



COVID-19's Impact on the Labor Market and the Role of Employment Adjustment Subsidy in Japan

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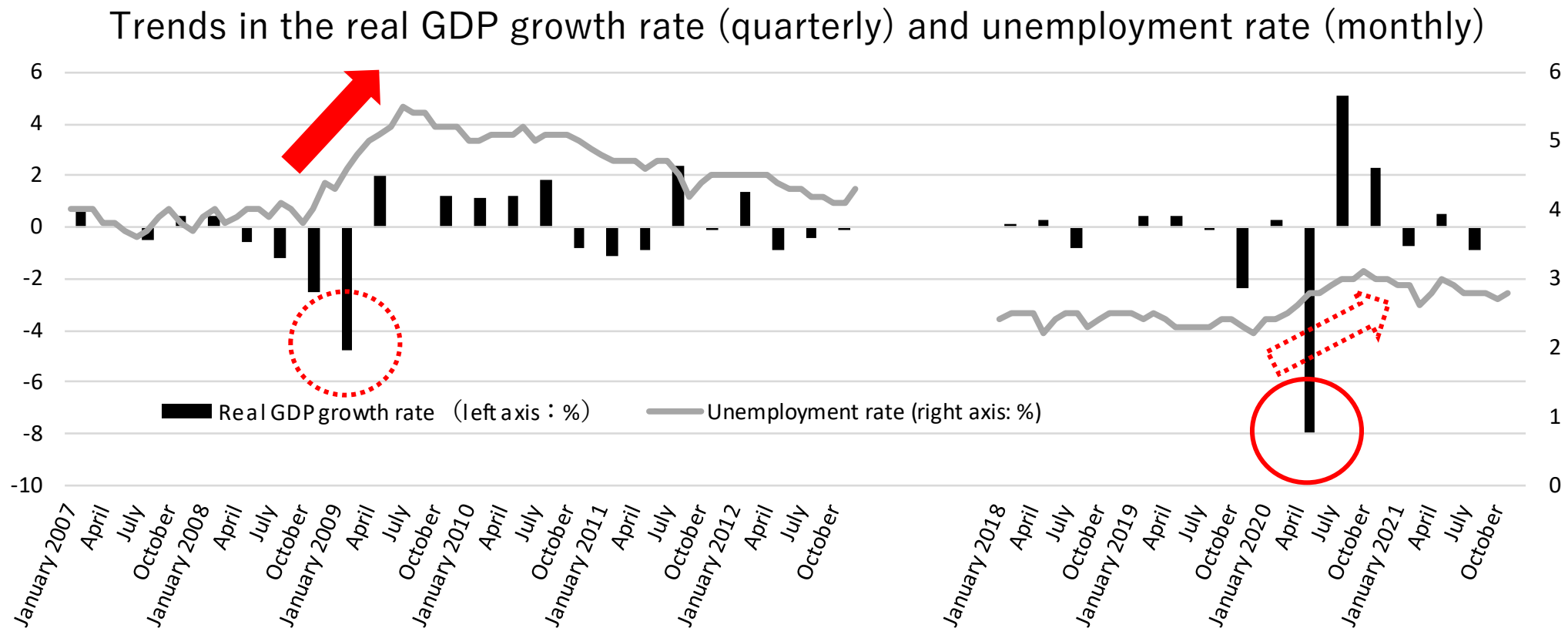
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Abstract

- In Japan, employees (in many cases, regular, male employees) enjoy long-term employment practice. This practice is endorsed by the Employment Adjustment Subsidy (EAS). Thanks to this subsidy, employers can avoid staff reduction in times of economic crisis.
- During the recession induced by the COVID-19 pandemic, a huge number of firms received this subsidy and kept their employees working. As a result, the increase in unemployment ratio was small.
- However, it is possible that excessive payment of EAS will negatively affect worker mobility, which is required to recover from a recession. The Japanese government has to decide when they should tighten their EAS payments.

GDP and unemployment rate

The blow on real GDP growth rate was severe, but the unemployment rate remained low in comparison with the financial crisis.

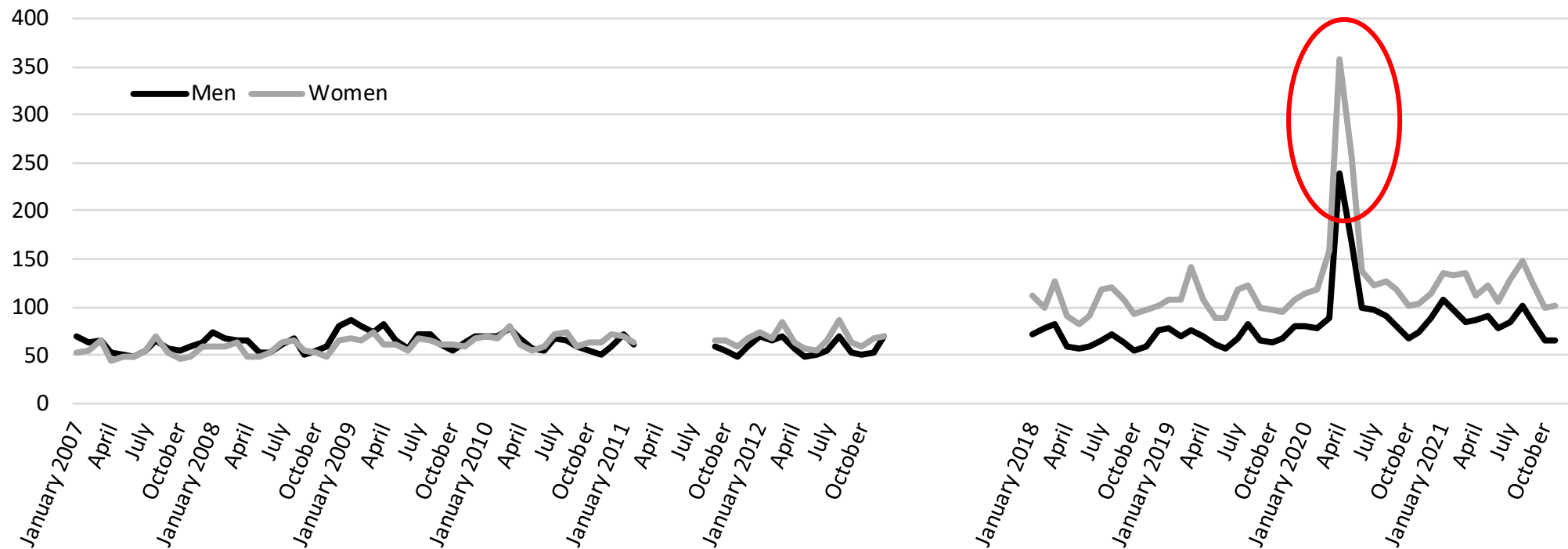


Source: Cabinet Office *System of National Accounts*, Ministry of Internal Affairs and Communications (MIC) *Labor Force Survey*

People on leave from work

The number of people on leave from work has increased significantly during the pandemic.

Trends in the numbers of employed persons who did not work a single day in the last week of the month (actual figures; units of 10,000 people)

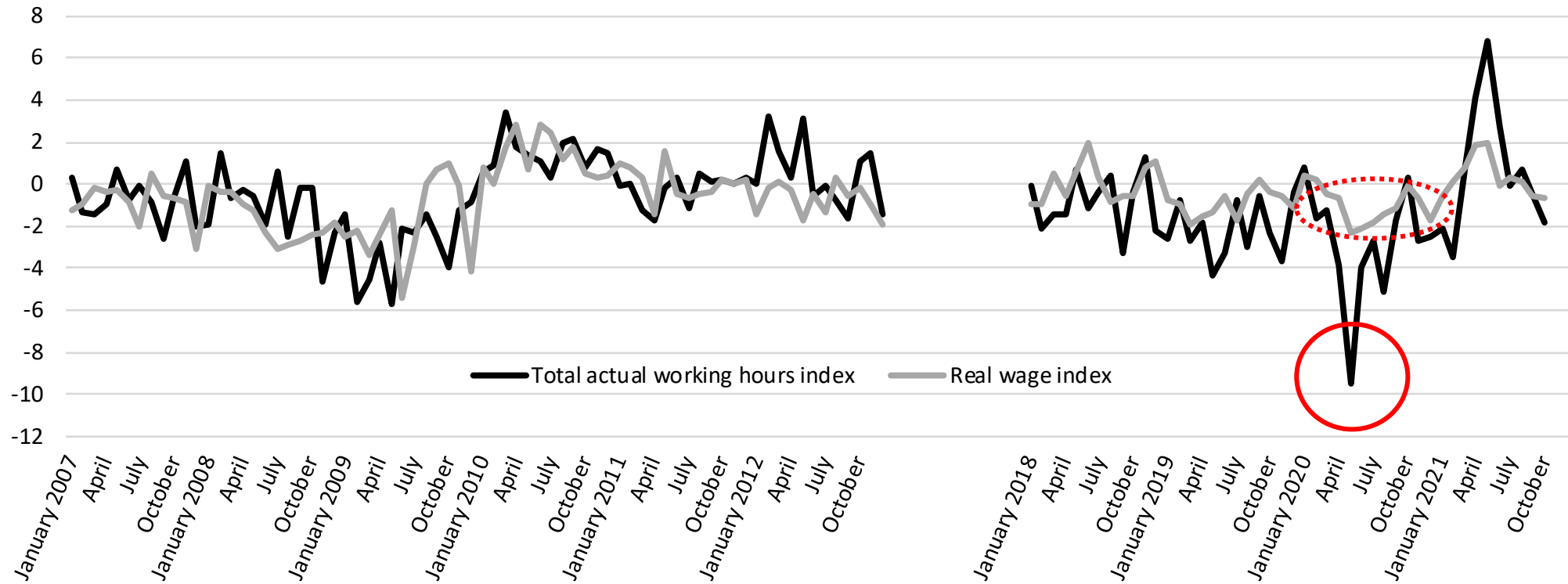


Source: MIC Labor Force Survey

Working hours and wage

The decline of the working hours index was deep, but the decline of the real wage index was slight.

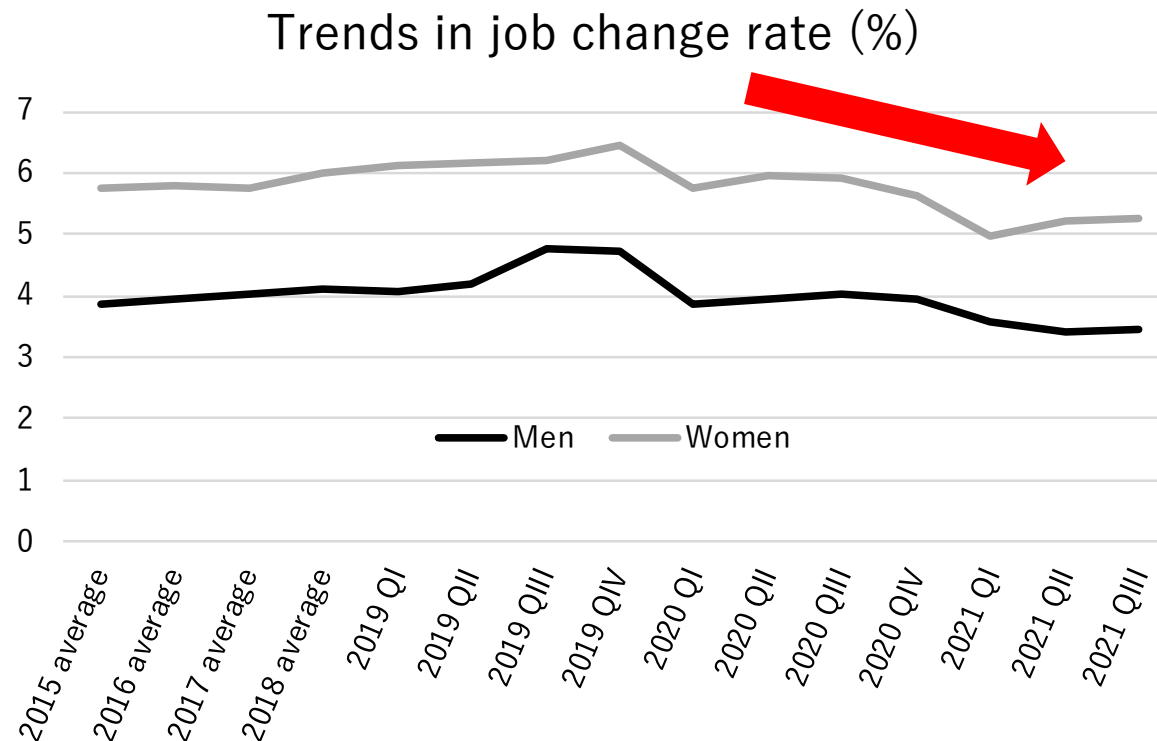
Trends in the total actual working hours index and real wage index (on the same month of the previous year; %)



Source: Ministry of Health, Labour and Welfare (MHLW) *Monthly Labour Survey*

Job change

The job change rate has been declining since 2020.



Source: MIC *Labor Force Survey*

Note: The figure shows the number of people who changed jobs (changed employers) as a percentage of the number of employed persons at each survey timing. As “people who changed jobs” are defined as those who left their original employment and started their new employment within the previous year, in some cases, the timing of the job change reflected the previous year.

Employment Adjustment Subsidy (EAS)

The relaxation of eligibility criteria and increase in payment levels for the Employment Adjustment Subsidy (EAS) has promoted the efforts by many enterprises to retain employment. In addition, the coverage of EAS has been expanded to those who are not enrolled in employment insurance.

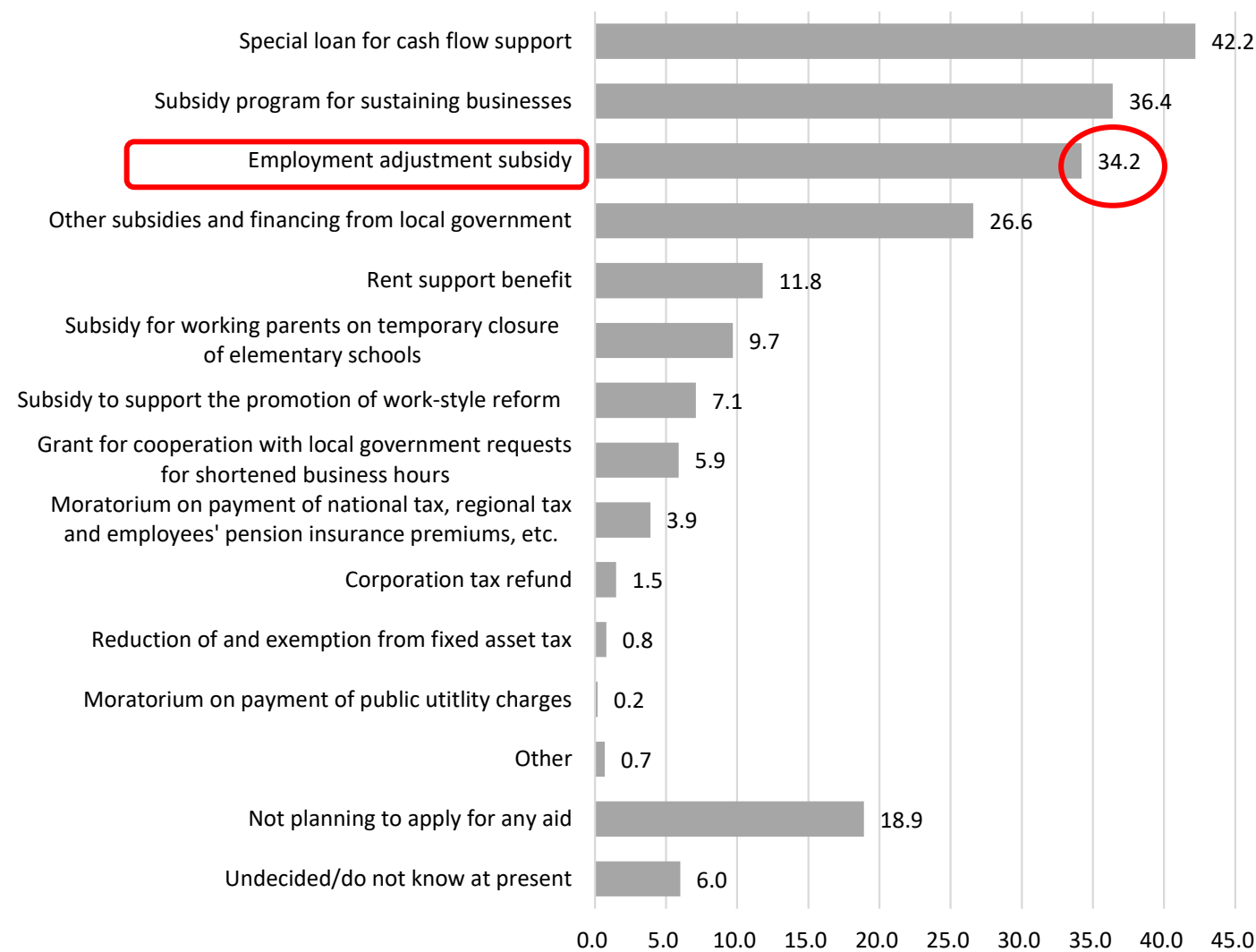
- The Employment Adjustment Subsidy, which is drawn from the employment insurance fund and paid to enterprises, is aimed at enabling enterprises to maintain employees' jobs through supplementing their employees' leave allowance.
- In the pandemic, (1) the eligibility requirement based on an enterprise's production index was relaxed, (2) the proportion of leave allowance covered by the subsidy was increased, and (3) the upper limit for subsidy amounts was raised.

EAS (cont'd)

- In addition, “Emergency Subsidy for Job Security” is now (temporarily) provided to supplement leave allowances for workers who are not enrolled in employment insurance (such as part-time workers who work less than 20 hours a week and students in side jobs), although public awareness of this emergent subsidy seems not to be sufficient.
- Furthermore, workers of small- and medium-sized enterprises who were not paid a leave allowance during the period for which they were on leave are now able to receive a leave allowance directly paid by the government.
- In any case, more than one third of enterprises applied for EAS. As of August, 2022, the cumulative amount of EAS paid is more than 6 trillion yen. The payment is decreasing, but very slowly.

More than one third of firms applied for EAS

Use of COVID-19-related support measures as of October 2020 (N = 1,458, respondents allowed to select multiple responses, %)

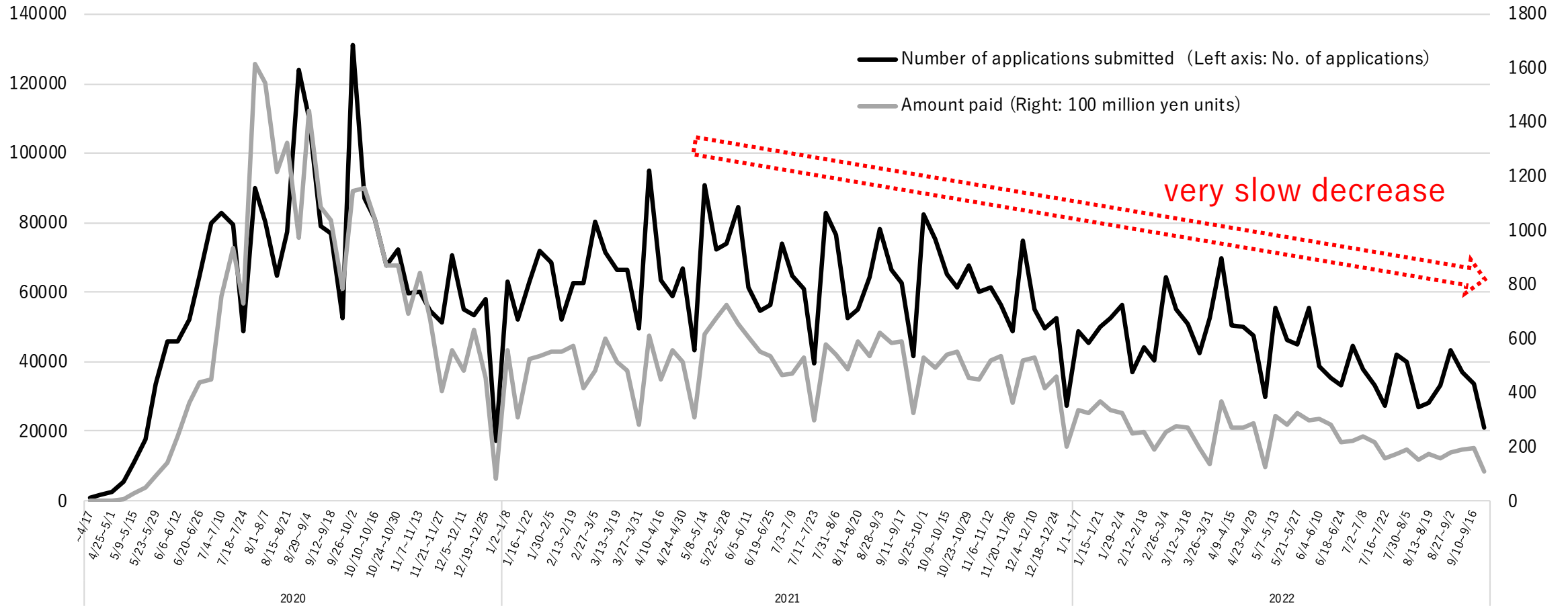


High percentages of enterprises have drawn on the subsidies and funding to support business activity. If these measures are excluded, the EAS shows the highest percentage.

Source: JILPT “Survey on the Impact of COVID-19 on Enterprise Management” (Press release published on December 16, 2020)
Note: Survey subjects are enterprises registered with an online survey company.

EAS payment is decreasing, but very slowly

Trends in EAS application numbers and amount of EAS paid (weekly)



Source: MHLW website (<https://www.mhlw.go.jp/stf/covid-19/open-data.html> [in Japanese])

In sum,

- The Real GDP growth rate recorded a significant decline in the second quarter of 2020. The unemployment rate, however, has seen only a small increase. This is thought to be due to enterprises' efforts to adjust working hours, as opposed to reducing employee numbers, and this can be attributed to the labor shortage and the generous supply of the Employment Adjustment Subsidy (EAS).
- In fact, EAS payments have become more relaxed than usual, and EAS has played an important role in maintaining employment. It is also important to note that the scope of eligibility of EAS has been temporarily expanded to workers who are not enrolled in employment insurance (i.e., part-time workers working less than 20 hours per week and students working side jobs, etc.).
- In any case, many workers remained with the same employer during the pandemic due to the generous supply of EAS. This is why the unemployment rate has remained low.

Evaluation

- Employment stability should be given priority in an economic crisis. Thanks to the Employment Adjustment Subsidy (EAS), Japanese society was able to escape from mass unemployment during the pandemic.
- However, it is also essential to examine whether EAS payments during the pandemic were appropriate and/or effective. There is concern that EAS was supplied excessively, which might hinder the efficient allocation of workforce required for recession recovery. This might deprive enterprises of their competitiveness and affect workers' motivation negatively.
- The Japanese government has to decide when they should reign in EAS payments.