

# More on Labor Market in Japan

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# Issues

1. Students' Job Search
2. Impacts of the Global Financial Crisis 2008
3. Employment Protection Legislation

# **STUDENTS' JOB SEARCH**

# Students' Job Search

- Mass Media focuses on the difficulty for the university/college students to find a job.
- Japan has a special job matching mechanism between students and firms, which is unique to Japan.
  - Job search is concentrated in the last year of the undergraduate schooling.
  - Graduation is not an advantage but a handicap – you must get a job offer before graduation, otherwise you would face an even more difficult situation.
  - Many students who have received no job offer in *their* job opening season, tend to postpone the graduation until the next year. (留年)

# Job search schedule

- September -> December: Students start collecting information and participating in seminars offered by firms. (就活)
- April: Large firms interview students. Successful students obtain job offers by the end of April, or before the Golden Week - May Holidays. (内定)
- October 1: Official ceremonies to make formal job offers to students. (内定式)
- March: commencement (卒業式)
- April 1: You *enter* your company (入社式)

# Large Gap among students in *Shukatsu* (就活)

- Students of prestigious universities (former imperial universities, Waseda, Keio, etc.) get job offers relatively easier than students of other universities.
- Even within the same university, some successful students get (multiple) job offers than other unsuccessful students.

# Mismatches

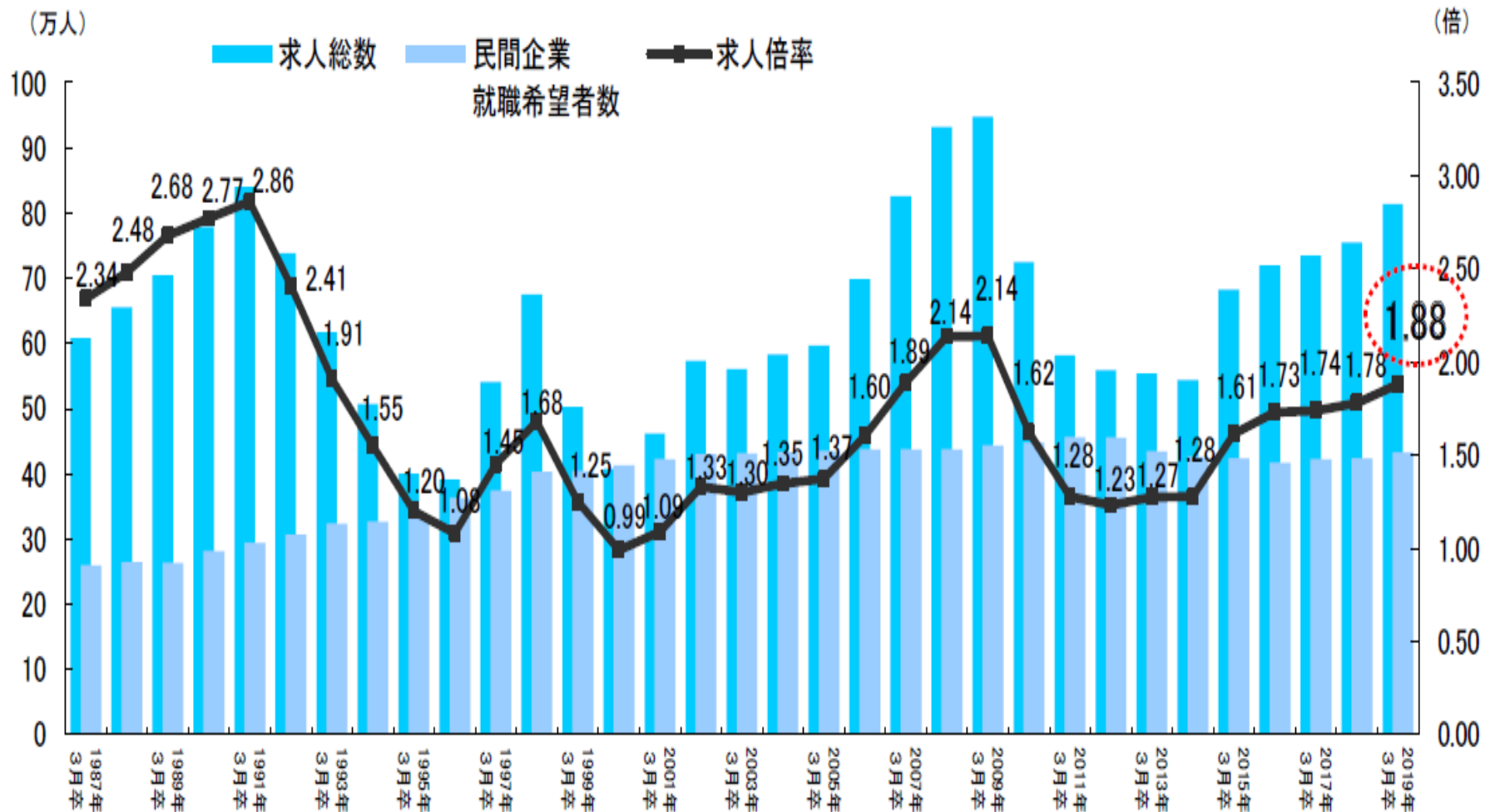
- Students, no matter how ranked your university is, want to get hired by large firms.
- Large firms want to make offers to students of the prestigious universities only.
- Internet has enabled enormous number of students to apply for popular, large firms.
- Selection is a hard process: Large firms neglect application from students of non-brand universities.
- Students of non-brand universities can get job offers relatively easily, if they apply for small and medium-sized firms. But they don't, when they start job search.
- The gap between job vacancies and applicants is quite persistent over time.

# Labor market tightness (有効求人倍率)

$$\theta = \frac{\text{job vacancies}}{\text{applicants}}$$



### ■求人総数および民間企業就職希望者数・求人倍率の推移



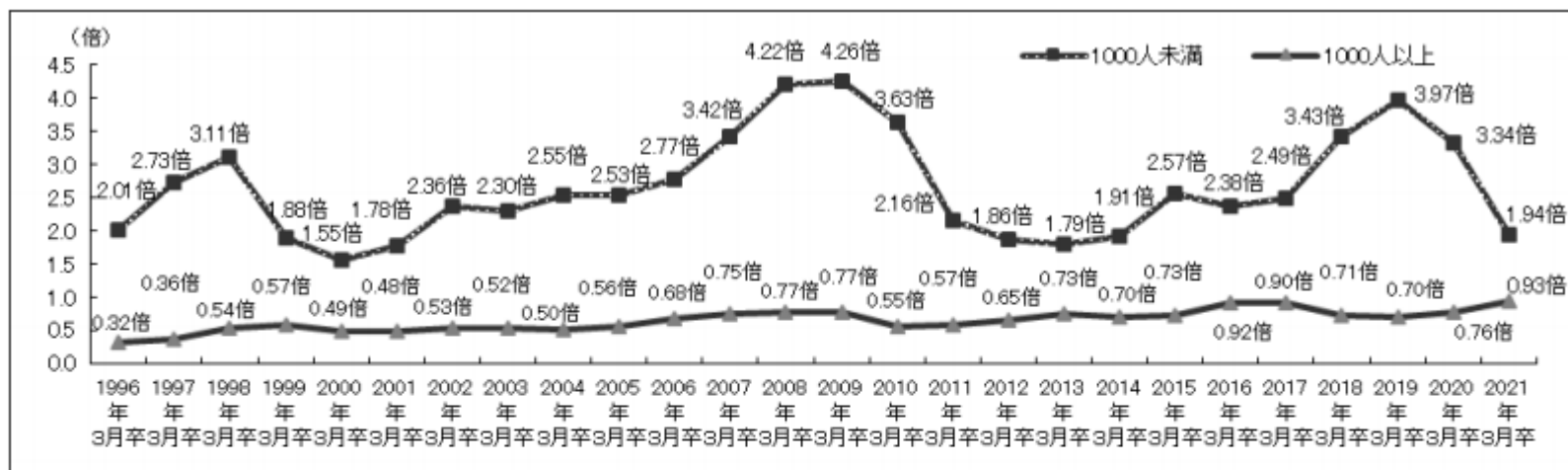
出典：リクルート・ワークス(2018)「大卒求人倍率調査(2019年卒業)」  
<http://www.works-i.com/surveys/graduate.html>

# Labor Market Tightness (Whole)

- Finding a job was a hardship for the college and high school graduates for 1999-2003.
- They are called the "Lost Generation".
- The labor market tightness was higher than 2 for 2008-2009 graduates, reflecting the recovery of the economy for 2004-2007.
- Labor demand cycle follows GDP cycle by a two-year gap.
- The mass of college graduates is steadily growing, while the recovery in demand for youth is not so strong.
- Therefore the present labor market tightness for 2015-2019 is not so high as the previous boom for 2008-2009.

# Gaps based on Firm Size 1

図6 従業員規模（2区分：1000人未満、1000人以上）別 求人倍率の推移



求人倍率	1996年 3月卒	1997年 3月卒	1998年 3月卒	1999年 3月卒	2000年 3月卒	2001年 3月卒	2002年 3月卒	2003年 3月卒	2004年 3月卒	2005年 3月卒	2006年 3月卒	2007年 3月卒	2008年 3月卒	2009年 3月卒
全体	1.08倍	1.45倍	1.68倍	1.25倍	0.99倍	1.09倍	1.33倍	1.30倍	1.35倍	1.37倍	1.60倍	1.89倍	2.14倍	2.14倍
1000人未満	2.01倍	2.73倍	3.11倍	1.88倍	1.55倍	1.78倍	2.36倍	2.30倍	2.55倍	2.53倍	2.77倍	3.42倍	4.22倍	4.26倍
1000人以上	0.32倍	0.36倍	0.54倍	0.57倍	0.49倍	0.48倍	0.53倍	0.52倍	0.50倍	0.56倍	0.68倍	0.75倍	0.77倍	0.77倍

求人倍率	2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
全体	1.62倍	1.28倍	1.23倍	1.27倍	1.28倍	1.61倍	1.73倍	1.74倍	1.78倍	1.88倍	1.83倍	1.53倍
1000人未満	3.63倍	2.16倍	1.86倍	1.79倍	1.91倍	2.57倍	2.38倍	2.49倍	3.43倍	3.97倍	3.34倍	1.94倍
1000人以上	0.55倍	0.57倍	0.65倍	0.73倍	0.70倍	0.73倍	0.92倍	0.90倍	0.71倍	0.70倍	0.76倍	0.93倍

注：2021年3月卒の値は2020年6月調査によるもの

# Gap based on Firm Size 2

- The labor market tightness for the small and medium sized firms remains higher than 2, although mass media say that job search is a hardship.
- On the contrary, the labor market tightness for large firms stayed less than 1.
- The gap is highly persistent.
- The Covid-19 pandemic affects the tightness across industries.
  - It declines for small and medium-sized firms.
  - It *increases* for large firms!

図7 従業員規模別 求人総数と民間企業就職希望者数の推移

		求人総数および民間企業就職希望者数：(人)											
		2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
300人未満	【300人未満】												
	求人総数(A)	402,900	303,000	275,700	266,300	262,500	379,200	402,200	409,500	425,600	462,900	449,000	382,300
	対前年増減数	-	▲99,900	▲27,300	▲9,400	▲3,800	+116,700	+23,000	+7,300	+16,100	+37,300	▲13,900	▲66,700
	対前年増減率	-	▲24.8%	▲9.0%	▲3.4%	▲1.4%	+44.5%	+6.1%	+1.8%	+3.9%	+8.8%	▲3.0%	▲14.9%
	民間企業就職希望者数(B)	47,800	68,700	82,400	81,400	80,600	83,900	112,100	98,500	66,000	46,700	52,100	112,400
	対前年増減数	-	+20,900	+13,700	▲1,000	▲800	+3,300	+28,200	▲13,600	▲32,500	▲19,300	+5,400	+60,300
	対前年増減率	-	+43.7%	+19.9%	▲1.2%	▲1.0%	+4.1%	+33.6%	▲12.1%	▲33.0%	▲29.2%	+11.6%	+115.7%
過不足数(B-A)	▲355,100	▲234,300	▲193,300	▲184,900	▲181,900	▲295,300	▲290,100	▲311,000	▲359,600	▲416,200	▲396,900	▲269,900	

		求人総数および民間企業就職希望者数：(人)											
		2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
300~999人	【300~999人】												
	求人総数(A)	162,700	133,600	131,600	131,100	126,900	142,000	145,100	147,200	146,200	156,200	159,600	131,000
	対前年増減数	-	▲29,100	▲2,000	▲500	▲4,200	+15,100	+3,100	+2,100	▲1,000	+10,000	+3,400	▲28,600
	対前年増減率	-	▲17.9%	▲1.5%	▲0.4%	▲3.2%	+11.9%	+2.2%	+1.4%	▲0.7%	+6.8%	+2.2%	▲17.9%
	民間企業就職希望者数(B)	108,100	133,700	136,300	140,300	123,600	119,200	118,100	125,300	100,700	109,100	130,300	151,600
	対前年増減数	-	+25,600	+2,600	+4,000	▲16,700	▲4,400	▲1,100	+7,200	▲24,600	+8,400	+21,200	+21,300
	対前年増減率	-	+23.7%	+1.9%	+2.9%	▲11.9%	▲3.6%	▲0.9%	+6.1%	▲19.6%	+8.3%	+19.4%	+16.3%
過不足数(B-A)	▲54,600	+100	+4,700	+9,200	▲3,300	▲22,800	▲27,000	▲21,900	▲45,500	▲47,100	▲29,300	+20,600	

		求人総数および民間企業就職希望者数：(人)											
		2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
1000~4999人	【1000~4999人】												
	求人総数(A)	114,800	103,700	107,900	110,300	110,500	115,500	123,300	128,200	134,400	143,000	144,300	126,100
	対前年増減数	-	▲11,100	+4,200	+2,400	+200	+5,000	+7,800	+4,900	+6,200	+8,600	+1,300	▲18,200
	対前年増減率	-	▲9.7%	+4.1%	+2.2%	+0.2%	+4.5%	+6.8%	+4.0%	+4.8%	+6.4%	+0.9%	▲12.6%
	民間企業就職希望者数(B)	174,200	164,400	145,200	135,600	140,300	137,100	116,700	114,700	132,300	137,600	133,800	110,700
	対前年増減数	-	▲9,800	▲19,200	▲9,600	+4,700	▲3,200	▲20,400	▲2,000	+17,600	+5,300	▲3,800	▲23,100
	対前年増減率	-	▲5.6%	▲11.7%	▲6.6%	+3.5%	▲2.3%	▲14.9%	▲1.7%	+15.3%	+4.0%	▲2.8%	▲17.3%
過不足数(B-A)	+59,400	+60,700	+37,300	+25,300	+29,800	+21,600	▲6,600	▲13,500	▲2,100	▲5,400	▲10,500	▲15,400	

		求人総数および民間企業就職希望者数：(人)											
		2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
5000人以上	【5000人以上】												
	求人総数(A)	44,900	41,600	44,500	46,100	43,600	45,800	48,700	49,400	48,900	51,400	51,800	43,600
	対前年増減数	-	▲3,300	+2,900	+1,600	▲2,500	+2,200	+2,900	+700	▲500	+2,500	+400	▲8,200
	対前年増減率	-	▲7.3%	+7.0%	+3.6%	▲5.4%	+5.0%	+6.3%	+1.4%	▲1.0%	+5.1%	+0.8%	▲15.8%
	民間企業就職希望者数(B)	116,900	88,900	91,000	77,200	81,200	83,000	69,800	83,400	124,200	138,800	123,300	72,400
	対前年増減数	-	▲28,000	+2,100	▲13,800	+4,000	+1,800	▲13,200	+13,600	+40,800	+14,600	▲15,500	▲50,900
	対前年増減率	-	▲24.0%	+2.4%	▲15.2%	+5.2%	+2.2%	▲15.9%	+19.5%	+48.9%	+11.8%	▲11.2%	▲41.3%
過不足数(B-A)	+72,000	+47,300	+46,500	+31,100	+37,600	+37,200	+21,100	+34,000	+75,300	+87,400	+71,500	+28,800	

Gaps based on Firm Size 3

# Why young people prefer small to large firms ?

1. The table shows that, for the last decade, the change in the tightness has been caused mainly by the fluctuation of the supply side, which is the job applicants' preference for firm size.
2. Coronavirus pandemic seems to induce college students to search for jobs in their living area in order to avoid being infected through visiting firms located in large urban area like Tokyo.



# Gaps based on industry 1

建設業	求人総数および民間企業就職希望者数：(人)											
	2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
【建設業】												
求人総数(A)	82,400	69,600	63,400	60,100	60,600	83,600	80,400	82,500	88,500	89,800	88,200	92,500
対前年増減数	-	▲12,800	▲6,200	▲3,300	+500	+23,000	▲3,200	+2,100	+6,000	+1,300	▲1,600	+4,300
対前年増減率	-	▲15.5%	▲8.9%	▲5.2%	+0.8%	+38.0%	▲3.8%	+2.6%	+7.3%	+1.5%	▲1.8%	+4.9%
民間企業就職希望者数(B)	19,900	13,800	12,800	11,300	12,700	14,900	13,000	13,200	9,400	9,400	14,200	15,400
対前年増減数	-	▲6,100	▲1,000	▲1,500	+1,400	+2,200	▲1,900	+200	▲3,800	+0	+4,800	+1,200
対前年増減率	-	▲30.7%	▲7.2%	▲11.7%	+12.4%	+17.3%	▲12.8%	+1.5%	▲28.8%	+0.0%	+51.1%	+8.5%
過不足数(B-A)	▲62,500	▲55,800	▲50,600	▲48,800	▲47,900	▲68,700	▲67,400	▲69,300	▲79,100	▲80,400	▲74,000	▲77,100

製造業	求人総数および民間企業就職希望者数：(人)											
	2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
【製造業】												
求人総数(A)	236,300	208,800	211,400	200,400	189,400	236,600	262,200	261,400	265,300	279,400	279,200	233,900
対前年増減数	-	▲27,500	+2,600	▲11,000	▲11,000	+47,200	+25,600	▲800	+3,900	+14,100	▲200	▲45,300
対前年増減率	-	▲11.6%	+1.2%	▲5.2%	▲5.5%	+24.9%	+10.8%	▲0.3%	+1.5%	+5.3%	▲0.1%	▲16.2%
民間企業就職希望者数(B)	142,100	154,400	167,100	146,800	144,900	148,700	151,900	135,300	130,100	141,600	141,400	146,200
対前年増減数	-	+12,300	+12,700	▲20,300	▲1,900	+3,800	+3,200	▲16,600	▲5,200	+11,500	▲200	+4,800
対前年増減率	-	+8.7%	+8.2%	▲12.1%	▲1.3%	+2.6%	+2.2%	▲10.9%	▲3.8%	+8.8%	▲0.1%	+3.4%
過不足数(B-A)	▲94,200	▲54,400	▲44,300	▲53,600	▲44,500	▲87,900	▲110,300	▲126,100	▲135,200	▲137,800	▲137,800	▲87,700

流通業	求人総数および民間企業就職希望者数：(人)											
	2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
【流通業】												
求人総数(A)	285,400	204,000	195,700	212,300	214,700	265,200	280,000	293,300	302,300	341,900	333,400	273,800
対前年増減数	▲78,400	▲81,400	▲8,300	+16,600	+2,400	+50,500	+14,800	+13,300	+9,000	+39,600	▲8,500	▲59,600
対前年増減率	▲21.6%	▲28.5%	▲4.1%	+8.5%	+1.1%	+23.5%	+5.6%	+4.8%	+3.1%	+13.1%	▲2.5%	▲17.9%
民間企業就職希望者数(B)	61,300	48,900	49,700	56,900	45,100	48,300	49,600	42,000	26,700	27,200	30,200	37,600
対前年増減数	+11,500	▲12,400	+800	+7,200	▲11,800	+3,200	+1,300	▲7,600	▲15,300	+500	+3,000	+7,400
対前年増減率	+23.1%	▲20.2%	+1.6%	+14.5%	▲20.7%	+7.1%	+2.7%	▲15.3%	▲36.4%	+1.9%	+11.0%	+24.5%
過不足数(B-A)	▲224,100	▲155,100	▲146,000	▲155,400	▲169,600	▲216,900	▲230,400	▲251,300	▲275,600	▲314,700	▲303,200	▲236,200

金融業	求人総数および民間企業就職希望者数：(人)											
	2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
【金融業】												
求人総数(A)	13,100	11,600	10,600	9,700	9,800	11,600	11,300	10,600	10,800	10,900	10,700	9,700
対前年増減数	▲5,800	▲1,500	▲1,000	▲900	+100	+1,800	▲300	▲700	+200	+100	▲200	▲1,000
対前年増減率	▲30.7%	▲11.5%	▲8.6%	▲8.5%	+1.0%	+18.4%	▲2.6%	▲6.2%	+1.9%	+0.9%	▲1.8%	▲9.3%
民間企業就職希望者数(B)	63,100	57,300	57,000	50,200	55,900	52,500	49,400	56,300	58,200	52,500	37,900	34,300
対前年増減数	+15,200	▲5,800	▲300	▲6,800	+5,700	▲3,400	▲3,100	+6,900	+1,900	▲5,700	▲14,600	▲3,600
対前年増減率	+31.7%	▲9.2%	▲0.5%	▲11.9%	+11.4%	▲6.1%	▲5.9%	+14.0%	+3.4%	▲9.8%	▲27.8%	▲9.5%
過不足数(B-A)	+50,000	+45,700	+46,400	+40,500	+46,100	+40,900	+38,100	+45,700	+47,400	+41,600	+27,200	+24,600

サービス・情報業	求人総数および民間企業就職希望者数：(人)											
	2010年 3月卒	2011年 3月卒	2012年 3月卒	2013年 3月卒	2014年 3月卒	2015年 3月卒	2016年 3月卒	2017年 3月卒	2018年 3月卒	2019年 3月卒	2020年 3月卒	2021年 3月卒
【サービス・情報業】												
求人総数(A)	108,100	87,900	78,600	71,300	69,000	85,500	85,400	86,500	88,200	91,500	93,200	73,100
対前年増減数	▲20,200	▲20,200	▲9,300	▲7,300	▲2,300	+16,500	▲100	+1,100	+1,700	+3,300	+1,700	▲20,100
対前年増減率	▲15.7%	▲18.7%	▲10.6%	▲9.3%	▲3.2%	+23.9%	▲0.1%	+1.3%	+2.0%	+3.7%	+1.9%	▲21.6%
民間企業就職希望者数(B)	160,600	181,300	168,300	169,300	167,100	158,800	152,800	175,100	198,800	201,500	215,800	213,600
対前年増減数	▲18,400	+20,700	▲13,000	+1,000	▲2,200	▲8,300	▲6,000	+22,300	+23,700	+2,700	+14,300	▲2,200
対前年増減率	▲10.3%	+12.9%	▲7.2%	+0.6%	▲1.3%	▲5.0%	▲3.8%	+14.6%	+13.5%	+1.4%	+7.1%	▲1.0%
過不足数(B-A)	+52,500	+93,400	+89,700	+98,000	+98,100	+73,300	+67,400	+88,600	+110,600	+110,000	+122,600	+140,500

# Gap based on industry 2

- Manufacturing, construction, and distribution retailing are always unpopular for students.
- Finance and information service are always popular.
- In short run, students should apply for unpopular industries. Then they can get job offers soon.
- The gap between vacancies and applicants across industries seems to be increasing in the recent years.



# **LABOR MARKET IMPACTS OF THE LEHMAN CRISIS**

# Impacts on Unemployment

- The Crisis 2008 had a even larger negative impacts on GDP of Japan and Germany than of USA.
- However, the rise in the unemployment rate is larger in US than in Germany or Japan.
- In terms of the unemployment rate, Japan's performance is almost the best.
  - The best player is Korea!

# GDP and Unemployment

**Table 1. The impact of the crisis on real GDP and unemployment: country experiences differ strikingly**  
**Changes in GDP (in percent) vs. changes in Unemployment Rate (UR, in percentage points) in 2009**

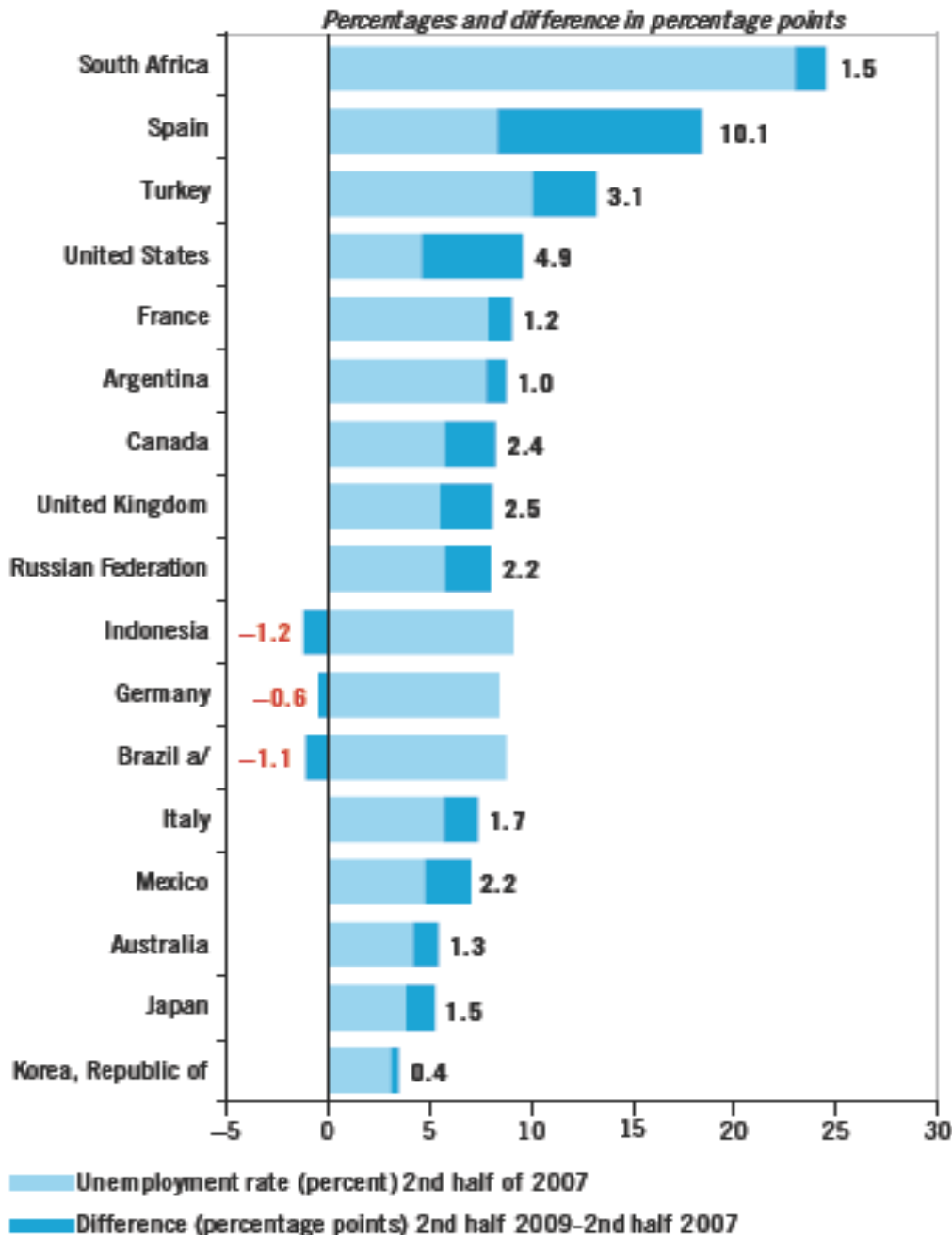
	Decrease in UR	Slight to Moderate increase in UR (from 0 to 1.5 pp.)	Strong increase in UR (from 1.51 pp. to 3.0 pp.)	Very strong increase in UR (more than 3.0 pp.)
Slower but positive GDP growth	Indonesia	Argentina Australia Brazil China Korea, Rep. Saudi Arabia		
Moderate GDP shock (from -2.5% to 0%)		South Africa	France	United States
Strong GDP shock (from -2.51% to -4.99%)			United Kingdom Canada	Spain Turkey
Very strong GDP shock (-5.0% and less)		Italy Germany Japan Mexico	Russian Federation	

Source: OECD and ILO based on official country estimates

Notes: Figures in brackets indicate real GDP change and unemployment rate change, respectively in 2009.

pp: percentage-point change.

**Figure 1. Selected G20 countries (17 countries): unemployment rate second half of 2009 compared with second half of 2007**



Unemployment Rate  
2007:

US: 5%;

Japan: 3.5%

Germany: 10%

Unemployment Rate  
2009:

US 10%;

Japan 5%

Germany 9%

# GDP is not a good measure of business cycle

- Narayana Kocherlakota, President of Fed Minneapolis, argues:
  - *Unemployment rate should replace GDP as an appropriate measure of business cycle.*
  - (<https://www.minneapolisfed.org/publications/the-region/modern-macroeconomic-models-as-tools-for-economic-policy>)

# Aggregate risks should be shared evenly by all people

- *For example, consider the latest recession. During the four quarters from June 2008 through June 2009, per capita gross domestic product in the United States fell by roughly 4 percent.*
- *In a model with no asset market frictions, all people share this proportionate loss evenly and all lose two weeks' pay. Such a loss is certainly noticeable.*
- *However, I would argue that it is not a huge loss.*
- *Put it this way: This scale of loss means everyone in the United States ends up being paid in June 2009 the same (inflation-adjusted) amount that they made in June 2006.*

# Imperfect Insurance

- *However, the models with asset market frictions (combined with the right kind of measurement from microeconomic data) make clear why the above analysis is incomplete.*
- *During downturns, the loss of income is not spread evenly across all households, because some people lose their jobs and others don't.*
- *Because of financial market frictions, the insurance against these outcomes is far from perfect (despite the presence of government-provided unemployment insurance).*

# Concentration of risks is bad

- *As a result, the fall in GDP from June 2008 to June 2009 does not represent a 4 percent loss of income for everyone.*
- *Instead, the aggregate downturn confronts many people with a disturbing game of chance that offers them some probability of losing an enormous amount of income (as much as 50 percent or more).*
- *It is this extra risk that makes aggregate downturns so troubling to people, not the average loss.*



# Unemployment rate is a better measure

- *This way of thinking about recessions changes one's views about the appropriate policy responses.*
- *Good social insurance (like extended unemployment benefits) becomes essential.*
- *Using GDP growth rates as a way to measure recession or recovery seems strained. Instead, unemployment rates become a useful (albeit imperfect) way to measure the concentration of aggregate shocks.*

# Japan's unemployment problem is not so serious as to attract international sympathy!

- Japan's 5% unemployment rate is explained by structural factors by 4%, by demand factors by 1%.
- We could reduce the unemployment rate by 1% through removing structural barriers, and by another 1% through increasing aggregate demand, down to 3% as a total.
- Unemployment rate is higher than 5% in most of the advanced countries except Japan.
- Unemployment in EU and US is around 10%.
- Therefore, Japan's complaints about the rapid appreciation of Yen does not attract international attention and sympathy.

# **EMPLOYMENT PROTECTION LEGISLATION**

# Myths of EPL

## (employment protection legislation)

- Japan is in the group with strong employment protection
  - *False.*
- Strong employment protection leads to a high unemployment rate.
  - *False.*
- Strong employment protection leads to a higher ratio of non-regular employment to regular one.
  - *True.*

# One More Myth

- Gap in EPL between regular and non-regular employment leads to a higher rate of youth unemployment.
  - *False.*
- Source: <http://www5.cao.go.jp/j-j/wp/wp-je09/pdf/09p03012.pdf>

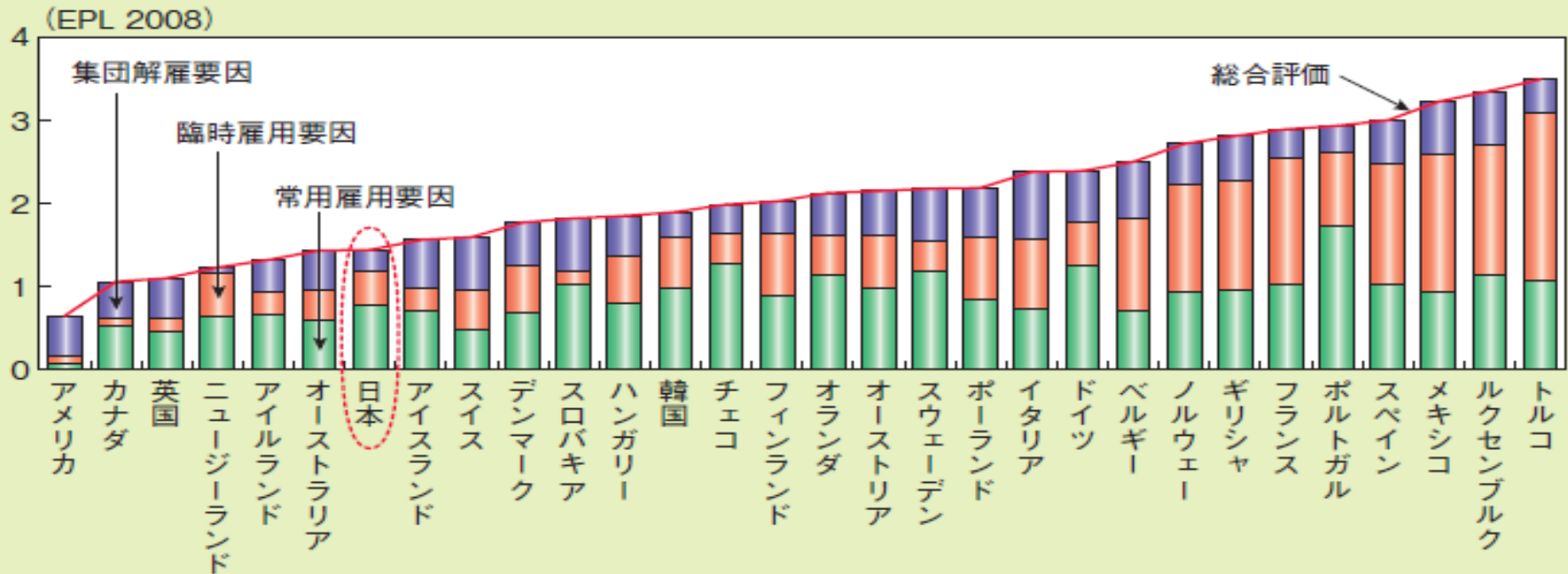
# International Comparison of Employment Protection Legislation (EPL)

## 第3-1-12図 雇用保護指標の国際比較

アングロサクソン諸国は低く大陸欧州諸国は高めであるが、日本はその中間に位置

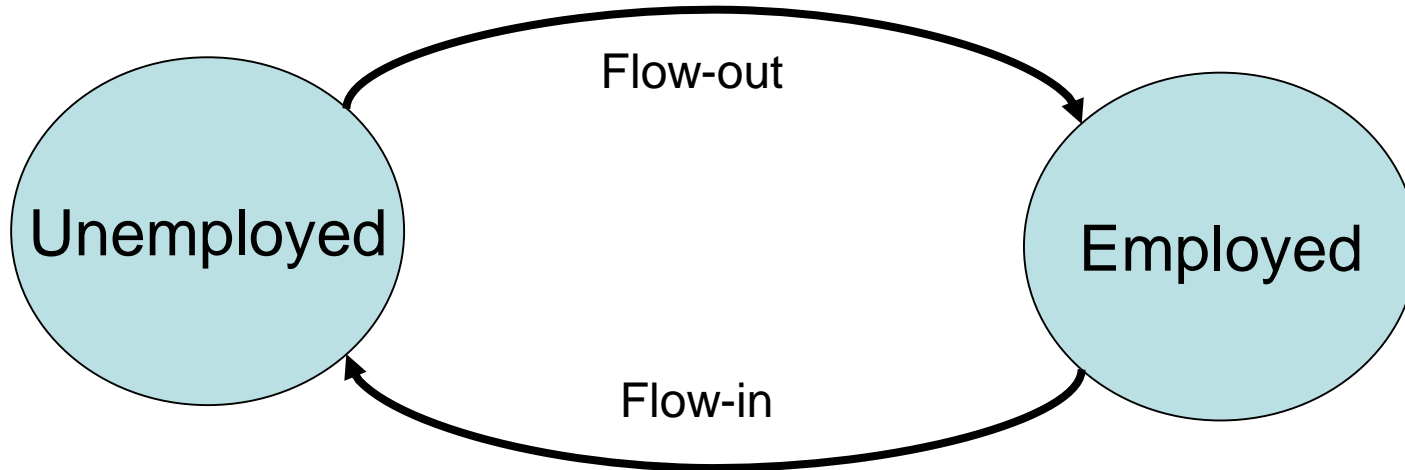
### (1) OECD 諸国による雇用保護指標の比較

アングロサクソン系は低く欧州系は高めであるが日本は中位以下



Japan is in the group with weak employment protection legislation.

# EPL and Unemployment

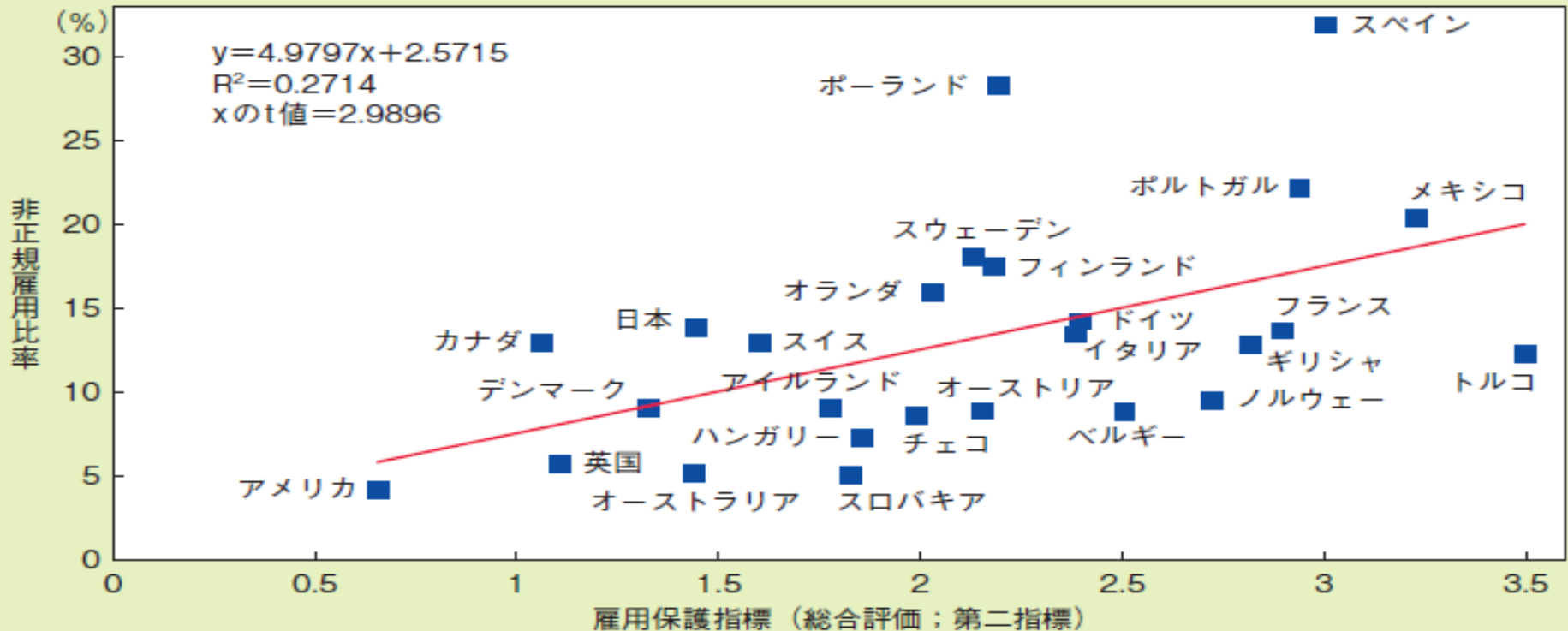


- EPL reduces the flow-in to unemployment.
- But it makes the labor market less attractive to employers, which reduces the flow-out as well.
- Therefore, the whole effect is ambiguous.

# EPL and Non-regular Employment

第3-1-13図 雇用保護規制の度合いと非正規雇用比率

解雇規制の強い国では非正規雇用比率が高い傾向



With strong EPL, the ratio of non-regular employment tends to be high.

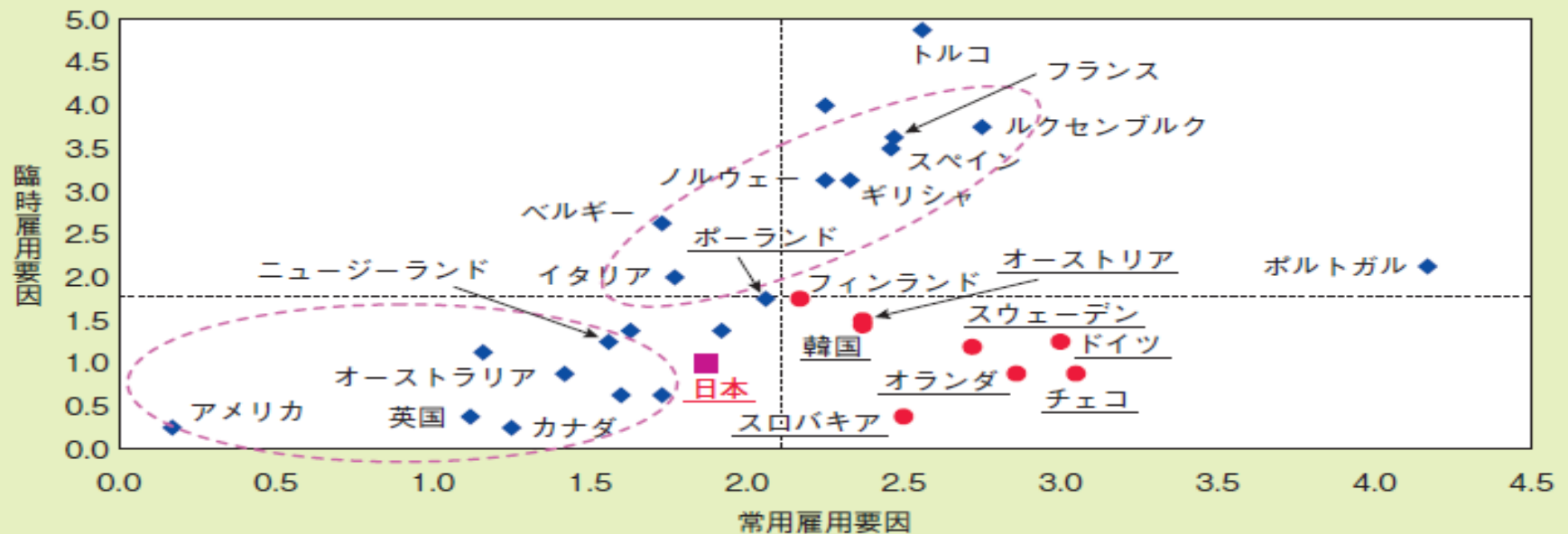


# Gap in EPL between Regular and Non-regular Employment

第3-1-15図 常用雇用と臨時雇用の保護程度の差と失業リスク

(1) 各国の雇用保護指標の常用雇用要因と臨時雇用要因

アングロサクソン諸国は両方とも低く、大陸欧州諸国は両方とも高い

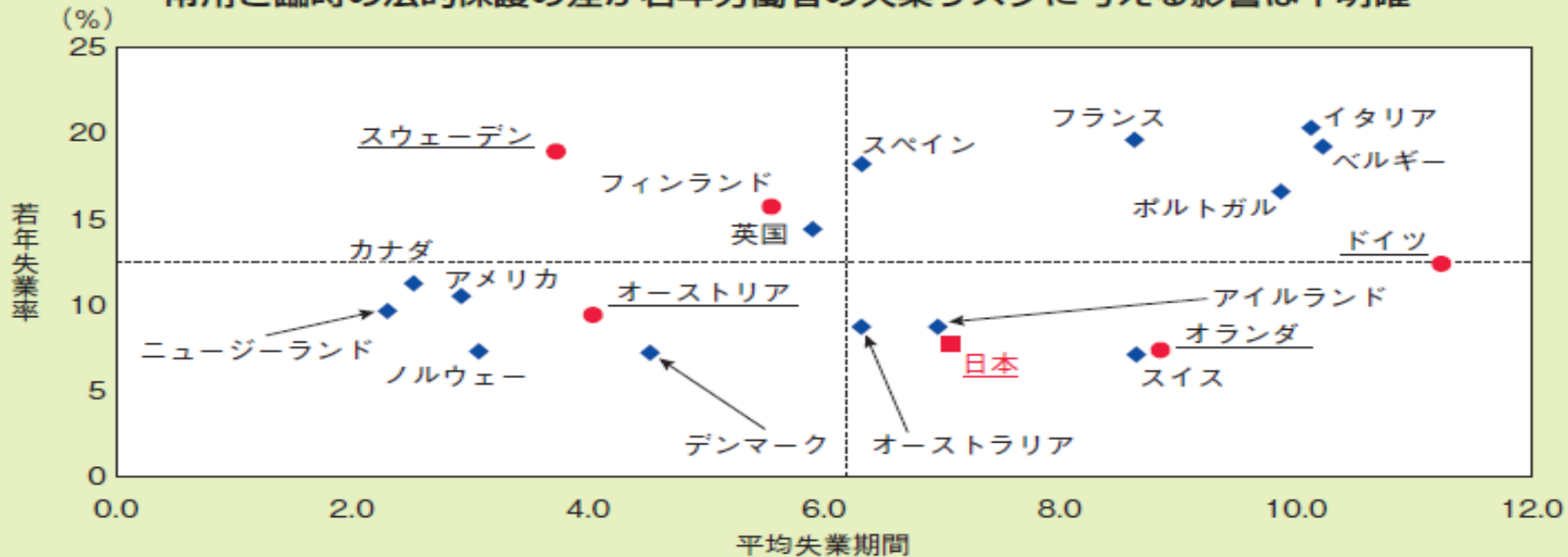


Those countries with red points have strong EPL in regular employment, but not in non-regular employment. Japan is in the group with weak EPL in both the categories.

# Gap in EPL does not matter

## (2) 各国の平均失業期間と若年失業率

常用と臨時の法的保護の差が若年労働者の失業リスクに与える影響は不明確



The red points of Figure (1) are scattered in Figure (2), which implies that there is no significant influence of the gap in EPL between regular and non-regular employment on youth unemployment rate and the duration of unemployment.

# What is employment protection legislation

- There is a law to explicitly prevent firing employees.
  - Employment Contract Law Article 16: *If a dismissal lacks objectively reasonable grounds and is not considered to be appropriate in general societal terms, it is treated as an abuse of rights and is invalid.*
- There are two types of dismissal.
  - Normal Dismissal: based on reasons specific to the individual employee, such as loss of skills, laziness
  - Dismissal for Reorganization: based on managerial purpose to reallocate resources

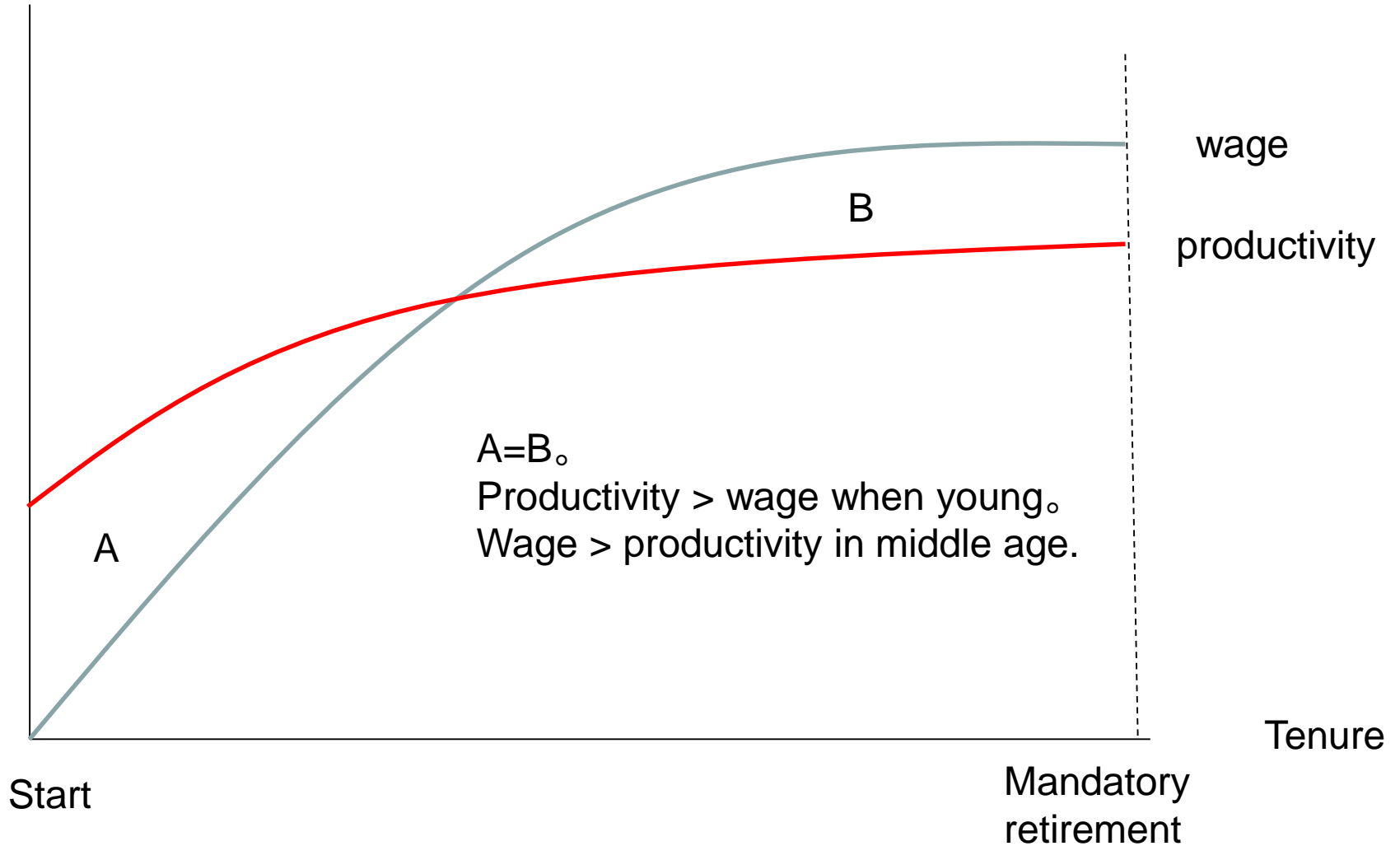
# Employment Protection by Case Laws

- Appropriateness of dismissal for reorganization is judged by the case law, known as the “four conditions”.
- Before firing employees, employees must meet the *four conditions* as follows:
  1. Possible bankruptcy makes redundancies (jin-in seiri) unavoidable.
  2. Employers have made efforts to avoid redundancies (cutting overtime, hiring freezes, transfers, seeking voluntary retirements).
  3. They have consulted with the labor unions and employees.
  4. They have a rational procedure to select those who are to be fired.

# The Coase Theorem

- Under strong employment protection legislation, employers need to fund dismissal compensation by reducing wages.
- Without employment protection, a firm is allowed to fire its employees without paying high compensation, and then willing to pay higher wages.
- Firms are risk-neutral and then EPL does not significantly affect employment. (The U Chicago economist Ed. Lazear 1990)

# Lifetime Employment (Lazear)



# Why the tenure-based wage system is needed?

- If wage equals productivity, employees do not worry about lifetime income loss when they quit their current jobs.
- Firms are not willing to let their employees quit, since hiring new employees is very costly.
- By adopting a tenure-based wage schedule, the firm can prevent their employees from quit.
- Firms have a strong incentive to fire middle-age employees, since their wages are higher than their productivity.
- Firing employees before mandatory retirement violates the implicit contract of lifetime employment.

# For reducing gap between generations?

- Does less strict EPL create more jobs for youth?
- Young people will eventually get old. Weak EPL raises the probability for you to lose jobs in your middle age.
- Which do you prefer?
  - Work earlier and retire earlier.
  - Work later and retire later.
- In advanced countries, people tend to work later and retire later along with education terms extended.



# How to create a society where people work earlier and retire earlier

- If you receive pension benefits earlier, then you can retire early.
  - But it is difficult to adequately prepare for retirement since age of retirement is uncertain.
  - Taxation on pension income discourage people to work.
- Old and middle aged workers might crowd out young workers from the labor market.
- Fiscal deficits delay retirement in most advanced countries.
- The European countries once encouraged middle aged employees to retire earlier by advancing the age for retirees to start receiving pension benefits.
- The policy only created larger budget deficits and no extra youth employment.

# EPL gap between Regular and Non-regular Employees

- Regular employees are more strongly protected by law than non-regular employees.
- Which options to be chosen?
  - Extend EPL to cover all non-regular employees.
  - Shrink protection of regular employees

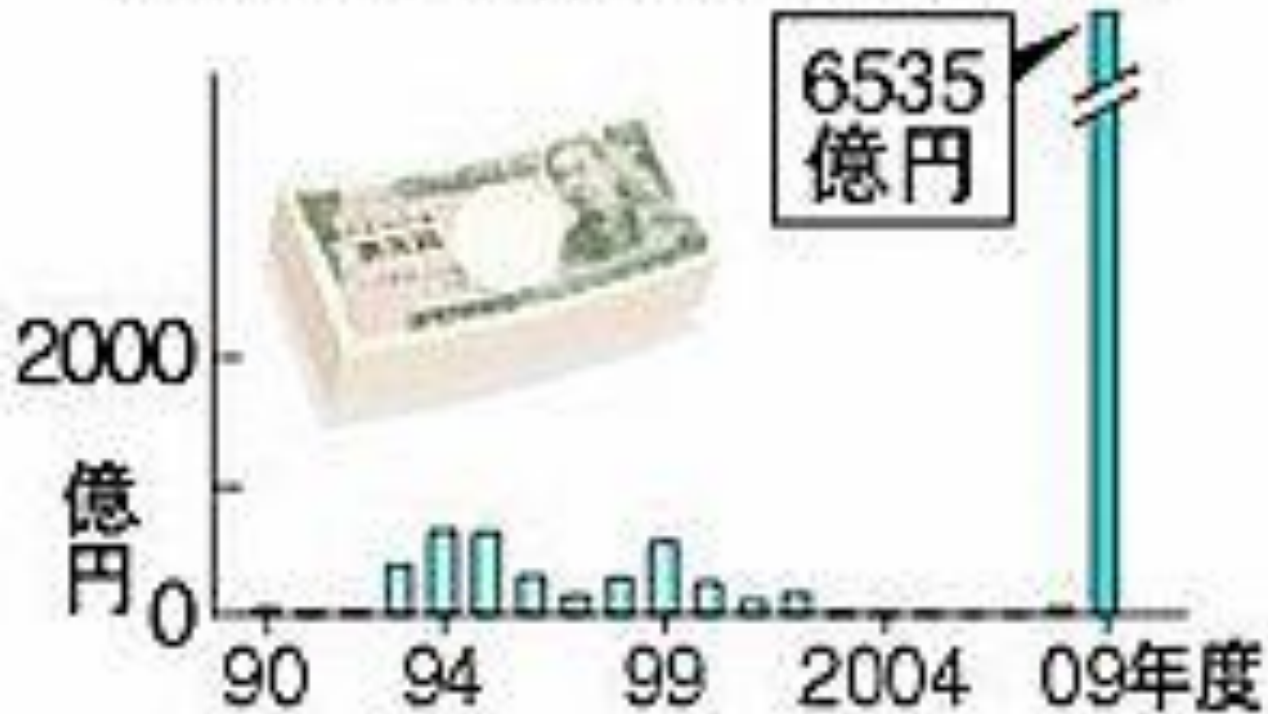
# **SUPPLEMENTS**

# Employment Adjustment Subsidy (EAS)

- In 2009, Japanese Government spent 653 billion yen to financially support business to temporarily layoff their employees during the recession - in the sense that a portion of the layoff benefit is paid by the government.
- EAS does not force private business to maintain employment, since it is a financial support scheme for business that will expand employment once the recession is over.

# Employment Adjustment Subsidy

## 雇用調整助成金の支給額



雇用調整助成金等支給決定状況 平成20年度～平成24年度【速報値】

	平成20年度 2008			平成21年度 2009				平成22年度 2010				平成23年度 2011				平成24年度 2012							
	支給決定 事業所数	対象者数	支給額 (千円)	*****		対象者数	支給額 (千円)	*****		対象者数	支給額 (千円)	*****		対象者数	支給額 (千円)	*****		対象者数	支給額 (千円)				
				上層区分 第7	上層区分 第7			上層区分 第7	上層区分 第7			上層区分 第7	上層区分 第7										
4月	43	1,214	34,691	7,609	92	534,759	3,341	13,804,150	68,529	14,821	1,065,938	156,517	33,807,342	41,130	11,700	477,862	108,955	<u>13,964,016</u>	31,293	11,300	406,735	108,327	10,560,583
5月	52	1,287	30,466	18,515	707	1,126,623	15,528	32,224,640	63,969	14,242	963,238	153,133	31,497,967	42,209	12,429	531,001	126,252	16,722,745	31,006	11,486	418,890	114,206	10,791,063
6月	61	1,532	37,208	33,645	3,315	1,857,277	57,532	54,081,890	77,981	18,899	1,133,672	204,026	37,712,869	48,144	14,874	764,098	181,009	26,298,699	31,181	11,531	424,305	118,133	10,825,775
7月	56	1,864	44,586	64,077	8,095	2,527,754	124,010	76,588,301	73,038	18,208	1,015,792	190,057	34,226,046	50,541	16,688	1,035,909	227,714	35,309,523	29,648	11,173	391,053	113,211	<u>10,037,426</u>
8月	86	2,099	43,819	77,840	12,304	2,501,112	169,916	76,069,744	73,691	19,505	967,442	200,025	33,783,733	57,616	18,955	987,035	244,725	32,511,063	-	-	-	-	-
9月	75	1,688	41,214	87,025	13,791	2,479,812	178,323	<u>77,650,955</u>	66,603	17,980	840,810	174,859	29,213,498	49,463	16,557	816,995	203,112	26,073,489	-	-	-	-	-
10月	103	2,409	53,935	96,400	16,189	2,270,549	192,564	73,557,536	62,075	16,616	773,635	162,956	25,820,798	45,840	16,018	654,047	172,241	18,788,362	-	-	-	-	-
11月	76	1,590	36,834	85,604	15,083	1,849,218	170,103	57,455,223	59,737	15,945	727,691	150,867	22,961,367	42,280	15,177	540,558	152,784	15,160,968	-	-	-	-	-
12月	83	2,716	49,683	90,853	15,478	1,838,246	174,836	59,659,160	56,613	15,189	676,002	142,863	21,547,039	38,281	13,904	488,454	141,650	13,552,446	-	-	-	-	-
1月	127	4,150	81,122	78,092	13,631	1,468,026	151,608	47,617,259	52,629	14,174	634,461	131,750	19,166,557	36,614	12,986	492,170	159,648	12,813,424	-	-	-	-	-
2月	461	21,583	499,907	72,288	12,670	1,370,934	139,428	40,813,469	49,832	13,280	618,568	128,211	17,580,661	35,627	13,019	494,414	133,547	13,114,211	-	-	-	-	-
3月	3,685	212,129	<u>5,825,942</u>	82,068	14,730	1,474,139	164,514	43,959,530	51,019	13,868	617,087	131,095	<u>17,183,840</u>	32,577	12,007	468,410	125,625	12,012,957	-	-	-	-	-
計	4,888	254,181	6,779,407	794,016	126,085	21,298,449	1,541,703	853,471,873	755,716	192,727	10,034,336	1,926,359	324,501,717	520,322	174,394	7,750,953	1,977,262	236,321,902	123,128	45,490	1,640,983	453,877	42,214,847

<http://www.mhlw.go.jp/stf/houdou/2r9852000002il5w-att/2r9852000002il8t.pdf>

- In March 2009 (H20), the EAS jumped due to the Lehman shock. The peak (77 billion) came in September 2009 (H21).
- The subsidy continued to decline until April 2011 (H23). The bottom was 13 billion.
- In March 2011 (H23), Japan was struck by the East-Japan Mega Earthquake, which raised the subsidy again.
- The second peak (35 billion) came in July 2011. In June 2012, the subsidy was 10 billion.