

# Overview of Employment Policy in Japan

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## 1. Employment policy at the macro level

To understand Japan's macro-level employment policy which are distinguished by target group such as elderly people, young people, women, or non-Japanese workers, it is helpful to start by focusing on two perspectives: policy aimed at employment maintenance and policy encouraging mobility in the labor market.

First, employment maintenance policies are those which provide state subsidy measures aimed at steering employers toward retaining employment relationships with their employees even when there is no work available, in the event of an external crisis temporarily reducing enterprises' business activities and in turn prompting worker redundancy at those enterprises. In Japan, such support takes the form of the Employment Adjustment Subsidy (*koyō chōsei joseikin*; EAS), a subsidy covered by the employment insurance fund. Similar systems are also used in European countries such as Germany and France.

Such a system was first introduced in Japan under the Employment Insurance Act, which was enacted in 1974 in response to the first oil crisis in 1973. It was a system inspired by the short-time work allowance (*Kurzarbeitergeld*) scheme being employed in then West Germany. Under Japan's system at that time, the state specified target industries, and employers in those industries received a subsidy covering a certain percentage of allowances to those employees sent on leave. While in its initial stages the system was limited to being a response to short term changes in economic conditions, this was later expanded to include cases of mid- to long-term

issues such as change in industrial structure.

Second, policy aimed at generating employment mobility responds to structural change in industrial sector by shifting workers from enterprises facing decline in demand to enterprises anticipating to see an increase in demand. Its objective is to promote inter-industry or inter-enterprise labor mobility in the form of transfers of workers' employment status to another company (*tenseki*) or reemployment, in such a way that avoids workers becoming unemployed as far as possible. While such policy first emerged as benefits aimed at enabling and encouraging job change (Job-Change Benefits) introduced under the 1966 Employment Measures Act, it only began to be emphasized as key policy once the Labor Mobility Subsidy (*rōdō idō shien joseikin*) was established under the 2001 amendment to the Employment Measures Act. This fund consisted of subsidies for granting affected workers time off to search for jobs and for commissioning employment placement service providers to provide outplacement services to support the reemployment of affected workers.

The trends in macro-level employment policies in the 20 years that followed shifted back and forth between employment mobility and employment maintenance policy, with employment mobility as the main course adopted in economically prosperous periods and employment maintenance during economic downturns. That is, while the number of businesses receiving payment of the EAS remained at around 500 businesses annually in FY 2006 and



FY 2007, once the onset of the 2008 global financial crisis prompted rapid deterioration of business conditions, particularly in the manufacturing industry, the government relaxed the conditions for receiving payment of the EAS, and the number of payments to establishments rose to almost 800,000 annually in FY 2009 and FY 2010. Although this figure declined as the economy subsequently recovered, the effects of the COVID-19 pandemic from 2020 onward led to the number of businesses receiving payments of such subsidies skyrocketing once more. This was due to the slump in labor force demand in many industries—particularly the accommodation and food services industry—prompting the government to respond by once again significantly relaxing the conditions for receiving payment of the EAS, as well as creating a similar system aimed at workers not enrolled in the employment insurance scheme, known as the Emergency Employment Stabilization Subsidy (*kinkyū koyō antei joseikin*). Namely, the number of businesses receiving payment rose to just under 3 million in FY 2020 and just over 2.5 million in FY 2021. The employment insurance reserve funds, which were previously as high as several trillion yen, were therefore exhausted in just a short period, to the extent that they have to be covered with a transfer from the general account. In March 2022, Employment Insurance Act was amended to significantly raise the rates of employment insurance contributions.

On the other hand, since mid-2020, there have been calls for encouraging the new cross sectional labor mobility as responses to the COVID-19 pandemic other than focusing on employment maintenance. The government has also sought to lay out this approach in its budget proposal. In this approach, emphasis is placed on the Subsidy for Industrial Employment Stability (*sangyō koyō antei joseikin*) to ensure that in cases of labor mobility through employee transfers to another enterprise while maintaining affiliation to the transferring enterprise (*zaisekigata shukkō*), subsidies are provided to both the transferring enterprise and the receiving enterprise. However, with each wave of

COVID-19 infections it has been difficult to make progress toward an exit strategy for moving away from employment maintenance policy. While it is difficult to anticipate potential future developments, it looks likely that employment mobility policy will be prioritized once the pandemic has been brought under control.

## 2. Labor market safety nets

While employment maintenance policy seeks to maintain employment relationships, which secure workers' income by ensuring that it continues to be paid by their employers, unemployment benefit entails the government directly securing the income of workers who are no longer in employment relationships. This system was established in 1947 as the unemployment insurance system and was reorganized in 1974 as a comprehensive employment insurance system including schemes such as the aforementioned EAS. Unemployment benefit is part of the contributory social insurance system, such that insurance contributions are split fifty-fifty between the employer and the worker (in contrast, the funds for all subsidies related to employment relationships are covered entirely by employers). Workers become eligible to receive such unemployment benefits once they have worked six months for an employer. The periods for which unemployed workers can receive the unemployment benefit range from 3–11 months and depend on the length of time they were employed with the relevant employer, their age, and the grounds for leaving employment.

Given that the unemployment benefit system is designed in this way, some people may not qualify to receive the benefit despite becoming unemployed, and some people may find the period for which they are entitled to receive the benefit finishes while they are still unemployed and not yet to find new employment. While in Western European countries such people have long been catered for with non-contributory unemployment assistance systems, such systems did not exist in Japan for some time. When a significant number of non-regular workers lost their employment as a result of the 2008 global financial crisis, it came to light that the majority of those

workers were ineligible for the benefit, and the government hastily took a budgetary measure in order to provide a certain amount of benefit to workers who attended basic vocational training. This was made a permanent system under the 2011 Jobseekers Support Act. It is a system that has the nature of non-contributory unemployment assistance provided on the condition that the worker in question attends vocational training.

On the other hand, the premise of the EAS is that employers in business suspension firstly pay the allowances for absence from work to workers who have been sent on leave, and secondly apply to the government for subsidy payments. In reality, however, the EAS system did not work during the 2020 COVID-19 crisis because a number of employers did not pay the allowances to those workers, which resulted in the impoverishment of workers as reported. In response to this, it was even argued that unemployment benefit should be paid as a special exception (regardless of whether the worker in question is unemployed or not). Instead, in the same year the government founded a new financial support for business suspension due to COVID-19 (*kyūgyō shienkin*). This financial support enables the government to directly pay allowances for business suspension to workers who are not paid allowances despite having been sent on leave by an employer while still in an employment relationship with said employer. However, in the event that the employer is obliged to pay the leave allowance, the legal implications are complex.

### 3. Job creation initiatives

Policies that seek to address a lack of employment opportunities by utilizing public funds to pursue initiatives and seeking to absorb unemployed people into such projects have been adopted all around the world, such as the Tennessee Valley Authority project established as part of the New Deal policy in the US. Likewise, in Japan directly after the end of World War II the Emergency Unemployment Countermeasures Act was enacted with the aim of rebuilding the country following the extensive destruction of the war. The emergency unemployment

countermeasures initiatives were subsequently scaled back during the period of economic growth and eventually abolished in 1995.

However, around that same time, there was a rise in the numbers of unemployed people due to the economic downturn resulting from the bankruptcy of financial institutions and other such factors. The government therefore adopted a budgetary measure in 1999 to establish a grant-in-aid system to support local government bodies to pursue public projects utilizing unemployed people. And when the numbers of unemployed people rose once again during the 2008 global financial crisis, the Emergency Job Creation Program was implemented along the same approach of providing grants-in-aid to local governments. The model case of the use of such grants was following the Great East Japan Earthquake, in response to the devastating damage caused by the resulting tsunami in the coastal areas of the Tohoku region. This illustrates a Cash-for-Work program; local victims of the crisis were employed by the projects to recover and reconstruct the affected areas.

### 4. Public employment services

Japan also provides public employment services nationwide in accordance with the ILO Employment Service Convention of 1948 (No. 88). Such services started out as free-of-charge employment placement initiatives operated by municipal governments under the 1921 Employment Placement Act. These were nationalized in 1938 and following the World War II were, in accordance with the 1947 Employment Security Act, also operated as a nationwide network directly controlled by the national government.

While the main offices consist of 544 Public Employment Security Offices—commonly known as *Hello Work* centers—facilities to assist specific types of jobseekers in finding employment known as Talent Banks (*jinzai ginkō*) and Part-timers Banks (*pāto banku*) were established in 1967 and 1981, respectively. Although these have been abolished, the *Ladies' Hello Work* offices established in their place in 1991 have been relaunched in 1996 as *Hello Work for Supporting Work-Family Balance* and in 2006 as the *Hello Work for Mothers* program, which

is still in operation today. Facilities for younger jobseekers—*Hello Work for Youth* and *Hello Work for New Graduates*—have also been established. In regions without *Hello Work* offices, local municipal government buildings also house *Hometown Hello Work* offices.

Since 1999, the *Hello Work* centers have been equipped with computers with job searching functions that jobseekers can use themselves and job vacancy information has also been provided online. These internet services subsequently underwent gradual expansion. Under the influence of the COVID-19 pandemic, both employers with job vacancies and jobseekers have, since September 2021, been able to open their own account online and receive job placements online.

## 5. Private-sector labor market businesses

While the 1947 Employment Security Act applied strict regulations all but prohibiting paid employment placement services and labor supply services, from

the 1980s to the 1990s the provisions were increasingly relaxed, and at present both private employment agencies and worker dispatching service providers are able to operate considerably freely, generally under the license system. Of these two business types, worker dispatching service providers are connected with issues that dispatched workers—as non-regular workers, alongside part-time workers and fixed-term contract workers—face unstable employment conditions and low wages, and the process of amending the Worker Dispatching Act has been ongoing for over 20 years.

On the other hand, various forms of business, which may not fall under the category of conventional employment placement services, have been expanding in their services giving various online offers to provide recruitment information. In March 2022, Employment Security Act was amended to introduce a notification system to gently regulate these new business forms.

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