

2 Employment and Unemployment Trends

Diversification of Employment

An examination of employment in Japan over the medium term reveals an increase in the number of female and elderly workers, and gives an overall impression of growing diversity. In terms of form of employment, the proportion of all employees (excluding company directors) who were regular employees had fallen below two thirds to 64.8% in 2012. Compared with during the 1980s, when over 80% were regular employees, the scale of the increase in non-regular employment since the collapse of the economic bubble in the 1990s is evident.

Among non-regular employees, part-time workers made up the highest percentage of the entire non-executive workforce at 18.0% as of 2014, while *Arbeit* (temporary workers) accounted for 7.7%. Along with these, contract employees and temporary employees (7.8%) and dispatched workers (2.3%) have also come to account for a certain proportion.

From the 2013 survey onward, contract employees and entrusted employees are also counted separately, and the former constitute 5.6% of the workforce while the latter make up 2.3%.

The diversification of forms of employment is evidenced also by the rise in the proportion of employees who work relatively short working hours.

In recent years, notable trends in the ratios of employment formats include: (1) Amid the drastic downsizing of economic activity following the global financial crisis of 2008-2009, the percentage of dispatched employees declined significantly, especially in the manufacturing sector, and continued falling gradually thereafter, but began rising again in 2013. (2) As members of the baby boom generation reach retirement age and a considerable percentage of them are rehired in other formats such as entrusted employees, the ratio of contract and entrusted employees has been rising significantly. (3) The percentage of part-time workers, which had stopped rising for a time, has been growing again recently.

The first of the factors that have brought about this kind of diversification in forms of employment that comes to mind is the long-term trend towards service-based industries, centering on the increase in the share of tertiary industry. The trend towards service-based industries provides more opportunities to find jobs that involve forms of employment other than regular employment. For example, the 2012 edition of the “Employment Status Survey” conducted once every five years by the Statistics Bureau of the Ministry of Internal Affairs and Communications (MIC), providing a useful source of data for examining employment patterns in detail, indicates that the proportion of all employees (excluding company directors) accounted for by non regular employees is considerably higher in tertiary industry (73.3% in the food, beverage, and hotel industries, 50.5% in other service industries that cannot be categorized, 50.0% in the wholesale and retail industries, 39.2% in real estate and leasing, and 39.1% in the medical and welfare industries) than in manufacturing (26.3%). In these industries, there is strong demand for non-regular employment due to the nature of the work, such as the fluctuating level of demand for services and the need to provide services beyond ordinary working hours.

At the same time, the diversification of forms of employment and ways of working has been propelled in part by the needs of workers themselves. As more women in particular have entered the workforce, those with childcare or other responsibilities in the home often themselves choose to work on a non-regular basis as this enables them to work more flexible hours (both in terms of the number of hours worked and the times that they work).

In addition to these basic factors, other salient factors have fueled the recent rapid increase in non-regular employment. One has been employers’ curbing of regular employment and use instead of non-regular employees to cut labor costs in response

to the severe economic and employment conditions faced since the collapse of the bubble in the 1990s. The other is the impact of institutional changes, including amendments to legislation. In particular, the deregulation of agency businesses (i.e. a broadening of the scope of businesses that can dispatch workers) has led to a progressive increase in the use of dispatched workers. However, there was a decreased in the utilization of dispatched employees from 2009 onward, one reason for which was the debate over legal reform to strengthen regulations governing labor dispatch agencies, which continued for a long time without moving in any well-defined direction. In 2012 this debate came to a conclusion as legal reforms were implemented, and this appears to have contributed to a rise in the number of dispatched workers since then. Although employment types have diversified rapidly in recent years, some problems have been pointed out. One is that some employees find it different to assimilate corporate technologies and skills. Another is the large disparity in wages and other treatment between regular and non-regular employment, even when much of the work is the same. Another still is that no unemployment safety net has been developed for non-regular employees, many of whom are employed on fixed-term contracts.

From Rising Unemployment to a Cyclical Phase

A general overview of Japanese employment trends reveals a second characteristic, namely that after trending higher for some time, the unemployment rate has appeared to fall into a medium-term cyclical trend. From the 1970s to the end of the 1980s, the overall unemployment rate remained between around 2% and 3% as it bobbed around slightly behind trends in the business cycle. Following the collapse of the bubble at the beginning of the 1990s, however, the economy entered a protracted slump and, after declining to a low of 2.1% in 1992, unemployment continued to rise for the next decade to reach its most recent peak of 5.4% in 2002. Thereafter, as the economy entered an extended phase of gradual recovery, the unemployment rate also fell, reaching a recent low of 3.9% in 2007. During the recession triggered by the global financial crisis of

2008, the total unemployment rate began rising and topped 5% in 2009, but economic recovery thereafter brought it down again, and it stands at 3.6% as of 2014.

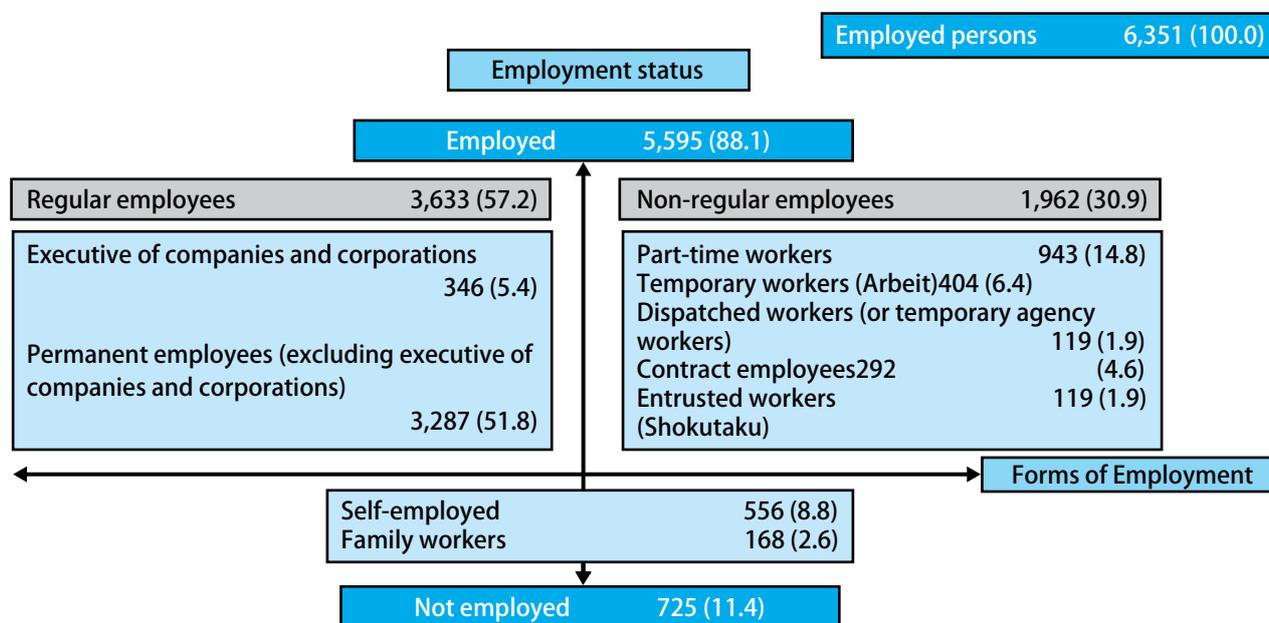
Viewed over the long term, Japan's unemployment rate was around 2% during the 1980s and rose during the ensuing two "lost decades" of economic stagnation following the collapse of the economic bubble. Since then it has moved up and down between 3.5% and 5% or so, largely staying between 4% and 5%. Estimated trends in structural/frictional unemployment (equal to the equilibrium rate of unemployment, i.e., the level of unemployment when supply and demand for labor presently manifest on the labor market are in equilibrium assuming the present structure of the labor market) based on a U-V analysis support this interpretation.

These broad trends in the unemployment rate may be seen as a reflection of the general trend in Japan's economic growth. However, the purpose of economic growth is to satisfy people's economic needs, and it is not necessarily worth single-mindedly pursuing growth in a mature economy such as Japan's. Moving forward, it will be necessary to curtail rising unemployment to the greatest possible extent by increasing productivity not through quantitative expansion of work-hours, but through technological advances leading to more efficient work procedures, in other words through qualitative improvements that contribute to reduced working hours.

One structural problem concerning unemployment is the particularly high rate among younger age groups. As of 2014 the total unemployment rate for all age groups stood at 3.6%, but among 15- to 19-year-olds it was 6.2%, among 20- to 24-year-olds 6.3%, and among 25- to 29-year-olds 5.2%. Like the overall rate, the unemployment rate among young people has been declining in recent years, but it remains high compared to other age groups. The stage of life in which young people graduate from school and start working is also a stage when many search for an occupation appropriate for them, and the unemployment rate for this age group has long been high relative to the overall average. In addition, the labor market for new graduates is characterized by reduced hiring of regular employees, and it must be

noted that as a result, an increasing number of young people begin their working lives as non-regular employees.

Figure II-5 Breakdown of Employed Persons (2014 Averages)

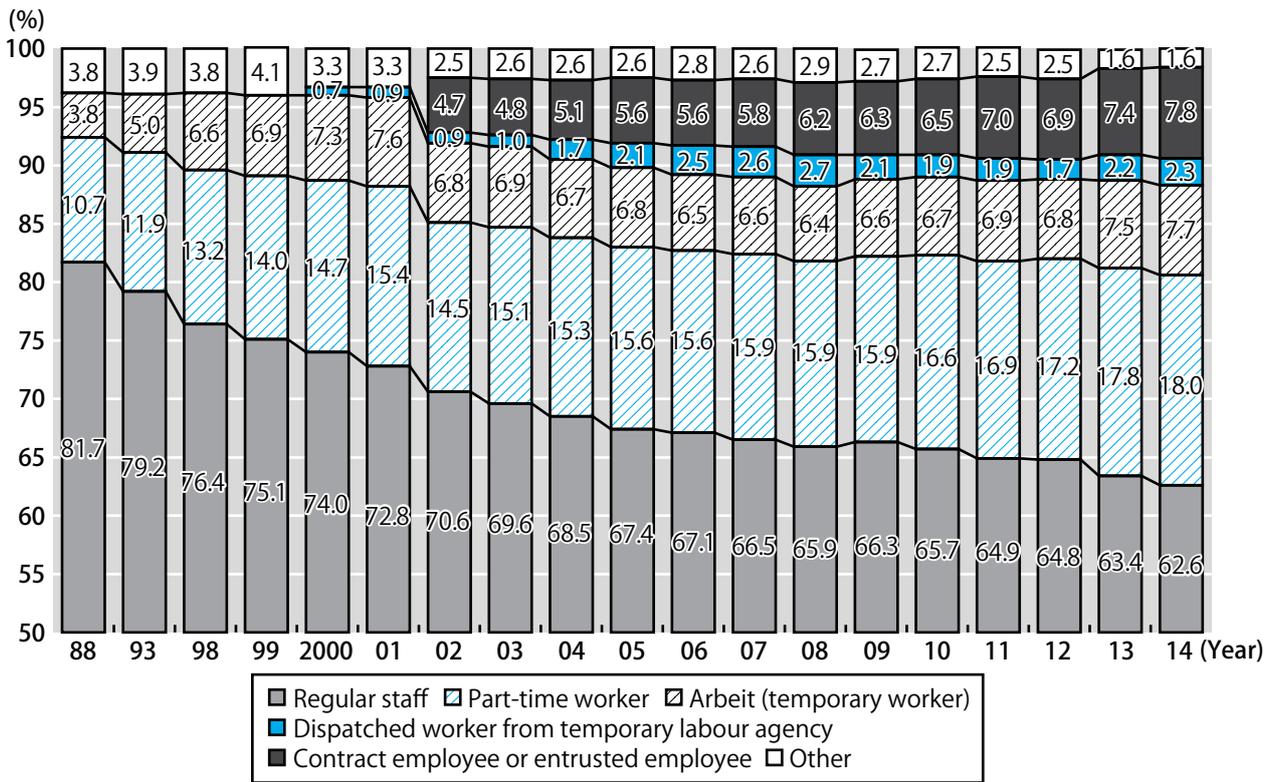


Source: Statistic Bureau, Ministry of Internal Affairs and Communications, *Labour Force Survey* (Basic Tabulation)

Note: Figures not in parentheses indicate the numbers of employed persons in tens of thousands.

Those in parentheses indicate the percentages of employed persons in the overall population.

Figure II-6 The Proportion of Employees by Type of Employment



Sources: Compiled from the *Labour Force Survey* (survey in February each year) in the case of data for 2001 and earlier, and from the *Labour Force Survey Detailed Tabulation* (id. Basic Tabulation for 2013 and later) (annual averages) in the case of data for 2002 onwards.

In addition, because there are differences in survey methods between the Labour Force Special Survey, the Labour Force Survey Detailed Tabulation, and id. Basic Tabulation, caution is required in comparing time series data.

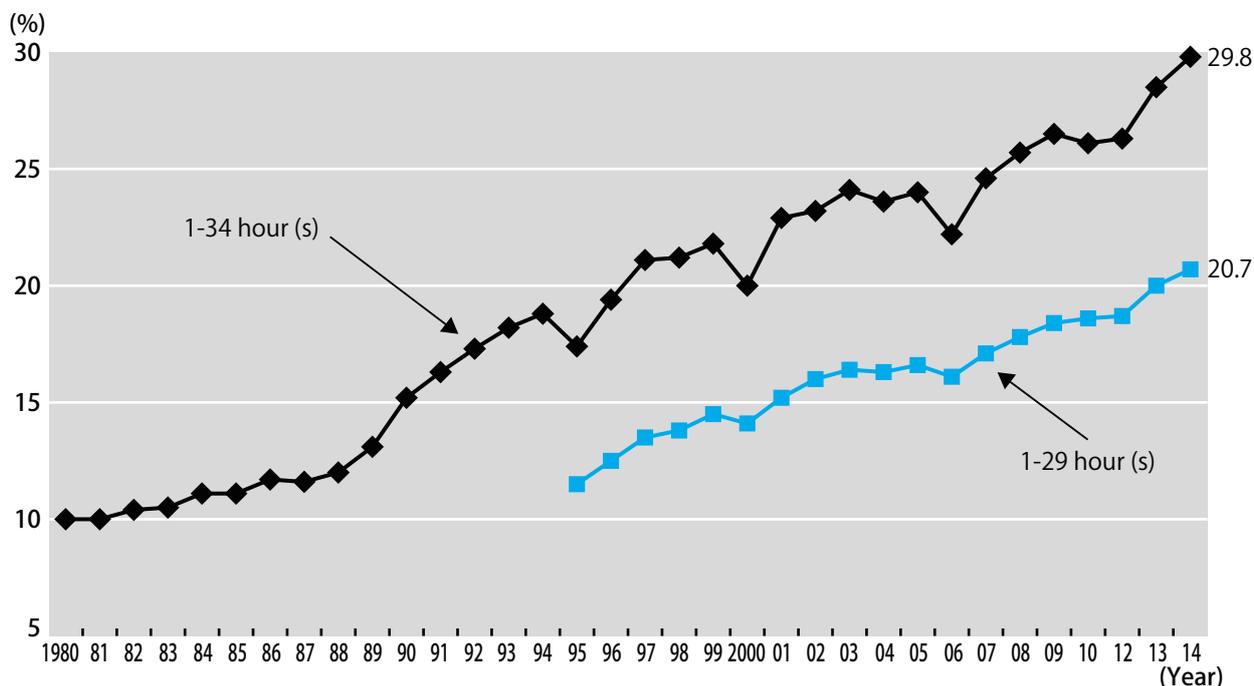
Notes: 1) From 2000, "Dispatched workers" was added as an independent category, while from 2002, "Contract employees and temporary employees" was added.

2) This is the share among employees other than board members.

3) The figure for 2011 is a complementary estimate to supplement missing data due to the Great East Japan Earthquake.

4) Some data since 2007 have been changed in line with changes in the base population.

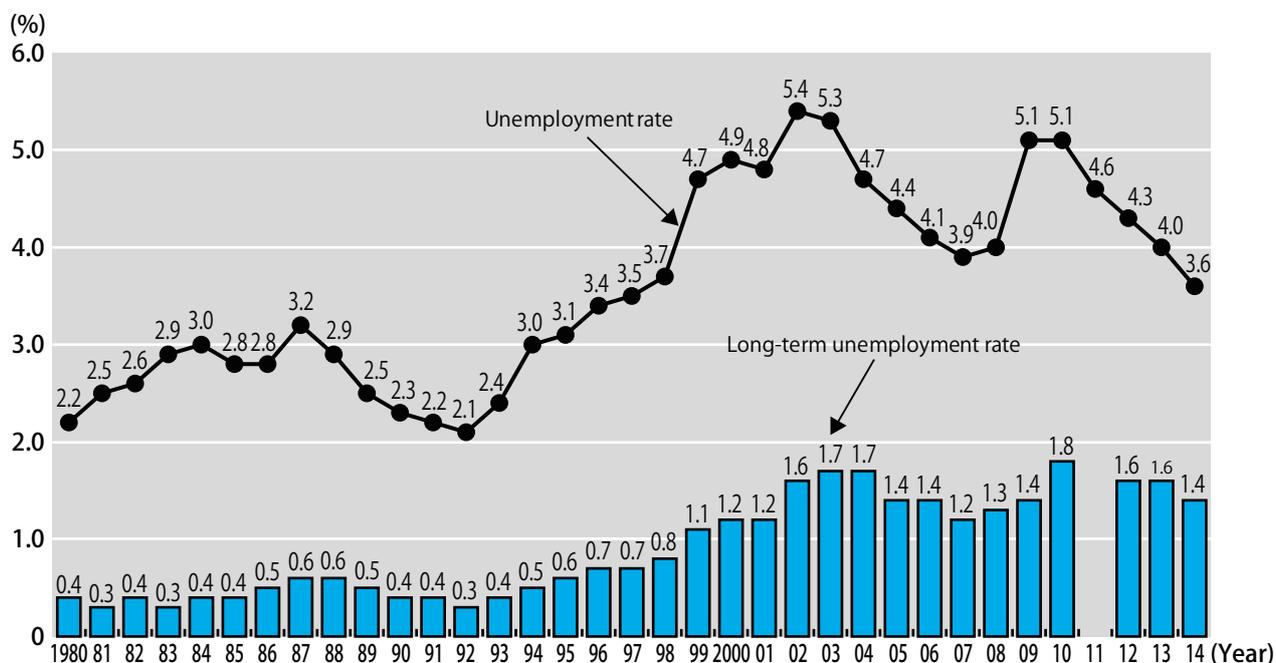
Figure II-7 Breakdown of Non-agricultural/ Forestry Industry Employees by Weekly Working Hours



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

Note: As a result of the Great East Japan Earthquake, the national total for 2011 has not been aggregated, and no complementary estimate has been published for this item.

Figure II-8 Trends in Unemployment and Long-term Unemployment Rates



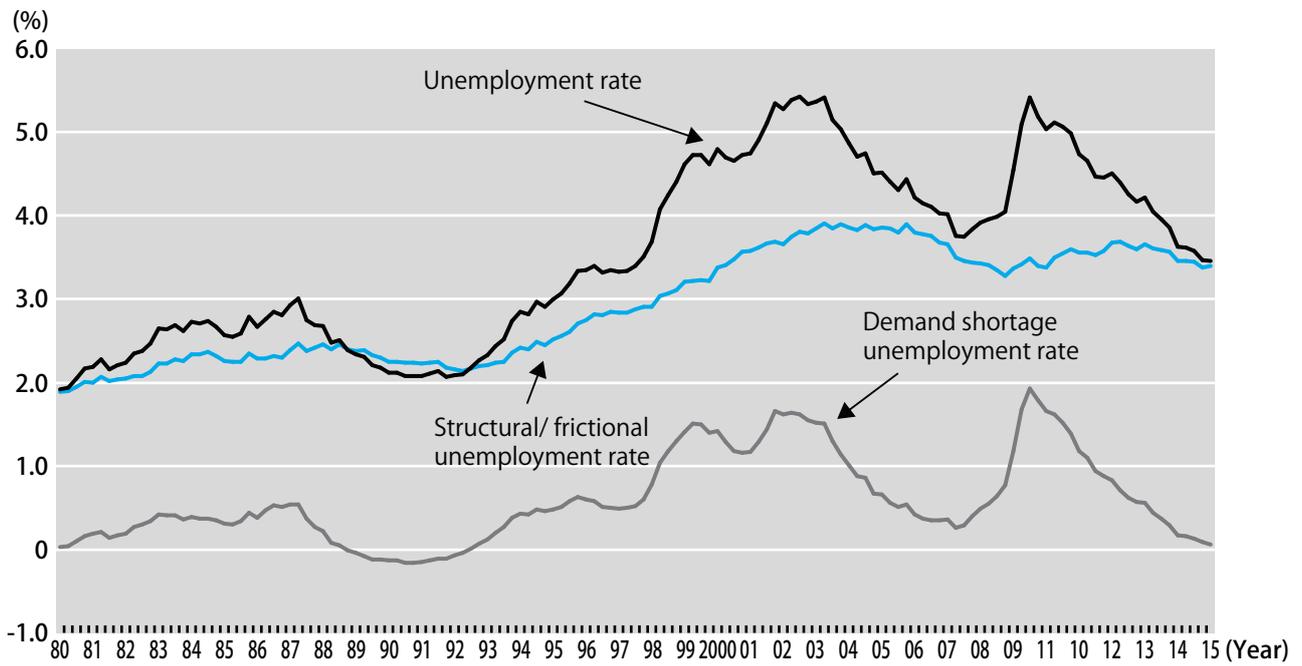
Sources: Statistic Bureau, Ministry of Internal Affairs and Communications, *Labour Force Survey*, *Special Survey of Labour Force Survey* (1977-2001), *Labour Force Survey (Detailed Tabulation)* (2002-2014)

Notes: 1) Long-term unemployment rate = persons unemployed for 1 year or more / labor force population

2) The values are for each March up to and including 1982 and for each February from 1983 to 2001, and are yearly averages from 2002 to 2014.

3) As a result of the Great East Japan Earthquake, the national total for 2011 has not been aggregated, and although complementary estimates have been published for the unemployment rate, unemployment figures by length of unemployment have not been published.

Figure II-9 Trends in Structural/Frictional Unemployment Rate and Demand Shortage Unemployment Rate (1980 I-2015 I)



Sources: Estimated by the JILPT based on the method employed by the Labour Policy Director's Office in MHLW, *White Paper on the Labour Economy 2005*, based on MHLW, Employment Security Operations Statistics and Statistic Bureau, Ministry of Internal Affairs and Communications, *Labour Force Survey*

Note: It should be borne in mind that estimates of the structural/frictional unemployment rate are inherently limited due to the effects of changes in economic conditions.