

# Employment Trends and Employment/Labor Measures of Japan Affected by Spread of COVID-19

NAKAI Masayuki

## I. Introduction

Japan's entire society has been greatly affected by the novel coronavirus infectious disease (COVID-19). There are concerns that the disease will also have a major impact on employment by retarding and inhibiting economic activity.

Regarding the current employment situation, amid labor shortages that have continued for the past few years, Japan's unemployment rate<sup>1</sup> in March 2020 stood at 2.5% following a 0.1-percentage point rise from the previous month and its active job openings-to-applicants ratio<sup>2</sup> stood at 1.39 after a fall of 0.06 points from the previous month.<sup>3</sup> Both statistics are worse compared to the previous month. However, these levels are still not severe, and the kind of rapid deterioration seen in the United States is not evident at the present time. On the other hand, while companies have thus far been attempting to secure employment somehow, there are fears that corporate performance is rapidly deteriorating<sup>4</sup> and more and more companies have fallen deeply into the red. There are also concerns that the employment situation will suddenly grow worse as the response to COVID-19 becomes prolonged and economic stagnation continues, and thus future trends must be watched.

In Japan, efforts have been progressing in recent years toward stimulating labor movement and strengthening the external labor market's functions in order to adapt labor to technical innovation and the changing industrial structure. In the event of a major economic crisis, the common practice is to secure employment for a certain period of time.

This is true in response to the current COVID-19 crisis, as measures to comprehensively support employment are being taken by expanding Employment Adjustment Subsidy (EAS). Meanwhile, this economic crisis



is taking place amid a new trend associated with movement toward a service economy and technical innovation, namely, the diversification of forms of employment, which includes the expanded use of freelance worker. Responses to this change are also taking place. This report clarifies such developments that have continued up to the present time and compares them with those that took place during the Lehman Brothers' bankruptcy-sparked financial crisis (hereinafter, the "Lehman Shock").

## II. The current economic and employment situation

### 1. Economic situation

Regarding the current economic outlook based on the government's "Monthly Economic Report," the report of March 2020 stated, "The Japanese economy is in a severe situation, extremely depressed by the Novel Coronavirus." The report did not contain the word "recovery" for the first time in six years and nine months since June 2013. The following report of April 2020 states, "The Japanese economy is getting worse rapidly in an extremely severe situation, due to the Novel Coronavirus." The phrase "getting worse" appeared in the report for the first time in approximately eleven years since May

2009, when the effects of the Lehman Shock were being felt.

According to the Cabinet Office's "Economy Watchers Survey" covering taxi drivers, restaurant staff and other jobs close to the average consumer, the diffusion index for current economic conditions in March 2020 was 14.2 (survey period of March 25 to 31), which is the worst ever recorded, falling below those of the Lehman Shock (19.0 in December 2008) and the Great East Japan Earthquake (24.0 in March 2011). It indicates that the regional economy is in an extremely severe situation.

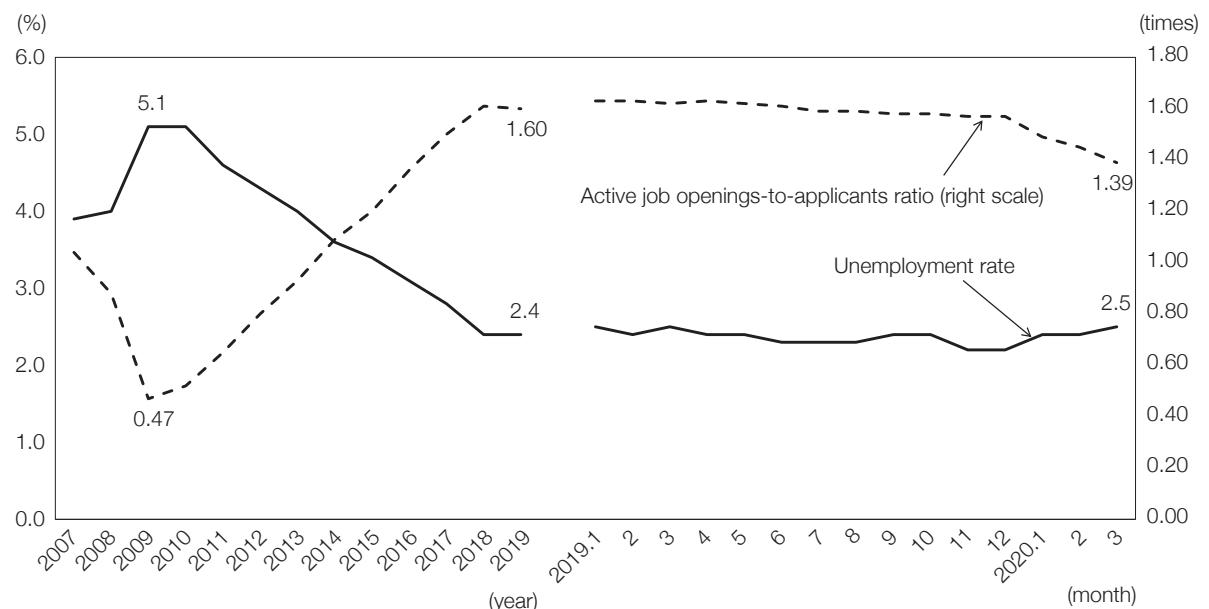
## 2. Employment situation

The unemployment rate of March 2020, which was announced on April 28, rose 0.1 percentage points over the previous month to 2.5%. It has risen 0.3 points since falling to 2.2% in November and December 2019. The active job openings-to-applicants ratio for March was 1.39, which was 0.06 points below that of the previous month. This figure is 0.24 points below the recent peak of 1.63<sup>5</sup> (Figure 1). Both of these indicators are showing a worsening trend in terms of direction. However, as

levels, an unemployment rate in the mid-2% range is the lowest since 1993, and an active job openings-to-applicants ratio at the 1.3 level is the highest since 1991, before the recent economic recovery.

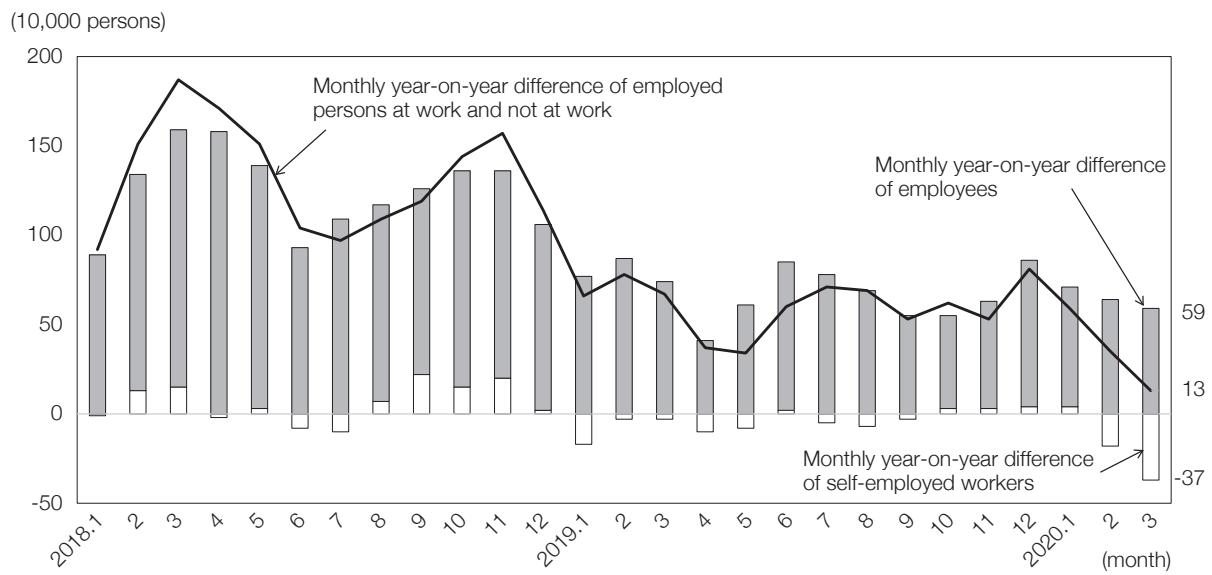
Looking a little more closely, according to the Ministry of Internal Affairs and Communications' *Labour Force Survey* the number of the employed persons of March 2020 showed growth of 130,000 compared to the same month of the previous year. Although this marked the 87th consecutive month of year-on-year increase, the degree of growth shrank. One factor behind this is that the self-employed workers decreased for two consecutive months and fell by 370,000 in March (Figure 2). It is reported that freelance workers are facing tough circumstances due to a decline in work attributable to the novel coronavirus's impact. If this situation is being reflected here, it presents a worrying situation.

Concerning the "employed person not at work"<sup>6</sup> among the employed persons (Figure 3), their number grew by 310,000 compared to the same month of the previous year to 2.49 million. March is typically a time when there are comparatively many people with a job but not at work. However,



Source: Ministry of Internal Affairs and Communications, *Labour Force Survey*, and Ministry of Health, Labour and Welfare, Report on Employment Service.

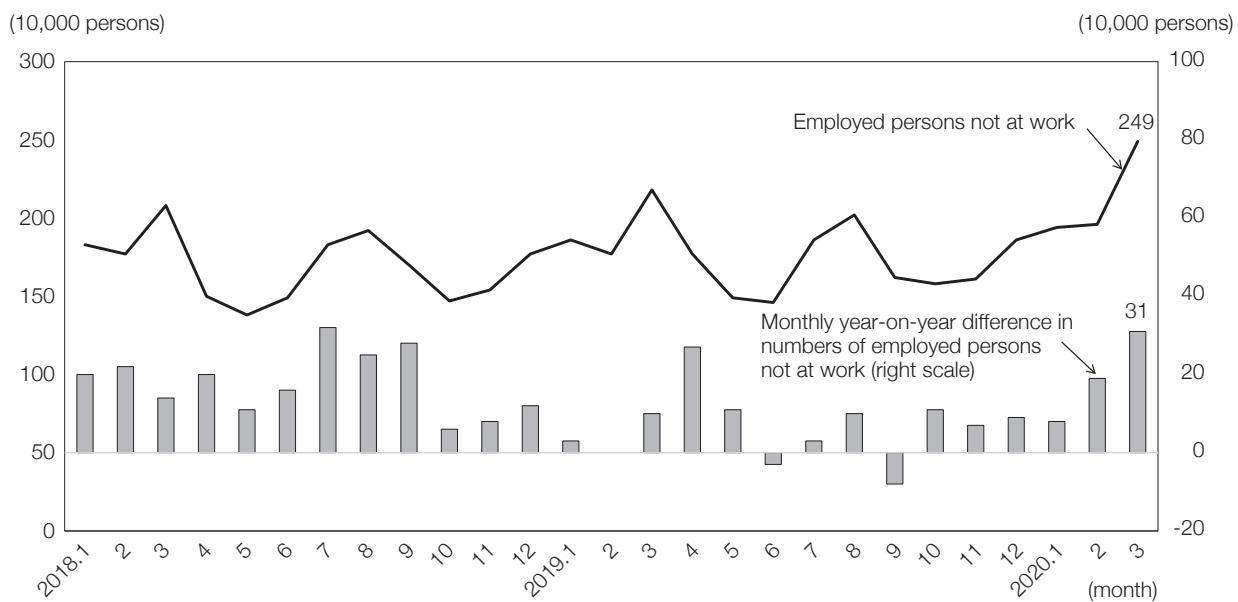
Figure 1. Changes in unemployment rate and active job openings-to-applicants ratio



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

Note: Because employed persons includes family workers, the totals of the monthly year-on-year differences of self-employed workers and employees do not match the monthly year-on-year differences for employed persons.

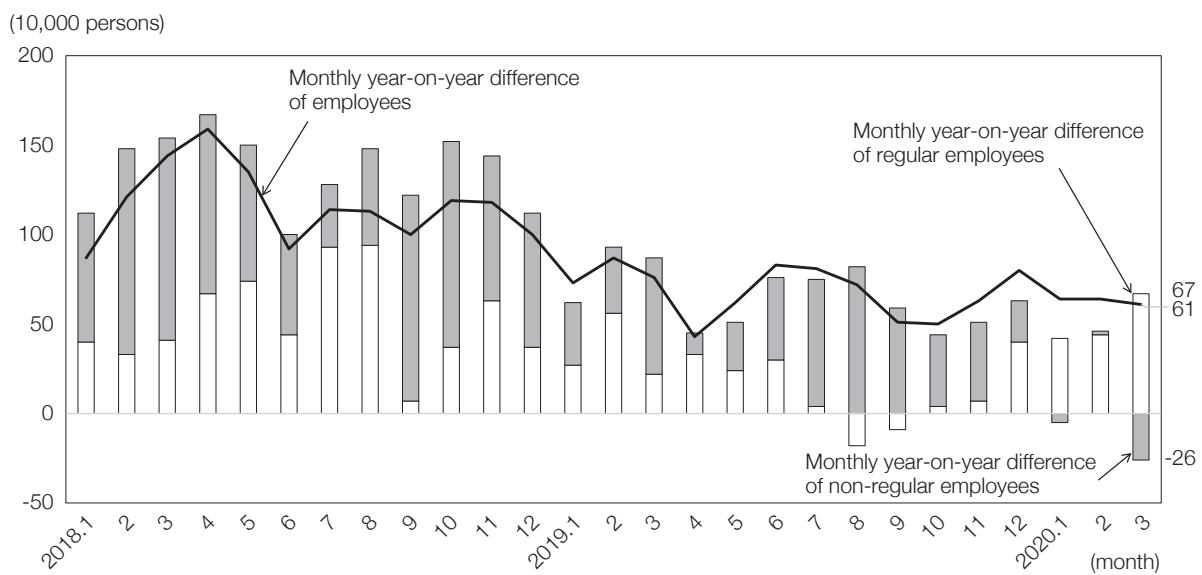
Figure 2. Changes in monthly year-on-year differences in numbers of employed persons



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

Note: "Employed person not at work" refers to employees and self-employed workers described as follows. (i) Employees who did not work during the reference week but who received or were expected to receive wage or salary. (ii) Self-employed worker who did not work during the reference week and whose absence from work has not exceeded 30 days.

Figure 3. Changes in employed persons not at work



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

Note: Because "employees" includes executives, the totals of the monthly year-on-year differences of regular employees and non-regular employees do not match with the monthly year-on-year differences for employees.

Figure 4: Changes in monthly year-on-year differences in numbers of employees

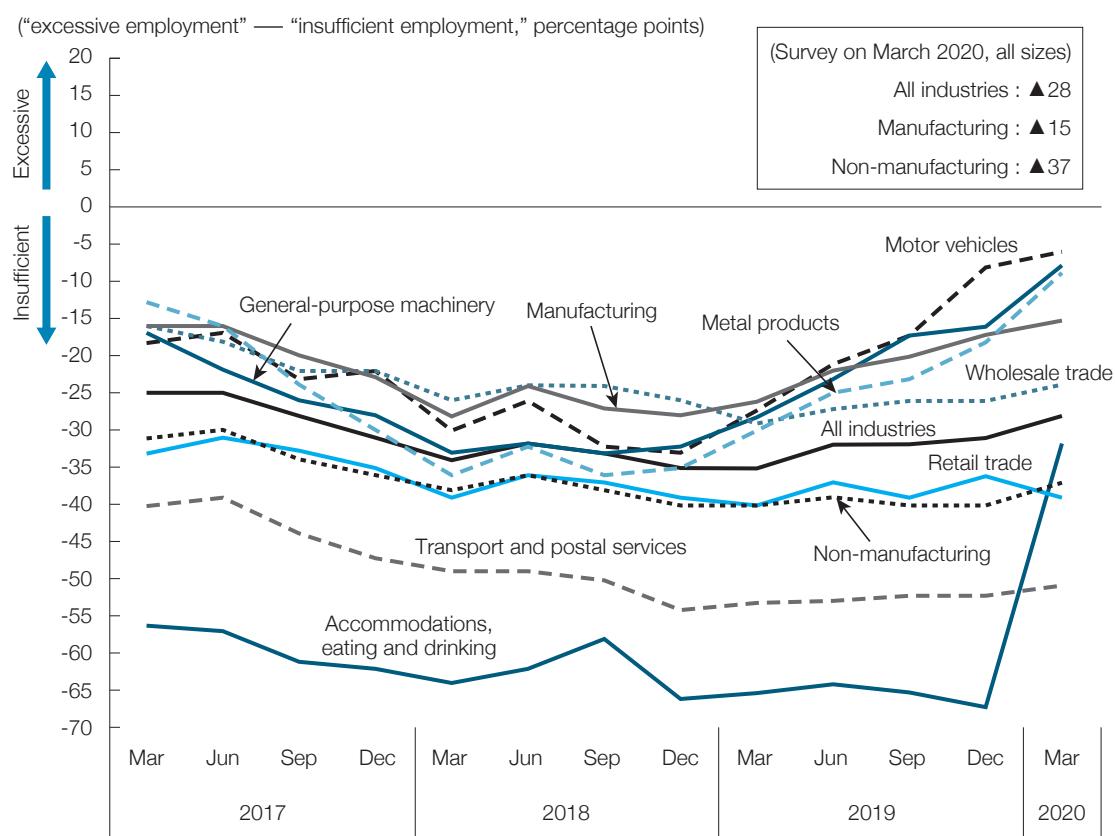
the effects of stagnation in the tourism industry caused by a significant drop in inbound tourists and suppressed economic activity may be being seen here.

Let us examine the number of the employees including executives (Figure 4). In March the number grew by 610,000 compared to the same month of the previous year, marking an increase for the 87th consecutive month. A breakdown of the number reveals that non-regular employees decreased by 260,000 while regular employees had a relatively large year-on-year increase of 670,000. Let us look at this more specifically by sex and by industry. As for male non-regular employees, while showing an increase of 20,000 in total, a decrease of 210,000 in contract employees, particularly in manufacturing is conspicuous. Female non-regular employees show a decline of 290,000 in total, and particularly a decrease of 220,000 in part-timers in accommodations, eating and drinking services, education, learning support; and manufacturing are conspicuous. When serious economic crises occur, major impacts are first seen in non-regular employment. This was a problem during the Lehman

Shock, and it is possible that the same trend is being seen now.

The employment situation's direction is worsening as is seen in the difference between the Monthly Economic Reports of March ("Employment situation is affected by the infectious disease although it has been improving") and April ("Employment situation shows some weak movements lately, due to the influence of the infectious disease"), where the word "improving" is missing. Although, the employment situation has not yet reached a severe level as a whole, in part because improvements were being seen heretofore against a backdrop of labor shortages, it appears that effects are beginning to emerge among self-employed workers and non-regular employees. Additionally, as for the sense of excess or insufficiency in employment in Japanese companies by business category from the Bank of Japan's Tankan (Short-Term Economic Survey of Enterprises in Japan), it can be seen that the sense of insufficient employment has been shrinking rapidly recently, particularly in accommodations, eating and drinking services (Figure 5).

Making a comparison with the employment



Source: Bank of Japan, Short-term Economic Survey of Enterprises in Japan (Tankan).

Figure 5. Employment Conditions DI (quarterly)

situation at the time of the Lehman Shock, the crisis occurred at a time when the employment situation was worsening, with Japan already entering an economic slump from February 2008. In September 2008 (the time of the Lehman Shock), the number of unemployed persons was 2.64 million, the unemployment rate was 4.0%, and the active job openings-to-applicants ratio was 0.83. Later, in July 2009, unemployed persons (seasonally adjusted value) grew by one million compared to September 2008 to 3.64 million, the unemployment rate worsened by 1.5 points to 5.5%, and, in August 2009, the active job openings-to-applicants ratio fell by 0.41 points compared to September 2008 to 0.42.

Unlike the Lehman Shock, the current economic crisis arose when the employment situation was improving against a backdrop of labor shortages. However, there are fears that the employment situation will suddenly deteriorate as the problem

becomes prolonged and economic stagnation continues. As can be seen in the above discussion, some worrisome statistical movements have become apparent, and therefore future trends must be watched.

### III. Summary of employment and labor measures thus far (as of May 8)

The following employment and labor measures are being implemented as part of a series of countermeasures targeting COVID-19. First, requirements were relaxed for EAS in the Novel Coronavirus Disease (COVID-19) Emergency Response Package (February 13, Novel Coronavirus Response Headquarters). Here, requirements were relaxed for production and employment indices and to allow ex-post submission of plan notifications for business operators affected by a rapid drop in travel

between Japan and China as a result of the spread of COVID-19.

Additionally, the second Emergency Response Package (March 10, Novel Coronavirus Response Headquarters) contain the following:

- Subsidy for parents and guardians to take time off when elementary schools, etc., are temporarily closed (10/10, daily maximum of 8,330 yen)
- Subsidy also for self-employed people performing subcontract work when they must care for a child due to the temporary closure of elementary schools, etc. (daily amount of 4,100 yen)
- Assistance with expenditures for SME business operators who introduce telecommuting as a measure to deal with COVID-19 (maximum of 1 million yen)
- Incorporation of additional implementation of special measures into EAS, including the expansion of special measures to all business operators; inclusion of newly hired graduates, etc., whose period of insured person's status is less than six months as workers; and addition of extra subsidy rates in special regions (SME=2/3→4/5, large enterprise=1/2→2/3)

Furthermore, within the Basic Policies for Novel Coronavirus Disease Control (March 28, Novel Coronavirus Response Headquarters) and Emergency Economic Measures to cope with the Novel Coronavirus (COVID-19)—Thoroughly Secure People's Lives and Move Toward Economic Revitalization (April 7, amended on April 20 [Cabinet decision]) are

- Regarding EAS during the emergency response period (April 1 to June 30), raising of the grant rate to 9/10 for SMEs and 3/4 for large enterprises when they do not dismiss employees, addition of workers who work less than 20 hours a week and are thus not covered by employment insurance, and strengthening of the paperwork processing system and simplification of procedures to accelerate payments
- Expanded employment support for people who have had informal job offers canceled and expanded job-seeker support training for job-

seekers who are not covered by employment insurance

- Expanded support for impoverished people in danger of losing their homes
- Implementation of special loaning, such as emergency small amount funds for individuals, and expanded support through Housing Security Benefit made in cases of lost housing
- Incorporation of support measures that include reduction and exemption of insurance premiums for National Health Insurance, etc.

Moreover, on April 25, a policy was prepared to set a special grant rate for business suspension allowances (leave allowances) of 10/10 for SMEs that received business suspension requests from a local government and satisfy certain requirements as a further expansion of EAS. This policy was implemented on May 1.

It should be noted that, at a press conference by Prime Minister Abe that was held on May 4, when the state of emergency declaration was extended to May 31, it was announced that additional measures would be implemented quickly based on a study by the ruling parties. They include alleviation of the rent burden borne by eating and drinking establishments and other businesses, further expansion of EAS, and support for students working part-time jobs who are facing severe circumstances.

#### **IV. Characteristics of employment and labor measures**

At present, responses to the tough challenges are required with respect to not only stagnant economic activity but also in terms of maintaining the socioeconomic foundation while simultaneously suppressing economic activity generated by human interaction to prevent infections. Against this backdrop, characteristics shown in the employment and labor measures being implemented in response to the novel coronavirus's impact include (1) the support for securing employment as a socioeconomic foundation, (2) provision of livelihood support for working people placed in an economically severe environment due to the stop of economic activity

(including not only employees but also freelance workers and other self-employed workers), and (3) the promotion of telecommuting as a tool for conducting corporate activity amid mobility restrictions.<sup>7</sup>

(1) Looking first at the maintenance of the socioeconomic foundation, support for business operators' cash flow and fixed cost are needed. However, from the standpoint of personnel expenses, a response is being made through expanded EAS.

EAS program is the one that subsidizes expenses that business operators who are forced to scale back their business activities for economic reasons incur to secure the employment of their workers and pay leave allowances. The program is rarely used during normal times, in part due to past criticism that it hinders transformation of the industrial structure. It has a history of applying special measures during major economic crises and was employed at the times of the Lehman Shock in 2008 and Great East Japan Earthquake in 2011.

The program has been sequentially expanded in response to the ever changing situation since being incorporated into the "emergency measures concerning the novel coronavirus infectious disease" that were formulated on February 13. On April 25, a policy was prepared to set a special grant rate for leave allowances of 10/10 for SMEs that received business suspension requests from a local government and satisfy certain requirements. This policy was implemented on May 1. As a result, the personnel expenses of SMEs that suspend business in response to these requests are, in effect, almost entirely covered.<sup>8</sup> Additionally, non-regular employees and workers who work less than 20 hours a week and are thus not covered by employment insurance have been added in the process of expansion, meaning that attention is being given to preventing unemployment among groups that are particularly susceptible to major economic crises.

At the time of the Lehman Shock, these subsidies were most commonly applied in manufacturing. In contrast, as can be seen in the results of the recent employment conditions' DI, the industry that is being most affected at the present time is accommodations,

eating and drinking services. Accordingly, the effective use of these grants in this industry will become more important. However, this industry contains many small, medium-sized, and micro-enterprises, which are thought to be unaccustomed to using the subsidies. Therefore, a more targeted response in terms of the subsidies' administrative procedures will undoubtedly become necessary.

Moreover, the subsidy system is one in which payments are made at a later date based on actual business suspension records and the like. However, as the subsidies' role in supporting personnel expenses when business operators suppress their economic activity following business suspension requests becomes more important, it has been pointed out that responses to inquiries and consultations from enterprises are sometimes late. Preparations are underway to speed up simplified payment administration for application procedures—namely, the simplification of application forms and method for calculating grant amounts—and to make online application possible in May. Nonetheless, payments made with a sense of speed are required. With the state of emergency declaration's extension, it has become necessary to respond with speed in terms of not only the subsidies but also financial assistance and financing for enterprises.

(2) Assistance measures are being implemented for working people in the forms of rent assistance through Housing Security Benefit, deferment of social insurance premium payments, special loans for living money, and financing of business costs for freelance workers and other individual business operators. These measures provide livelihood support for working people in need who have lost opportunities to work because economic activity has stopped and whose income has decreased or disappeared.

As for the suppression of social activity, support measures were created in response to a request for the temporary closure of elementary schools and other schools throughout Japan beginning on March 2 that was made at a February 27 press conference by Prime Minister Abe. Specifically, they are a scheme that subsidizes an amount equivalent to

paid wages to business operators who granted paid holidays to workers who needed to care for children as a result of the schools' temporary closure (10/10, daily maximum of 8,330 yen),<sup>9</sup> and a scheme created with freelance workers in mind that assists people who work individually doing commissioned jobs when they must care for a child due to the schools' temporary closure (daily amount of 4,100 yen).

(3) Additionally, corporate activities based on work from home (telecommuting) have become necessary with the implementation of restrictions on people's mobility to control infections. Here, a support measure that subsidizes one-half of paid expenses (up to a maximum of one million yen) for SME business operators who newly introduced telecommuting was incorporated into the "The Second Novel Coronavirus Disease (COVID-19) Emergency Response Package" of March 10; however, since then, the following developments have taken place.

- At a press conference on March 25, the Governor of Tokyo, Yuriko Koike called on people to work from home as much as possible on weekdays and to especially refrain from going out at night, as there was a rapid increase in the number of infections in Tokyo, stating "Tokyo is at a critical phase in terms of preventing an explosion of infections."
- On April 7, the national government declared a state of emergency<sup>10</sup> and the Governor of Tokyo issued a request for people to stay home that coincided with this declaration.
- At the 28th Novel Coronavirus Response Headquarters meeting held on April 11, Prime Minister Abe directed that "...the number of employees going to the offices [omission] must be reduced by a minimum of 70%. I instruct the relevant ministries to ensure, with a strong sense of urgency, that all business operators, including micro, small, and medium-sized ones, adhere to this request towards next week [the italicized words are added by the editor]."
- The area covered by the state of emergency declaration was expanded to the entire nation on April 16.<sup>11</sup>

- In view of the decision to extend the state of emergency declaration on May 4 to May 31, promoting work from home (telecommuting), which had not made much progress in Japan theretofore, became unavoidable.<sup>12</sup> According to the results of the "National Survey on Novel Coronavirus Countermeasures" that were announced on April 30,<sup>13</sup> among people whose work primarily involved office work, the national rate of those who began telecommuting was 27% as of April 12–13. While this was significantly higher in comparison with the level prior to the state of emergency declaration, it still did not reach the government's target of "70%."
- There are significant differences among the prefectures in terms of introducing telecommuting. Tokyo has the largest percentage with 52%, while many prefectures have percentages of under 5%.

This is the translation of the original column released in Japanese as of May 8, 2020, at <https://www.jil.go.jp/tokusyu/covid-19/pt/docs/200508pt-report.pdf>.

1. Ministry of Internal Affairs and Communications, *Labour Force Survey*.
2. Ministry of Health, Labour and Welfare, "Report on Employment Service."
3. It must be noted that the number of items required to write on job postings was added in January 2020 and this helped lower the ratio of job openings to job applicants for March.
4. According to the March 2020 Survey of the Bank of Japan's Tankan (Short-term Economic Survey of Enterprises in Japan), a decrease in current profits of enterprises is expected for the second consecutive year. Following a decrease of 7.6% in FY2019, a 2.5% decrease is forecasted in FY2020, reflecting a 7.2% year-on-year decrease in the first half of FY2020 and a 2.9% year-on-year increase in the second half of the same year, amounting to a 2.5% decrease for the entire fiscal year.
5. The figure of 1.63 was attained in August to November 2018 and January, February, and April 2019.
6. "Employed person not at work" refers to employees and self-employed workers described as follows. (i) Employees who did not work during the reference week but who received or were expected to receive wage or salary. (ii) Self-employed worker who did not work during the reference week and whose absence from work has not exceeded 30 days.
7. See Keiichiro Hamaguchi, "Spread of the Novel Coronavirus and the Future of Japanese Labor Policy," *Japan Labor Issues*, vol.4, no.24, <https://www.jil.go.jp/english/jli/documents/2020/024-01.pdf>.
8. Even when a business does not receive a suspension request,

the subsidy rate for the portion where the SME payment rate exceeds 60% is considered to be 100% as a special measure. In this case, the subsidy rate up to 60% is 9/10, and thus, when a business pays 100% of the business suspension allowance to workers, a subsidy rate of 94% applies overall. However, the maximum per diem amount per eligible worker is 8,330 yen.

9. Whether employment is regular or non-regular is not considered.

10. The declaration applied to seven prefectures: Saitama, Chiba, Tokyo, Kanagawa, Osaka, Hyogo, and Fukuoka.

11. At the same time, thirteen prefectures comprised of the original seven prefectures plus six additional prefectures (Hokkaido, Ibaraki, Ishikawa, Gifu, Aichi, and Kyoto) were designated as “prefectures under specific cautions” that require

high priority on containing the spread of the COVID-19.

12. A request to promote teleworking and other actions was issued to the heads of the Japan Chamber of Commerce and Industry, and other SME associations by the Ministry of Economy, Trade and Industry on April 13, [https://www.meti.go.jp/english/press/2020/0413\\_002.html](https://www.meti.go.jp/english/press/2020/0413_002.html).

13. On March 30, the Ministry of Health, Labour and Welfare entered into an “agreement on the provision of information contributing to COVID-19 cluster countermeasures” with LINE Corporation. The “National Survey on Novel Coronavirus Countermeasures” is implemented targeting registered service users on official LINE Corporation accounts to provide information based on this agreement. For survey results, see [https://www.mhlw.go.jp/stf/newpage\\_11109.html](https://www.mhlw.go.jp/stf/newpage_11109.html) (in Japanese).

### **NAKAI Masayuki**

Director of General Affairs Department, The Japan Institute for Labour Policy and Training. Research interest: Labor Economy.