had taken courses on sales management, financial accounting, computer programming, metal work, among others.

#### **(i) Employment policies for young people: The introduction of the Japanese dual system**

On May 27, 2003, the government unveiled its “Plan to Assist Self-sufficiency among Young People” to combat increasing unemployment and non-employment among young people. In cooperation with local supporters such as business owners, the plan aims to increase opportunities for students to have hands-on vocational experience as early as elementary

school. One of the concrete measures in the plan is the introduction of the “Practical Vocational Education and Training Program,” a Japanese version of the dual system. The program intends to provide young people with practical vocational education and training, and combines corporate internship with vocational education with the aim of training young people to become full-fledged professionals. Furthermore, “job supporters” (officers specializing in the promotion of career development and employment opportunities for young people) are to provide continuous, one-on-one support from the job searching stage to adjustment at the workplace for junior high school or high school students who have no plans to move on to higher education or those who have graduated from school but have not yet found employment. According to the plan, specific and clear skill requirements for career counselors specializing in young people will be outlined, and more counselors specializing in young people are to be trained and deployed at schools and Public Employment Security Offices. Simultaneously, development of the labor market for young people is to be pursued. The government is to implement measures to encourage the development of a hiring pattern that will allow young people to explore their career potentials for a period after graduation before making a commitment as a regular employee. This is seen as an alternative to the current pattern of regular employment immediately following graduation.<sup>5</sup> To help young people set clear career goals as well as to assist companies in making hiring decisions, firms are to be encouraged to specify which skills and talents they are seeking more clearly and provide such information to schools and students, and a “Practical Skill Evaluation and Certification System for School Graduates and Young People” is to be established.

On June 10, 2003, the “Conference on Strategies to Promote Self-sufficiency and Vitality among Young People” (organized by the ministers of Education, Culture, Sports, Science and Technology; of Health, Labour and Welfare; of Economy, Trade and Industry; and of Economic and Fiscal Policy) issued the “Plan to Promote Self-sufficiency and Vitality among Young People.” Strengthening policies regarding education, human

<sup>5</sup> Such as, for example, popularization of practices such as multiple applications and year-round recruiting, full utilization of trial-base employment, and development of comprehensive information services concerning searching for a career and career formation.

resource development, employment and job creation, and the development of kiosk-type career service centers for young people called “Job Cafés” constitutes the core of the plan. The Japanese version of the dual system is also included in the plan.

## 5. Conclusion

This article has reviewed the history of employment policies in postwar Japan and then analyzed the chief features of employment measures since 1998. Measures for unemployment immediately after the war relied largely on public works projects. Basically, such measures have been maintained ever since, and the emergency package of economic measures that was launched in November 1998 followed in the same pattern.

Following revision of the employment insurance system in 1975, Japan’s employment policy was geared toward maintenance and stabilization of employment, principally through an employment adjustment subsidy. This policy curbed a rise in unemployment in the short term, but in the longer term there is the possibility that it may hinder job creation if the subsidy goes to industries suffering from a structural recession.

After 1998, the policy initially took the form of employment maintenance measures and demand management policy, but in 1999 it began to also include measures aimed at job creation and at structural reforms such as revision of the labor laws.

Meanwhile, measures dealing with structural employment as a result of changes in industrial structures have been carried out for many years, although they have been limited to certain areas. In the initial stages, such measures targeted workers who had lost their jobs in the coal mining industry or at U.S. military bases. The measures taken then to encourage job switching from the waning coal mining industry will be helpful in exploring solutions to current structural unemployment. Particularly useful aspects of the measures include emphasis on vocational training, and the encouragement of relocation to other areas. Even so, the economic situation has substantially changed since then. First of all, when the transfer of coal miners became an important issue, workers in Japan were relatively young; and it is easier for younger people to switch jobs than it is for older

people in that the return from investment in training for new jobs is higher for the former. Secondly, Japan was experiencing high economic growth at the time, and there was a pressing demand for labor, primarily in the manufacturing sector.

In fiscal 1959, for instance, 351 people were re-employed through official reallocations over a wide area. Of these, the highest proportion, 51.2 percent, were taken on in the manufacturing sector, particularly in the metal-machinery industry.<sup>6</sup> The second largest group, 32.9 percent, moved to the construction sector. In fiscal 1960, the measure covered 4,808 workers who were allocated to similar sectors in similar proportions. Nonetheless, it is said that quite a few people remained in miners' housing near abandoned mines and relied on social welfare, causing problems concerning qualifying for social security handouts. With an aging population, low economic growth, and a changing industrial structure due to technological innovation, it should be clear that launching employment measures in response to structural changes is no easy task.

Mention should be also made of the measures taken since the 1970s aimed at job security for middle-aged and elderly workers. Employment subsidies confined to particular age groups create a substantial biasing effect on labor demand. In the past, unemployment among young people was not seen as a serious problem, but nowadays this age group shows the highest rate of unemployment. True enough, unemployment among middle-aged and elderly workers is an important issue in so far as loss of jobs directly affects their lives where such factors as the cost of educating their children and home loan repayments are concerned. However, the issue of educational costs should be handled by expanding scholarships, and the difficulty in repaying home loans and similar questions should be handled with flexible measures such as providing more and better public housing, and a system for fixed-term rental housing. Such issues should be considered separately from employment policies. The creation of a social environment may, however, provide a context within which middle-aged and elderly unemployed people will willingly accept jobs at the wage levels

<sup>6</sup>With regard to measures for coal miners who lost their jobs, I have referred to Koshiro and the Research Institute for Advancement of Living Standards, ed. (1995, pp. 313-315).

currently offered by the actual labor market. It can also be concluded that the package of employment measures since 2000, which was basically prompted by increased unemployment among young people and now covers a wider range of age groups, is a desirable trend.

Future tasks should include a strict empirical analysis examining the effects of the policies outlined in this article. This series of employment policies have provided various types of subsidies. However, it can hardly be said that a thorough investigation has been made of the effectiveness of such subsidy measures. There is an urgent need to disclose related data and to carry out a scholarly investigation on that basis.<sup>7</sup>

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<sup>7</sup> Chuma et al. (2002) is an example of such analysis which econometrically examines policy effects of employment adjustment subsidy measures. It is necessary to gather more empirical studies on policy effects such as this.

## Appendix 1: Major Employment Measures in Postwar Japan

### Employment Policies Immediately after World War II

- 1947 The Employment Security Law and the Unemployment Insurance Law  
 1949 The Emergency Countermeasures Law: A comprehensive law to create public works projects nationwide as an unemployment measure. Projects were undertaken mostly in large cities targeting the unemployed introduced via Public Employment Security Offices. Other unemployed workers were absorbed into regular public work projects. These projects began to be treated separately from those undertaken as unemployment measures in the national budget of 1949.

### Responses to Structural Unemployment

- 1958 The Temporary Law to Deal with Redundant Workers on U.S. Military Bases in Japan  
 1959 The Law to Deal with Redundant Coal Miners: Provided displaced workers with allowances to undertake activities toward re-employment, and also relocation and new housing subsidies.  
 Emergency Measures to Promote Employment of Displaced Coal Miners: Absorption of displaced workers into public works projects

### Expansion of Structural Unemployment Measures to All of Industry and Enhancement of Employment Security

- 1966 The Employment Measures Law: Article 21 specified that massive job loss, such as the dismissal of 30 workers in one month, must be reported to the Public Employment Security Offices in advance.

### Responses to the Recession following the First Oil Crisis

- 1974 The Employment Insurance System: Change in benefit payments and three new measures: (1) employment stabilization measures (assistance to business owners that were forced to suspend operations by giving them employment adjustment subsidies), (2) measures for human resource development, (3) measures to improve workers' welfare
- 1977 Employment Stabilization Measures and the Employment Stabilization Subsidy System:
- 1) More businesses forced to carry out employment adjustment measures and therefore eligible for subsidies:
    - i) In addition to allowances for business interruptions, the costs of training and transferring workers to related firms were to be subsidized
    - ii) Grants to stabilize employment of elderly workers (wage allowances in proportion to the number of elderly workers a company absorbs)
  - 2) Employment adjustment measures to encourage new business conversions:
    - i) Allowances for training involved in business conversions
    - ii) Subsidies for training involved in business conversions
    - iii) Allowances for business interruptions during business conversions
    - iv) Allowances for transferring workers to related firms for business conversions

### Responses to the First Strong-yen Recession

- 1978 The Temporary Law to Deal with Redundant Workers in Specified Areas during Recession: Implemented employment and employment stability projects in areas badly affected by recession. Subsidies and assistance for displaced workers in the specified areas were provided. When downsizing, employers were required to submit an employment stabilization plan to the head of a Public Employment Security Office for approval.
- 1978 The Employment Development Works: Established as part of the Employment Stabilization Measures. During periods of reduced employment opportunities, necessary grants and assistance would be provided to employers who were willing to create more jobs for middle-aged and elderly workers (Subsidies for Developing the Employment of Middle-aged and Elderly Workers).

### Responses to the Recession following the Second Oil Crisis

- 1981 The Law Regarding the Development of Subsidies Related to Employment: Consolidated various subsidies related to employment (the Employment Adjustment Subsidies, the Subsidies to Develop the Employment of Specified Jobseekers, and the Occupational Change Allowances)
- 1983 The Special Measures Law Regarding Employment Stabilization in Specified Sectors and Specified Areas in Recession: New legislative measures in response to the expiration of the 1978 Temporary Law to Deal with Redundant Workers in Specified Areas in Recession

### Responses to the Second Strong-yen Recession

- 1987 The Law for the Development of Local Employment: Measures to create local employment and subsidies to prevent unemployment and encourage re-employment in specified areas
- 1988 Extension of period and expansion of the type of eligible business owners covered under the Special Measures Law Regarding Employment Stabilization in Specified Sectors and Specified Areas in Recession

### Responses to the Increase in the Unemployment Rate following the Financial Failure of 1998

- April 1998 The Emergency Employment Development Program (part of the Comprehensive Economic Measures): (1) Maintenance and stabilization of employment by increasing the ratio of employment adjustment subsidies and the Education and Training Benefits System (starting in December 1998); (2) Measures for displaced workers (lowering the minimum age for employees eligible to receive Subsidies to Develop the Employment of Specified Jobseekers); (3) Measures to create new jobs (increase subsidies for SMEs entering into a new field to secure human resources and assistance for job creation in areas with challenging employment situations)

November 1998 Employment measures in the Emergency Economic Package: ¥17 trillion projects aimed at creating one million new jobs and stabilizing employment prospects. The Comprehensive Plan to Revitalize Employment (including the creation of the Special Emergency Fund for Job Creation) and revisions to the Worker Dispatch Law and the Employment Security Law attempted to revitalize the labor supply-demand mechanisms.

June 1999 The Emergency Employment Measures and Measures to Strengthen Industrial Competitiveness:

- Create 700,000 new jobs.
- Special Grants to Create Employment in New and Growth Sectors
- Special Emergency Fund to Create Jobs
- Emergency Special Subsidies to Create Local Employment
- Special Subsidies to Transfer Human Resources
- Project to Aid the Re-employment of Middle-aged and Elderly Displaced Workers

November 1999 The Second Supplementary Budget for Fiscal 1999:

- Special Grant to Create Local Employment in SMEs
- Grants to Encourage the Re-employment of Displaced Workers in Specified Areas and Subcontracting Work
- Measures to compensate for the deficiencies in funds covering unemployment benefit payments and allowances to promote re-employment.

#### **Emergency Package of Employment Measures Emphasizing the Elimination of Mismatching in the Labor Market**

May 2000 Skill development measures: Expansion of vocational training for unemployed workers in stronger cooperation with technical and other schools (targeting 140,000 workers)

Measures to create jobs (totaling 350,000):

- 1) Assistance to SMEs to recruit workers when they start a new business or enter a new business field (targeting 100,000 workers, subsidizing half the wage of up to six workers)
- 2) Assistance to enterprises in the health care service sector to recruit workers (targeting 30,000 workers, subsidizing half the wage of up to six workers)
- 3) Assistance to help comply with undertakings delegated to private firms by local public bodies to create temporary and emergency employment opportunities (taking advantage of funds created with subsidies to prefectures, which totaled ¥200 billion and targeted 150,000 workers)
- 4) Grants to employers in 15 new or growth sectors to accelerate their plans to hire workers (targeting 70,000 workers and with subsidies of ¥700,000 per worker) and expansion of those eligible (inclusion of jobless new graduates and those receiving vocational training and the relaxation of the age limit to 59)

Safety nets to be effective nationwide when the unemployment rate goes above five percent: Measures to help employers absorb new workers during worsening employment situations (projection of 90,000 when the unemployment rate is five percent or above, with subsidies of ¥300,000 per worker)

#### **Comprehensive Measures to Accelerate Structural Reform**

October 2002 1) Measures regarding unemployment resulting from the liquidation of non-performing loans:

- Creation of a new subsidy to encourage re-employment, either on a regular or trial basis, through the utilization of the Special Emergency Fund for Job Creation
  - Special measures to assist business owners in transferring workers to affiliated firms (*shukko*), starting a new business, or entering a new business field as well as the amount of employment adjustment subsidies.
  - Career counseling at Public Employment Security Offices, dispatch of Public Employment Security Officers for counseling, and free vocational training for those expected to lose jobs while they are still employed
- 2) Measures to create new jobs: revisions to the Emergency Special Subsidies to Create Local Employment
- 3) Measures to promote revitalization of labor supply-demand adjustment by private-sector involvement: "Job Information Network" and relaxation of regulations in commercial career services