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Country Briefs



International
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Office

JAPAN'S RESPONSE TO THE CRISIS

From long, steady growth to worst post-war recession

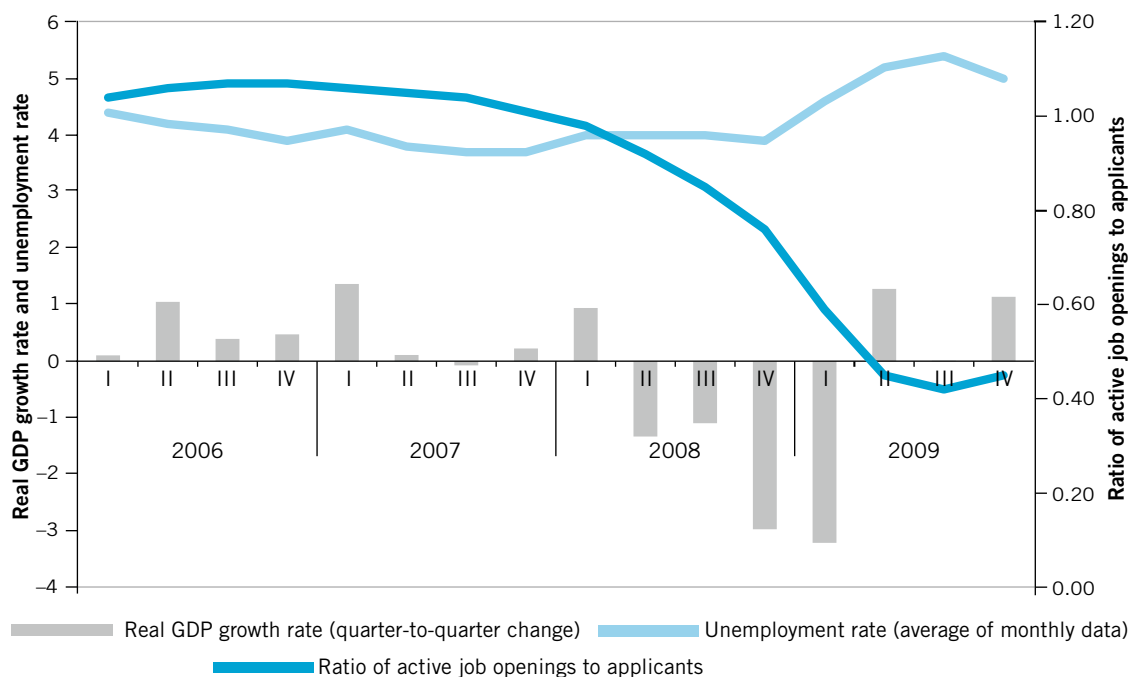
Before the global financial crisis struck the Japanese economy, the country had recorded its longest economic expansion in the post-Second World War period, with real growth in gross domestic product (GDP) averaging 1.7 per cent between 2000 and 2007. During the pre-crisis years of 2006–2007, the unemployment rate hovered at a relatively low level of about 4 per cent, and official figures showed an average of one job opening for every job seeker.

Given the extent to which growth in Japan is export-driven, the global crisis had a powerful economic impact, with the decline in demand for durable

consumer goods in the United States and China particularly damaging. The economy began to contract in the second quarter of 2008 and continued to register steep declines through the first quarter of 2009. Growth returned in the second quarter of 2009, although the rate remained weak, 0.8 per cent on average. The deflationary trend which weighed on the economy between 1999 and 2005 returned, with the government declaring that the Japanese economy was again in deflation. The Consumer Price Index in January 2010 stood at 99.4 (2005=100), down 1.3 per cent over the year. Rapid appreciation in the yen is also a cause for concern.

The unemployment rate, which stood at 3.7 per cent in the fourth quarter of 2007, rose modestly in 2008 and more steeply in 2009,

Figure 1. Real GDP growth rate, unemployment rate and ratio of active job openings to applicants



Source: Ministry of Internal Affairs and Communications "Labour Force Survey", Japan "System of National Accounts", Ministry of Health, Labour and Welfare "Employment Security Statistics". Seasonally adjusted data.

to a peak of 5.4 per cent in the third quarter of that year. It declined in the fourth quarter of 2009 to 5 per cent as the economic situation improved but remains higher than pre-crisis levels. The ratio of active job openings to applicants declined steeply in 2008 and the first half of 2009, and has since stabilized at 0.45 in the fourth quarter of 2009. The current downturn led to a major loss of jobs and homes among vulnerable populations, mainly non-regular workers with poor employment security and social protection, whose share of total employment increased from 25.6 per cent in 1999 to 34.1 per cent in 2009. In response to this situation, the Japanese government implemented a series of emergency employment packages.

Multiple stimulus packages

The former administration enacted two supplementary budget bills in financial year 2008 to fund three stimulus packages. Another supplementary budget bill was passed in May 2009 by the Diet (parliament) for a fourth stimulus package, which was based on a tripartite agreement and consultations.

After the change of administration in September 2009, the new government set up the Emergency Employment Task Force, presided by Prime Minister Yukio Hatoyama. This task force drew up the first emergency employment measures on 23 October and the government announced its first stimulus package on 8 December. This package, based on the second supplementary budget for financial year 2009 of ¥7.2 trillion, consists of three pillars – employment, environment and business activities. It has five emergency measures on employment.

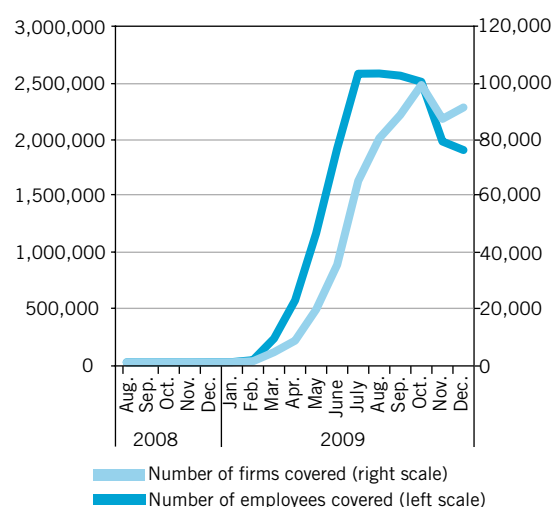
In total, Japan adopted five stimulus packages and one set of emergency employment measures. These were:

- *Comprehensive Immediate Policy Package to Ease Public Anxiety*, announced 29 August 2008, with a budget of about ¥2 trillion. It included promotion of policies for non-regular workers, support for employment security in SMEs, employment support for women, the elderly and people with disabilities, and ensuring long-term care services.
- *Measures to Support Daily Lives*, announced 30 October 2008, with a budget of about ¥5 trillion, of which ¥300 billion was for employment-related measures. This package included support for families, those in care, the disabled and childcare services, as well as strengthening employment safety nets. Funds totalling ¥250 billion were established in prefectures for employment creation to meet the special needs of local communities.
- *Immediate Policy Package to Safeguard People's Daily Lives*, announced 19 December 2008, with a budget of about ¥10 trillion, of which about

¥2.1 trillion was for employment-related elements. This package included support for housing and daily living expenses or costs, programmes on employment security and re-employment, re-inforcement of the employment insurance system and addressed the withdrawal of employment offers by companies. It set up the Emergency Job Creation Programme (¥150 billion).

- *Policy Package to Address the Economic Crisis*, announced 10 April 2009, at a cost of about ¥15.4 trillion, of which about ¥1.9 trillion was for employment-related measures. This package increased subsidies for employment adjustment and included measures to promote employment and support foreign workers. It added funds of ¥300 billion to the Emergency Job Creation Programme and established “The Second Safety Net”, with a budget of ¥700 billion, which provides cash benefits with vocational training to support living expenses for those who are not covered by unemployment insurance.
- *Emergency Employment Measures*, adopted 23 October 2009. This provided emergency support for workers and new graduates and established an emergency job creation programme in three sectors – care services, green industry and local social enterprises.
- *Emergency Economic Countermeasures for Future Growth and Security*, adopted 8 December 2009, with a budget of about ¥7.2 trillion, of which about ¥600 billion was for employment-related measures. This package relaxed the conditions for obtaining employment adjustment subsidies, strengthened support for the poor and new graduates seeking employment, expanded existing emergency job creation programmes and provided enhanced childcare to facilitate female employment.

Figure 2. Employees and firms covered by EASP, Aug. 2008 – Dec. 2009



Source: Administrative records (Ministry of Health, Labour and Welfare).

Expanded subsidies for job preservation

The Employment Adjustment Subsidy Programme (EASP) is one of the largest, in budgetary terms, and most extensive of Japan's programmes to counteract the employment crisis. This programme originates from the subsidy created in 1975 following the first oil shock as part of the effort to prevent unemployment. Companies that seek to preserve employment through measures such as temporary operations closures, vocational training and the transfer of employees to other companies are eligible for subsidies to cover part of wages and other costs related to the workers concerned.

To be eligible, companies and workers should be covered by employment insurance. Subsidies are financed from the employment insurance fund and, to access funding, companies must comply with criteria concerning declines in output or sales.

As part of the emergency employment package developed in response to the crisis, the Ministry of Health, Labour and Welfare substantially expanded the programme in four ways:

- Eligibility requirements regarding employees were relaxed, with workers no longer needing to have been covered by employment insurance for six months. Moreover, EASP protection was extended to non-regular workers, with the requirement

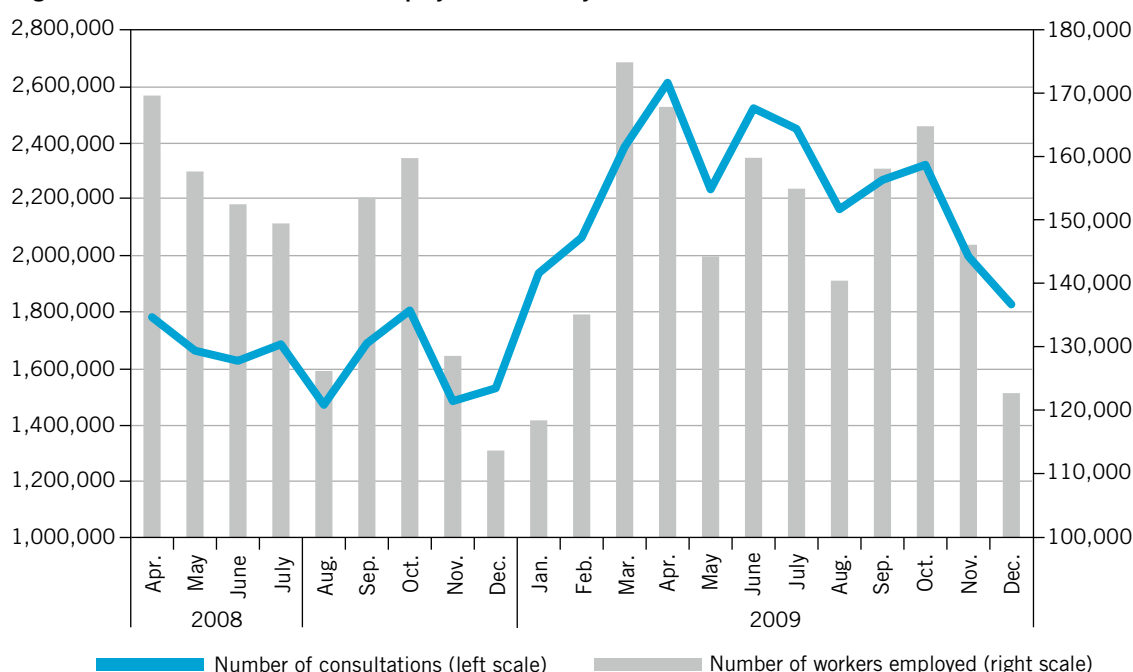
regarding a minimum expected employment period for unemployment insurance coverage eased from one year to six months in April 2009.

- The maximum number of days covered by subsidies was increased from 150 to 300 during a three-year period.
- The subsidy rate was raised, especially for SMEs. The rate increased in gradual steps to reach 90 per cent of wages for SMEs and 75 per cent for larger firms. In addition, subsidies for workers in vocational training were increased to ¥6,000 per day for SMEs and ¥4,000 per day for larger enterprises.
- Eligibility criteria regarding a company's decline in output or sales were relaxed, and other criteria concerning employment volume, the scale of temporary closings and limits on repeat applications were eliminated.

These changes resulted in a big increase in the numbers of firms applying for subsidies and workers covered (figure 2). The programme is likely to have contributed significantly to restraining the rise in unemployment since the beginning of the crisis in the face of the drastic decline in GDP and the ratio of active job openings to applicants (figure 1).

It is estimated that the subsidy has covered an average of three to five days a month per worker in companies employing a maximum total of about 2.5 million workers. This would translate into 350,000 to 600,000 full-time jobs.

Figure 3. Performance of Public Employment Security Offices



Source: Administrative records (Ministry of Health, Labour and Welfare).



Reinforced Public Employment Security Offices

Public Employment Security Offices (PESOs), also known as “Hello Work”, are a nationwide network under the Ministry of Health, Labour and Welfare. They deliver integrated services, including unemployment benefit administration, vocational consultation, employment service for jobseekers and guidance to employers to hire vulnerable people.

Due to severe financial constraints, the government's medium-term national plan called for a reduction in the number of national civil servants. However, demand for the services provided by PESOs rose sharply because of the crisis. Therefore, an important part of the emergency employment measures has involved reinforcing PESO capabilities. This has meant that although the number of consultations rose sharply in the recent employment crisis, the number of workers employed through Hello Work remained at almost the same level as before the crisis, despite the decline in the number of jobs on offer (figures 1 and 3).

The government's action to reinforce PESO capabilities included increased staffing, with the number of temporary staff nearly doubling to reach over 17,000 in 2009, in addition to the more than 12,000 regular staff. Employment support was enhanced to include housing and daily living costs, more individually tailored support for employment (such as work-experience tours) and greater emphasis on improving employability.

PESOs also introduced “one-stop service” that allows people to access a variety of help, ranging from employment advice to support for housing and daily expenses, at the same office or counter. Moreover, such support is now available during New Year holidays.

Outlook and challenges

Japan's “New Growth Strategy (Basic Policies)”,¹ approved by the Cabinet in December 2009, focuses on generating demand and jobs by implementing measures to improve people's livelihoods. The government aims to create new demand and jobs in fields such as the environment, health and tourism, with the target of generating millions of jobs and ¥100 trillion in demand in these three sectors by 2020.

The strategy identifies raising the employment rate of young people, women, the elderly and disabled people, creation of a “trampoline-style society” with an adequate social safety net, developing a Japanese national vocational qualifications system and local employment creation as main challenges in the labour market.

As part of the drive to reinforce decent work, the government is working on the following: promotion of balanced and equal treatment; a study on the introduction of refundable tax credit; an increase in minimum wage; and promotion of a healthy work-life balance.

Under the new strategy, the government has set a target for GDP growth of more than 2 per cent a year for the coming decade. Following a contraction of 1.2 per cent in 2008 and 5 per cent in 2009, real GDP growth is projected by the Bank of Japan to be about 2.1 per cent in fiscal year 2010. The government is also seeking to reduce the unemployment rate from 5 per cent to about 3 per cent in the medium term.

¹ The strategy describes basic policies and will be finalized by June 2010 with more specific goals, measures and a timetable.