



OECD Social, Employment and Migration Working Papers  
No. 113

# Activation Policies in Japan

**Nicola Duell,  
David Grubb,  
Shruti Singh,  
Peter Tergeist**

<https://dx.doi.org/10.1787/5km35m63qqvc-en>

Unclassified

DELSA/ELSA/WD/SEM(2010)13

Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

07-Dec-2010

English - Or. English

DIRECTORATE FOR EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS  
EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS COMMITTEE

DELSA/ELSA/WD/SEM(2010)13  
Unclassified

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ACTIVATION POLICIES IN JAPAN

Nicola Duell, David Grubb, Shruti Singh and Peter Tergeist

*JEL Classification: H53, H83, I38, J08, J63, J65, J68.*

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## **ACKNOWLEDGEMENTS**

Nicola Duell, David Grubb, Shruti Singh and Peter Tergeist are economists in the Employment Analysis and Policies Division of the OECD Directorate for Employment, Labour and Social Affairs. They prepared this review under the supervision of the head of division, Stefano Scarpetta, and with statistical assistance from Sylvie Cimper.

The review is based in part on visits to a number of Japanese institutions concerned with labour market and welfare policies during a mission in December 2008. The authors thank the officials of the Japanese Ministry of Health, Labour and Welfare, staff at employment and welfare offices, training institutions and research institutes and trade union and employer representatives for valuable information, discussion and advice, as well as the interpreters for their support during the mission. Yohei Takashima accessed further valuable information in Japanese in summer 2009. The review benefitted from extensive comments on a preliminary draft by the Japanese authorities in September 2010.

## ABSTRACT

The Japanese labour market is characterised by high employment rates for men and older workers, and a low unemployment rate. Over the past two decades, female participation has risen, while disparities in the labour market conditions of workers have grown. Further efforts are needed to promote increases in female and older-worker employment rates so as to combat the trend decline in the working-age population, and to reduce dualism in the labour market.

The Public Employment Service (PES) is an operational arm of the Ministry of Health, Labour and Welfare. With a decline in its staffing over the past decade, it has increasingly delivered jobseeker counselling through targeted programmes using contract workers. The PES implements a management-by-objectives approach using indicators such as the early re-employment rate for benefit recipients, the job-vacancy filling rate and the number of individual action plans created. Welfare and employment offices have started a joint employment assistance programme for welfare recipients. Prefectures and municipalities now offer some employment services, such as work preparation courses for single mothers and resource centres for young jobseekers.

Following a restrictive reform of benefit entitlements in 2001, the ratio of recipients to labour force survey (LFS) unemployment fell to about a quarter. However, liability for contributions has now been extended to relatively short-term contracts which previously were exempt, helping to improve benefit coverage for non-regular workers. Most benefit periods are short, frequently ending when benefit entitlement is exhausted, after which unemployed workers must rely on family support, deplete their assets, or find work, and job-finding rates tend to increase near or after the time of benefit exhaustion.

Relatively few unemployed workers qualify for social assistance, since only a person who has neither savings nor any expensive consumer goods can qualify and assistance may still be refused on grounds of insufficient job search. A nationwide network of volunteers helps to identify situations of severe hardship in each neighbourhood. Single mothers in low-paid work qualify for a special allowance which may only bring their income up to about the social assistance level, but welfare officers constantly seek to persuade them to work, and the lone-parent employment rate is very high.

Expenditure on active labour market programmes as a percentage of GDP is relatively low. The PES administers some hiring subsidies, but they are strictly targeted on the placement of selected disadvantaged jobseekers, and usually most other expenditure has been on labour market training. Assistance for people with disabilities is built around a quota and levy system. However, during the recent crisis large supplementary budgets funded regional and local governments to set up job-creation programmes, an approach that was last used many years ago.

This report analyses policies towards different types of non-regular work, which together represent a third of total dependent employment in Japan. Many non-regular workers are married women working part-time, for whom tax breaks and exemptions from social insurance contributions often act as a disincentive to working full time. Young adults unable to find regular work are now recognised as a target group for labour market programmes. The majority of firms are keeping their mandatory retirement age at 60, but they are obliged to create a system for continued employment through to the public pension age, typically offering to re-employ their older workers on fixed-term contracts at lower wages supplemented by company pension payments. But many older workers switch to a different occupation and work up to, and beyond, the age of 65.

## RÉSUMÉ

Le marché du travail japonais est caractérisé par des taux d'emploi de travailleurs masculins et de travailleurs âgés élevés ainsi que d'un taux de chômage bas. Au cours des deux dernières décennies le taux d'activité des femmes a augmenté, alors que pour l'ensemble des travailleurs les disparités des conditions du marché du travail se sont accentuées. Des efforts supplémentaires sont nécessaires pour augmenter davantage les taux d'emploi des femmes et des travailleurs âgés, afin de faire face à la baisse de la population en âge de travailler, et réduire le dualisme du marché du travail.

Le Service Public de l'emploi (SPE) est le bras opérationnel du Ministère de la Santé, de l'Emploi et des Affaires Sociales. Dans le contexte de la réduction de son personnel au cours de ces dernières décennies, le SPE a de plus en plus recours à des programmes ciblés mis en œuvre par des conseillers sous contrat à durée déterminée (CDD). Dans le cadre de la gestion par objectifs, des indicateurs tels que la reprise rapide d'emploi des prestataires, le taux de placement par emploi vacant et le nombre de plans d'action individualisés sont utilisés. Les services sociaux et les services de l'emploi ont conjointement lancé un programme d'aide au retour à l'emploi pour les prestataires de l'aide sociale. Les préfetures et les municipalités offrent maintenant certains services pour l'emploi, tels que des cours préparatoires pour les mères seules et des centres de ressources pour les jeunes demandeurs d'emploi.

À la suite d'une réforme restrictive du droit aux indemnités de chômage en 2001, le rapport bénéficiaires/chômeurs, selon l'enquête de population active a diminué pour atteindre environ un quart. Cependant, l'obligation de cotisation est désormais étendue à des contrats de durée relativement courte qui furent exemptés auparavant, afin d'élargir la couverture sociale des travailleurs non réguliers. La plupart des périodes d'indemnisation sont courtes. Elles se terminent souvent par la fin de droit, et par la suite les chômeurs dépendent du soutien familial, vendent leurs biens ou trouvent du travail et les taux de reprise d'emploi ont tendance à augmenter pour ceux qui arrivent en fin de droit ou qui le sont déjà.

Relativement peu de chômeurs perçoivent l'aide sociale, puisque seules les personnes n'ayant ni économies ni biens de consommation onéreux y ont droit, et que l'aide sociale peut être refusée au prétexte d'efforts insuffisants dans la recherche d'un emploi. Un réseau national de volontaires aide à identifier au niveau local les personnes en grande difficulté. Les mères seules avec des emplois à bas salaire bénéficient des allocations spéciales qui peuvent n'augmenter leur revenu net qu'au niveau de l'aide sociale, mais les conseillers dans les services sociaux les incitent sans cesse à travailler et le taux d'emploi des parents seuls est très élevé.

La part des dépenses pour les programmes actifs du marché du travail dans le PIB est relativement faible. Le SPE utilise dans certains cas des mesures d'incitation à l'embauche, mais celles-ci sont strictement ciblées pour le placement de certains groupes de demandeurs d'emploi vulnérables, et la plupart des autres dépenses sont liées à des mesures de formation professionnelle. La politique d'emploi relative aux personnes handicapées est basée sur un système de quotas et de taxes de compensation. Dans le contexte de la crise récente, des budgets supplémentaires ont pourtant été mis à disposition des gouvernements régionaux et locaux afin de mettre en place des programmes de création d'emploi, une approche non utilisée depuis des années.

Ce rapport analyse les politiques concernant les différentes formes de travail non régulier, qui représente un tiers de l'emploi salarié au Japon. La plupart des travailleurs non réguliers sont des femmes mariées travaillant à temps partiel, pour lesquelles le système d'impôts et d'exonération de cotisations sociales représente souvent un frein au travail à temps complet. Les jeunes adultes ne trouvant pas de travail régulier sont désormais reconnus comme groupe cible pour les programmes du marché du travail. La plupart des entreprises fixent toujours l'âge obligatoire de départ à la retraite à 60 ans, mais elles sont obligées d'établir un système qui permet de continuer à travailler jusqu'à l'âge légal de la retraite, ce qu'elles font typiquement en offrant à leurs anciens employés des CDD avec des salaires plus faibles assortis de retraites complémentaires d'entreprises. En fait, de nombreux travailleurs âgés changent de métier et continuent à travailler jusqu'à l'âge de 65 ans et même davantage.

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## GLOSSARY

ALMP	Active labour market programme
BR	Ratio of benefit to earnings
DAW	Daily amount of wages
DOL	US Department of Labor (United States)
EAS	Employment Adjustment Subsidies
ECB	Employment Continuation Benefit
EHDO	Employment and Human Resources Development Organisation of Japan
EI	Employment Insurance
FTE	Full-time equivalent
FY	Fiscal year
GDP	Gross Domestic Product
ILO	International Labour Organisation
ISCED	International Standard Classification of Education
ISIC	International Standard Industrial Classification
IT	Information Technology
JEED	Japanese Organization for Employment of the Elderly and Persons with Disabilities
JILPT	Japan Institute for Labour Policy and Training
JIWE	Japan Institute of Workers' Evolution
JPY	Yen
LEED	Local Economic and Employment Development (an OECD programme)
LFS	Labour force survey
LMP	Labour market programme
MEE	Ministry of Employment and the Economy
MEXT	Ministry of Education, Culture, Sports, Science and Technology
MHLW	Ministry of Health, Labour and Welfare
NEET	Neither in employment nor in education or training
NIC	Nagoya International Centre
NIPSSR	National Institute of Population and Social Security Research
NIVR	National Institute of Vocational Rehabilitation
NVQ	National Vocational Qualification (United Kingdom)
NVRCD	National Vocational Rehabilitation Centre for Persons with Disabilities
OJT	On-the-job training
ORP	Local/Regional employment centre (Switzerland)
PES	Public Employment Service
PESO	Public Employment Security Offices
PISA	Programme for International Student Assessment
PSP	Personal Support Program (Australia)
RENGO	Principal Japanese trade union confederation
SHRC	Silver Human Resource Centres
SME(s)	Small to Medium-sized Enterprise(s)
TANF	Temporary Assistance for Needy Families (United States)
UI	Unemployment Insurance

## SUMMARY AND RECOMMENDATIONS

### 1. Background

*The labour market has performed relatively well, but the working-age population is now declining steadily*

1. In recent decades, the Japanese labour market has outperformed that of most OECD countries, with high employment rates (particularly for men) and relatively low unemployment. Labour market conditions improved in the 2000s until the onset of the global economic crisis in 2008, which led to the most severe recession in Japan's post-war history. Employment, but especially working hours and wages fell in 2009, and unemployment peaked at 5.6% before falling back to around 5% in 2010. Unemployment is projected to further decline slowly, although it seems unlikely that the government could soon achieve its target of pushing it back to the 3% level.

2. Japan's population is ageing rapidly and this has started to affect labour market conditions. After many years of relatively low fertility rates and rising life expectancy, Japan's population aged 65 and over has increased from 6% of the total population in 1960 to 23% in 2010, and this percentage is expected to rise to almost 40% by 2050. The working-age population already peaked in the 1990s, and is projected to decline by over 1% per year up to 2050. The employment rate for the working-age population (70% in 2009) is above the OECD average, and for people aged 65 and over it is 20%, about twice the OECD average. Some further increases in employment rates, in particular among women and older workers, are feasible and in fact called for to combat labour force decline.

*Non-regular work has greatly increased since the 1980s...*

3. Japan's labour market has long been characterised by the "lifetime" employment system, in which large firms tend to offer lifetime contracts, to promote workers' commitment and effort, as well as maintaining their reputation and thus their ability to attract the best new graduates. In this context, students generally spend the last six months of their years in education seeking career-track employment opportunities, since for those who fail to find it then, it can be much more difficult to find later. Near-lifetime employment has been the general practice particularly for university-educated males. However, the paradigm was never fully applicable since, even in the 1980s, only about a fifth of all employees worked for one company through their working life. This paradigm has also been weakened in the past two decades by the large increase in *non-regular* forms of employment, which have shorter tenures. Even for university graduates, a smooth transition from education to work is no longer assured.

4. The Japanese concept of "non-regular" work covers a wide variety of practices and contractual arrangements including, in particular, part-time and fixed-term contract workers and temporary agency staff, but not the self-employed. Non-regular employment grew rapidly from the mid-1980s to the mid-2000s, and represents currently over a third of salaried workers. From a long-term perspective, much of the increase in non-regular work was offset by a decline in the number of independent and family workers. The largest categories of non-regular workers are young people on temporary contracts, older persons who continue to work after formal retirement from their lifetime job, and married women working part-time. They tend to work fewer hours, change jobs frequently, and earn much lower (hourly) wages

than regular workers. Less than half of non-regular jobs pay work-related health and social insurance contributions and about two-thirds make Employment Insurance (EI) contributions. As a result, for employers, non-regular employment is generally cheaper than permanent employment, in addition to providing enhanced employment flexibility.

5. According to surveys, a number of non-regular workers report having chosen their status for reasons of “working-time flexibility” and “supplementing family income”. In 2003, a survey covering young people aged 20-35 found that over 70% of non-regular workers wished to become regular workers. Another survey covering people of all ages reported that only one-fifth wished to become regular workers, but the share of persons working in non-regular jobs because of “slim chance of obtaining regular employment” was considerably higher than in 1994 (reaching 20% for part-time workers, 32% for contract employees, and 38% for temporary agency workers). Indeed, there is a lack of movement between the “regular” and “non-regular” segments of the labour force, trapping large numbers of employees in low-paying, short-term jobs with limited coverage by the social safety-net and limited opportunities to enhance their human capital. The Japanese government has undertaken several steps in the recent past to reduce this labour market duality, *inter alia* through the 2007 revision of the Part-time Workers Law, and measures to expand EI coverage. However, further reforms are needed to provide a better coverage and treatment of non-regular workers by the social insurance system and promote the conversion of temporary jobs into more stable employment.

***... and has gone together with relatively low unemployment...***

6. Until now, growing labour market duality in Japan has been accompanied by a relatively low unemployment rate, which has only occasionally exceeded 5%. Thanks to nearly-guaranteed job security, regular workers rarely lose their jobs involuntarily – the proportion of the unemployed who have voluntarily quit their job according to register information is normally far higher than in other OECD countries. However, non-regular workers are made redundant more often, as shown during the recent recession when they bore the brunt of job losses. However, even among them labour turnover in the past has occurred with relatively limited unemployment spells, compared with many European countries. The likely reasons for this are:

- The flexibility and low cost of non-regular work encourages employers to create many such vacancies. In Japan, the widely-cited job-openings ratio – the ratio of registered unfilled job vacancies to registered unemployment – is generally above 0.5 and has at times exceeded 1.0, while in most other OECD countries these ratios are much lower.
- Except for some older workers with a contribution record of 5 or more years after any previous benefit claim, unemployment insurance benefits are paid for only 90 days, or in some cases 180 days. In most other OECD countries, insurance benefit durations are longer and a significant proportion of the unemployed are eligible for an assistance benefit of unlimited duration.

***... but low unemployment does not ensure high female employment***

7. In Japan, as well as in most other OECD countries, policies that achieve low unemployment also achieve a high employment rate for men (especially those in prime age). This is not the case for women insofar as Japan combines very low unemployment rates with only average female participation rates, and among those who work, working time is often low. The tax and benefit system discourages female participation in the labour market and full-time work. Indeed, spouses with earnings below thresholds of JPY 1 million to JPY 1.3 million – about 30% of average annual full-time earnings – escape tax, and allow their partner to claim a tax deduction for a dependent second earner and retain company allowances for a dependent spouse. Moreover, second earners are covered by their first-earner’s pension, health care and long-term nursing care insurance, without paying contributions themselves, only if they keep earnings below

JPY 1.3 million. Thus, there are significant financial incentives in Japan for the model where the principal earner (typically male) works continuously and for long hours, while the second earner (usually female) keeps earnings low and can take breaks from work.

8. Mothers' employment rates are also held back by a lack of child-care facilities and the long working hours involved in regular work. The Japanese government has introduced a variety of measures to promote a better work-life balance, including childcare leave for employees and the provision of day-care facilities, with a focus on encouraging changes in company practices. However, direct public spending on child-related employment issues is still low against an ambition of achieving a major increase in fertility and/or female employment rates. The government should increase its efforts to ensure high female employment rates by reforming the tax and benefit system with a view to reducing the strong disincentives to work and to increase work effort by secondary earners, and by strengthening efforts to ease the combination of work and family life.

***Even after mandatory retirement at age 60, work incentives remain strong***

9. In 1980, the majority of Japanese firms still operated a mandatory retirement age at 55. However, against a background of increases in longevity and ageing in the population, government exhortation, incentive programmes and progressively tighter legislation have contributed to the elimination of mandatory retirement before the age of 60. Over the past decade, large firms have not often further extended their formal mandatory retirement age, but they have increasingly implemented programmes for the continued employment of their older workers up to the age of 65.

10. Until 2000, members of the public employee pension insurance system could take a pension from age 60 and not necessarily experience a gap between the ages of mandatory retirement by their firm and entitlement to the flat-rate portion of the public pension for employees. However, the minimum age for receipt of this portion of the public pension is being progressively increased to reach 65 in 2013 (for men) or 2018 (for women). Thus, a gap between mandatory retirement and the start of entitlement to the public pension has opened up again. In practice, there are also many older workers who do not have a full pension insurance contribution record, who want to supplement their pension, or in some cases need to work to avoid poverty. Upon mandatory retirement, firms typically pay a lump-sum equivalent to one month of salary per year of tenure, totalling up to three to four years of basic salary, which by itself only provides a low replacement rate in retirement. Thus, incentives for older workers to stay in employment after the age of 60 – which frequently involves at least one episode of search for a new job – remain strong.

11. A sharp fall in wage levels in the first job *after* mandatory retirement is a major factor behind the high employer demand for older workers. There are also strong incentives on the supply side, linked to high rates of self-employment among older workers and a strong work ethic. These factors, however, are partly attributable to the relatively low replacement rates provided by the public pension system. Particularly for workers in their seventies, the “Silver Human Resource Centres” facilitate access to work, by negotiating contracts for work and distributing it among their members.

**2. The institutional framework**

***The PES is administered directly by the MHLW and has considerable impact, despite low staffing levels***

12. The Public Employment Service (PES) in Japan does not have an agency status and its local offices (“Hello Work”) are the operational arm of the Ministry of Labour (now MHLW). At the prefectural level, Prefectural Labour Bureaus have a relatively broad remit which includes supervision of Hello Work offices as well as private employment agencies, planning employment measures in co-operation with other parts of the Prefectural administration, counselling employers to pay Employment Insurance (EI)

contributions, and administering subsidies to improve company work practices. The PES is a high-profile public-sector actor because: *i*) employers notify most of their job vacancies to it; *ii*) employment incentives and other subsidies paid to firms are administered by PES offices; and *iii*) in comparison, expenditure on other active labour market programmes (ALMPs) such as the vocational training and disability measures (managed by separate public agencies) is relatively low.

13. Including non-regular PES staff, staff numbers relative to the number of unemployment benefit recipients are similar to the levels in European countries, but staff numbers relative to other workload indicators – flows of jobseeker and vacancy registrations, stocks of LFS unemployed and the number of wage and salary earners in the economy – are much lower. The PES in Japan maintains a reasonably high market share in terms of vacancy registrations and job placements. Staff-time constraints are probably limiting the use of intensive counselling procedures, direct referrals of jobseekers to vacancy jobs, and similar activation measures.

14. Staff increases made as part of the recent financial-crisis policy package are welcome and show that the Japanese government has acted promptly to deal with increasing inflows into unemployment. However, non-regular workers on fixed-term contracts now make up over half of the total staff of the PES local offices. The number of core local office staff, usually well-educated tenured civil servants, has declined steadily over the past decades (from about 15 000 in the late 1960s to 12 000 in 2008). There is therefore a risk of loss of staff expertise and organisational dynamism through ageing and retirement, not sufficiently offset by intake and training of new permanent staff. The Japanese PES needs to refrain from further thinning out its regular staff, and make sure that staff/client ratios are adequate.

#### ***New management methods***

15. The institutional status of the PES, as the operational arm of the MHLW, has not changed radically for decades. As a large public organisation without monetary transactions between different parts of the organisation and whose “products” (e.g. vacancy acquisition and placement) do not generate income directly, there is a risk of lack of visibility of its cost and output structure. In recent years, MHLW has introduced separate budget lines for programmes such as “assisting unemployment benefit recipients to find employment”; “promoting the Mothers’ Hello Work programme”; and “measures to increase employment of regular workers”. For these programmes, targets such as the number of individual action plans created, course completers, post-programme employment rates, early exit from employment subsidies, etc., are tracked to implement management-by-objectives principles. This approach is also applied to the overall performance of Hello Work offices, with targets relating to the placement rate for registered job applicants, the filling rate for registered job vacancies, and the “early re-employment rate” for EI recipients.

16. The virtualisation of service provision seems to be relatively underdeveloped in Japan, with a relatively high frequency of in-person visits to Hello Work offices by both employer and jobseeker clients. Benefit recipients must visit the offices every four weeks, and employers offering vacancies must visit once when they register their business details for the first time and often continue to do so when notifying vacancies.

#### ***The integration of labour with health and welfare***

17. Following the merger of the Ministry of Labour and the Ministry of Health and Welfare in 2001, the provision of employment services for Public Assistance recipients has increased. Guidelines have promoted the principle that Public Assistance should not necessarily be refused to people with work capacity, and Hello Work offices now have separate counters for clients referred from the welfare administration, although this client group remains relatively small. Recently, welfare and employment offices have started to jointly implement the *Employment Support Programme*, in which a “Navigator” develops an action plan for people on Public Assistance or Child Rearing Allowance. As a welfare-to-work feature, this programme is a good start; however, as yet relatively few unemployed people qualify for welfare benefits.



18. For several years after the unification of the two Ministries, Labour Insurance (Workers' Accident Compensation and Employment Insurance) contributions were still collected separately from Social Insurance (Health and Pension) contributions, and the definition of the wage used as the basis for calculating contributions differed between the two types of insurance. However, by 2007 unified "Social Insurance/Labour Insurance Contribution Levy Centers" had been established at Social Insurance Offices nationwide, and applications for enrolment of newly-hired workers and investigation and collection procedures were being managed jointly for both types of contributions. As part of the policy response to the economic crisis, in 2009 and 2010 liability to pay EI contributions which formerly applied only to employment relationships expected to continue for at least a year, was extended to employment relationships expected to continue for 31 days or more. Thus, the authorities can, to a greater extent, expect all four social insurance contributions to be paid on approximately the same wage basis.

19. MHLW should now devote more resources to the *enforcement* of contribution payments by employers of non-regular workers, which is relevant for health and pension coverage as well as EI coverage. In the longer term, the social insurance contribution collection function of MHLW should be unified with tax collection. For example, the authorities should be able to compare the wage bill an employer declares when calculating corporate or entrepreneurial taxable income with the wage bill on which social insurance contributions have been paid. Collection of premiums on all wages, regardless of contract duration, will not only increase the coverage of benefits but also tackle a longstanding fiscal incentive for the use of short-term contracts.

### ***The growing role of regional and local governments***

20. The Decentralisation Act of 2000, followed by revisions in the Employment Measures and Employment Security Acts, allowed local governments to implement employment measures and provide free placement services. Since then, prefectures and municipalities have become key players in employment policy. They manage some job-matching services, including Job Cafés for young jobseekers, employment and work preparation centres for single mothers, and the Silver Human Resource Centres for retired workers. Also, about half of all cities and towns report that they run separate offices dealing with job-creation issues.

21. The national PES has actively promoted local employment services and has ongoing co-operative arrangements with some of them. Moreover, recent supplementary budgets for dealing with the jobs crisis in FY 2008 and 2009 included over JPY 1 000 billion (more than total expenditure on ALMPs in FY 2007) for programmes managed by lower-level governments, including the "Hometown Employment Revitalization Special Grant" (to conduct projects for local job creation), the "Emergency Job Creation Programme" (temporary jobs of less than six months, created by prefectural governments or Silver Human Resource Centres) and the "Emergency Human Resource Development and Employment Support Fund". Although details of these programmes are sketchy, the implied transfer of central government funds to local and regional governments for employment policy measures is clearly substantial.

22. Japan has a longstanding strategy of minimising dependence on official assistance while encouraging communities and firms to provide social welfare. For example, the re-allocation of personnel by large companies to affiliated, and in some cases, non-affiliated firms (*Shukko*) to give younger workers outside experience, to move or promote older workers, and to move workers from declining to growing sectors, tends to reduce unemployment, usually at no cost to the government. From this perspective, the local provision of employment-related services is to be encouraged, but at the same time potential drawbacks of decentralisation need to be kept in mind. These include:

- Local employment services and job-creation measures may improve general service provision (e.g. by reducing transaction costs in the local labour market), but also compete for limited resources. For example, so-called "U-turn" employment offices that try to persuade skilled workers to return to their home region from other prefectures may succeed in doing so, without however improving the supply of skilled workers in the country as a whole.

- Local governments adopt varying ideas and policies, which leads to uneven service provision across the country.
- When several dimensions of policy – programmes, institutions, strategic objectives, etc. – are decentralised, data on outcomes are no longer comparable. It then becomes hard to evaluate the wide diversity of local programmes and this tends to prevent the recognition and transfer of good practices and the elimination of bad ones.
- The management of nationally-financed unemployment benefits (including assistance benefits, when these are conditional on the use of earnings capacity) relies on links with employment services to ensure that benefits are only paid if claimants are searching effectively and using the best resources available.

23. Based on these considerations, the management of employment services for benefit recipients should be kept unified with benefit administration and remain at national level. Also, if recent increases in the EI coverage of the unemployed and access to Public Assistance continue, the PES, as a national organisation, will need to be strengthened to handle the additional caseload effectively.

### **3. Placement activities**

#### ***The Job-matching function***

24. Despite comparatively low staff/client ratios, Japan's PES implements the job-matching function relatively effectively:

- A high proportion of job vacancies in the economy are notified to the PES. Only a small proportion of them is then filled through PES offices, but this may be partly a statistical artefact because, when workers find a job vacancy listed by the PES and apply directly to the employer, the PES role is not recorded. This also reflects the pre-recession context of relatively strong labour demand, in which employers often advertise vacancies through multiple channels.
- Employers and jobseekers visit PES offices in person relatively often. This may be partly due to the relatively late introduction of online vacancy registration and display, but it seems to also indicate that employer clients appreciate personal counselling. For example, employers may seek advice about employment subsidies available, or the conditions that would need to be offered in a job vacancy to have a good chance of a successful hire. Related to lifetime employment practices, vacancy notifications in Japan do not usually give a detailed description of the work: workers are often more interested in the reputation and long-term prospects of the company, and on this topic experienced counsellors can provide advice that is not posted on internet.

25. The quality of regular counselling is probably enhanced by staff experience arising from rotation through PES positions within the lifetime employment system, and by a relatively high degree of specialisation (local offices have separate counters for particular occupations, verification of benefit status, types of jobseeker, etc.). In recent years, the counselling function has been further specialised with the introduction of “navigators” for early re-employment of those in receipt of benefits, “challenge plan” counsellors for youth, “job supporter” counsellors for recent graduates and “mothers’ corners” counselling for women seeking family-friendly working conditions, often implemented by counsellors hired on temporary contracts. The specialisation of counselling is meant to guarantee “tailor-made” services, but there is also a risk that it reinforces the segmentation of the labour market.

26. The number of participants in these plans remains relatively low compared with the number of registered jobseekers. The voluntary nature of the plans probably explains the low take-up, and the PES should consider making individual action plans an obligatory element of its activation strategy and have them set up for all registering jobseekers, preferably at the intake interview.

***Placement of older workers***

27. In the decade prior to the recent financial crisis, the PES experienced almost a doubling of vacancy inflows and there was also a 50% rise in the number of PES placements. However, placement rates for older workers have remained particularly low compared with those for prime-age and younger workers. Until recently employers could specify the age of jobseekers they wish to recruit in vacancy notices. Increasingly stringent anti-discrimination legislation now stipulates employers' legal duty to provide equal opportunities in recruitment irrespective of age. As a result, vacancies with age limits can be rejected by employment placement organisations and their number has declined sharply over the past few years. These are steps in the right direction, but do not *per se* imply that older workers are more readily hired, and the offices of Hello Work and JEED (see below) should strengthen their special programmes targeting older jobseekers, such as training offers, second-career counselling and training seminars for firms in age management.

***The ALMP management function***

28. In conjunction with the job-matching function, Hello Work offices administer recruitment incentives ("job development" grants and other incentives for employers hiring hard-to-place jobseekers; trial jobs for youth and other target groups) and start-up incentives. By contrast, vocational training for the unemployed, rehabilitation and employment programmes for people with disabilities and child-care programmes are administered primarily through grants to other public organisations, particularly the Employment and Human Resources Development Organization of Japan (EHDO), and the Japan Organization for the Employment of the Elderly and Persons with Disabilities (JEED). However, Hello Work counsellors implement the recently-introduced Job Card (see below).

***A relative absence of benefit sanctions***

29. To the extent that the benefit coverage of unemployment is increased – whether through increases in UI duration, greater coverage of non-regular workers or an expansion of assistance benefits – the effective activation of benefit recipients will be increasingly important in order to minimize the risk of higher unemployment. Available data show that the PES only rarely imposes benefit sanctions for failure to follow up PES job referrals and refusals of job offers. The short duration, in most cases, of benefit entitlements makes it difficult to enforce benefit conditionality effectively (since the PES cannot intensify requirements with the increasing duration of the unemployment spell). Moreover, PES staff seem to be reluctant, or unable, to sanction workers with long benefit entitlements at the time of mandatory retirement for failure to take up job opportunities. It may not be reasonable to expect them to do this when, as discussed below, benefit levels are high relative to re-employment wages.

**4. The role of unemployment and related benefits**

30. Japan's unemployment insurance system has been reformed several times in an attempt to satisfactorily implement its social insurance function, promote employment and maintain financial equilibrium.

***Several types of moral hazard***

31. Japan's EI system reform of 2001 restricted longer-duration benefits to employees "who are compelled to leave employment without a time margin to prepare for re-employment due to bankruptcy, dismissal or another reason". This applies to situations when the date of separation is predictable from the terms of a fixed-term contract or from the firm's habitual mandatory retirement age. The reform significantly reduced the benefit coverage of unemployment: the ratio of EI recipients to LFS unemployment fell from 34% in 2000-01 to 23% in 2004-07, and the average duration of spells on EI

fell by about a quarter. This plausibly contributed to the stabilisation of the LFS unemployment rate. In the future, other approaches that tackle repeat unemployment without lowering benefit coverage could be considered. These include a higher EI contribution rate for fixed-term contracts, or experience rating of employers by tracking layoffs which result in benefit claims (as practiced in the United States). Also, the traditional PES emphasis on placing unemployed workers so far as possible in stable jobs rather than temporary jobs should be maintained.

32. Until recently, employment insurance (EI) contributions were due only in case of employment relationships expected to last for a year or more. However, employers could avoid liability for contributions by offering contracts of slightly less than a year, perhaps repeatedly. At the same time, employers could state that employment was expected to last for more than a year, but then the employee might quit or be laid off after only six months and claim benefits. This left the EI system open to moral hazard from selective enrolment. If employers can decide to create jobs with or without EI coverage, and workers can choose between contracts with different durations and EI coverage taking into account whether their future benefit claims are likely to exceed their contributions, this undermines both the insurance principle and the financial viability of the system. The extension of contribution coverage to jobs expected to last for 31 days or more in 2010 should greatly reduce this problem. A further step in this direction would be to require, as many other OECD countries do, the payment of EI contributions on earnings from part-time work. The EI system also covers only contracts with 20 or more standard hours per week, which, given that real hours can vary independently of standard hours, can lead to selective enrolment.

33. Another type of moral hazard concerns voluntary entry to unemployment. In the 1990s, about 60-70% of all new claims were classified as voluntary quits, with benefits subject to a 90-day waiting period. However, it is relatively difficult to prove voluntary quit in the case of workers hired on *successive* temporary contracts. If a fixed-term contract worker did not want a contract renewal, the employer had little incentive to offer one and the authorities may often not get a statement from the employer confirming that the claimant refused a contract renewal. Even without this factor, because benefit entitlements do not usually increase in proportion to years of contributions, temporary workers with employment spells that are just long enough to qualify for benefit tend to be the greatest net beneficiaries from an unemployment insurance system, while high-tenure workers are net contributors. Unemployment (UI) systems need to cover situations of repeat involuntary unemployment, and yet minimise the subsidisation of rotation between short-term jobs and benefit claims by people who could have taken a more permanent job. For example, some countries directly restrict entitlement to benefit in cases of seasonal employment or repeat unemployment, and some only recognise the validity of temporary contracts if there are “objective” reasons for using this type of contract.

#### *Systematic claiming after mandatory retirement*

34. Upon mandatory retirement from their employer at age 60, Japanese workers usually remain economically active, but their wage in any new job tends to be well below their previous wage. In 2001 and 2003, the maximum benefit entitlement at mandatory retirement age was reduced from 300 days to 150 days, and the ceiling level of benefits in this case was reduced. By 2006, the large differential between the unemployment rates of 60-64-year-old males and prime-age males, which appeared shortly after the introduction of age-related benefit entitlements in 1974, had been mostly eliminated.

35. However, the 2001 and 2003 reforms did not entirely eliminate the disincentive effects and cost of claims after mandatory retirement. Wage-related benefits at this point should be lower than the likely re-employment wage, which implies that the replacement rate and ceiling benefit level need to be reduced. At the same time, benefit duration could be extended on a means-tested minimum-income basis, while more intensive employment assistance is provided for people who remain unemployed for a long time. Also, the measures that promote continued employment with the same employer, preventing older-worker unemployment, should be strengthened. These include 2004 legislation which requires employers to

introduce a continued employment system, and the Employment Continuation Benefit which is paid to workers who stay with the same employer after mandatory retirement age.

### ***Postponement of job re-entry and the Re-employment Allowance***

36. Moral hazard may also take the form of reduced intensity of job search and willingness to accept job offers. Recent Japanese research has continued to report evidence of significant disincentive effects to job search during the benefit period. Research from the 1980s reported that a large majority of EI recipients received their full benefits, but the proportion receiving their full benefits must have fallen since then, because in 2008 31% of EI recipients found a job with more than two-thirds of their benefit period remaining.

37. Early re-employment is promoted by the Re-employment Allowance, which is paid to people who start work with at least a third (or in some cases, at least half) of their remaining benefit entitlement period remaining. It is a lump sum corresponding to 30% (recently increased to 40%) of the unused entitlement. This provision has existed in some form since 1974, so the Japanese authorities clearly consider it effective. However, its effectiveness should also be evaluated through statistical analysis and/or pilot studies and experiments.

### ***The chasm between EI and Public Assistance***

38. The Japanese authorities describe some recent measures – notably temporary housing allowances for those who have lost accommodation due to layoff, and subsistence allowances for participants in labour market training – as a “second safety net”, but the coverage of these measures remains very limited. There is still a “chasm” between the EI system and the Public Assistance system, so that the majority of unemployed people are not current recipients of either benefit. A key issue is whether one of the two main benefit systems, EI or Public Assistance, should be expanded to partly fill the gap. However, the following considerations should be borne in mind when considering possible increases in EI benefit duration:

- Other countries with UI durations of below a year (Canada, the United States and a few others) do not generally apply intensive activation requirements. In this context, increases in the duration of benefit entitlements tend to delay re-entry to work.
- As discussed above, UI systems tend to subsidise temporary work at the expense of permanent work. In Japan, the 2001 reform reduced the *de facto* subsidy, but since the reform in 2009 three months of benefit are paid after six months of contributions, which is a fairly generous ratio of benefit duration to contribution duration in comparative terms.
- Experience in European countries suggests that long-term wage-related UI benefit systems tend to be expensive, in terms of both direct costs and the active programmes needed to limit benefit dependency. At the peak of the last cycle, in 2008, total expenditure on labour market programmes fell to about 1% of GDP in Norway and Switzerland and 1.5% in Portugal and Sweden (countries where some unemployed are covered by social assistance benefits, not included in the data), but it was still 2 to 3% of GDP in eight other European countries. In Australia, New Zealand and the United Kingdom, which achieve relatively high benefit coverage of the unemployed mainly through indefinite-duration assistance benefits, total expenditure was well below 1% of GDP, and not much above the level in Japan. This suggests that benefit coverage of the unemployed through assistance benefits, although it does not provide the same level of income protection, tends to be cheaper and easier to manage than coverage through long-duration UI benefits.

***The Public Assistance caseload is low...***

39. Public Assistance reciprocity rates in Japan are low. In 1995, when the “make it strict” policy was vigorously enforced, only 0.4% of the working-age population was the head of a recipient household. The rate then increased slowly to about 0.75% in 2008. In other OECD countries which have a social assistance benefit as well as wage-related unemployment insurance, social assistance caseloads range from about 1% to 7% of the working-age population, with a median of about 3%. Thus, the caseload is several times below the average for other OECD countries, even though most of them also provide more coverage of the unemployed and other working-age target groups by social insurance benefits.

40. The entitlement factors leading to a low rate of social assistance reciprocity in Japan are:

- The family-support requirement: applicants may be required to identify close relatives who may be asked to support the applicant. Some accounts suggest that implementation of this requirement was vigorous in the 1990s but has been relaxed since.
- The asset test: assets such as land, farms and houses (except where the person is actually living) and household goods with a diffusion rate below 70% (*i.e.* not present in the majority of local homes) must be sold in order to qualify for Public Assistance.
- The ability-to-work criterion: Public Assistance may be refused to a person who is deemed capable of earning income.

41. Administrative arrangements also contribute to the low reciprocity rate. Although Public Assistance only partly prevents hardship, several features that enhance the effectiveness of the system should be kept in mind:

- Following recent campaigns to make welfare offices more accessible and ensure that people are not excluded on grounds of homelessness or work capacity alone, Public Assistance provides a relatively well-signposted escape route to avoid severe hardship.
- The system of local Welfare Commissioners (volunteer workers who are provided with some support by local authorities) solves some individual problems without recourse to cash benefits and helps to identify situations of hardship, so that Public Assistance payments are relatively well-targeted.
- Because caseloads are kept low, home visits to local welfare households are possible and these help to ensure that long-term fraud is rarely a concern.

42. Against this background, it can be said that Public Assistance does to a considerable extent prevent severe hardship, and yet – even though the speed of job-finding may have fallen and the incidence of long-term unemployment has increased since the early 1980s – the great majority of unemployed heads of household still find a job before they have run down their assets enough to qualify for it.

***... and access could be significantly eased, but this would require more systematic activation***

43. The ongoing gradual easing of access to Public Assistance for unemployed people seems a good policy because it has no disincentive effect for the great majority of unemployed, who still will not expect to claim it. However, to the extent that more unemployed people are allowed to qualify for regular assistance benefit payments, more systematic activation measures should be introduced, for example:

- Intensive counselling should be provided to identify and resolve barriers to employability, refer clients directly to job vacancies, re-engage rapidly with them if they re-enter unemployment, and provide in-work support. In localities with larger caseloads, intensive counselling could be implemented by private providers, with systematic measurement of the employment outcomes achieved.

- Basic skills training can be beneficial. Other OECD countries find that the most disadvantaged unemployed people are often unable to benefit immediately from existing vocational training and have therefore devised courses for the stabilisation of lifestyle, literacy/numeracy skills, pre-vocational training, etc., before they enter regular training programmes.
- Work experience can improve employment prospects, particularly if it takes place in private enterprises. Referrals to temporary work-experience programmes prevent the receipt of passive benefit from becoming routine, and can have a “motivation” effect. Since Japan has allocated large sums for job-creation measures in response to the economic crisis, places on these programmes could be used for activation of welfare recipients, if the administrative arrangements give welfare case managers adequate control over the referral process.

## 5. Active labour market programmes

### *Employment services are the main active programme...*

44. In Japan, ALMPs are only rarely analysed as a distinct policy field. Partly related to the history of low unemployment and low benefit coverage of the unemployed, programmes targeted on registered unemployed workers tend to cover only a relatively limited part of the labour market. Other important measures have included Employment Adjustment Subsidies to prevent layoffs *via* reduced hours schemes, particularly during recessions; vocational training for employed workers (mainly in SMEs, since large firms provide nearly all training in-house); and legislation and other measures to promote changes in firms' employment practices, such as equal treatment of part-time workers and extending the age of mandatory retirement. In recent years, further objectives such as a better work-life balance, vocational training for non-regular workers and the “right to career” have been adopted, but the resources devoted to these areas remain relatively modest.

45. Before the recent recession, expenditure on ALMPs was less than 0.2% of GDP. This is about one-third of the OECD average. However, as in the United Kingdom but in contrast to most other OECD countries, three-quarters of all active expenditure, as recorded in the OECD/Eurostat database, was in Category 1 *Public employment service and administration*. Expenditure on the other categories of ALMP expenditure, at about 0.05% of GDP, was only one-eighth of the OECD average level.

46. The largest other category is labour market training, although expenditure in this area is still much below the OECD average. The PES also administers some hiring subsidies, but they are of short duration and strictly targeted on PES placements of selected target groups of disadvantaged jobseekers, so that expenditure on these remains low.

### *... although large amounts have recently been budgeted for anti-crisis measures*

47. The supplementary budgets for employment measures in FY 2008 and 2009 in response to the financial crisis total nearly 0.6% of GDP, although the expenditure is implicitly distributed across two or more years. This exceeds total LMP expenditure, on active and passive programmes combined, in FY 2007. However, it should be stressed that the supplementary budgets partly concern unemployment benefits and Employment Adjustment Subsidies (short-time work). Moreover, actual expenditure may be much lower than budgeted, depending on take-up rates for the new forms of assistance; and the transfer of funds to regional and local governments results in hires of employed as well as unemployed workers.

***The roles of training, employment maintenance incentives and direct job creation****Training*

48. Japan has a longstanding system of training for EI recipients in PES vocational training centres, with arrangements allowing EI benefits to be paid and, if necessary, extended during participation. More recently, the vocational training centres have been managed by the vocational training organisation EHDO. Early in the recession, a subsistence allowance (“life-security benefits”) was established for participants in vocational training who do not have an entitlement to EI benefits. Although this has recently been described as a component of a new “second safety net”, there is a risk, when income support is available only on condition of participation in training, of participation in training without appropriate selection and motivation.

49. With a view to promoting the transition from non-regular to regular employment, in particular for young people, the so-called “Job Card system” was set up in 2008. The Job Card itself is a document which records the education and training backgrounds and employment history of its holder, updated after any further training. The system covers participants in the Japanese Dual System, introduced in 2004, in which time spent in a training institution is matched with employer experience, as well as other types of training. International experience indicates that a dual system does indeed help to integrate disadvantaged young people into the labour market. However, there are several preconditions: the system needs to be well-implemented and have a good reputation among employers. This is quite difficult to achieve in Japan, where medium-sized and large firms provide company training in-house and there are few standardised apprenticeship qualifications. The Japanese government should now speed up the introduction and diffusion of the Job Card system and also make progress in the area of standardisation of systems for the recognition of acquired skills in order to make them “tradable”.

*Employment maintenance incentives*

50. During the economic downturn, Japan reactivated its *short-time work scheme* (the Employment Adjustment Subsidy) to combat labour market slack and prevent lay-offs. Terms of access for the subsidy were eased and subsidy rates for employers substantially increased; as a result, the number of workers in firms participating in the scheme increased to over 2 million, corresponding to almost 3% of all employees in 2009, one of the highest shares in the OECD. The OECD has estimated that as a result, about 400 000 permanent jobs may have been saved. The corresponding budget rose to JPY 0.6 trillion. The number of participating firms probably peaked in mid-2009, but remained high by historical standards in 2010.

*Direct job creation*

51. Public works have played an important role in Japanese employment policies, but as a demand-side measure and a regional development policy. Since hiring on public works projects is not restricted to the unemployed, they are not counted as ALMPs. Over the three decades up to 2000, spending on public works used to be higher than in other major OECD countries. A new focus in the objectives emerged at the beginning of the 2000s, with a shift from improving economic efficiency at regional level to creating jobs. The supplementary budgets during the crisis reflect this new tendency, as it is specified that the job-creation measures should hire people who were previously unemployed.

52. Job-creation programmes need careful management to ensure that they are relevant for disadvantaged jobseekers. This includes the notification of openings on the programme to the PES so that it can refer disadvantaged jobseekers to them; case management after exit from the programme with an ability to track outcomes in terms of entries to unsubsidised work; and restrictions on long-term or repeat participation in the programme. Without an appropriate management framework, job-creation programmes can only temporarily reduce unemployment, but later come to resemble local social services programmes. Governments need to ensure in particular that they do not only provide intermittent employment which qualifies workers for unemployment benefits between one spell of participation and the next, since in this case they can even increase unemployment.



### ***The targeting of active programmes***

53. From the early 1990s to 2003, the *youth* unemployment rate in Japan doubled, while the incidence of long-term unemployment for youth increased even more. The number of so-called *freeters* – young people in non-regular work – grew to over 2 million by 2003. But only in the early 2000s was it recognised that previous policies had focused to an excessive extent on the employment problems of middle-aged and older workers, so that youth became a specific target group for labour market policy. Policy measures adopted in the 2000s included the establishment of Job Cafés; the introduction of trial employment for youth (three-month hiring subsidies); the introduction of the Japanese Dual System; and programmes focused on new school graduates, the problems of NEETs (those neither in employment, education or training) and the employment of older *freeters* as regular workers. This re-orientation of policy appears to have had an impact since the number of *freeters* had by 2008 declined more than 20% from the 2003 peak. The Japanese government should continue its policy aiming to reduce the precariousness of youth employment, and in this respect the principal recommendations contained in the OECD's *Jobs for Youth: Japan* report remain valid.

54. In contrast to many other OECD countries, Japan has been developing policies to enhance the employment rates of *older workers* for several decades. Policies in the 2000s included the further expansion of participation in Silver Human Resource Centres, which now have almost 1 million members (about 5% of the total population aged above 70); and the introduction of an option for firms of implementing a system for continued employment after their mandatory retirement age, rather than increasing the mandatory retirement age itself. Many other OECD countries are attempting to increase older-worker employment rates without arrangements for systematically reducing labour costs beyond the age of 60, with some success. Measures can include promoting targeted training and developing late careers paths, and the closure of early retirement schemes and restrictions on incentives for early retirement have played a large role in increasing older-worker employment rates over the past decade. Nevertheless, as noted above, Japan's model where labour costs for older workers are substantially reduced has been one of the most successful in ensuring high labour force participation.

55. A number of programmes to make work conditions easier for *women with childcare responsibilities* were introduced in the 2000s, but these remain small in scale, with a focus on information and guidance. It is unlikely that these will be sufficient to significantly increase the use of the female workforce, and therefore measures promoting a better balance between work and family life need to be further developed. Active labour market programmes tend to focus on *lone mothers*, who are more strongly encouraged to (re)enter the labour market than married women. Finally, it can be noted that the measures announced in 2008 and 2009 emphasised the improved coverage of *non-regular workers* by income support and training measures, as well as improved placement assistance for them. The general promotion of employment stability is a longstanding theme of labour market policy in Japan, but the formal targeting of certain programmes on non-regular workers is an innovation.

### ***Programme monitoring and evaluation***

56. It is difficult to establish a consistent overview of LMP expenditure in Japan according to national concepts. The classification system used to present statistics varies from one report to another, and there are differences in the reporting standards used for ALMPs financed through employment insurance and those financed by the national budget. Since the 1990s, the government has announced employment measures as part of many emergency economic policy packages, but there is little follow-up information showing outturn expenditure against budgeted expenditure. This makes it difficult to document or audit the expenditure adequately and subject the policies to public scrutiny, or make accurate international comparisons.

57. To fill this important statistical gap, MHLW should establish a statistical and functional overview of expenditure on employment policy measures, regularly updated so as to allow comparisons through time and adapted to the needs of international comparisons. This overview should have a relatively broad coverage (including measures that are generally regarded as employment measures or justified by employment policy considerations), and not be limited to measures targeted directly on registered jobseekers. It should include measures implemented by local and regional governments, as well as the public bodies financed by MHLW, and provide breakdowns in situations where large blocks of expenditure (*e.g.* grants to training institutions) cover a wide range of activities.

58. In Japan, there has been almost no statistical evaluation of the impact of ALMPs on key labour market outcomes. Evaluation of some of the ALMPs, in particular vocational training and hiring incentives, should be undertaken, recognising that participation in these programmes is currently quite selective and evaluation is only worthwhile if selection bias and other technical pitfalls can be avoided. In several OECD countries, systematic evaluation of the impact and effectiveness of individual programmes has been an important factor in the development and implementation of activation strategies. It is also vital to know more about the cost-effectiveness of public spending on ALMPs at a time when fiscal consolidation is a key objective – as it is in Japan.

## SUMMARY OF MAIN POLICY RECOMMENDATIONS

### Demographic decline

- Family-friendly policies should become a key priority in Japan given the need to raise female participation in the context of a rapidly ageing population.

### Non-regular employment

- The government needs to continue its efforts to strengthen the safety net, including social insurance coverage, for non-regular workers and to promote the conversion of temporary jobs into more stable employment, thereby reducing labour market duality.

### Female employment

- The tax and benefit system should be reformed so as to strengthen incentives to work for secondary earners.
- Childcare provision remains insufficient to promote participation of women in the labour market, and should be improved.

### Older workers

- The model whereby companies offer continuing employment at lower wages after 60, with earnings topped up by early payment of company pensions and alternative uses of the EI fund, should be extended so that fewer older workers are thrown into unemployment before public pension age.
- The reduced indexing of unemployment insurance benefits on former wages for older workers is welcome. Social welfare considerations argue for greater benefit coverage since the gap between mandatory retirement age and public pension age is widening, but this should combine cash assistance and employment assistance.

### Employment services

- The intake of *permanent* PES staff should be increased to offset losses of expertise through retirement, through civil service recruitment procedures and/or hiring contract workers on a long-term basis in appropriate cases.
- The PES should consider making individual action plans an *obligatory* element of its activation strategy, and have them set up for all benefit applicants.
- The PES offers specialised services for many different categories of jobseeker, but PES categorisation should not reinforce existing segmentation and duality in the labour market. For example, Mothers' Hello Work centres should not focus mothers' attention only on part-time jobs.
- To discourage jobseekers from claiming benefits through to exhaustion before taking up a new job, the PES should in appropriate cases refer jobseekers directly to vacancies, and sanction refusals of job offers. This will become more important if unemployment benefit coverage is increased.
- Only a small share of expenditure on jobseeker counselling is delivered by private or non-profit organisations. Private delivery of placement services and case management should be considered, particularly if benefit coverage of the long-term unemployed is increased. If this is done, accurate measures of placement performance will need to be developed.

**SUMMARY OF MAIN POLICY RECOMMENDATIONS** *(cont.)*

**Contribution collection**

- Most existing exemptions from liability to pay social insurance and labour insurance contributions should be suppressed during the process of unification of contribution collection.
- MHLW should devote more resources to enforcement of contribution payment by employers of regular workers. This is relevant for health and pension insurance coverage as well as EI coverage. In the longer term, the social insurance contribution collection function of MHLW should be unified with tax collection.

**Unemployment benefits**

- EI contribution coverage is already being extended to short-term temporary work, and should also be extended to part-time work with actual hours close to full-time hours. More nearly-universal coverage reduces the scope for selective enrolment by people who plan or expect to make a benefit claim.
- The “chasm” between the EI system and the Public Assistance system should be reduced by continued gradual easing of access to Public Assistance. The set-up of joint welfare-to-work programmes between employment and welfare offices is a good start, but if the caseload of disadvantaged long-term unemployed increases, a more systematic framework of activation measures will be needed.

**Implementing active labour market programmes**

- In the course of economic recovery, programmes should continue to promote the transition from non-regular to regular employment. The recognition of non-regular workers seeking regular jobs as a target group should be maintained and extended to other workers with a history of repeat unemployment spells.
- The implementation of the Job Card system should be speeded up, and the dual vocational training system should be expanded. It is also important that Japan makes progress relating to standardised systems of recognition of acquired skills, with a view to making them tradable.
- As the economic recovery gains momentum, Employment Adjustment Subsidies should be scaled back, and support should increasingly be re-directed to work-time reductions with training and employment maintenance through transfers of workers to other establishments.
- Public-sector job-creation programmes need careful management to ensure that they are targeted on disadvantaged jobseekers. They should include case management and individual follow-up of participants and avoid long-term or repeated participation.
- A comprehensive and publicly accessible monitoring system of ALMPs, differentiated by target groups, is urgently needed. Thorough evaluations should accompany all labour market programmes.

## *Chapter 1*

### **LABOUR MARKET BACKGROUND**

#### **1.1. Introduction**

59. Japan is a country of over 3 000 islands extending along the Pacific coast of Asia with a population of 127 million. The average population density at 337 inhabitants per km<sup>2</sup> is relatively high and it is particularly high in habitable areas, since over 70% of the country is mountainous, forested and unsuitable for agricultural, industrial or residential use. De-population of the countryside has added to the problem of over-crowding in urban areas, and the Greater Tokyo Area, which includes the city of Tokyo and several surrounding prefectures, is the largest metropolitan area in the world, with over 30 million residents.

60. Japan is a constitutional monarchy, and is divided into 47 Prefectures, each overseen by an elected legislature and governor. The number of municipalities has been much reduced through mergers, falling from over 10 000 in 1945 to 3 100 in 2004 and about 1 800 in 2007 (847 towns, 777 cities, and 198 villages) (OECD, 2005; [www.clair.or.jp/e/forum/other.html](http://www.clair.or.jp/e/forum/other.html)). The prefectures' autonomy from the national government is limited since they depend on it financially.

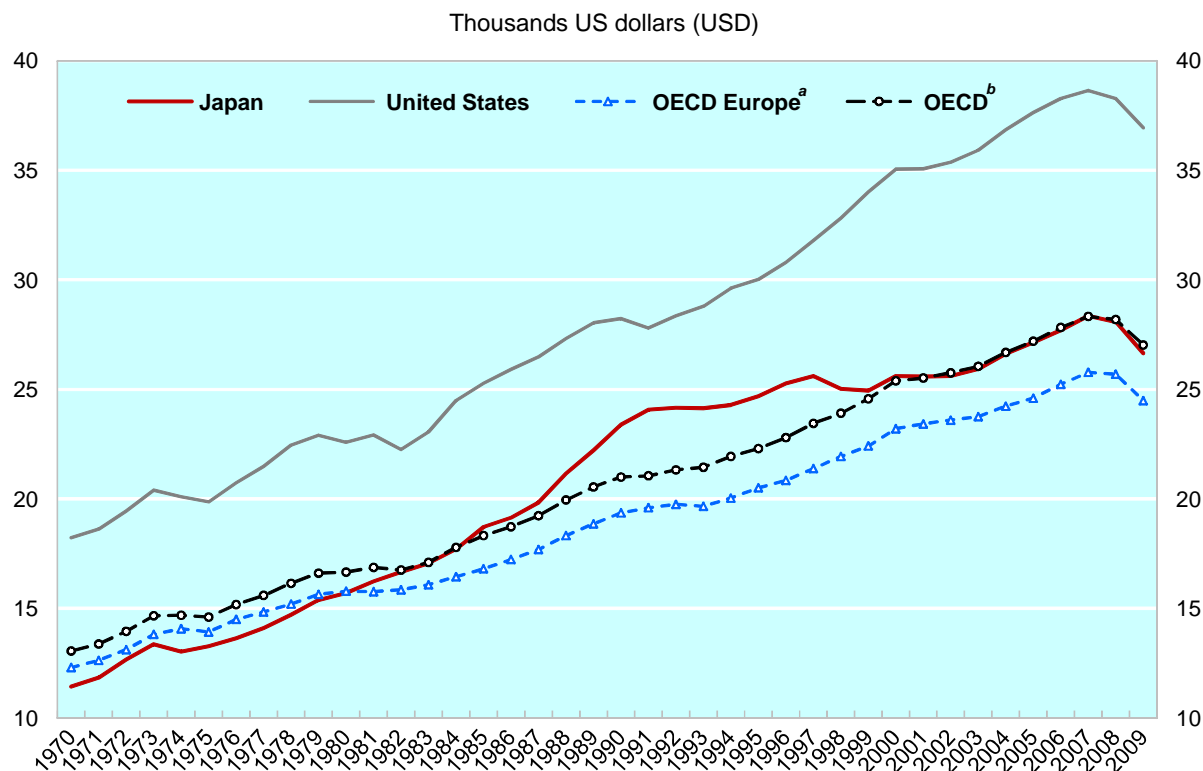
61. Since the 1960s and until 2009, Japan's economy was the second largest in the world after that of the United States. From the 1960s to the 1980s, the country profited from an "economic miracle", with average annual GDP growth of 10% in the 1960s, 5% in the 1970s and still 4% in the 1980s. This was followed by the so-called "lost decade" of the 1990s, when Japan suffered from stagnation and deflation. Figure 1.1 shows how Japan's GDP per capita, from a 1970 baseline, grew at first at a much faster rate than the OECD average, and how this dynamic was broken in the 1990s.<sup>1</sup> Only after 2003 did the economy show strong signs of recovery which, however, came to a halt in late 2008 with what is likely to be the most severe recession in Japan's post-war history. Exports, employment, working hours and wages all fell in 2009, with a decline in GDP of 5.2%.

62. The government responded to the downturn with four economic stimulus packages in the latter half of 2008 and early 2009. The recession seems now to have bottomed out, thanks in part to a rebound in exports, although production remains well below capacity. Economic growth is projected to be around 3% in 2010 and 2% in 2011 ([www.oecd.org/oecdeconomicoutlook](http://www.oecd.org/oecdeconomicoutlook)).

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1. Using current Purchasing Power Parities, Japan's GDP per capita in 2008 was USD 34 000, 73% of the level in the United States (USD 46 500): only about a quarter of the relative gap with the United States was closed between 1970 and 2008.

Figure 1.1. GDP per capita, Japan, United States, Europe and OECD, 1970-2009



a) Weighted average of all European member countries of the OECD with the exceptions of the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia due to incomplete data.

b) Weighted average of 26 OECD countries, not including Chile, Israel and the five mentioned above.

Source: OECD National Accounts database for **Gross Domestic Product per capita**, USD, constant prices, 2000 PPPs.

## 1.2. Demography, immigration and education

63. After the Second World War, the Japanese population climbed rapidly from about 72 million in 1945 to 112 million in 1975 and 127 million in 2000. Since then, population has stagnated due to low fertility (down to below 1.3 in the 2000s), and Japan's working-age population has already been in decline for over a decade. By 2050, the population is expected to fall back to about 100 million, *i.e.* to the level last recorded in the late 1960s (Kaneko *et al.*, 2008).

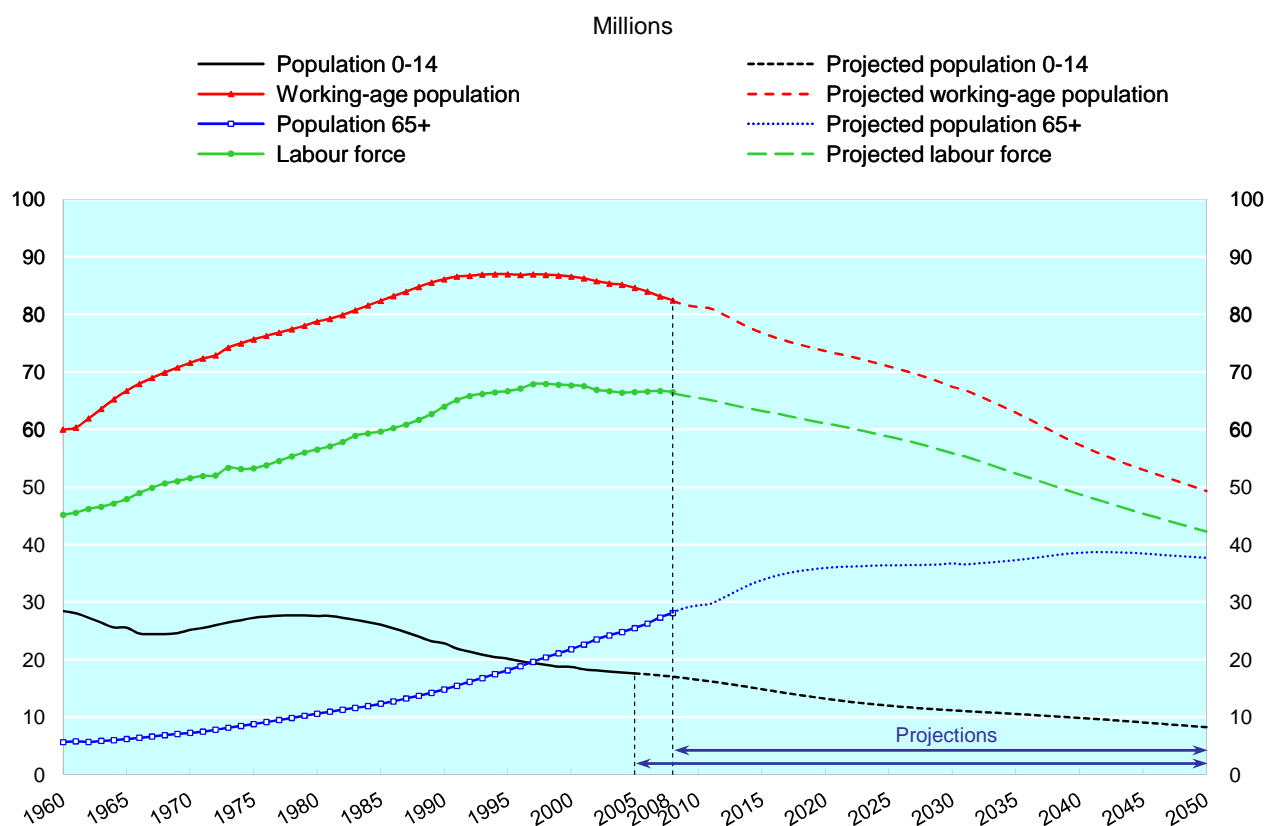
64. Figure 1.2 shows population trends by the three major age groups (using a medium fertility variant). Due to the projected large decline in the working-age population, this group will not constitute more than half of the total population by 2050. By contrast, the elderly population is projected to rise by 28%, and could constitute about 40% of the total population by that date. The figure also shows the projected decline in the labour force, from a peak of 68 million in 2000 to 42 million in 2050.<sup>2</sup>

65. Declines in fertility were accompanied by a sharp decline in mortality and a strong rise in life expectancy,<sup>3</sup> which explains why the old-age dependency ratio in Japan is likely to be at 70% or more in 2050, very probably the highest in the world. Considering the child population as well as the elderly population, there is likely to be only one person of working age (defined conventionally as ages 15 to 64) supporting one of non-working age.

2. This calculation supposes constant participation rates and no increase in immigration. The picture would improve slightly were the female participation rate to rise to the male rate. See OECD (2008a), Chapter 6.

3. Life expectancy at birth is expected to reach 81 years for males and 88 years for females by 2020 (Kaneko *et al.*, 2008).

Figure 1.2. Elements of population growth in Japan, 1955-2050



Source: OECD Labour Force Statistics database for Labour force, population aged 0-14, population aged 65 and over, and working-age population; Kaneko *et al.* (2008) for population forecasts from 2006 onwards and OECD Demographic and Labour Force Projections database for labour force forecasts from 2009 onwards.

66. The declining and rapidly-ageing population is a principal challenge for society and the economy, causing concern not only about the sustainability of the social security system, but also the availability of a labour force adequate to maintain economic growth and living standards. Measures are needed to boost the fertility rate, and to raise the female participation rate – which is 20-25 percentage points below the male rate. OECD (2008a) has recommended, *inter alia*, to reduce dualism in the labour market (see also further below), thus enhancing the attractiveness of employment for women; to increase the availability of childcare facilities; and to improve workplace practices that are difficult for those with family responsibilities, thus promoting better work-life balance.

67. The Japanese population is largely homogeneous from an ethnic point of view and there has historically been little immigration. Immigration rates continue to be among the lowest in the OECD with permanent-type inflows<sup>4</sup> of foreign nationals below 100 000 annually, and less than 2% of the population is a

4. “Permanent-type inflows”, as defined by the OECD, include free-movement immigrants with a nominal permit for a year or more, or who stay or intend to stay for at least one year, and immigrants on temporary-residence permits which can normally be repeatedly renewed. They exclude international students, trainees, persons on exchange programmes, seasonal or contract workers, service providers, installers and artists or sportsmen entering the country for particular events. The application of such a concept considerably improves the international comparability of national statistics, since coverage can otherwise vary by a factor of one to three. For Japan, data refer to categories of entry that have a relatively long estimated duration of stay. See Fron *et al.* (2008); and OECD (2010a, Box I.1) for further details.

registered foreigner. Immigrants mainly come from China (30% of the current stock) and Korea (27%), and include descendants of previous Japanese emigrants who settled in Latin America. Net annual inflows would need to be immense to reverse the demographic and labour force decline, and there are as yet no signs of increasing recourse to immigration to satisfy labour needs (OECD, 2010a).<sup>5</sup>

68. Educational indicators tend to show comparatively good outcomes. Newby *et al.* (2009) conclude that Japan has made significant progress in modernising its education system in view of shrinking youth cohorts and the need for research-based innovation. Figure 1.3 shows that Japan now ranks in third place among OECD countries in terms of the share of tertiary graduates among all persons between 25 and 64 years of age. However, a large proportion of tertiary graduates in Japan, in particular women, have followed type B programmes (ISCED 5B).<sup>6</sup> At the other end of the spectrum, Japan has a relatively low share of unskilled persons who terminated school before reaching upper-secondary level,<sup>7</sup> and among younger cohorts upper-secondary education is virtually universal.

69. According to the 2006 OECD assessment of student performance at age 15, Japanese students had the fifth-highest score in mathematics (after reaching the highest score in the 2000 assessment) and the third-highest in science, while reading capacities scored as average (OECD, 2007a). Importantly, only a relatively small share of the variance in students' performance is explained by their socio-economic background.

70. The tendency for Japanese employers to train and up-skill their workers internally is well known; according to Rebeck (2005), this is due to the fact that Japan was a late developer and the demand for skills developed before the educational system could provide the necessary training. Public investment in education, however, is relatively low. While direct public expenditure on educational institutions in OECD countries corresponds on average to 4.8% of GDP, the share in Japan is only 3.3%, one of the lowest shares in the OECD (data from 2007; OECD, 2010b). The proportion of secondary students enrolled in vocational schools is also relatively low. By contrast, Japan has a long tradition of on-the-job training (OJT) and private training facilities in large companies.

71. New challenges arise from the erosion of the life-time employment system and the high share of non-regular workers (see below). There is increasing concern about the lack of training offered to this group of workers, who often fail to accumulate vocational skills. In order to promote training and the recognition of qualifications for people who do not benefit from vocational training within the internal labour market, and in a context of relatively low weight given to public vocational training, Japan has created an official system for the evaluation of vocational abilities. The system covers many common nationwide trade skills, in a large variety of industrial sectors. Since its introduction in FY 1959, about 4 million people have become certified skilled workers, and every year there are about 200 000 additional applicants for skills certification (MHLW, 2006; and 2007). These figures suggest, however, that only about 5% of the current workforce is certified.

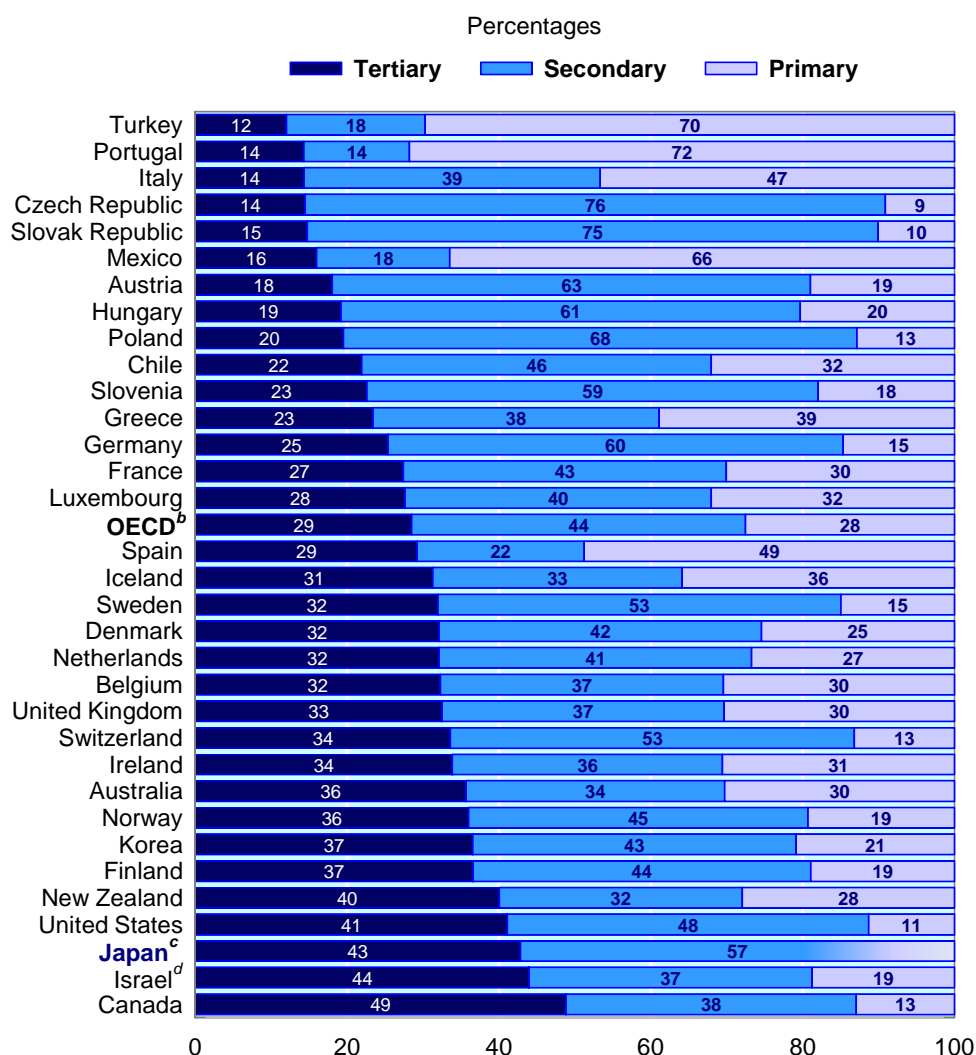
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5. For example, MHLW's White Paper on Employment of 2005 found it "... not appropriate to consider using foreign workers to cope with labour shortages"; and the Japan Institute of Labour Policy and Training notes that "... increasing the number of accepted foreign workers would result in a decrease in the employment opportunities available to senior citizens, women and young people..." (JILPT, 2006, p. 92).

6. Type B programmes are defined as being "typically of shorter duration and focusing on practical, technical or occupational skills for direct entry into the labour market, although some theoretical foundations may be covered". Including this type of programme, the share of tertiary graduates among 25-34-year olds is considerably above 50%.

7. Japanese surveys no longer differentiate between persons with secondary and primary educational attainment. The last time they did (in 2003), the share of persons with no more than primary-level education was 16%, down from 20% in 1998.



Figure 1.3. Educational attainment in OECD countries,<sup>a</sup> 2008

a) Persons aged 25-64.

b) Unweighted average.

c) For Japan, persons who have completed *primary* education are combined with persons who have completed *secondary* education.

d) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD Education database.

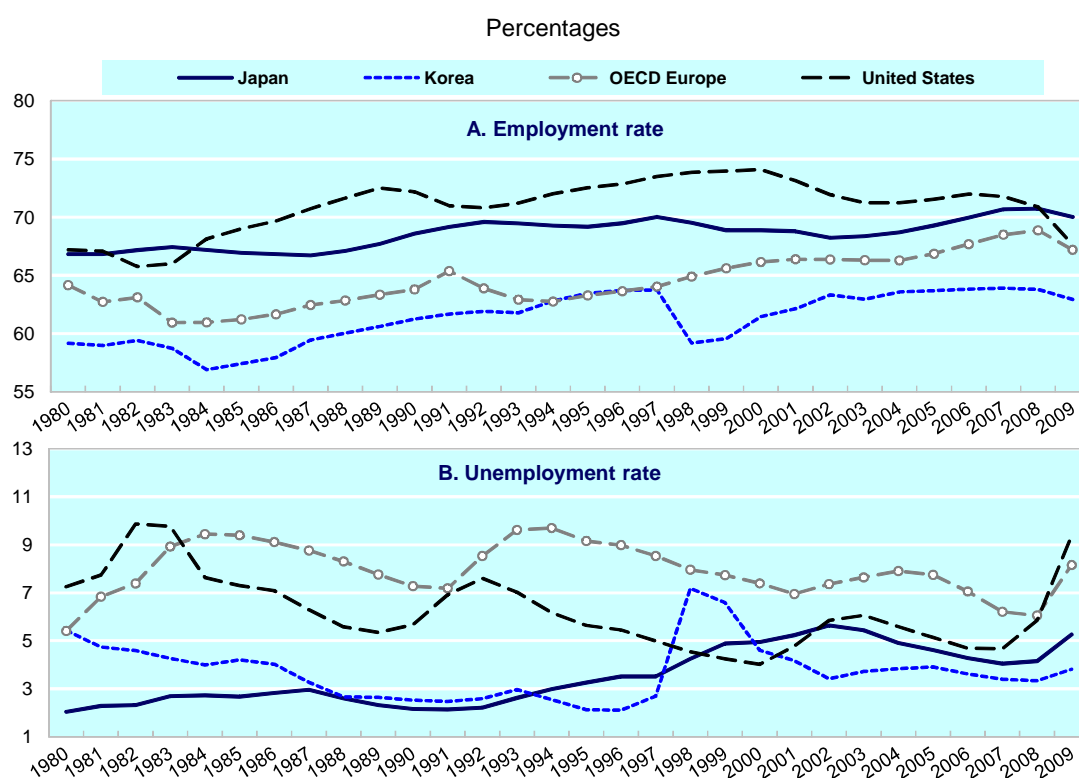
### 1.3. Labour market trends

#### *Development of employment and unemployment*

72. Among workers in employment, 86% are salaried and 13% to 14% are self-employed and unpaid family workers, twice the proportion in the United States but below the OECD average. Reflecting the tertiarisation of the economy (although this remains less advanced than in many other OECD countries), in 2005 the services sector had a share of over 67%, while industry (*Manufacturing, Construction and Utilities*) accounted for 27% of total employment and 4% of employment remained in agriculture. According to the ISIC Rev2-classification, employment growth within the services sector has been particularly strong in *Finance, Insurance and Real Estate*, and in *Community, Social and Personal services*. By contrast, employment in *Manufacturing* declined by one-quarter since the early 1990s, corresponding to over 4 million workers.

73. The current labour market situation is marked by stagnant employment<sup>8</sup> and relatively high unemployment due to the economic downturn, following a buoyant labour market up to 2008 and substantial declines in total employment during 2009. The employment rate for the population aged 15-64 (70%) remains below the rates in Australia, Canada, the Scandinavian countries, the Netherlands and Switzerland, but it is above the average for OECD countries and in particular for OECD Europe (Figure 1.4). The aggregate rate hides large differences by gender: while the male employment rate is among the highest in the OECD, the female rate is only around average. Another factor increasing total employment is the high share of men who work after the age of 64 (see below).

Figure 1.4. **Employment and unemployment rates,<sup>a</sup> Japan, Korea, OECD Europe<sup>b</sup> and United States, 1980-2009**



a) Employed as a percentage of the population aged 15-64 and unemployed as a percentage of the labour force in the same age group.

b) Unweighted average of OECD European countries.

Source: OECD Online Employment database ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)).

74. There has been an upward trend in labour force survey (LFS) unemployment ever since the 1970s. Nevertheless, at 5.1% in 2009 and with an annual low of 3.9% and high of 5.4% over the past decade,<sup>9</sup> the LFS unemployment rate in Japan is still within the lowest third of rates in a ranking of OECD countries and has remained, with few exceptions, below the rate for the United States. As a result of the current recession, it reached a record level of 5.7% in summer 2009, about 1.1 million above the 2008 level, although by early 2010 it had fallen back to around 5%.<sup>10</sup> As a rule, the male unemployment rate is somewhat higher than the female

8. In early 2010, employment was about 3 million below its peak of 65 million in spring 2007, due both to a declining employment rate and to declining working-age population.

9. On the OECD Harmonised Unemployment Rate basis.

10. Non-regular workers, in particular fixed-term and temporary-agency employees, were hit particularly hard by dismissals or “end-of-contract” in 2008 and 2009. The Labour Force Survey in the first quarter of 2009

rate. In the mid-2000s, the average number of unemployment benefit recipients (600 to 700 thousand people) was slightly less than a quarter of LFS unemployment, but in 2009 it rose rapidly to around 1 million, and by end-2009 remained significantly above its 2008 level. In 2008, almost half of those currently unemployed had been out of work for over six months, and one-third for over a year. In contrast to total unemployment, these shares are above the OECD average.<sup>11</sup>

75. The share of part-time employment in total employment, 20.3% in 2009, is high by OECD standards, with one in three women and one in ten men usually working less than 30 hours per week in their main job. At about 14% in recent years, the share of fixed-term and other temporary jobs in dependent employment is also above the OECD average, but much below the shares prevailing in Korea, Poland, Portugal and Spain (see section on labour market duality below). Employment is also characterised by relatively strict employment protection for regular workers and, particularly in large firms, by lower turnover rates and longer average tenure than in most other OECD countries. For example, for male regular employees aged 55-59 in firms with 1 000 employees or more, average tenure in 2008 was 32 years, while it was 18 years in firms with 0-99 employees.<sup>12</sup>

### ***Labour market duality***

76. The practice of “life-time” employment that emerged in large firms during the 1950s was based on the mutual understanding that employers would invest in their employees’ human resources and avoid dismissals, while regular employees would commit to long-term service (Chatani, 2008). Recent developments, however, have undermined this paradigm.<sup>13</sup> The economic boom starting in the late 1990s went hand-in-hand with an increase of non-regular or atypical forms of dependent employment – called by Rebeck (2005) the single most important change taking place in the Japanese labour market. This trend has raised much concern in Japanese society and among policy-makers about the risk of persistent labour market duality. Since the early 1990s the share of “non-regular” forms of employment has risen from one-fifth to about one-third of the non-agricultural employee workforce, while regular employment has fallen in absolute numbers and percentage terms. The share of non-regular employment among youth (aged 15-24) is close to half (JILPT, 2009a; and OECD, 2009a).

77. In the Japanese classification, “non-regular” employment includes part-time workers, fixed-term workers, temporary agency staff and “entrusted” workers,<sup>14</sup> but not the self-employed who are often included in the broader concept of “non-standard” employment (Box 1.1).<sup>15</sup> Since the early 1990s, according to the

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reported a 2.2% drop in the number of non-regular workers but a small increase in the number of regular workers (OECD, 2009b).

11. The comparable incidence of long-term unemployment (out of work for over a year) was 3% in Korea, 11% in the United States, 15% in Australia, and 26% for the OECD average.
12. See MHLW (2009d, Table 81). Statistics Bureau (2009, Table 22) reports that the average tenure for all employees was 11.9 years. However, average tenure was also above 11 years in four EU countries (Belgium, France, Italy and Luxembourg) which have relatively short working lives [*OECD Online Employment database* ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database))].
13. In fact, the paradigm was never fully applicable, since even in the 1980s and 90s the share of all employees working for one employer from graduation until retirement was estimated at only about 20% (Mathews, 2004).
14. See also the more detailed breakdown of “standard” and “non-standard” employment types, referring to the year 2001, given by Rebeck (2005). Statistics on part-time work in Japan can differ substantially according to the definition used. Fixed-term employees are sometimes differentiated into *arubaito* workers and contract and entrusted employees, but the terminology is fluid (see JILPT, 2009a; and the main employment categories outlined in Box 1.1).
15. Keizer (2008) describes the change in Japan as “renewed duality”, since in the past many more people worked as self-employed and family workers in the small business sector. If all employment other than

Japanese Labour Force Survey the share of part-time employment in total employment has risen by over a quarter and the share of temporary workers (including day labourers) in dependent employment has risen by over a third (*OECD Online Employment database* [[www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)]).

Box 1.1. **Prevailing types of dependent employment in Japan**

**Regular full-time workers**

Many regular full-time workers in large and mid-size firms take up a career characterised by permanent or lifelong employment for which the Japanese labour market is well known. After graduation from tertiary or at least secondary education, they are hired in large cohorts and acquire firm-specific job skills through on-the-job training and/or job rotation. Regular work tends to be characterised by strict employment protection, long job tenures and high seniority wages.

**Part-time workers**

Part-time workers represent the largest share of the non-regular workforce. They may be defined as workers working “less than 35 hours per week” (in the LFS); those working “less than regular employees in the same firm”; or those “considered part-time by the employer and paid by the hour”. They are mostly (married) women and pensioners who often work close to a full working day or working week, but do not benefit from the same pay, fringe benefits or social status as regular workers.

**Fixed-term contract workers**

Employees on a time-limited contract, usually up to one year, but renewable, who are often employed long-term and in the same type of jobs as regular workers but do not benefit from the same pay, fringe benefits or social status as regular workers.

**Daily employees**

This term may include students or the more traditional day labourers working on construction sites. Note that the term “temporary” employees usually includes “daily” employees in OECD statistics, but not in national official statistics.

**Arubaito**

A loose term (derived from the German word *Arbeiter* = worker) for fixed-term and/or part-time workers working on the side while attending school or keeping house, often in flexible schedules or shift work. A typical *arubaito* can be a student working night shifts in a convenience store for 15 or 20 hours a week.

**Temporary-agency workers**

Also called *dispatched workers* in English-language publications, the number of these employees has greatly increased since the late 1990s after loosening of legislative restrictions on industries and occupations where temporary agencies can operate. Dispatched workers are mostly low-skilled labourers on short-term contracts (over 80% below three months), but some are specialists under long-range contracts with their agency.

**Freeters**

A term widely used to denote young workers with atypical employment relationships (*Free Arbeiter* = free worker). There are now around 1.7 million freeters, defined by MHLW as persons aged 15-34 who are: *i*) not in education; *ii*) unmarried (in the case of women); *iii*) employed part time or on a temporary contract, unemployed and looking for part-time or temporary work, or inactive for reasons other than housekeeping and looking for part-time or temporary work. To an extent, freeter work is seen as a lifestyle choice for youth; however, there is now also the problem of older freeters in their twenties and thirties searching for regular work. The number of freeters roughly doubled between the mid-1990s and the mid-2000s, but declined slightly since then.

Source: MHLW (2007; and 2009a); JILPT (2006; and 2009a); and Keizer (2008).

“regular staff” and “executive of company or corporation” is counted as non-standard, the share of non-standard employment in total employment has increased only slightly, from 38.2% in 1982 to 41.7% in 2007 (see Statistics Bureau, 1984, Table 3; and Statistics Bureau, 2009, Table 8). The employee forms of non-standard employment probably generate more labour turnover and difficulties in managing the Employment Insurance system (see Chapter 4).

78. The proportion of non-regular employment is highest in services, notably wholesale and retail trade, restaurants and hotels,<sup>16</sup> while it is relatively less developed in manufacturing. In terms of the supply side, some of the major characteristics of non-regular workers are:

- The largest categories are young people on temporary contracts, older persons who are re-hired by their companies after their formal retirement, and married women working part time. Overall, two-thirds of non-regular workers are women. By contrast, very few are prime-age males;
- They are concentrated in SMEs, mainly in the service sector;
- They tend to work fewer hours, change jobs frequently and have below-average tenure;
- They earn considerably lower wages than regular workers; and
- They have much less individually-based social insurance coverage (less than half contribute to work-related health and pension insurance, while two-thirds contribute to EI) (OECD, 2008a).

79. The use of non-regular workers, providing firms with a buffer, was favoured by changes in labour laws regarding the maximum length of fixed-term contracts (since 2003, they can be concluded for up to 3 years' duration) and the job categories in which dispatched (interim agency) workers can be used. Data from business and labour force surveys since the 1990s (JILPT, 2009a) indicate that an increasing proportion of employers cite reducing labour costs as the most important reason for hiring non-regular employees, regardless of their particular category. Indeed, firms can save wage and non-wage costs by paying workers less on an hourly basis (*e.g.* in 2006, part-time workers were paid only 40% of hourly wages of full-time workers); by paying lower or no bonuses and retirement allowances; and by using current exemptions of certain worker categories from health, pension and EI contributions. Flexible use of labour, for example to cope with temporary fluctuations in demand, is another main reason for using non-regular forms of employment.<sup>17</sup>

80. As to the selection of non-regular employment by the workers themselves, while many non-regular workers continue to cite “working-time flexibility” and “supplementing family income” as their motivation, the share of persons citing “slim chance of obtaining regular employment” has increased considerably since the early 1990s (JILPT, 2009a).<sup>18</sup>

81. The dualism of the Japanese labour market results in a large segment of the working-age population, concentrated among young people and women, with only short-term employment experience and limited opportunities to enhance their human capital, given that their short tenure discourages company-based training. Serious equity problems also arise from the large wage gap and low rates of contribution to social insurance. These efficiency and equity concerns are magnified by the lack of movement between the two segments of the labour force.

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16. In this sector, self-employed and family workers declined from 33% of total employment in 1982 to 17% in 2003 (*OECD Annual Labour Force Statistics database*).

17. In the case of dispatched workers, employers also cite the argument of obtaining specific skills from workers with expertise (JILPT, 2009a).

18. Jones (2008) describes findings from two surveys suggesting that in 2003 about 70% of young adult non-regular workers, but only about a fifth all non-regular workers, wish to become regular workers.

**Gender gaps**

82. While the employment rate of men (at over 80%) is among the highest in OECD countries, the employment rate of women (about 60%) takes a mid-field position, resulting in a high gender employment gap. In 2008, the employment gaps in Japan (and Korea) were above the OECD average and those in the other OECD countries in Table 1.1. For women, career breaks for child-rearing and the take-up of non-regular work when re-entering the labour market are common phenomena, and half of female employees are non-regular workers (OECD, 2008a). Non-regular employment tends to have negative effects on career development, as well as the social protection status of women.

Table 1.1. **Gender gaps, selected OECD countries, 2009 or latest year available**

	Percentages				
	Employment gap <sup>a</sup>	Wage gap <sup>b</sup>	Tertiary education gap <sup>c</sup>		Tertiary-type A (university) education gap <sup>c</sup>
			15-64	25-64	25-34
Australia	85.2	83.6	118.8	130.2	125.6
Finland	98.6	78.8	136.1	167.4	163.4
Germany	86.3	74.6	75.4	107.6	110.5
Ireland	85.9	85.0	118.8	137.5	135.4
<b>Japan</b>	<b>74.5</b>	<b>71.7</b>	<b>95.2</b>	<b>114.0</b>	<b>65.8</b>
Korea	70.9	61.2	77.1	107.9	98.4
Norway	94.9	91.4	124.3	150.2	151.9
Switzerland	87.3	80.5	61.9	83.9	93.1
United Kingdom	86.6	80.3	105.8	109.7	111.3
United States	88.1	80.2	108.9	124.3	124.7
<b>OECD average</b>	<b>77.7</b>	<b>83.6</b>	<b>104.3</b>	<b>123.9</b>	<b>122.7</b>

a) Data refer to 2009. The employment gap is calculated as the ratio between female and male employment rates multiplied by a hundred. OECD average refers to a weighted average for 31 countries (Chile included).

b) Data refer to 2009 for Australia, Japan, the United Kingdom and the United States; for the remaining countries shown in the table, they refer to 2008. The wage gap is calculated as the ratio between median earnings of women and men multiplied by a hundred. OECD average refers to a 26-country-unweighted average in 2008.

c) Data refer to 2008. The tertiary education gap is calculated as the ratio between the percentage of women and men with tertiary education (respectively, tertiary-type A education) multiplied by a hundred. OECD average refers to the weighted average for 31 countries (Chile included).

Source: OECD Online Employment database ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)) for **Employment gap**, Earnings Distribution database for **Wage gap**, and Education database for **Education gaps** [see OECD (2010b), *Education at a Glance – OECD Indicators*, web-only Tables A1.3b and A1.3c].

83. In 2009, over a third of female workers worked part time, a higher share than the OECD average of about a quarter.<sup>19</sup> For comparison, in Korea only 14% worked part time. The large differences in the employment situation of men and women are linked to the fact that regular work in Japan involves very long working hours, as well as to a lack of child-care facilities. Furthermore, the pension system creates work disincentives for married women: wives working part time are covered by their husband's old-age pension, and usually do not pay their own premium (OECD, 2004).<sup>20</sup>

19. Based on the definition used in the *OECD Online Employment database*: persons who usually work less than 30 hours in their main job.

20. Employees who work less than three-quarters of the hours worked by regular employees in an enterprise are exempted from employees' pension and health-insurance contributions. Wives are covered by their husband's pension, health-care and long-term nursing care insurance, without paying contributions, if their earnings are below JPY 1.3 million annually (OECD, 2008a).

84. The differences between the full-time monthly wages of men and women are large in Japan and Table 1.1 indicates that the wage gap is larger in Japan than in most OECD countries.<sup>21</sup> An analysis of hourly wages of men and women among regular workers carried out by JILPT on the basis of 2003 data gives a similar picture: among regular employees, women earned about a third less than men (JILPT, 2009a). This wage gap is related to the seniority wage system, as women tend to have long career breaks (Takeishi, 2007).

85. The gender wage gap is also linked to differences in the educational attainment. Although the proportion of women aged 25 to 34 with tertiary education, including universities and Junior Colleges (Tertiary-type A and type B education), is higher than that of men, the reverse is the case if considering only Tertiary-type A education (see Table 1.1). In Japan, more men than women complete university degrees, whereas in most other OECD countries there are more female university graduates (OECD, 2010b). In 2006, 88% of junior college students but only 39% of university students were women (OECD, 2009a).

86. Faced with low fertility and a rapidly-ageing workforce, the Japanese government has undertaken steps to promote a better work-life balance. In addition, research is increasingly concerned with analysing the work-life balance, barriers to improving this balance and the characteristics of companies implementing measures to balance work and family life, and with demonstrating the benefits of family-friendly policies at company level (Wakisaka, 2007; Atsumi, 2007; and Kodama *et al.*, 2009).

87. The government aims to increase the percentage of men who take up their childcare leave entitlements from less than 1% to 10% (as an element of the “Plus One Measures for Decreasing Birthrate” prepared by MHLW in 2002 and the “Plans to Support Children and Childcare” prepared by the Cabinet Office Council in 2004; see Sakai, 2007, and MHLW, 2009b).<sup>22</sup> This policy reflects the wish of a growing number of workers, since in a survey 30% of male employees expressed a wish to take childcare leave (Sakai, 2007). In 2005, a law was passed obliging companies with more than 300 workers to set up action plans to promote their work-life balance and an accreditation system was introduced to encourage companies to implement childcare-leave schemes (OECD, 2008a; and Takeishi, 2007). Other measures concern reducing working hours for parents with young children.

88. Under two “Angel Plans” launched in 1994 and 1999, the government intended to increase the supply of childcare facilities (Takeishi, 2007). However, the number of childcare facilities remained quite stable over the 1980s and the 1990s (JILPT, 2006).<sup>23</sup> The new employment strategy of 2008 formulated the aim of increasing the employment of 25-44-year-old women by 200 000 over the next three years and solving the problem of waiting lists for childcare facilities (MHLW, 2009a). This is a modest aim when compared with the total number of women in employment and with the objectives in the same plan of increasing youth employment and older-worker employment by 1 million each.

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21. Wage gaps in Table 1.1 are calculated on the basis of full-time monthly wages for Japan, Korea, Germany and Switzerland; full-time weekly wages in the case of the United Kingdom, Ireland and the United States; and yearly averages in the case of Finland.

22. A Childcare Leave Act was passed in 1992, giving men and women the right to apply for childcare leave, but its take-up has been very low (Takeishi, 2007).

23. Moreover, OECD (2007b) estimated that in 2003, public spending “that is exclusively for families (*e.g.* child payment and allowances, parental-leave benefits and childcare support)” was about 1.2% of GDP in Japan, compared with over 3% in Australia and ten countries of OECD Europe.

## 1.4. Employment situation of specific groups

### *Youth*

89. In 2008, the unemployment rate of young people aged 15-24 was 7.2%, above the rate for other age groups, but well below the OECD average of 12.4%.<sup>24</sup> Despite this comparatively low level, youth unemployment and school-to-work transition are major issues in Japan. In the past, the Japanese employment system was characterised by a tradition of direct placement from schools into companies. However, the career paths of high-school students have changed quite significantly since the mid-1990s. The share of high-school graduates entering employment fell from 40% to 20%, while the share of those enrolling in universities has increased (Hori, 2009). Those young people who are not directly hired from school by a company – mainly because labour demand is not sufficiently high or because they had other plans after graduation – and who are not pursuing university studies, face major difficulties in making the transition towards stable employment. This is reflected in the unemployment rates of young adults aged 25-34, which tend to be about one-third higher than the overall unemployment rate (compared with a difference of 10% on OECD average). It is also reflected in the development of so-called “freeters” (see Box 1.1). The Survey on Human Resource Strategies and Work Awareness in the Population Decreasing Society reveals that companies with a positive attitude towards skills development are not much inclined to recruit freeters as regular workers, and are likely to set a relatively low upper limit on the age of freeters who can be recruited (Mitani, 2008).

90. As indicated above, the share of young workers (aged 15-24) in non-regular employment is close to half. Excluding students, the percentage of young male non-regular workers rose from 9% in 1995 to 29% in 2008; the share among women is even higher and rose from 16 to 35% (JILPT, 2009b). The share of young non-regular workers among middle-school and high-school graduates is considerably above the corresponding shares among graduates of junior colleges or universities.

91. The number of young people engaged neither in employment nor in education or training, referred to as “NEET”, according to the national definition increased sharply between 1996 and 2002 and has been stable since then.<sup>25</sup> According to the OECD definition, Japan’s NEET rate has increased only slightly, and remains below the international average.<sup>26</sup>

### *Older workers*

92. The average effective retirement age in Japan is considerably above the OECD average, and about 29% of men and 13% of women aged 65 and above are still in the labour force (Table 1.2). Only Korea has a higher share of old people who are still in the labour force.

93. The high employment rates of older workers are linked to a high incidence of part-time work. In 2009, about 27% of people in employment aged 60-64, and 42% of those aged 65 and older, worked part time (as compared with 20% among all age groups).

94. In a survey carried out by JILPT in 2001, middle-aged and older male full-time employees in private industry expressed the wish to work until the age of 65.5 on average. Self-employed men wished to stay active until the age of 67.5; by contrast, full-time employed women wanted to work only until the age of 62.3. However, only half of all surveyed people (and about 30% of surveyed women) wanted to work in a full-time position when aged between 60 and 65 (Sato, 2008). OECD (2004) pointed to the need to

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24. During the economic downturn, it peaked at 11.3% in March 2009.

25. See MHLW (2009a). The national definition of NEET excludes unemployed people and those engaged in housework, and relates to ages 15 to 34.

26. See OECD (2009a, Table 1.4). The OECD definition of NEET refers to *all* youth aged 15-24 not in employment, education or training.



improve working conditions for non-regular older workers. Older women, in particular, find it difficult to retain or find jobs. They tend to face a higher risk of poverty.

Table 1.2. **Employment rates by age and gender, and average exit age by gender, selected OECD countries, 2009**

Percentages and years

	E/P ratios								Effective exit age <sup>a</sup>	
	50-54		55-59		60-64		65+		Men	Women
	Men	Women	Men	Women	Men	Women	Men	Women		
Australia	83.7	73.0	75.6	61.3	56.8	40.1	14.8	5.8	64.3	61.8
Finland	80.4	83.7	69.4	73.8	39.4	39.4	10.0	4.7	61.4	61.2
Germany	84.3	74.8	77.2	63.2	46.9	30.4	5.8	2.7	61.8	61.0
Ireland	77.6	61.9	70.7	50.0	52.6	31.7	14.8	4.3	65.0	64.7
<b>Japan</b>	<b>92.0</b>	<b>69.9</b>	<b>88.0</b>	<b>60.6</b>	<b>71.4</b>	<b>42.9</b>	<b>28.4</b>	<b>12.9</b>	<b>69.6</b>	<b>66.9</b>
Korea	87.3	59.8	80.4	51.0	67.0	41.3	40.9	22.1	70.5	70.0
Norway	86.7	82.8	81.7	74.7	63.7	54.5	21.1	13.5	65.3	64.3
Switzerland	91.4	81.9	87.6	72.5	66.2	46.3	14.4	6.7	66.4	64.3
United Kingdom	82.4	75.9	76.2	65.1	56.2	34.1	10.1	5.5	63.8	61.9
United States	79.0	70.2	72.4	64.4	56.6	46.8	20.5	12.8	65.3	64.2
<b>OECD<sup>b</sup></b>	<b>81.9</b>	<b>64.6</b>	<b>73.9</b>	<b>54.6</b>	<b>53.6</b>	<b>34.5</b>	<b>17.8</b>	<b>8.6</b>	..	..

E/P: Employment to population ratio.

.. Data not available.

a) Effective exit age over the five-year period 2003-08. The effective exit age (also called the average age of retirement) is derived from labour force survey results for two dates separated by five years. It is calculated as a weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights. The exit age for each cohort is assumed to be the mid-point of the ages and dates involved e.g. 60 for the cohort aged 55-59 at the first date and 60-64 at the second date. The five-year absolute change in the participation rate is the rate for each age group (e.g. 60-64) at the second date minus the rate for the age group that was five years younger (in this example, 55-59) at the first date. The result of this calculation is reported as the effective exit age at the second date. By construction the calculation abstracts from differences in the initial size of age cohorts, and changes in cohort size through time due to death. Note also that for older workers who retire after a period of unemployment, exit from employment precedes exit from the labour market.

b) Weighted averages.

Source: OECD estimates using national labour force survey data for **Effective exit age**; and *OECD Online Employment database* ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)) for **E/P ratios**.

95. One reason for the high share of workers still in the labour market after the age of 60 and/or 65, and for the widespread wish of older workers to extend their working life, is the comparatively low level of income from pensions. At slightly over 50%, the projected *net* replacement rate for full-career workers with earnings of half the national average under the current pension system is the lowest among OECD countries.<sup>27</sup> Moreover, since there are high rates of exemption from contributions and default when contributions are due (see Chapter 4), many workers will not qualify for a full public pension. In addition, many older people do not have a full contribution record. Work continues to be a relatively important source of income in old age in Japan together with Korea and the United States, more than in other OECD countries. Nevertheless, the old-age poverty rate was 22%, significantly above the OECD average of 13% (OECD, 2009c).<sup>28</sup>

27. See OECD (2009c, pp. 38-39). The corresponding *net* replacement rate for a median (male) earner is 40% as compared with an OECD average of 72% (*op. cit.*, p. 121). These rates are calculated including pensions from mandatory private schemes in some countries, but not voluntary schemes. In Japan, company retirement allowances often provide additional annuities equivalent to up to three or four years of basic salary, but this seems still not enough to bring net replacement rates up to the OECD average level.

28. However, the old-age poverty rate in Japan was slightly lower than in the United States and significantly lower than in Korea.

96. Several other factors strongly affect incentives and opportunities for older-worker employment and the options for further policy reform in this area. Since 1998 it has been illegal for firms to set a mandatory retirement age below 60, and more recent legislation obliges firms to offer opportunities for continued employment to workers who meet certain standards of health and work performance up to public pension age, which is being increased to age 65 (see below); in practice, when companies offer continued employment it is usually already up to age 65. Employment after mandatory retirement age is typically on a fixed-term-contract basis, and at a much reduced wage level, although often the wage is supplemented by company pension payments (see also Chapter 5).

### *People with disabilities*

97. In Japan, there are about 7.2 million disabled people, of whom about 3.3 million are aged 18-64 (JEED, 2008a), representing approximately 4% of the population in this age group.<sup>29</sup> Nearly half of the disabled are mentally disabled. Employment policies have so far concentrated on the physically disabled. In FY 2003, about 500 000 people with disabilities were employed in companies employing more than 5 employees, representing approximately 15% of all disabled aged 18-64. About three-quarters of those regularly employed were physically disabled, 23% were intellectually disabled and 3% were mentally disabled.<sup>30</sup> In recent years, the public employment service has found jobs for between 30 000 and 50 000 disabled applicants annually.

### *Single mothers*

98. There are around one million single-mother households in Japan, which represents about 2% of all households.<sup>31</sup> The employment rate of single mothers is significantly higher than that of married mothers. In 2000, about 76% of lone-mother households received their main income through wages and salaries (*Japan Statistical Yearbook*, Table 2-19). In 2006, the single-mother employment rate was 84.5%, the second-highest reported by an OECD country (OECD, 2007b; Sekine, 2008; and Zhou, 2009). Although many single mothers work full time, their earnings and incomes remain relatively low (see Chapter 4).

## **1.5. The role of social policies, human resources management and the social partners**

### *Social policies and recent reforms*

99. There are considerable problems with social insurance coverage in Japan. Among employees, EI contribution rates for non-regular workers, other than contract workers, ranged from one-third to two-thirds according to a 1999 survey (Chatani, 2008). Many Japanese self-employed do not pay health and pension contributions: the percentage not paying *National Pension* contributions due to both exemption and default increased from 25% in 1995 to 44% in 2006, and the percentage not paying *National Health Insurance* contributions due to default rose from 10.5% in 1998 to 19.2% in 2003.

100. A number of reforms to improve the sustainability of the pension system were decided in 1994 and 2000. A progressive increase has been taking place in the minimum age of entitlement for the

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29. According to Table 4.1 in Duell *et al.* (2009a), about 3% of the working-age population receive disability benefits, the lowest proportion of 16 OECD countries shown in the table.

30. Although the mentally disabled represent about half of persons with disabilities of working age (JEED, 2008a).

31. Different sources give numbers ranging from about 606 000, referring to independent households only, in the 2007 *Employment Status Survey*, up to 1.225 million, probably including single mothers living with parents, cited by Zhou (2009).

Employees' Pension scheme. The earliest age at which the flat-rate portion can be received is being raised progressively from 60 to 65 over the period 2001-13 for men and 2006-18 for women. In the 2000 reform, it was decided that the minimum age for receiving the earnings-related portion would also be raised from 60 to 65, starting from 2013 for men (OECD, 2009c, p. 221). The 2004 pension reform abolished the unconditional reduction of 20% of the pension benefit level when a beneficiary continues to work, but extended income-testing applying to high levels of earnings to pensioners aged 70 and over. The government had proposed to extend the coverage of the earnings-related pension portion to part-time employees, but this was not implemented due to opposition by employers (Sakamoto, 2005). In view of the demographic change and the need to raise employment rates of women, there will be a need to push forward with reforms designed to improve the social security coverage of part-time workers.

101. Since the mid-1980s, income inequality has been rising in Japan and both the Gini coefficient and the poverty rate are above the OECD averages (OECD, 2008b; and Jones, 2007).<sup>32</sup> The Japanese tax system reduces income inequality only to a small extent.<sup>33</sup> The impact of social spending on the income distribution of the working-age population has been larger than that of the tax system, but it remains only half the OECD average (Jones, 2007). This is linked to the low level of social spending in Japan, in particular for the working-age population, as well as to the comparatively small share of transfers allocated to households in the lower part of the income distribution.

### *Trends in human resource management*

102. As noted above, Japan has been known for its “lifetime” employment and seniority wage system. However, these features are increasingly challenged by the demographic change, as well as the flexibility strategies of companies. Japanese firms are increasingly adopting performance-based human resources management strategies (JILPT, 2009a).

103. Long working hours, which render combining family and working life difficult, are still a key feature of this model despite the legal introduction of the 40-hour week. In 2000, over a quarter of Japanese workers worked 50 hours or more a week, compared with less than one-sixth in the United States and between 2% and 5% in many European countries (Lee, 2004). By 2008, the situation had improved only slightly, as 24% of all workers still worked 49 or more hours.<sup>34</sup> Furthermore, under-utilisation of eligible annual leave is characteristic of Japanese employment practices. According to a survey carried out in 2007, Japanese workers in private companies with 30 or more regular employees took on average 8.2 days of annual leave (JILPT, 2009b). Reasons for not taking annual leave are anxiety about a negative personnel assessment; the perceived high workload; and strong work-orientation as a cultural feature, mainly among men in their forties (Ogura, 2006).

104. The introduction of performance-based wage systems seems to further promote long working hours (Ogura, 2006). Death from overwork (*karoshi*) is cited as an extreme case. Tiredness and stress are

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32. Available statistics on earnings dispersion (for regular workers in firms with five and more employees), measured by the ratio of 9th to 1st deciles limits of earnings, show that dispersion is less advanced than in most other OECD countries; however, this picture would change radically if small firms and non-regular workers were included in the statistics (OECD, 2010c, Statistical Annex, Table I).

33. In 2000, the reduction in poverty due to the tax/benefit system amounted to 3 percentage points, markedly below the OECD average impact (for 17 countries) of almost 10 percentage points. The poverty rate of the working-age population after taxes and benefits was considerably above the OECD average (13.5% as against 8.4%: see Jones, 2007).

34. Based on data available via [www.stat.go.jp/english/data/roudou/154.htm](http://www.stat.go.jp/english/data/roudou/154.htm), Table 7. One out of five male workers in their thirties works at least 60 hours per week (JILPT, 2009b). It remains to be seen whether recent increases in the wage premium for overtime work of more than 45 hours per month will have the desired effect of reducing such long hours, especially since smaller firms and managers are not covered ([www.pacificbridge.com/asianews.asp?id=392](http://www.pacificbridge.com/asianews.asp?id=392); Kuroda and Yamamoto, 2009).

well-known problems, and overtime hours above a certain level are strongly associated with depression (Ogura, 2006; and Fujimoto, 2006). MHLW formulated guidelines for improving mental health at the workplace in 2000 and subsequently introduced several programmes to prevent health disorders caused by excessive work (Fujimoto, 2006).

### *The role of social partners*

105. The unionisation rate of employees has declined from nearly 56% in 1949 to roughly 18%, corresponding to approximately 10 million members, in 2006. This makes the Japanese workforce one of the least unionised among OECD countries (JILPT, 2009a). Most unions are enterprise-based and organise mainly employees of large companies. As in other OECD countries, trade unions find it difficult to organise people with atypical working contracts (including part-time workers). At enterprise level, trade unions often see their primary objective as defending the interests of regular workers; they seem to have been unable to develop strategies for expanding union membership among atypical workers (JILPT, 2009b). However, at national level the largest Japanese trade-union confederation *RENGO* advocates improvements in social protection for non-regular workers (RENGO, 2008). The Japanese business federation *Nippon Keidanren* has about 1 600 members, mainly single companies but also some industrial associations and regional economic associations ([www.keidanren.or.jp/english/profile/pro001.html](http://www.keidanren.or.jp/english/profile/pro001.html)).<sup>35</sup> The organisation is not directly involved in collective bargaining but sets guidelines for its members.

106. Working conditions and wages are primarily regulated at enterprise level. At the national level, trade unions and employer associations try to exert some influence on legislation. Through their participation in minimum wage councils, they also impact on the setting of minimum wages which are regionally fixed but at a relatively low level (averaging JPY 703 an hour after the October 2008 round of increases, corresponding to about USD 7.5 in 2010): the ratio of the minimum wage to the average wage of full-time workers in Japan (about 30% from 2004 to 2008) is relatively low (Nakakubo, 2009; and *OECD Online Employment database* [[www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)]).

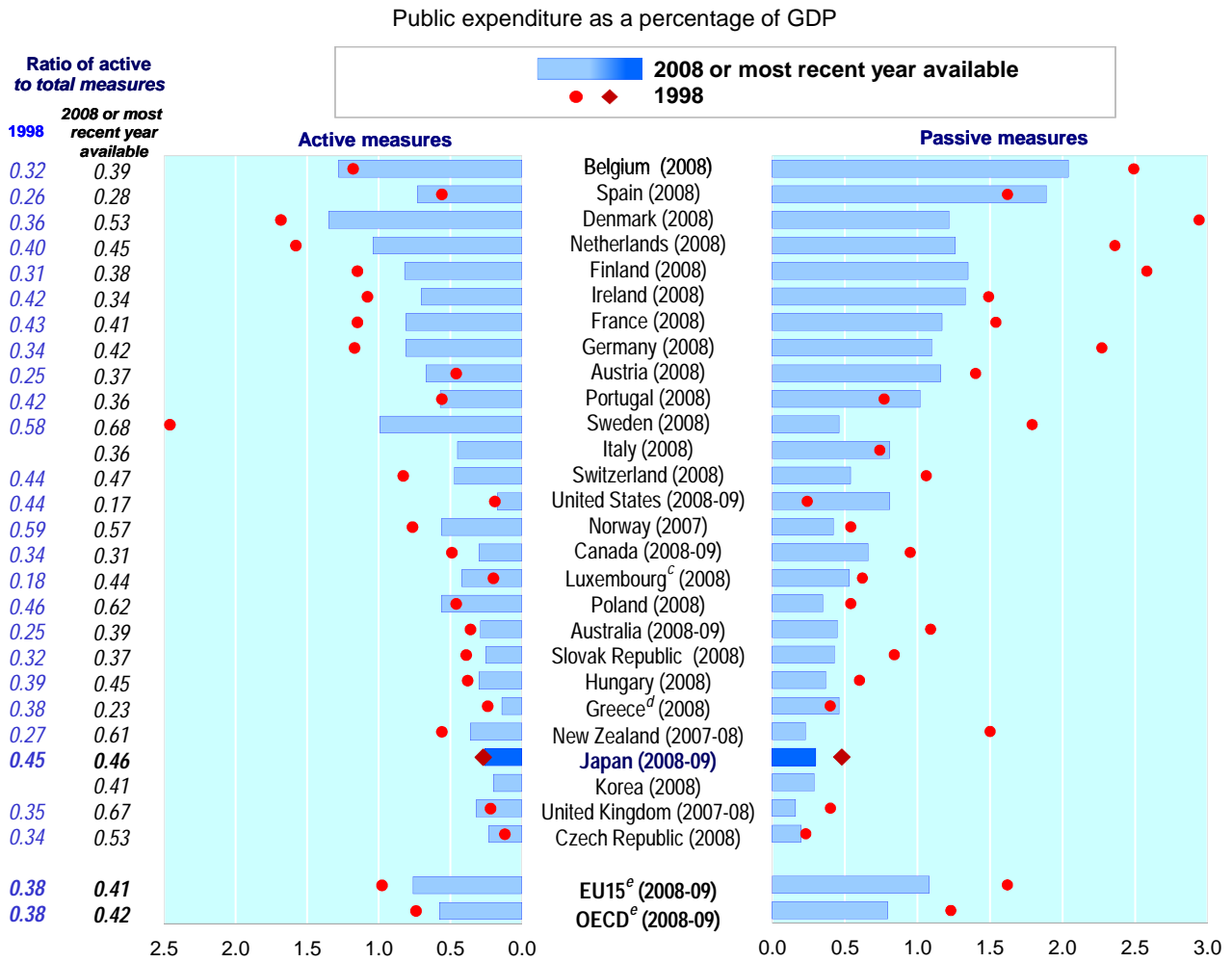
## **1.6. Patterns of spending on labour market programmes**

107. Figure 1.5 shows patterns of labour market programme spending in OECD countries for which such data are available. In terms of spending on active and passive measures, Japan's spending as a percentage of GDP (0.56% in FY 2008) is in the bottom fifth of OECD countries. The low level of total spending on labour market programmes is comparable with the situation in Korea and (prior to FY 2008) in the United States. The share of active expenditure in total expenditure has usually been close to the OECD average, and it rose above the OECD average in FY 2008 with the introduction of new job-creation programmes (see Chapter 5).

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35. Nippon Keidanren was created in 2002 as a merger of *Keidanren* (Japan Federation of Economic Organizations) and *Nikkeiren* (Japan Federation of Employers' Associations).

Figure 1.5. Active and passive labour market measures<sup>a</sup> in OECD countries,<sup>b</sup> 2008 versus 1998



Countries are ranked in decreasing order of the total of both active and passive measures.

- a) Active measures refer to Categories 1-7, passive measures to Categories 8-9 of the *OECD/Eurostat Labour Market Programme database*.
- b) Iceland, Mexico and Turkey are excluded.
- c) For Luxembourg, data refer to 1997 instead of 1998.
- d) For Greece, active measures are calculated as the sum of Categories 1.1 and 2-7. Data refer to 1999 instead of 1998.
- e) Unweighted averages for countries where both active and passive measures are shown, i.e. except Italy for EU-15; Italy and Korea for OECD, respectively.

Source: *OECD/Eurostat Labour Market Programme database*. For further country notes, see OECD (2010c), *OECD Employment Outlook: Moving Beyond the Jobs Crisis*, Statistical Annex, Table K.



## *Chapter 2*

### INSTITUTIONAL ORGANISATION

#### 2.1. Introduction

108. This chapter discusses the institutional structure of the Japanese PES and other institutions related to labour market policy, against the background of the challenge of “activating” the unemployed and recipients of other welfare benefits with the help of high-quality and well-resourced employment services. The chapter starts by outlining the roles of the main actors in the field, followed by a presentation of the principal characteristics of the PES, its office structure and internal organisation, and its relationship to other relevant administrations. The final section reviews available data on resources, staffing and workload.

#### 2.2. Actors in labour market policy

109. It may be useful at the outset to list the principal legislation governing the operation of the institutional actors set out below. A dense web of individual laws forms what might be called the Japanese labour code. The main Acts relating to labour market policy and relevant for the issue of “activating” recipients of unemployment and welfare benefits, continuously revised and updated, are *i*) the Employment Insurance Law; *ii*) the Employment Measures Law; *iii*) the Employment Security Act; and *iv*) the Human Resources Development Promotion Law. Next, the principal laws relating to terms and conditions of employment are the Labour Standards Act; the Labour Contracts Act; the Dispatched Workers Act; the Industrial Safety and Health Act; and the Minimum Wage Act. Finally, the field of industrial and labour relations is governed by the Labour Union Act and the Labour Relations Adjustment Act.

#### *The Ministry of Health, Labour and Welfare (MHLW)*

110. The MHLW is responsible for labour market policy and for the PES. It was created in 2001 through a merger of the former ministries of Labour and of Health and Welfare. It currently employs about 40 000 regular staff and has a broad field of responsibilities, ranging (to mention only a limited selection) from public pensions to health policy, child protection, social welfare, disability, industrial health and safety, labour relations, employment insurance and active labour market policies ([www.mhlw.go.jp/english/index.html](http://www.mhlw.go.jp/english/index.html)).

111. Of particular relevance for this report are the Ministry’s departments dealing with labour market policy, vocational training and social welfare. These are, in particular, the Employment Security Bureau, the Labour Standards Bureau, the Human Resources Development Bureau and the Social Welfare and War Victims Relief Bureau.<sup>36</sup>

112. The *Employment Security Bureau* is responsible for employment insurance (EI) and the design of labour market policies. It manages the PES office network (*Hello Work*), sets up ALMPs for registered unemployed and promotes specific employment measures for youth, older workers, people with disabilities and other target groups. It also supervises private employment services and temporary work agencies.

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36. Other MHLW units of relevance for the analysis of labour administration in Japan are the Industrial Safety and Health Department; the Workers’ Life Department; the Equal Employment, Children and Families Bureau; and the Department for Employment Measures for the Elderly and Persons with Disabilities.

113. The *Labour Standards Bureau* aims to ensure a healthy working environment and appropriate working conditions for all types of employed. It also supervises the system of minimum wages and working-hours regulations. Another important task for the Bureau is to promote adherence to the Labour Insurance (Workers' Accident Compensation Insurance and EI) system and ensure the payment of the annual premiums. Under its supervision, over 300 Labour Standard Inspection Offices enforce labour standards at local level.

114. The *Social Welfare Bureau* finances personnel for social welfare services and designs policies for welfare offices run by local authorities. It audits Prefectural offices (which in turn audit local welfare offices) to ensure uniform administration across the country. The Welfare administration has become more active on the issue of activation policies since it has increased its focus on re-employment services for welfare recipients and strengthened the liaison between social assistance and Hello Work offices.

115. The *Human Resources Development Bureau* works to ensure employment opportunities through designing public vocational education programmes and support schemes for training programmes conducted by employers and workers themselves. It also designs the Government's multi-annual Plans for Human Resource Development.<sup>37</sup> There is also a *Policy Evaluation Division* that gives technical advice to the substantive Divisions, resorting to some extent to work by academic experts (evaluations of the different layers of the PES administration are, however, not within the remit given to this division under the Policy Evaluation Law).

116. Japan is divided into 47 *Prefectures*, and a second tier of administration is provided at that level. Thus, the Ministry manages 47 Prefectural Labour Bureaus which offer and co-ordinate a range of services relating to ALMPs, labour standards and employment and accident insurance, and undertake policy planning and labour market forecasting. A third tier of administration is provided by the over 400 regular Hello Work offices, charged with job matching and benefit payment, as well as specialised and branch offices.

117. The Ministry is also responsible for two external bodies: the Japan Pension Service (which replaced the Social Insurance Agency on 1 January 2010), and the Central Labour Relations Commission (a tripartite body which processes individual labour disputes and unfair labour practice charges).<sup>38</sup>

118. There are formal tripartite (government, union and employer) consultative bodies at the level of the Ministry and the Prefectural Labour Bureaus. Among the more prominent are the Social Security Council; the Labour Policy Council; the Central Minimum Wages Council;<sup>39</sup> and the Labour Insurance Appeal Committee ([www.mhlw.go.jp/english/org/detail/index.html](http://www.mhlw.go.jp/english/org/detail/index.html)).

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37. Human Resource Development Plans, covering career development for both employed and unemployed workers, are established every five years. The current 8<sup>th</sup> Plan, under the title "Rebuilding the environment to develop workers' capabilities to sustainable career development", applies to the period from FY 2006 to FY 2010. See [www.mhlw.go.jp/english/policy/development/index.html](http://www.mhlw.go.jp/english/policy/development/index.html).

38. Cases are first examined by Prefectural Labour Relations Commissions established in each prefecture.

39. The Central Minimum Wages Council issues annual guidelines on minimum wage increases to regional governments. Members come from three benches, representing trade unions, employers and the public interest. In 2008, only an "opinion of public members" on the guideline increase was presented, in the absence of consensus among the parties. In most Prefectures, minimum wages are determined based on the investigation and deliberation of the respective Regional Minimum Wages Council. As a result, regional rates can vary by up to 20% (Nakakubo, 2009).



*Other ministries and Government agencies*

119. Compared with the wide-ranging mandate of the MHLW, other Government ministries do not have a central role to play in labour market policy. The *Ministry of Education, Culture, Sports, Science and Technology* (MEXT) nevertheless performs labour-market-related functions through its management of some vocational education programmes and its design of adult learning policies. It also provides financial support for internships to facilitate the school-to-work transition. However, it is not involved with training of the unemployed.

120. Furthermore, a number of separate and semi-independent agencies carry out more specialised aspects of employment policy, among them the Employment and Human Resources Development Organisation of Japan (EHDO), and the Japan Organisation for the Employment of the Elderly and Persons with Disabilities (JEED).

121. In Japan, vocational training has historically been mainly regarded as the responsibility of the enterprise and the private sector, and public expenditure on training is low in international comparison. Nevertheless, the national government, under the Human Resources Development Promotion Act, lays out basic human resources development plans. In FY 2007, provision for about 70% of all unemployed persons undergoing training was outsourced to specialised technical institutes, universities, employers and non-profit organisations (see Chapter 5). There is a wide range of, mainly private, vocational training institutions in Japan, and public expenditure on institutional labour market training corresponds to around 12% of the total revenues of such providers.<sup>40</sup>

122. EHDO, an independent administrative agency (but still ultimately dependent on MHLW) created in 2002, is the public body charged under the Act with providing and organising basic and continuing vocational training by means of its Prefectural Centres and a range of training facilities. The Organisation is funded by employer contributions to the EI fund. The 47 EHDO Prefectural Centres offer career counselling to employed and unemployed workers, and management advice to employers (ranging from recruitment to staff allocation and retirement issues). EHDO training facilities consist of currently 63 Polytechnic Centres; 11 Polytechnic Colleges and Junior Colleges; and 1 Polytechnic University. These facilities provide: *i*) vocational training for jobseekers registered with the PES (which does not run any training centres itself); *ii*) initial training for recent school graduates; and *iii*) short continuing training courses for people already in employment (both regular and non-regular workers), with the broad aim of helping to upgrade workforce skills (EHDO, 2008).

123. EHDO is mainly active in machinery, construction and electricity/electronics, less in services, and it provides training mainly for SMEs (while larger companies usually provide on-the-job training themselves). EHDO's market share for the training of the unemployed is 100%; by contrast, it is below 1% for young graduates and employed workers. Unemployed participants are referred directly from local PES offices, normally after having been screened for suitability to undergo specific training programmes. There is a certain amount of co-operation with private companies, through the *Japanese-style Dual System*, where

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40. Based on three surveys conducted in 2004 and 2005, it has been estimated that Japan has slightly over 15 000 vocational training providers with total annual revenues of about JPY 1 300 billion. In terms of revenues earned from vocational training, private sector businesses have a 72.6% market share and employer associations have 5.4%. Public interest corporations (officially-recognised non-profit associations and foundations with a special tax status) have a 10.8% share, specialised technical institutes 5.3%, private universities 5.0%, and the National University and Junior Colleges 0.2% (Imano *et al.*, 2008; and JILPT, 2009a, Appendix Table 6.5). Public expenditure on institutional labour market training, as reported in Category 2.1 of the *OECD/Eurostat LMP database* (excluding income support for participants), averaged about JPY 150 billion per year in 2004-08. Due to outsourcing, much of this expenditure would be reported (in the provider survey) as revenues by non-profit and specialised technical institutes, etc.

trainees alternate between an enterprise and a polytechnic centre or college. Over the past few years, there has been a tendency to reduce training activities and staffing (which creates some difficulties in responding to increased demand during the current economic crisis): for example, in 2009 there were less than 3 000 instructors teaching in EHDO Prefectural training centres, compared with about 4 500 earlier in the decade.

124. JEED was also created in 2002, merging previous separate associations for the elderly and for persons with disabilities ([www.jeed.or.jp/english/index.html](http://www.jeed.or.jp/english/index.html)).<sup>41</sup> The services for the employment of older workers consist primarily of encouraging employers to raise or abolish their retirement age in line with recent legislation, and providing financial incentives to do so. Services to people with disabilities are provided through the National Vocational Rehabilitation Centre for Persons with Disabilities and its many local and regional offices that provide counselling, skills training and vocational rehabilitation to disabled clients (NVRCD, 2008).

125. Vocational Centres tend to co-operate closely with the PES when it comes to placing those that have completed their vocational rehabilitation. JEED also offers educational programmes to raise public awareness of the employment of people with disabilities. In addition, it processes the reports by enterprises of their compliance with the employment quota for persons with disabilities and the payment of levies by employers who fail to reach their quota (currently 1.8% for private-sector companies, and 2.1% in most of the public sector). It provides financial rewards for over-fulfilling the quota and offers grants to enterprises that hire job coaches or provide workplace or welfare facilities adapted to the needs of persons with disabilities (see Chapter 5 for more details).

### *The social partners*

126. Trade unions and employer associations sit in a number of advisory committees on employment issues, such as the Social Security Council and the Labour Policy Council. Both organisations support the maintenance of the current system of a national, central-government-run network providing free placement services. *RENGO*, the largest trade union confederation, is lobbying, *inter alia*, for extending the government role in continuing vocational training, and for increasing Hello Work staff resources and the range and volume of job-creation measures, particularly for environmental tasks. *RENGO* has recently created a Department for Non-regular Workers that aims to reverse the increase in the number of households headed by a non-regular worker and to fight against the trend towards labour market precariousness and duality.

127. Employers organised in *Nippon Keidanren* (Japanese Business Federation) criticise red tape at PES offices and point to the low utilisation of the PES *vis-à-vis* other job-finding channels. They propose more outsourcing/externalisation of employment services. While voicing support for extending the retirement age, they tend to emphasise that this should not result in individual companies suffering from having too many older workers. They also insist on the need for enterprises to use part-time and temporary labour (while recognising the safety-net shortfalls for non-regular workers) and on revamping the wage system, de-emphasising seniority-based pay in favour of performance-based systems (*Nippon Keidanren*, 2007).

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41. In late 2008, the Cabinet decided to transfer the vocational capacity development service of EHDO to JEED by the end of FY 2010.

### *Regional and local government*

128. OECD (2009d) argues the general case for devolution of some aspects of labour market policy, to facilitate joining up services at local level and responding to regional labour market disparities.<sup>42</sup> Indeed, there are significant regional differences in labour supply and demand in Japan, one reason why decentralised employment policies are relevant and have increased in importance over the past few years.

129. While previously centrally-set regional policy has aimed to transfer labour demand from urban areas to rural areas and encourage industrial development and job creation in under-developed regions, the past decade has seen a shift towards regional planning by local governments (Ito and Yugami, 2005). The Decentralisation Act of 2000, followed by revisions in the Employment Measures and Employment Security Acts, widened the scope for industrial and employment policies by local actors. This legislation allowed local governments to implement employment measures and to provide free placement services (which at that time were organised exclusively by the national PES).

130. Since then, prefectures and municipalities have become key players in employment policy. The central government pro-actively seeks their co-operation in job creation. For example, in regions facing a shortage of job opportunities (where the number of job vacancies is below the national average level), the government holds a competition to select job-creation plans proposed by regional councils consisting of local stakeholders, and commissions the implementation to the respective regional council.<sup>43</sup>

131. There is currently a large variety of local or regional services. For example, some prefectural administrations have “U-turn” employment offices, which encourage return migration by people who have moved away from the Prefecture. The Prefectures also manage small *Job Cafés*, employment service centres dedicated to young jobseekers (*freeters*, recent graduates and unemployed youth more generally), in co-operation with local firms and educational institutions. Services offered by Job Cafés may include matching services, collective information seminars, individual counselling, résumé preparation, aptitude tests, as well as opportunities for workplace experience. The central government tends to provide some start-up funds, and upon request from local governments, the MHLW has set up a number of Hello Work branches within Job Café sites to offer placement services (40 branches as of mid-2008).<sup>44</sup>

132. Prefectural governments are also involved in vocational training, complementing the role of EHDO; they run additional polytechnic colleges, as well as 178 Human Resources Development Centres for skills upgrading, and over a dozen skills centres for people with disabilities. Prefectures develop their own Human Resource Development Plan (giving regional detail to the national Plan) and need to consider the input of regional tripartite advisory councils.

133. In addition to the Prefectures, municipalities have become pro-active players. In a survey carried out by Watanabe (2008), about half of all cities and towns reported that they run separate offices dealing with

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42. It does, however, acknowledge that there are risks from decentralising labour market policies, *e.g.* uneven service provision and increasing public policy costs by duplicating activities that might be better managed from a central location.

43. Maximum assistance per region under this programme is JPN 200 million per year (see Chapter 5 for more details). In a recent measure to combat the economic downturn, the national government and those prefectures with serious unemployment problems are collaborating to establish *Joint Local Employment Support Centres* in each region, at which the national government and the prefectures jointly provide emergency employment support.

44. Almost 2 million young people visit Job Cafés annually. There are less than 100 of them currently (the exact number may vary depending on whether small branch offices are included or not) (see also [http://newshopper.sulekha.com/japan-minister-urges-companies-to-secure-jobs\\_news\\_1007899.htm](http://newshopper.sulekha.com/japan-minister-urges-companies-to-secure-jobs_news_1007899.htm)).

job-creation issues, and over a quarter considered employment as the “top priority issue” of regional development. Some municipalities operate, for example, employment centres for Lone Parents, offering work preparation courses (see Chapter 4). All over the country, cities subsidise *Silver Human Resource Centres* (SHRCs) for retirees who want to remain active on a part-time basis (see Box 2.1).

**Box 2.1. Silver Human Resource Centres**

Silver Human Resource Centres (SHRCs) were enabled by 1971 legislation concerning employment of the elderly, and started to operate on an experimental basis in 1974. The programme was formally established in 1989, when the number of older-worker affiliates had reached about 200 000, and expanded rapidly thereafter. Local PES offices often undertook initiatives to establish SHRCs, but, once established, they are separately managed. The costs of the SHRCs, including the costs of administrative staff, facilities and major equipment, are subsidised through government appropriations. For example, in the city of Musashinoshi the local government share in subsidising the Centre was over 80%, with the rest provided by central government.

The minimum age of SHRC workers is 60, but most of them are in their seventies. The SHRCs negotiate contracts with prospective employers and SHRC members share earnings from the contracts based on hours worked. SHRCs operate in most of Japan’s municipalities, about 1 500 in total. In 2005, they had 770 000 affiliates and their work contracts totalled JPY 316.8 billion, an average of over JPY 400 000 (over USD 4 000) per affiliate. Williamson and Higo (2007) consider that it is “arguably, the most effective government program designed to link older workers to prospective employers... [it] has clearly played a major role in facilitating employment among older workers”.

The 1971 Act entrusts Silver Human Resources Centres with providing “easy tasks for older retirees”; most of the work that they undertake consists of indoor and outdoor general work (e.g. park cleanup, weeding, building janitorial work, poster-hanging, etc.), administration (e.g. administration of car-parking lots, bicycle-parking lots, schools, community centres, etc.), and office work (e.g. general office work, reception work, addressing of envelopes, etc.). The government plans to increase the membership of SHRCs to 1 million by FY 2010, the equivalent of one-fifth of all employed workers above the age of 65.

*Source: Geok et al. (2002); Morioka (2008); Naganawa (1997); Weiss et al. (2005); and Williamson and Higo (2007).*

134. Cities co-operate to varying degrees with the Prefectural Labour Bureaus and national government. For example, according to the Employment Security Act, the MHLW may designate areas where access to PES offices is limited, in which the heads of PES offices may ask municipalities to accept and transmit vacancies and job applications. There is also co-operation in organising Job Fairs and other one-off activities.

135. The education sector is another actor in placement and counselling, as secondary schools and universities are entitled to process vacancies and job applications and provide free matching services.

***The role of the private sector***

136. The Employment Security Act and the Dispatched Workers Act regulate the operations of private placement agencies and temporary work agencies. Private placement agencies need to be licensed by MHLW. Before 1999, placement activities were restricted to a couple of dozen job types. Since then, the activity has been liberalised and restrictions remain mainly in the areas of port transport and construction work – a “positive list” was transformed into a “negative” list specifying excluded job types. Fees are normally only charged from employers, although a 2003 revision in the Act makes it possible to demand fees also from workers.

137. “Dispatching” firms, which can operate since 1986, also need a license from the Ministry. Before 1999, they were restricted to 26 (initially 16) types of occupation requiring special skills or experience.

Their activity was also liberalised in 1999 (and further in 2003)<sup>45</sup> and since then, restrictions are similar to those for private placement agencies. Workers can be hired out for up to 3 years, and about 3% of the labour force now work under this type of employment arrangement, contributing to the growing phenomenon of labour market duality. At the end of FY 2008, the MHLW and local PES offices supervised 17 700 private fee-charging placement agencies and over 83 000 dispatching firms.<sup>46</sup> Thus, in all likelihood, private agencies have many times more staff resources for job-broking purposes than public employment services.

### *Sources of finance*

138. Japan finances its labour market policies mainly by earmarked employer and employee EI contributions, supplemented to some extent by general public revenues. The insurance contributions are used, in particular, for various types of unemployment cash benefit, and for active labour market measures which include hiring subsidies, employment maintenance subsidies, continuing training, and labour market training. However, until recently, a substantial proportion of employees, in particular non-regular workers, were not making EI contributions at all (see Chapter 4). Contribution rates in 2007 were 1.5-1.8% of gross salary, of which 0.9-1.1% are the employer's contribution and 0.6-0.7% the employee's contribution Sawamura and Co (2007).<sup>47</sup> Contributions are due both on regular salary and bonuses (which in Japan are usually a large part of annual salaried income). Employers also need to pay contributions for work accident insurance.

139. Employment-related insurance contributions can be paid by employers at several types of collection points, such as Labour Standard Inspection Offices and Prefectural Labour Bureaus. MHLW is currently engaged in unifying labour insurance contribution and social insurance contribution collection work, with the help of *Social Insurance/Labour Insurance Contribution Levy Centres* located at Pension offices of the Japan Pension Service. Legislation to harmonise features such as the submission deadline and calculation basis for the two types of insurance contribution was introduced in 2007 with application from 2009 (MHLW, 2008a, Chapter 11; and NIPSSR, 2007).<sup>48</sup> MHLW staff check whether payments for the past fiscal year have been made and remind companies that are in arrears.

140. Another source of finance is the levy from employers who have not reached the required quota of 1.8% employment of disabled workers. This levy is earmarked for employment measures for people with disabilities. Finally, financing of social assistance is mixed, with municipalities financing themselves 25% of the cost of benefits while the remaining 75% come from central government. There is, however, little use of social assistance budgets for labour market policy or "activation" purposes.

### **2.3. Main characteristics of the PES in Japan**

141. In contrast to the situation in the majority of OECD countries, the Japanese PES is directly organised by the MHLW and does not have an agency status with some degree of autonomy. The PES is a three-tier structure, with the MHLW's Employment Security Bureau supervising 47 Prefectural Labour Directors who, in turn, supervise and manage about 750 principal, branch and special employment offices.

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45. Shozugawa (2002) lists six rounds of liberalisation measures from 1997 to 2002.

46. OECD (1993, p. 39) reported 3 000 "employment exchanges" and 12 000 dispatching firms.

47. The higher employee rates apply to enterprises in Agriculture, Forestry and Fishery, Brewing and Construction ([www.lmconsul.com/english/sosialinsulance\\_top.htm](http://www.lmconsul.com/english/sosialinsulance_top.htm)). Contribution rates were reduced in 2009 (<http://www.okamoto-co.co.jp/news1500e.pdf>), with plans to increase them again in 2010.

48. The official term *Labour Insurance* includes both employment insurance and work accident insurance. The two are independent schemes, but are treated together in some respects, such as the collection of premiums.

This structure has been remarkably stable throughout the post-war period. From the beginning, it has integrated the three main employment service functions (placement, unemployment insurance, and employment measures) under one roof. Although lacking an agency status, regional and local PES layers have some flexibility in carrying out Ministry policy.<sup>49</sup>

### ***Employment service history***

142. The first free employment services in Japan were set up by non-profit charitable organisations. After the first World War, municipalities were charged with setting up placement services. Offices were nationalised in 1938, and remained so with new legislation after the second World War, conforming to the relevant ILO Conventions and Recommendations to which Japan adhered. In 1947, the Ministry of Labour was founded and was given the managing role of the new Public Employment Security Offices (PESOs). Legislation provided that the PESOs were to operate under the supervision of the Prefectural Governor. Since the early 1990s they have been called, within Japan, by the English-language nickname *Hello Work*.

143. With substantial unemployment during the immediate post-war period, the unemployment-insurance system was set up and large numbers of unemployed workers were placed into public works programmes. When quasi-full employment was reached in the 1960s and 1970s, the focus shifted towards efficient matching of jobseekers to vacancies, assisted since the 1980s by computerisation of PES offices.

### ***Legislative mandate***

144. The Japanese government sees its public employment service as operating in the framework of the Japanese Constitution, which guarantees the right and obligation to work and the right to choose one's occupation, as well as within the framework of the ILO conventions signed by Japan, which prescribe the maintenance of a free public employment service, under the direction of a national authority, and staffed by public officials. The Employment Security Act of 1947 (last revised in 2005) mandates the national administration to contribute to employment security by establishing a public employment service that, *inter alia*:

- Adjusts supply and demand on the labour market, by organising placement activities to help the unemployed and other applicants to promptly obtain jobs compatible with their abilities, and by meeting the labour force needs of employers;
- Provides job applicants, particularly persons with disabilities and other special needs, as well as recent graduates, with vocational guidance;
- Carries out labour market programmes to alleviate unemployment; and
- Directs and supervises private-placement and temporary-work (*dispatch*) agencies.

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49. In 2009, a Committee for Promotion of Decentralisation, set up by the Cabinet, questioned the current PES structure. In particular, it proposed that the role of the "... national PES (Hello Work) should be diminished progressively in the future", and that many of its staff should be transferred to local governments. Further, a 2010 Commission of the Association of Prefectural Governors proposed to transfer the complete PES administration to Prefectural governments (communication from MHLW). It does not seem, however, that the Japanese authorities are inclined to move into this direction.

*Management by objectives and performance targets*

145. Compared with a previous OECD review of the Japanese PES (OECD, 1993), the labour administration has moved away, to a considerable extent, from a traditional “top-down” model of bureaucratic governance. This is in line with an international tendency towards management by objectives and the use of *ex-ante* performance targets, often set up after negotiations between various levels of PES administration and accompanied by devolution of authority to lower levels (Mosley *et al.*, 2001). Performance management, based on numerical targets set for each Prefecture and each individual Hello Work office, has been operational in Japan since FY 2006. There are currently four targets:<sup>50</sup>

- The placement rate for job applicants, *i.e.* the ratio of placements by the PES into registered vacancies to new jobseeker registrations, with the national target in 2009 set at 31%;<sup>51</sup>
- The early re-employment rate for Employment Insurance (EI) recipients, *i.e.* the proportion of recipients who found a job with more than two-thirds of their benefit period remaining, with the national target also set at 31%;
- The job-offer satisfaction rate (also sometimes called the *sufficiency ratio* or *job-filling rate*), *i.e.* the proportion of newly registered vacancies (the vacancy inflow) that is filled with clients referred from the PES, with the national target set at 22%; and
- A fourth target to be decided by the Prefectural Bureau.

146. The rates mentioned are national averages, but Prefectural Labour Bureaus and local PES offices can negotiate lower or higher targets, reflecting their past performance and prevailing labour market conditions, in addition to setting additional targets suited to their regional needs. There are also a number of additional targets given at national level, without possibilities for adjustment by lower echelons (such as the placement rate of disabled clients or post-programme employment rates). When targets are not achieved by regional or local offices, the reasons need to be communicated to MHLW, but there are no financial penalties. It seems there is no formal system for adjusting targets during the year, for example to respond to changing economic circumstances.

147. In addition to the relative flexibility around the setting of performance targets, Japanese PES offices can choose to outsource the provision of labour market services (see below). Some discretion is also given to regional and local offices in selecting target groups for certain measures. By contrast, local offices have no significant role in the design of labour market policies and programmes (although they tend to be consulted when programmes are being developed); and have little flexibility in the management of budgets – *i.e.* they cannot move funding between budget lines or use funds to support innovative measures of their own choosing, as is the case in a number of OECD countries. Nevertheless, local budgets are not uniform, but rather allocated by the respective Prefectural Labour Bureau in line with the performance targets agreed between the local and regional office.<sup>52</sup>

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50. The shorthand terms used to describe the targets seem to be ambiguous in Japanese and possibly misleading in English translation, so the terminology and detailed definitions provided here remain somewhat speculative.

51. According to some sources, this performance target relates to “regular workers”.

52. OECD (2009d) contains a comparative analysis of local flexibility within the respective national system of performance management in employment administrations. Overall, Japan ranks in a middle position, below Denmark, Switzerland and the United States but above the United Kingdom, Spain and Australia.

### ***Outsourcing***

148. The Public Service Reform Act has allowed a wider use of private providers by central and regional government, which also applies to the employment service. The PES has outsourced the organisation of training courses, Job Clubs (to teach job-search strategies, resume writing, etc.) and a number of call centres to the private sector. Prefectural Job Cafés have also outsourced some of their job-support activities. However, genuine placement services are rarely delivered by private or non-profit organisations. For example, private providers have not been given longer-term responsibility for individual case management and job placement, with payments linked to employment outcomes – a model used extensively in some other OECD countries (particularly Australia, the Netherlands and the United Kingdom). Arguably, the complexity of such an approach may not be appropriate at the present time, given the relatively short EI benefit duration and low assistance-benefit coverage in Japan.

### ***Liaison with welfare administration***

149. While in big cities social welfare offices are organised and staffed by the city and in other areas by the Prefecture, all office types need to follow closely national guidelines set up by MHLW. Historically, welfare offices have not practiced job matching themselves. They tend to refer clients to the PES, if considered appropriate.

150. Following the merger of the Ministry of Labour and the Ministry of Health and Welfare in 2001, employment assistance for social welfare recipients increased somewhat. For single mothers, some offices have experimented with employment consultants. Hello Work offices now have separate counters for clients referred from the welfare administration. However, it seems that few Hello Work staff are charged with advising or processing social assistance clients; to give an example, at the employment office in Shibuya (a district of Tokyo), only three out of 43 counters for employment counselling were for clients on social assistance.

151. The welfare and employment offices have started to jointly implement the special Employment Support Programme for people on public welfare and (see Chapter 3 and Box 3.1). It remains small in scale, related to the fact that only a relatively small proportion of welfare recipients are ordinary unemployed. Several further programmes for single mothers are implemented by cities and prefectures, as described by Zhou (2009).

## **2.4. Office structure and internal organisation**

152. As noted above, the Director-General of the Employment Security Bureau directs and supervises 47 Prefectural Labour Directors and establishes appropriate standards for supervision of PES offices by the Prefectures. The Prefectural Labour Bureaus are mandated to supervise Hello Work employment offices, plan employment measures for each Prefecture and to co-operate with other parts of the Prefectural administration in carrying out national policies.

153. Hello Work is currently organised into 550 offices (438 principal offices, the rest being branch offices), employing about 14 500 officials (permanent staff) at the three levels of administration, and 9 000 non-regular workers. A number of the principal offices also manage special offices, such as:

- Twelve *Human Resource Banks* (targeting managerial and technical jobs for persons over 40 years of age);
- Twelve *Mothers' Hello Work offices* (in addition, there are several dozen so-called *Mothers' Salons* and *Mothers' Corners* within principal offices);



- Sixty *Hello Work Plazas* (located in easily accessible areas);
- Sixty-six *part-time Job Banks* for people seeking part-time employment;
- Seven *Students Employment Centres* (targeting recent graduates);
- Five *Young Work Plazas* (for youth); and
- Ninety-five *vocational counselling offices* (located in government buildings in municipalities that do not have Hello Work offices).

154. As in other OECD countries, the principal offices deliver placement and guidance services, handle benefit claims, and refer job-seeking clients to training programmes and job-creation and subsidy schemes. They offer modern self-service facilities, such as touch-screen kiosks to consult vacancies and access to internet and printers. Suitable types of incoming clients can be referred to the special offices which, however, do not provide the full range of services. All types of office are connected electronically, so the principal office can keep track of individual clients. Normally, over 50% of office expenditure consists of personnel costs (not counting pensions), and the rest goes into equipment, maintenance and business expenses.

155. A standard mid-size office, with about 20 to 40 staff, includes the following divisions (with some local variation):

- The *Job Counselling Division* organises the processing of applications, referral to vacancies and client interviews;
- The *Employment Insurance Division* examines the benefit eligibility of applicants and determines the particulars of benefit payment (level, duration, etc.);
- The *Enterprises section* handles employers' job offers and administers employment subsidies;
- The special support section handles placement, guidance and counselling of jobseekers in need of special support, such as people with disabilities or recent graduates; and
- The General Affairs Division manages administrative matters, personnel policies and liaison with the Prefectural Labour Bureau.

156. There is no strict requirement for employment offices to adhere to this organisational framework. Some employment offices are organised differently; for example in 2008 the Shibuya office had only two large divisions outside of General Affairs (placement and counselling; and employer relations). The Funabashi office had teams for placement and counselling; special counselling (for handicapped and other special clients); EI matters for jobseekers; EI matters for employers; vacancy intake; and active labour market measures.

157. Judging from two Hello Work office visited by the OECD review team, nearly half of local staff deal with job-broking issues, servicing employers and unemployed or employed jobseekers, while 20-30% work on employment insurance and 10-20% each on labour market measures and people with disabilities. Licensing of temporary-work (dispatching) agencies is not handled by local offices, but rather by the Prefectural Labour Offices (operating as contact point) and the MHLW centrally. Companies report any foreign workers, with some exceptions, to the PES, but they need to apply for work permits at the Ministry of Justice.

158. Hello Work offices have many separate counters for specific tasks and target groups: registration and verification of benefit eligibility; monthly reporting and verification of employment status; for referral to vacancies; and in-depth interviews. In addition, the office will feature desks for youth (although there is sometimes a complete *youth corner* for those below the age of 35, and five major cities have separate Young Work Plazas as mentioned above); for older workers; for people with disabilities; for non-regular workers; for recent graduates; for clients looking for training courses; and for social-assistance recipients.

159. A large chunk of PES work is directed at employers, who visit offices in large numbers to register vacancies and look for potential new hires. Hello Work offices do not handle the collection of insurance premia, which is done by separate collection points within Prefectures. However, among the tasks of local office staff are:

- The receipt of vacancies which employers often bring in person;
- The receipt of notification of hirings (after which the employer will be sent a note on unemployment insurance). Again, employers often come into the office when announcing hirings, in particular the first hiring of an establishment;
- The receipt of separation notices; and
- Giving guidelines to companies about the use of the quota system for the disabled.

160. A high frequency of visits by employers to PES offices in person to announce vacancies, hirings and dismissals is quite unusual in international comparison, and it might be considered surprising because the Japanese PES has pioneered in the field of computerisation of the placement function (OECD, 1993).<sup>53</sup>

161. Hello Work offices also hold seminars with employers around issues such as Employment Insurance requirements. Officials also visit companies themselves to look for vacancies, and make follow-up visits to disabled persons at their place of work, after successful placement by the PES.

## **2.5. Office structure, staffing and workload**

### *Recruitment and training*

162. In line with Japan's uniform public service recruitment system, people apply to become a government official and enter through the standard test for the Japanese civil service. After that, they can seek to work for MHLW and apply for vacancies offered by the Prefectural Labour Bureaus. Prefectural Bureaus choose the employees of individual PES offices, and the local office manager himself usually has no say about recruitment. It has recently been decided that henceforth recruitment will be handled by a group of Prefectures, not a single Prefecture alone.

163. OECD (1993) already noted a high share of tertiary graduates in PES administration: 30% of the front-line office staff at the time had passed civil service exams for university graduates. This share is now even higher, and two out of three staff levels require university degrees and the third one a high-school degree. The highest-level staff work in the central MHLW office, but there is also some rotation between the Ministry and Prefectural Bureaus or managerial posts in Hello Work offices. There is a training centre for PES staff at the Japanese Institute for Labour Policy and Training; employees will be asked to attend a certain number of training sessions during their career.

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53. The publication of job vacancies on the internet was announced as a reform in 2002 ([www.mofa.go.jp/policy/economy/japan/measure0210-f.html](http://www.mofa.go.jp/policy/economy/japan/measure0210-f.html)). Although many job vacancies are accessible on the PES website ([www.hellowork.go.jp](http://www.hellowork.go.jp)), jobseekers are still often advised to visit Hello Work offices in person (this is discussed further in Chapter 3).

*Office structure and staffing levels*

164. Compared with the current 550 principal and branch offices, the PES had about 700 thirty years ago, since many offices in remote areas have been closed since. Similarly, the number of government officials in local offices declined from 14 600 in 1967 to about 13 000 during the 1990s and 12 000 by 2007. On top of these, over 2 000 staff work at Prefectural level. Government representatives argue that staff reductions became necessary due to increased public scrutiny of the PES; staff could be saved through better office organisation, in particular computerisation and a reduction in paper flow.

165. On top of the public officials, however, local offices have tended to employ large numbers of non-regular workers with part-time or fixed-term status. In 2007, their number was about 9 000, and a further 9 000 were hired during the downturn in 2008 and 2009, bringing the total number of local office staff up to almost 30 000 in 2009.

166. Table 2A.1 compares the PES office structure and staff numbers in Japan in 2007 (*i.e.* before the additional hiring during the economic downturn) with those in five European countries in the late 2000s. The average PES local office in Japan serves an area of about 800 km<sup>2</sup>, a bit less than the average of the countries shown in the table, and has 48 staff, more than in all other countries shown, apart from Germany where offices are exceptionally large with nearly six times as many staff. The average population served, about 280 000 per local office in Japan, is several times greater than in the other countries, again with the exception of Germany. Related to the high population served, Table 2A.2 shows that in Japan there were 2 336 wage and salary earners and 109 unemployed people per PES staff member. Both of these ratios were several times higher than in the European countries covered. According to these indicators, the PES in Japan is heavily understaffed, even if non-regular PES staff are included in the total. However, the ratio of unemployment benefit recipients to LFS unemployment is much higher in European countries (Duell *et al*, 2009a, Table 4.3), so that the ratio of PES staff to unemployment benefit recipients in Japan tends to be as high as it is in many European countries.

167. Welfare office staff have not so far been counted as part of the PES. Japan in 2004 also had about 22 600 staff in welfare offices, and about 20% might be regarded as part of the broad PES, since about 80% of the welfare caseload consists of aged, disabled and invalid households, not often expected to work (see Chapter 4).

168. Trade unions and employer associations have, in the past, called for increases in Hello Work resources (for example, [www.keidanren.or.jp/english/policy/2002/066.html](http://www.keidanren.or.jp/english/policy/2002/066.html)). In 2009 the Government, among its measures in response to the financial crisis, announced plans to increase funding for PES services for dispatched workers, freeters, youth, mothers, and people with disabilities, in several cases by setting up additional specialised placement and counselling sections within Hello Work,<sup>54</sup> as well as a budget of JPY 26.5 billion to “radically enrich and expand the human resources and organisational structure of Hello Work” (MHLW, 2009a; Government of Japan, 2009). The increase of PES staff by about 9 000 persons, corresponding to about 40% of the total, within less than two years, is clearly exceptional in the OECD. However, the new hires were usually workers on fixed-term contracts. With the steady decline of civil service staff since the 1970s, there is a risk of some loss of staff expertise.

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54. The measures include setting up “Non-regular Worker Employment Support Centres” in several prefectures and additional “Mothers’ Corners” under the Mothers’ Hello Work programme.

## 2.6. Key points

169. The PES in Japan does not have an agency status and the Labour Ministry (MHLW), in particular its Employment Security Bureau and its 47 Prefectural Labour Bureaus, administer local employment (“Hello Work”) offices directly. The PES integrates the three main employment service functions (placement, employment insurance, employment measures) under one roof; this structure has been remarkably stable throughout the post-war period.

170. The Prefectural Labour Bureaus have a broad remit which includes the supervision of Hello Work offices and private employment agencies, planning employment measures for each Prefecture and administering subsidies to improve company work practice. A number of separate and semi-independent agencies carry out other specialised aspects of employment policy, among them the Employment and Human Resources Development Organisation of Japan (EHDO), and the Japan Organisation for the Employment of the Elderly and Persons with Disabilities (JEED).

171. In line with international trends, a management-by-objectives approach is applied to the performance of Hello Work offices, with the principal targets relating to the placement rate for registered job applicants, the filling rate for registered job vacancies, and the *early re-employment rate* for employment insurance benefit recipients.

172. Following the merger of the Ministry of Labour and the Ministry of Health and Welfare in 2001, employment assistance for social welfare recipients has increased. Welfare clients and single-mother recipients of the Child Rearing Allowance (described in Chapter 4) can now participate in the Employment Support Programme, which is implemented jointly by employment and welfare officers, although this remains small in scale.

173. PES core staff are well-trained and tenured civil servants. International comparisons based on population and unemployment as indicators of workload suggest that PES local offices are understaffed, even when total staff (including non-regular workers) are included, although the ratio of PES staff to unemployment benefit recipients is not particularly low. Due to the steady decline in permanent local office staff (from about 15 000 in the late 1960s to 12 000 in 2008), staff/client ratios may become inadequate and staff expertise may be lost through ageing and retirement not sufficiently offset by intake and training of new staff. New hires based on the financial-crisis policy package have been mainly non-regular workers on fixed-term contracts, who currently make up half of the total. Also, if recent increases in the EI coverage of unemployment and access to social assistance continue, the PES will need to be strengthened to handle the additional caseload.

**ANNEX 2A**

*Supplementary tables*

Table 2A.1. Public employment service office networks and staffing, selected OECD countries, selected years

	Finland 2007	Germany 2006	Ireland 2007	Japan <sup>a</sup> 2007	Norway 2009	Switzerland 2007
<b>Organisations included in this table</b>	Employment offices, T&E, MoL	BA <sup>b</sup>	FÁS-ES and LES	Hello Work Prefectural lab.bureau MHLW	NAV placement functions	Local employment Services (ORP), cantonal and federal labour administration, Unemployment Funds
<b>Functions covered<sup>c</sup></b>	Mainly placement	Broad PES (for UI recipients)	Placement only	Broad PES <sup>d</sup>	Placement <sup>e</sup> only	Broad PES <sup>f</sup>
<b>Measurement basis (headcount or FTE)</b>	FTE	FTE	FTE	Headcount	Headcount	FTE
Total	4 206 <i>h</i>	58 208 <i>b</i>	822 <i>i</i>	23 646	..	3 959
Local offices	3 349	48 946	750	21 207	5 500 <i>j</i>	
Regional (intermediate-level) offices	513 <i>k</i>	2 837	23 <i>i</i>	2 213 <i>l</i>	..	3 814 <i>m</i>
Head and other national offices	344 <i>n</i>	6 425 <i>o</i>	49 <i>i,p</i>	226	..	145
<b>PES office network</b>						
Regional offices	15	10	8	47	19	26
Local offices	100 <i>q</i>	178 <i>r</i>	70 <i>s</i>	461	460	130
<b>External variables</b>						
Total area (km <sup>2</sup> )	338 145	357 022	70 273	377 915	323 802	41 285
Total population (000s)	5 289	82 368	4 339	127 771	4 785	7 551
<b>Derived ratios</b>						
Average area of a local office (km <sup>2</sup> )	3 381.5	2 005.7	1 003.9	819.8	703.9	317.6
Average population in the area of each local office (000s)	52.9 <i>t</i>	462.7 <i>u</i>	62.0 <i>v</i>	277.2	10.4	58.1
Average workforce of a local office	33.5 <i>t</i>	275.0 <i>u</i>	10.7 <i>v</i>	46.0	12.0	20.1 <i>w</i>

Table 2A.1. Public employment service office networks and staffing, selected OECD countries, selected years (cont.)

- FTE: Full-time equivalent.
- .. Breakdown not available.
  - a) Staff data for Japan include both regular and non-regular workers, with the latter making up about 40% of the total in 2007. Staff data previously published in Duell *et al.* (2009a, Annex 2A), excluded non-regular workers.
  - b) Without staff of the *Arbeitsgemeinschaften SGB II* for the activation of means-tested unemployment allowance recipients. In 2006, the *Arbeitsgemeinschaften SGB II* had 51 000 staff (including both PES and municipal staff).
  - c) Placement: includes functions such as intensive counselling, job-search monitoring and training courses, aptitude testing, registration and supporting operations such as call centres. Placement and ALMP administration: includes also the administration, procurement or contract management of some of the country's main ALMPs (staff implementing ALMPs should not be included). Broad PES: includes also the administration of UI or other main unemployment benefit (the administration of benefits not conditional on availability for work should not be included).
  - d) Includes the administration of hiring and some other subsidy payments. Includes the administration of UI benefit payments but not contribution collection.
  - e) This entry covers the placement function within the new NAV organisation (which includes only half the total staff at local level, see footnote j below).
  - f) Placement and ALMPs implemented by the local employment services for unemployment insurance, social-assistance and disability-benefit recipients, and payment of UI benefits.
  - g) MEE (2008) describes the data as "full-time", so part-time staff (about 300) are probably counted on a full-time equivalent (FTE) basis.
  - h) Total does not include 495 staff financed by subsidised employment schemes.
  - i) Does not include many of the staff in FAS regional and central support (which supports other e.g. training functions). Includes 311 staff in Local Employment Service (LES).
  - j) 3 000 government staff and 2 000 to 3 000 municipal social workers are expected to be working within NAV local offices on guidance, counselling and placement in direct contact with the unemployed, vocationally disabled and social assistance recipients. Another 5 500 people are expected to be working on other functions in the same offices (including administration of non-employment benefits).
  - k) Includes 61 staff in reception centres (for refugees).
  - l) Regional staff data relate mainly to Prefectural Labour Bureaus (Japan has 47 Prefectures) but may include other organisations.
  - m) Data refer to local and to cantonal employment services and cantonal unemployment funds. The latter employed 1205 staff (FTE).
  - n) There is no head office of the Employment Office network: data refer to 9 staff in the Labour Institute (training institute for PES personnel) and 335 staff in the Ministry of Labour who supervise this area of labour market policy.
  - o) Including 5 930 employees who work on specific tasks (*besondere Dienststellen*) such as the IT system.
  - p) Includes 19 staff in the National Contact Centre.
  - q) Not including 113 other locations: 45-50 small branch offices attached to local Employment Offices, 39 LAFOS for those unemployed for more than 2 years, joint-service points and Job-Seeking Centres.
  - r) There are 178 local employment "agencies" which manage an additional 660 branch/local offices.
  - s) This refers to FAS-ES offices only, implicitly treating the 120 LES offices as branch offices of these.
  - t) Average per main local office: main local offices deliver services from 2.1 locations on average (see earlier note).
  - u) Average per main local office: main local offices deliver services from 4.7 locations on average (see earlier note).
  - v) Average per main local office: main local offices deliver services from 2.7 locations on average (see earlier note).
  - w) Data refer to local and to cantonal employment services and cantonal unemployment funds.
- Source: For total area (km<sup>2</sup>), [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_and\\_outlying\\_territories\\_by\\_area](http://en.wikipedia.org/wiki/List_of_countries_and_outlying_territories_by_area) (including Aland Islands for Finland; all islands except Southern Kuril for Japan; and mainland Norway). OECD Annual Labour Force Statistics database for total population. **Finland:** Official reply to the OECD questionnaire on activation policies received on 10/5/2007; and MEE (2008), Table 2, pp. 51, 56, and 114. **Germany:** Official Official reply to the OECD questionnaire on activation policies received on 9/5/2007. **Ireland:** Information supplied by FAS on 20/12/2007; and Grubb *et al.* (2009), "Activation Policies in Ireland", OECD Social, Employment and Migration Working Papers, No. 75. **Japan:** Information from Japanese authorities for the OECD/Eurostat Labour Market Programmes database (22/3/2006), and in response to the OECD questionnaire on activation policies received on 26/2/2008; and OECD/European Commission questionnaire on Employment and Social Policy in the economic downturn – 2010 update – Official reply from Japan. **Norway:** Official reply to the OECD questionnaire on activation policies received on 30/4/2007; and Duell *et al.* (2009b), "Activation Policies in Norway", OECD Social, Employment and Migration Working Papers, No. 78. **Switzerland:** Official reply to the OECD questionnaire on activation policies on 7/9/2007; and Duell *et al.* (2010), "Activation Policies in Switzerland", OECD Social, Employment and Migration Working Papers, No. 112.

Table 2A.2. Total staff of the Public Employment Service,<sup>a</sup> selected OECD countries, selected years

	Finland <sup>b</sup> 2007	Germany 2006	Ireland <sup>c</sup> 2007	Japan <sup>d</sup> 2007	Luxembourg <sup>e</sup> 2006	Norway <sup>f</sup> 2009	Switzerland 2007
<b>Organisations included in this table<sup>g</sup></b>	Employment offices, T&E, MoL, LAFOS, municipal personnel and social service, KELA, Unemployment Funds	BA, Arbeitsgemeinschaften	FÁS, LES, DSFA	Hello Work, Prefectural Labour Bureau, MHLW	ADEM, SNAS, SRAS	NAV	Local employment Services (ORP), cantonal and federal labour administration, Unemployment Funds
<b>Measurement basis (headcount or FTE)</b>	FTE	FTE	FTE	Headcount	FTE	FTE	FTE
<b>Functional coverage<sup>h</sup></b>							
Placement only	4 044	..	967	..	120	5 360	..
Placement and LMP administration	4 780	..	1 568	..	182	7 001	2 609
Benefit administration	1 926	..	1 120	..	43	1 641	1 205
PES including benefit administration	6 406	109 181	2 688	23 646	225	8 642	3 959
<b>External variables</b>							
Employees (wage and salary earners) 000s	2 169	33 259	1 743	55 230	299	2 289	3 891
LFS unemployed 000s	183	4 272	100	2 570	10	82	160
<b>Derived ratios</b>							
<i>Wage and salary earners per FTE staff member in:</i>							
Placement only	536.4	..	1 802.9	..	2 494.8	427.0	
Placement and ALMP administration	453.8	..	1 111.8	..	1 640.7	326.9	1 491.4
PES including benefit administration	338.6	304.6	648.5	2 335.7	1 329.3	264.9	982.8
<i>LFS unemployed per FTE staff member in:</i>							
PES including benefit administration	28.6	39.1	37.2	108.7	44.4	9.5	40.4

FTE: Full-time equivalent.

.. Breakdown not available.

a) Estimates are approximate reflecting data gaps, variations in the responsibilities of the institutions that make up the PES in each country and limited availability of data analysing staff by function. The allocation of the available data to the three functional categories shown, *i.e.* placement, LMP administration and benefit administration, is estimated by the OECD. Figures for total staff working on PES functions in each institution may also be OECD estimates. Where the distribution of staff across functional categories is not directly known it has in appropriate cases been estimated by proportional allocation *e.g.* proportions in earlier year's data are applied to the current year's total or PES head office staff are distributed across functional categories in the same proportions as PES local office staff. Total staff in each functional category in principle include all management and support staff. Where data for part-time staff are available they are counted as a half of a full-time equivalent. Staff hired through a labour market programme which fully subsidises their wage are not included.



Table 2A.2. Total staff of the Public Employment Service,<sup>a</sup> selected OECD countries, selected years (cont.)

- b) Total staff in local Employment Offices, T&E Centres, Ministry of Labour supervision, the Labour Institute (PES staff training) and Reception Centres (for immigrants) in 2007, allocated across functional categories in line with 2006 data for Employment Offices and T&E Centres only. An estimated 9% of these staff work on benefit administration and 7% work part-time. Data do not include 495 staff hired through labour market programmes which subsidise their wage. Estimates include 325 municipal staff working within LAFOS and 325 other municipal staff working on the integration of social assistance beneficiaries; 750 KELA staff (1/8 of KELA total staff) working on the administration of Basic Allowance and LMS; and 800 staff in Unemployment Funds.
- c) The total for placement includes FAS Regional Support and Central Support staff allocated across the FAS operational divisions (not included in Table 2A.1), and DSFA Facilitators. The broad PES as defined here includes FAS Employment Services, Community Services and the regional/central staff allocated to Training Services, and excludes 880 staff in Training Services and 221 staff in Services to Business. Estimate includes 311 staff in the Local Employment Service, 140 staff in DSFA Employment Support Services in placement and LMP administration (including administrative and support staff, as well as 40 Facilitators), and 200 Labour Inspectorate and 920 other staff in benefit administration.
- d) Staff data for Japan include both regular and non-regular workers, with the latter making up about 40% of the total in 2007. Staff data previously published in Duell *et al.* (2009a, Annex 2A), excluded non-regular workers.
- e) The staff of ADEM (196 in total, of which 18 are part-timers), with staff in central administration and services for handicapped workers allocated proportionally to the functional distribution of other services; and the staff of the SNAS and SRAS, which administer the *Indemnité d'insertion* (social assistance benefit) with a focus on assisted job-search and work-preparation activities.
- f) Nearly 5 500 staff working on placement, 1 300 on LMP and UI administration, 850 on LMP and rehabilitation benefit administration (estimated from spending on measures active and passive components of this benefit) and 1 000 on LMP and social assistance benefits for those who are employable (50% allocated to LMP administration in each case). Estimates are approximate. A proportion of the staff reported as placement staff may also work on LMP administration. The estimates imply that a significant proportion of NAV staff work on activities (administration of inactive benefits and perhaps social work) outside the OECD definition of the broad PES.
- g) The estimate for total PES staff included only part of the staff of many of these institutions: see the country notes.
- h) Placement includes functions such as jobseeker, vacancy registration and matching, intensive counselling, job-search monitoring and training courses, aptitude testing, and supporting operations such as IT and call centres. LMP administration refers to the administration, procurement or contract management of some of the country's main ALMPs by PES institutions. Benefit administration refers to the administration of UI benefits and other benefits that are conditional on availability for work or participation in work-preparation measures (rehabilitation). LMP administration does not include staff working on implementation (e.g. training instructors, local managers of job-creation projects). Benefit administration does not include the administration of benefits paid without labour market conditionality.
- i) This total includes border workers, and thus exceeds by more than 50% the number of employees who are Luxembourg residents.
- j) Note that most PES clients are not unemployed but vocationally disabled, therefore the figure is *de facto* higher.
- Source: **Finland:** Official reply to the OECD questionnaire on activation policies received on 10/5/2007; and Duell *et al.* (2009a), "Activation Policies in Finland", OECD Social, Employment and Migration Working Papers, No. 98. **Germany:** Bundesagentur für Arbeit, *Geschäftsbericht 2007*, SGB II *Jahresbericht 2007* and internal personnel monitoring. **Ireland:** Advice from FAS 20/12/2007; and Grubb *et al.* (2009), "Activation Policies in Ireland", OECD Social, Employment and Migration Working Papers, No. 75. **Japan:** Information from Japanese authorities for the OECD/Eurostat Labour Market Programme database (22/3/2006), and in response to the OECD questionnaire on activation policies received on 26/2/2008; and OECD/European Commission questionnaire on Employment and Social Policy in the economic downturn – 2010 update – Official reply from Japan. **Luxembourg:** Grubb (2007), and MIFA, *Rapport d'activité 2006*. **Norway:** Duell *et al.* (2009b), "Activation Policies in Norway", OECD Social, Employment and Migration Working Papers, No. 78, and Eurostat/OECD database on labour market programmes (measures NO-21, NO-22 and NO-27). **Switzerland:** Official reply to the OECD questionnaire on activation policies on 7/9/2007; and Duell *et al.* (2010), "Activation Policies in Switzerland", OECD Social, Employment and Migration Working Papers, No. 112.



### *Chapter 3*

## **JOB-BROKERAGE AND ACTIVATION STRATEGIES**

### **3.1. Introduction**

174. Over the past decade, the Japanese public employment service – *Hello Work* – enjoyed a prolonged rise in vacancy notifications that took them to a record level, but this was followed by a sharp decline in 2009. Self-service provision, with online-vacancy notification and job search, entered into widespread use, and many satellite offices for particular target groups were opened (see Chapter 2). Several types of individual action plan, and performance management with targets for the number of action plans and outcome indicators such as the placement rate, were introduced. Hello Work offices, in co-operation with welfare offices, introduced some specialised employment services for unemployed social assistance recipients. There were no major changes in employment services for EI recipients, although enhancements may be needed after reforms in 2009 and 2010 which have expanded EI coverage for workers on short-term contracts.

175. Section 3.2 of this chapter outlines Hello Work’s main job-brokerage services, including the role of self-service, information technology and career and vocational services. Section 3.3 considers strategies for interventions in the unemployment spell and outlines services for specific target groups such as youth and women. Section 3.4 presents quantitative evidence on PES-placement performance and market share, and Section 3.5 resumes some key points.

### **3.2. The job-brokerage function**

#### *Overview*

176. The PES role in Japanese employment policy has evolved continuously since the 1950s. Early in the post-war period, PES offices were mainly responsible for referring unemployed workers to public works programmes, and implementing the recently-established unemployment insurance system. Given the very high number of unemployed workers at this time, the job-brokering services were not perceived to be very successful. From 1963, the focus shifted to placing the unemployed in existing jobs whenever possible. *Public Employment Security Offices* (PESOs) were required “...to help reallocate the labour force among industries, jobs and regions. In particular, demand for labour concentrated on new graduates”. After the first oil crisis, the government enhanced the functions of the PES. In 1974, companies were required to notify substantial layoffs to the local employment offices in advance, so that they could have a better understanding of the labour market situation and provide relevant services. The unemployment insurance payment system was automated, staff training was improved and job-matching services were revamped to include a classification system that speeded up the process of referring jobseekers to appropriate jobs (Kameyama, 2001).

177. Currently, the PES provides job-matching services for all jobseekers and administers payments for those with an entitlement to unemployment benefit. The main Hello Work offices tend to prioritise placement services for jobseekers, and spend less time on individual counselling, due to the large number of people seeking their assistance (Sano, 2004). As outlined in Chapter 2, the PES has also set up special local units for youth, recent graduates and mothers; in addition, the Prefectures manage Job Cafés to

counsel and place youth (see Box 3.2 below). The main offices have separate counters for people with disabilities and some other groups such as social assistance recipients. Hello Work refers particular groups such as mothers and youth to relevant units upon registration. Recruitment incentives are targeted on groups such as older workers, people with disabilities and youth: in 2009, a special grant programme to support older freeters was established (MHLW, 2009a).

### ***The active and self-service placement function***

#### *Registration of vacancies*

178. When registering a vacancy for the first time, an employer must visit the employment office in person.<sup>55</sup> On later occasions, a vacancy can be registered by telephone or online. Employment counsellors check the job-vacancy information, for example to discourage unjustified setting of age limits or encourage the employer to provide the job with Employment Insurance (EI) coverage. Hello Work offices have special counters for registering vacancies and a group of employment counsellors who are in charge of handling vacancies.

179. A large part of the information on vacancies can be accessed through Hello Work internet services, except for a few cases where the employer chooses to make the information available only to jobseekers who have registered at Hello Work offices. Hello Work terminals provide information on job offers within the area of a Hello Work office's jurisdiction or within commuting distance from it. Although the PES has made efforts to increase the transparency of vacancies and streamline vacancy-handling procedures, many employers and jobseekers visit Hello Work offices in person. The offices provide consultation and guidance to employers on labour market conditions and how to present their vacancies. Shniper (2008), comparing PES procedures in Japan and the United States, noted that in Japan PES counsellors assist the employer with filling out a job-announcement form, which gives them a chance to become familiar with the employer's situation and clarify the vacancy information. Also, since only short job descriptions are provided on the job-announcement form, staff may be able to provide jobseekers with information about the employer not posted on the form. In most other OECD countries where employers submit their vacancies electronically, staff members in PES offices cannot provide any more information than is already available electronically.<sup>56</sup> This background to some extent also explains why a relatively high proportion of jobseekers visit Hello Work offices.

#### *Registration of jobseekers*

180. Unemployed jobseekers with an entitlement to EI benefit must register at a Hello Work office. They are given a job-applicant number and remain active in the IT system as long as they are receiving benefit. Jobseekers without EI are maintained on the system for three months after registration. This period is renewed by another month if the jobseeker returns within the three months. The new jobseeker needs to provide personal information, as well as information on the type of job sought, on a job-application form. He/she is given a registration card with a bar code which gives access to advice and guidance at all Hello Work offices, and allows employment counsellors to retrieve client information.

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55. At the first meeting, the employer's identity and business characteristics are checked. As further discussed below, even when they are no longer formally required to do so, a number of employers seem to continue to announce vacancies in person at the employment office. At the Shibuya office, about 400 employers come in on an average day to announce vacancies.

56. Shniper (2008, p. 27) notes that "the New York DOL form has a couple of details not found on the Hello Work form, such as an e-mail address for the contact person, and the number of resumes they wish to review as well as the number of people they wish to interview".

### *The Overall Employment Information System*

181. Hello Work offices are interconnected by a computer network known as the *Overall Employment Information System* (OEIS). The system was begun in 1982 and from 1988 has provided nationwide information about job openings and registered jobseekers. The OEIS contributes to a wide range of placement services, including the registration of job offers and jobseekers, counselling, guidance, job-matching and the provision of employment-related information (Thuy *et al.*, 2001). It also allows employment officers to access information on clients. Although this system was highly advanced at the time of its introduction, its basic structure is now more than 20-years old, so the PES needs to consider whether or when it will be worth developing a new system, rather than updating the current system.

### *The use of self-service facilities*

182. Information on vacancies can be accessed both through the *Hello Work Internet Service* and through mobile phones. A wide range of job-related information is also available through work stations at *Hello Work Information Plazas*, which were established in each prefecture over the past decade (JILPT, 2004; and 2009b). Although no statistical information on the proportion of vacancies that are “closed” or “semi-open” is available, the self-service facilities have led to a trend in recent years towards transparency of vacancies.

183. The *Shigoto Joho Net* (job information net) is a unique feature which was launched in August 2001. Any jobseeker can access it *via* internet using a PC or a mobile phone to search for and view information on job openings registered at various private employment agencies and the PES, using search keys such as place of work, type of job and wages. It recently was providing approximately 750 000 job openings, and was receiving about 1.23 million hits a day (about half of them from mobile phones connected to the Internet: Arellano *et al.*, 2008).

### *Job-vacancy boards*

184. Vacancy display boards still feature prominently at Hello Work offices. Incoming *fresh* job vacancies are displayed every day at the office entrance. There are also brochures for vacancies in specific occupations and/or specific industrial sectors that are updated once a month, and separate vacancy boards for mothers, people with disabilities and *trial* jobs.<sup>57</sup>

### *Screening and matching of jobseekers to vacancies*

185. For job placement, Hello Work offices match the conditions of the job offer to the experience and skills of applicants at “consultation counters”. There are separate counters for those under 35 years of age and above. In larger employment offices, there are separate counters by type of work, *i.e.* for those seeking technical work or white-collar jobs.

186. In the case of direct referrals, staff make contact with the relevant employer and set up an appointment for the jobseeker. In cases where the skills of the jobseeker do not match with the skills required by the employer, the PES officer makes an attempt to negotiate the desired skills and inform employers of other jobseeker attributes, *e.g.* their eagerness and motivation to work. At times, when no suitable match can be made, the officer will refer the jobseeker to alternative jobs and/or make direct contact with the employer to develop a new job offer that is closer to the skill profile of an applicant.

187. In 2006, registered unemployed people received such referrals at an average rate of 4.2 per year, *i.e.* about one every three months (OECD, 2007c). When jobseekers are referred, they are handed a form,

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57. The “trial” employment system was introduced for disabled workers in 1999 and extended to youth – initially youth aged up to 29 – in 2001. Recently additional funding for disabled and older workers was announced and the system was expanded to include older freeters and daily-dispatched workers (see Chapter 5; Web-Japan, 2005; OECD, 2009a; and MHLW, 2009a).

known as the “Decision Notice”, which should be filled in by the employer and sent back to the PESO stating the outcome of the referral. Job applicants may sometimes be called into the office for a pre-selection interview, but in the majority of the cases they are referred without such interviews.

188. Hello Work also holds seminars where employers and jobseekers are invited to conduct job matching. This service in particular is targeted at jobseekers who experience difficulties in finding a job independently and need more support. Employers can meet prospective candidates, and job interviews can take place on the spot.

#### *Vocational guidance and career-counselling services*

189. Hello Work offices have separate counters for jobseekers who require guidance on vocational training or general upgrading of skills. Vocational guidance and career counselling services are mainly targeted towards first-time jobseekers or recent graduates and the long-term unemployed. Career-counselling services include training in interview skills and CV preparation. Career counsellors also assess the skills and qualifications of the jobseekers in relation to a particular job vacancy that interests them, and schedule an interview if the jobseekers have the skills required. They can provide letters of recommendation to applicants confirming their ability to perform the job.

#### *Performance monitoring and evaluation of Hello Work offices*

190. As noted in Chapter 2, Hello Work offices have several targets for job-placement outcomes. Table 3.1 shows the targets and their outcomes over the period 2006-08. In regard to the placement rate, the PES on average achieved its target in 2006 and nearly in 2007, but under-achieved in 2008. The latter outcome probably reflects the onset of the economic downturn. On the other hand, in 2008 the job-offer satisfaction rate was above target.

Table 3.1. **PES employment targets<sup>a</sup> and related achievements, Japan, 2006-08**

	Percentages					
	2006		2007		2008	
	Target	Achievement	Target	Achievement	Target	Achievement
Placement rate	32	32	33	32	31	27
Early re-employment rate for EI recipients	16	15	30	30	31	..
Job-offer satisfaction rate	–	–	–	–	22	25

.. Data not available.

– This target was not set until 2008.

a) See Chapter 2 for the definition of the employment targets.

Source: MHLW (2008b).

191. Overall, the Japanese PES has advanced significantly in terms of self-service facilities, so that individual jobseekers have the main responsibility for their own job search. This has helped to achieve efficiency savings to offset the impact of the reduction in total staff numbers since the 1960s. However, the PES has experienced a considerable increase in the volume of jobseeker and vacancy registrations over recent decades, and, according to several of the workload indicators cited in Chapter 2, it is under-staffed relative to the PES in most other countries.

192. Staff resources might be freed by introducing a system where the checks applied to employers registering vacancies can be handled online. However, the current arrangement, requiring employers to visit a Hello Work office in person when they first register a vacancy, may achieve a minimum of personal contact efficiently as compared with arrangements in other countries, where PES officers try to visit local employers to keep in touch with their needs, but rarely manage to visit very many of them. Staff resources might also be freed by limiting the availability of personal counselling, leaving applicants who appear to be

job-ready to use self-service facilities and/or referring them to private-sector recruitment agencies – and perhaps also leaving more of the job-vacancy market to private agencies. However, even job-ready jobseekers probably often benefit from meeting a counsellor. Also, in Japan many of the short-term unemployed are EI recipients, and this group needs to be targeted for assistance in order to limit disincentive effects and benefit caseloads.

193. While self-service approaches are widely used in OECD countries, it is generally recognised that they have limitations. Disadvantaged jobseekers may not have ready access to the Internet or may not have the skills to use the services effectively. Personal counselling may identify job-search issues such as the limitation of job-search efforts to particular types of vacancies or weaknesses in the client's CV or interview presentation. Thus, even where vacancy listings are readily accessible, the PES should also offer personal counselling. Current staff resources allow general jobseekers to have a longer counselling session occasionally on a voluntary basis, but more intensive action-plan procedures involving regular contact for up to three months are available only for some particular target groups (see Section 3.3 below).

194. At the same time, the PES workload has tended to increase recently, related to: *i*) growing numbers of unemployed due to the economic downturn; *ii*) increases in numbers of social assistance recipients and single mothers in the 2000s, and the desire to improve their difficult situation; and *iii*) the growth of non-regular employment, which tends to increase labour market flows and has strengthened the PES focus on some groups affected, such as older freeters and dispatched workers. The PES needs more resources to cope with these challenges (and its staff has already been increased, in response to the downturn), and it is important to free more staff through the availability and quality use of self-service resources. However, the scope for painless efficiency improvements is probably quite limited.

### **3.3. Activation strategies**

#### ***Overview***

195. Historically, job creation through public-work schemes was one of the most important measures to address unemployment. However, as labour demand grew, in the 1960s the PES increasingly focused on placing the unemployed in available jobs whenever possible, and from 1971, the public-works programmes were closed to new entrants (Kameyama, 2001). Since then, the main philosophy has been to encourage and facilitate independent job search among the unemployed with little intervention by employment officers. “In Japan the vacancy to unemployment ratio is much higher than in other review countries, and the strategy of active intervention is centred essentially upon bringing unemployed people together with vacancies” (OECD, 1993). Although the disincentive effects of unemployment benefits may be serious while they are being paid, EI benefit entitlements are often relatively short and benefit coverage of unemployment is low (see Chapter 4), so many registered jobseekers are strongly motivated to find work.

#### ***Interventions in the unemployment spell***

196. Even if most unemployed people return quickly to work through their own initiative, intervention measures of a compulsory nature can make a critical difference for some whose own job-search initiatives are reduced while they are receiving a benefit. Reduced search efforts increase the risk that benefit entitlements will be exhausted, and that the person will become long-term unemployed. In Japan, initial registration, attendance at a briefing session for new recipients, and in-person reporting to the PES every four weeks are the main requirements for continuing receipt of benefits, since participation in action plan procedures and other intensified assistance measures is voluntary. In the case of social assistance recipients, welfare offices have recently been instructed to “avoid rejecting the demands of applicants without a concrete examination of their efforts towards seeking employment” (see Chapter 4), and it seems possible that non-take-up of services offered by Hello Work would put an individual's benefit at risk.

*Intensive interviews*

197. At initial registration, the unemployed person is given guidance in conducting job-search activities and handling job interviews along with information on services provided by the PES. In addition, following the initial registration, a briefing is provided for all new recipients of unemployment benefits on a designated day. Each PES office may organise employment-assistance seminars at the request of interested recipients of unemployment benefits.

198. There are no strict rules about the frequency of intensive interviews, which is at the discretion of the counsellor or upon request of the job applicant. When job applicants are keen to find employment rapidly, they tend to be interviewed weekly.

*Reporting and monitoring of job-search efforts*

199. In general, unemployed persons must report in person to the PES every four weeks confirming their unemployment status and submit a declaration form that includes the number of days they worked or were employed during this period. They must also list their job-search activities on the form. In principle, two or more job-search actions during the past four weeks meet the eligibility criteria for unemployment benefit.<sup>58</sup>

*Action plans*

200. The PES draws up a job-search plan for interested recipients of unemployment benefits as early as possible following unemployment. In 2003, a special job-search plan known as the *Employment Realisation Plan* was initiated targeting those in receipt of benefits for involuntary unemployment (*i.e.* unemployed due to bankruptcy or dismissal), single parents and those who are deemed to be in greater need of re-employment (including job applicants who have given up self-owned businesses). It is expected to serve as a guide for three months, and can be revised according to individual circumstances. More recently, a *Comprehensive Support Plan* was initiated for middle-aged and older workers while a *Challenge Plan* is targeted at young jobseekers.<sup>59</sup> Participation in these measures is voluntary even for participants with an EI entitlement, and the target groups are likely to include many people who have no benefit entitlement.

201. Table 3.2 shows the target number of plans to be implemented, the number of actual plans that were set up and the proportion of people who found a job following setting up a plan. Overall, in 2007, the PES exceeded its target for all client groups. But the target for implementing these plans remains low as compared with the overall inflow of middle-aged and young jobseekers registered with Hello Work. For example, in 2007, around 1.5 million middle-aged and older (*i.e.* 45-59-year old) workers and 1.2 million young (19-24-year old) jobseekers registered with the PES office, whilst the target number of action plans focused on these age groups was only 15 000 and 40 000, respectively. These plans therefore help disadvantaged groups of registered jobseekers, and would not greatly influence job-search activity by the majority of registered jobseekers or unemployment-benefit recipients.<sup>60</sup>

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58. For instance, sending off one job application and having an interview will be sufficient to satisfy the job-search requirements. Attending a seminar at PESO, or any other public organisation that increases jobseeker's employability, also counts as a job-search action.

59. A previous *Youth Independence and Challenge Plan* formulated in 2003 was more strategic in nature (Ota, 2004; and OECD, 2009a). MHLW (2009a) refers to a *Challenge Employment* programme which provides job-trial opportunities for people with disabilities at public agencies.

60. By contrast, in the United Kingdom the action plan (*Jobseeker's Agreement*) is drawn up for *all* benefit claimants, and serves as a basis for recording what jobseekers do to look for work and monitoring job-search efforts.



Table 3.2. **Number of plans set-up with jobseekers, Japan, 2006-08**

Numbers and percentages

	2006			2007			2008	
	Target	Achievement	Those that found employment (%)	Target	Achievement	Those that found employment (%)	Target	Achievement
Employment Realisation Plan	120 000	150 748	62.8	140 000	145 925	69.4	120 000	–
Comprehensive Support Plan	..	..	..	15 000	17 004	70.3	13 000	–
Challenge Plan	..	..	..	40 000	43 412	72.6	35 000	–

.. Data not available, as both the *Comprehensive Support Plan* and the *Challenge Plan* only started in 2007.

– Data not yet available.

Source: Ministry of Health Labour and Welfare, [http://www.mhlw.go.jp/bunya/koyou/koyouhoken04/pdf/19\\_hyoka2.pdf](http://www.mhlw.go.jp/bunya/koyou/koyouhoken04/pdf/19_hyoka2.pdf).

202. *Early employment support centres*<sup>61</sup> provide intensive support for jobseekers who wish to find employment within the first three months of their unemployment spell. Only people who have received EI benefit for at least one month are eligible. Special *employment support navigators*, usually private-sector experts and experienced workers, have been assigned to the PESO to provide individuals with detailed support in their re-employment efforts. Services targeted at this group include enrolment into specialised programmes, help with CV-writing, guidance on career paths and weekly counselling by appointment by the same officer, and job referrals made by officers. Jobseekers can receive this service for only three months.

203. Another type of action plan known as the *Early Re-employment Support Plan* is made for such client groups. Table 3.3 shows some targets and outcomes for this plan. The PES managed to exceed the targets in most cases shown. In 2007, around 90 000 jobseekers used this service, and 79% of them found a job within three months. The high proportion of jobseekers that found employment may largely reflect participation by short-term unemployed workers who are motivated to find work quickly.

Table 3.3. **Target and results of Re-employment Support Plan, 2005-08**

Numbers and percentages

	2005	2006	2007	2008
Number of jobseekers who should have a plan	80 000	80 000	80 000	85 000
Number of jobseekers for whom a plan was implemented	..	83 107	90 152	–
Target proportion of jobseekers that should find a job (%)	70.0	73.0	76.0	73.0
Proportion of jobseekers that found employment (%)	72.8	72.8	78.8	–

.. Data not available.

– Data not yet available.

Source: Ministry of Health Labour and Welfare, [www.mhlw.go.jp/bunya/koyou/koyouhoken04/pdf/19\\_hyoka2.pdf](http://www.mhlw.go.jp/bunya/koyou/koyouhoken04/pdf/19_hyoka2.pdf).

61. These “centres” seem to be typically located inside a Hello Work office. The city of Kawagoe had an “early employment support centre” with a separate address, but it seems to have closed.

*Specialised units and assistance for target groups*

204. The PES in Japan has a relatively large range of specialised units to respond to the particular needs of certain groups and provide services tailored to these needs.<sup>62</sup> The following section reviews some of the main specialised units.

*Human resource banks, part-time job banks and information plazas*

205. The main Hello Work offices have established – as of 2008 – 12 *banks of human resources* to introduce qualified personnel to medium- and small-sized enterprises and to promote the employment of the elderly; 66 *part-time job banks* in convenient places such as train stations in major cities, to offer comprehensive placement services to people seeking part-time employment; and 60 Hello Work *information plazas* which give direct access to job-search engines and enable jobseekers to search through a wide range of information (JILPT, 2009b).

*Mothers' Hello Work centres and Mothers' corners*

206. Okutsu (2009) reports that women in Japan find their first job after a period of child-rearing most often through job advertisements (30.4%), closely followed by contact with Hello Work (27.7%). The PES has recently added a number of facilities for mothers and a wide range of services is currently available for them (MHLW, 2009a):

- *Mothers' Hello Work centres* in 12 large cities (introduced in FY 2006);
- *Mothers' Salons* offering similar services at the main Hello Work offices of 36 prefectures (in FY 2007);
- 100 *Mothers' Corners* within Hello Work offices in core cities of those regions where the services above are not available (60 in FY 2008, with a further 40 planned for FY 2009).

207. These centres, *salons* and *corners* are targeted at mothers who are bringing up children and seeking employment or who wish to change jobs. Compared with the main Hello Work offices, these centres offer more tailored services such as information on childcare (in collaboration with local government), more intensive job-search assistance and career counselling, special seminars and some training (*e.g.* IT). They make special efforts to acquire vacancies from companies which offer conditions suitable for mothers *e.g.* in terms of work-life balance. Free child-care is provided for visitors.

208. Mothers can either register directly at the Mothers' Hello Work centre or register with the main Hello Work office. In the latter case, at the first counselling session the employment officer can refer clients in appropriate cases to the Mothers' Hello Work centre. At the Mothers' Hello Work centre, jobseekers are assigned to a single counsellor throughout the job-search period. Counsellors aim to place jobseekers within three months after drawing up an Employment Realisation Plan (see above). This involves identifying employment barriers faced by mothers, the type of preparatory activities they need to carry out (*e.g.* training for job interviews), and enterprises that may offer suitable work.

209. These centres are charged with carrying out *intensive assistance for job-matching*, which is one of five employment promotion programmes targeted at single mothers introduced since 2003, following

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62. Other OECD countries also provide dedicated services to particular clients; for example, France has *Emploi Jeunes* offices, and Finland has established labour force service (LAFOS) centres for disadvantaged groups.

the amendment of the “Single Mother and Widow Welfare Act” (Zhou, 2009).<sup>63</sup> Overall, the number of mothers in single-parent households who entered employment has increased substantially, from 43 806 in 2000 to 73 716 in 2007. The number of single mothers who entered employment through Mothers’ Hello Work offices increased from around 13 834 in 2006 to 23 374 in 2007, one year later.<sup>64</sup>

210. Zhou (2009) estimated, based on a survey of participants, that the intensive assistance for job-matching programme shortened the job-search period by 2.5 months, although this effect was not statistically significant.<sup>65</sup> Survey respondents noted that the programme is helpful in giving job-search tips to beginners, providing necessary job support and serving as a networking channel. However, it sometimes can take more than 1 or 2 weeks to schedule a meeting with the job consultant, and hence for those urgently seeking jobs the programme is less helpful.

#### *Placement services for social assistance recipients*

211. Since 2005, Hello Work has developed a special Employment Support Programme for welfare recipients in co-operation with welfare offices (see Box 3.1). Only a relatively small proportion of welfare recipients are ordinary unemployed, but there is some evidence that the proportion is increasing. Staff at the Funabashi social welfare office reported that about 40% of its clients on welfare (*i.e.* Public Assistance recipients, probably including some clients with disabilities) could be classified as “employable”. Some of the specific supports provided by Hello Work offices for single mothers used to be provided mainly to welfare recipients, but in recent years they have been used by more recipients of the Child Rearing Allowance (Fujii *et al.*, 2008). (See Chapter 4 for further discussion of these benefits).

#### **Box 3.1. The Employment Support Programme for welfare recipients**

Welfare offices have traditionally provided few employment services. Abe (2003) stated that “a single-mother in the public assistance is constantly persuaded by welfare workers to work, yet there is no systematic career development or placement assistance. The only public assistance she has an access to is a job placement center just as anybody else, and being disadvantaged as a single-mother, it is extremely difficult for her to find a reasonable job”, Nitta *et al.* (2003) concluded that “it is becoming critical that employment assistance be provided for mothers, in other words, to help them get higher paying jobs”.

In 2004, a report by MHLW’s Expert Panel on the Future Shape of the Public Assistance System in 2004 put forward several new ideas to make [the system] “easier to use and easier to be self-supporting.” It called for broad-ranging support, which should help clients to find work, live their daily lives, and participate in the community, “as a new function of Public Assistance”. It hoped that local governments would play a leading role in this, by providing a variety of self-support programs (Komamura, 2008). Zhou (2008) describes the expansion since 2003 of several programmes for single mothers implemented mainly by municipalities.

Welfare offices do not oblige employable clients to register with the PES, but they do generally advise them to register, as the PES can assist them in job search. Since 2005, welfare offices and Hello Work have developed a special *Employment Support Programme* for welfare recipients and recipients of Child Rearing Allowance. It aims to enhance clients’ independence and self-support capability. First, employment consultants or other case workers in welfare offices identify suitable clients for the programme and approach the local Hello Work office for co-operation. Next, employment and welfare officers develop an individual action plan for the client through a joint interview. The client is registered for work at the PES office and is referred to vacancies once his or her job preparation is completed.

63. The other four programmes, which started in 2003 – although their geographical coverage increased progressively after that – were: *i*) Grants for highly-skilled job training; *ii*) Subsidy for basic or medium-level job training; *iii*) Centre for Work Resources and Life Support (these centres typically provide free job-consulting services and work-skill seminars, mental-health consulting, child-care information, and child-support advice); and *iv*) Subsidy to employers for providing full-time jobs.

64. Information provided by MHLW.

65. The samples used by the author were fairly small (about 600 participants in each programme), and of the five programmes evaluated only the “Centres for Work Resources and Life Support for Single Parent Households”, which aim to provide “all-round support” for single parents, had a statistically significant impact.

**Box 3.1. The Employment Support Programme for welfare recipients (cont.)**

For those with special difficulties, the welfare office may appoint a *navigator* who works from the Hello Work office to give support on a one on one basis. Navigators are supposed to increase their clients' work focus and propose appropriate activities such as work experience, public or private vocational training. Also, some Hello Work offices have set up a support team corner in collaboration with municipal welfare institutions.

There are currently about 300 welfare office and Hello Work navigators targeting welfare and child allowance recipients, which is still less than one per PES office on average. In FY 2007, 12 422 persons (about 2% of the number of non-aged households in receipt of welfare) were referred to it from the Welfare offices, of whom 6 741 found employment, a success rate of 54%. For FY 2009, the target was 60%. Among the referrals in 2007 were 2 500 persons on the Child Rearing Allowance, *i.e.* less than 0.3% of all recipients of this benefit (close to 1 million). The small scale of this welfare to work approach is related to the fact that only a relatively small proportion of welfare recipients are ordinary unemployed.

There is no computer interface with the PES. But in order to better understand recipients' job-search activity, the welfare office sometimes takes a look at how they are using the PES services and asks the PES to co-operate. Moreover, welfare and employment offices may share written information about participants in the Employment Support Programme.

*Source:* As cited, and advice from MHLW.

*Youth employment measures*

212. The unemployment rate for the under-25 age group was below 5% until the early 1990s but reached 10.2% in 2003 and approached 10% again during the economic downturn in 2009/10. In many years, it has been nearly double the national average rate. Youth have also been strongly affected by the growing incidence of non-regular forms of work. Freeter status, avoiding commitment to a stable job in the 1980s, was often seen as a choice of lifestyle, but more recently attention has focused on the problems of freeters who are unable to find a permanent job.

213. In order to support young unemployed and freeters who wish to be employed as regular workers, special counters have been established at Hello Work offices to support the search for regular employment by holding seminars and joint-recruitment events, one-to-one consultations and guidance by full-time staff, exploring job offers and placement services, and guidance on adaptation to workplaces after being employed. In addition, Job Cafés – one-stop-service centres for young people – were established in 2003 to provide integrated counselling, training and guidance services (see Box 3.2).

**Box 3.2. Job Cafés**

Job Cafés – one-stop-service centers – were established under the *Youth Independence and Challenge Plan* in 2003 to provide employment-support services for youth. Their main target groups are students, unemployed youth and freeters.

Job Cafés can be established by prefectures. On request from prefectures, MHLW sets up a Hello Work annex next door to a Job Café to provide placement services. In addition, training in interview techniques and various seminars (community-linked programmes for young people) are offered. Efforts are being made to adjust the employment support to the regional labour market situation through co-operation with the Ministry of Economy, Trade and Industry.

In FY 2007, Job Cafés operated at 87 locations in 46 prefectures. Hello Work branches were set up within Job Café sites in some 40 prefectures. A total of 1.59 million people visited Job Cafés with 88 000 gaining employment. This is fairly small, but still significant, in comparison with the 2 million annual placements (about one-third of which related to people aged under 30) recorded by the 550 regular PES offices.

Job Cafés bring together a range of support services, including information provision, career counselling, human-resource development training, job referrals, competency checks and offers of practical experience (internships, etc). Since Job Cafés are managed by prefectures, their services may vary from one place to another. They promote their services through, for example, late-night TV programmes that fit with the TV-viewing habits of casual workers, public-transport advertising boards and events in shopping areas.

Box 3.2. **Job Cafés (cont.)**

Job Cafés analyse the scope and level of technical skills sought by local industry and develop curricula and educational materials accordingly, thus providing guidance and training that links directly to finding a job. Job Cafés also remain in contact with companies to collect information on job openings.

Source: Ino (2007); MHLW (2008a, Part 1: Overview); Okutsu *et al.* (2007); and OECD (2009a).

214. After reaching a peak at 2.17 million in 2003, the number of freeters declined to 1.7 million in 2008. Employment for such workers through Hello Work is steadily increasing. In 2007, 236 000 freeters were placed in regular employment through Hello Work (direct submission from MHLW).

*Measures for older workers*

215. Specialised PES officers provide placement services and occupational guidance to older workers, give guidance to firms on extending the mandatory retirement age or other forms of providing continued employment for workers over the age of 60, and develop job opportunities for older workers by visiting local firms.

216. Rates of placement into regular work are relatively low for older persons compared with younger age groups. A reason for this could be that until recently, employers could specify the age of jobseekers they wish to recruit in vacancy notices. A 2007 amendment to the Employment Measures Act stipulated that employers have a legal duty to provide equal opportunities in recruitment irrespective of age. However, it allowed various exemptions, such as preferential hiring of workers in a certain age bracket otherwise underrepresented in the company's workforce (Sakuraba, 2009). A survey by MHLW found that 36% of job announcements by firms still set age limits in July 2007, but this was a large decrease from 65% in September 2004 (OECD, 2009a). The PES "Report on Employment Service" for October 2007 still listed active job openings by age group (MHLW, 2008c).

217. According to a career counselling staff survey, the main challenges of career counselling for middle-aged and older jobseekers are the relatively low number of job openings for this group the need for reconfirmation of the jobseeker's vocational abilities, and unrealistic pay expectations. In 2009, a mid-career counselling programme, *Career In-site MC*, was set up, aiming to give middle-aged and older persons a chance to review their current capacities quite apart from the skills developed in their previous jobs, and to consider their career choice based on an assessment of their aptitudes and hobbies (JILPT, 2009a). Such techniques of specialised guidance and consultation should be pursued further, and should be rigorously evaluated with a view to identifying what works best for older workers.

**3.4. Quantitative trends**

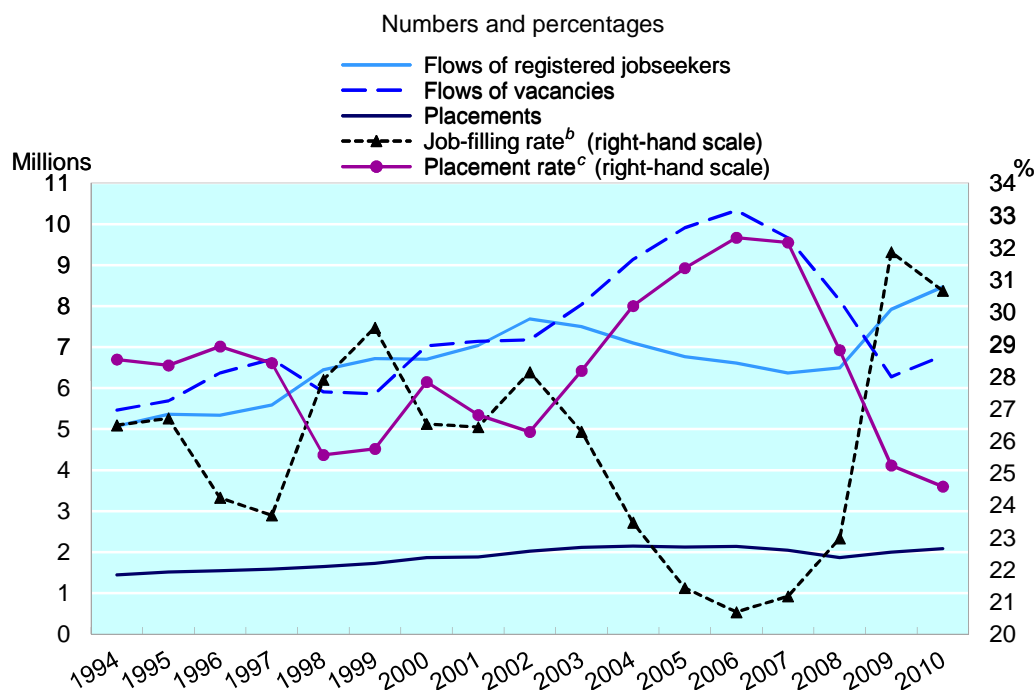
218. This section presents quantitative trends in vacancy notifications, jobseekers and placements, as well as some measures of the market penetration by the PES, comparing Japan with other selected OECD countries.

*Vacancies, jobseeker registrations and placements*

219. As shown in Figure 3.1, annual inflows of registered jobseekers (called *new applications* in Japanese statistical sources) gradually rose from around 5.1 million in 1994 and peaked at 7.7 million in 2002. This rise can be largely attributed to the prolonged slump that followed the "collapse of the bubble economy" in the early 1990s. In the following economic recovery, inflows of registered jobseekers began

to decline, before rising again to about 8 million during the recent economic downturn. On the other hand, annual inflows of registered vacancies (called *new openings* in Japanese statistical sources) increased almost steadily since 1994, up to over 10 million (15.5% of the labour force) in 2006, before declining to about 6 million in 2009 (9.5% of the labour force). From 2003 to 2008, the flow of new vacancy registrations exceeded the flow of new jobseeker registrations.

Figure 3.1. **Inflows of vacancies and registered jobseekers and placement and job-filling rate, Japan, 1994-2010<sup>a</sup>**



a) Data refer to the operations of the national service, *i.e.* Hello Work. 2010 data refer to estimates based on monthly data from January to March. Data from 1994 to 2009 refer to calendar year averages (January to December).

b) The *Job-filling rate* is defined as the ratio of placements to the inflow of vacancies, multiplied by a hundred.

c) The *Placement rate* is defined as the ratio of placements to the inflow of registered jobseekers, multiplied by a hundred.

Source: Ministry of Health, Labour and Welfare, *Year Book of Labour Statistics*, Table 23, several issues; and [www.mhlw.go.jp/toukei/list/114-1b.html](http://www.mhlw.go.jp/toukei/list/114-1b.html) for monthly data.

220. Placements by Hello Work offices have increased from about 1.5 million per year in the 1980s and early 1990s to around 2 million more recently. Figure 3.1 shows the *placement rate* (number of placements divided by the inflow of registered jobseekers) and the *job-filling rate* (number of placements divided by the number of new vacancies). Placements remain consistently well below both jobseeker and vacancy inflows. This is not internationally exceptional as regards jobseekers because – as in other countries – a relatively high proportion of jobseekers find work through other channels (notably job advertisements, as mentioned above).

221. By contrast, the *job-filling rate* (also called *job-offer satisfaction rate*) in Japan seems to be lower than in most other countries. The already-low rate fell further after 2002, although it then rose abruptly in the economic crisis when fewer job openings were forthcoming for a greater number of jobseekers. Related to the system of lifetime employment, job descriptions in Hello Work job announcements are far shorter than would be typical, for example, in the United States. Employers are willing to train employees as the need arises, and regard willingness to learn and motivation to work as more important than technical skills (Shniper, 2008). With a view to long-term employment, employers tend to keep a vacancy posted with

Hello Work on a quasi-permanent basis, rather than posting a vacancy for a specific post aiming to fill it rapidly.<sup>66</sup>

222. Prefectures with low placement rates and job-filling rates are typically those such as Tokyo with large metropolitan areas, which tend to have a variety of alternative methods of job-matching, so that the market share of public job-placement agencies is relatively small in terms of job offers and jobseekers. They also tend to have many difficult-to-place individuals such as middle- to old-aged and unskilled workers (Zhou, 2008).

### *Placements and vacancies by age*

223. Figure 3.2 shows a strong positive correlation between the placement rate and the active job-opening ratio (which is the ratio of registered vacancies to registered unemployment in stock terms), both through time and across all age groups, with the sole exception of teenagers. Placement rates and active job-opening ratios generally increased from 2002 to 2006 and fell thereafter. Age has a large impact on finding employment. After ages 30-44, the placement rate declines continuously with age. The active job-opening ratio declines with age until ages 60-64.<sup>67</sup>

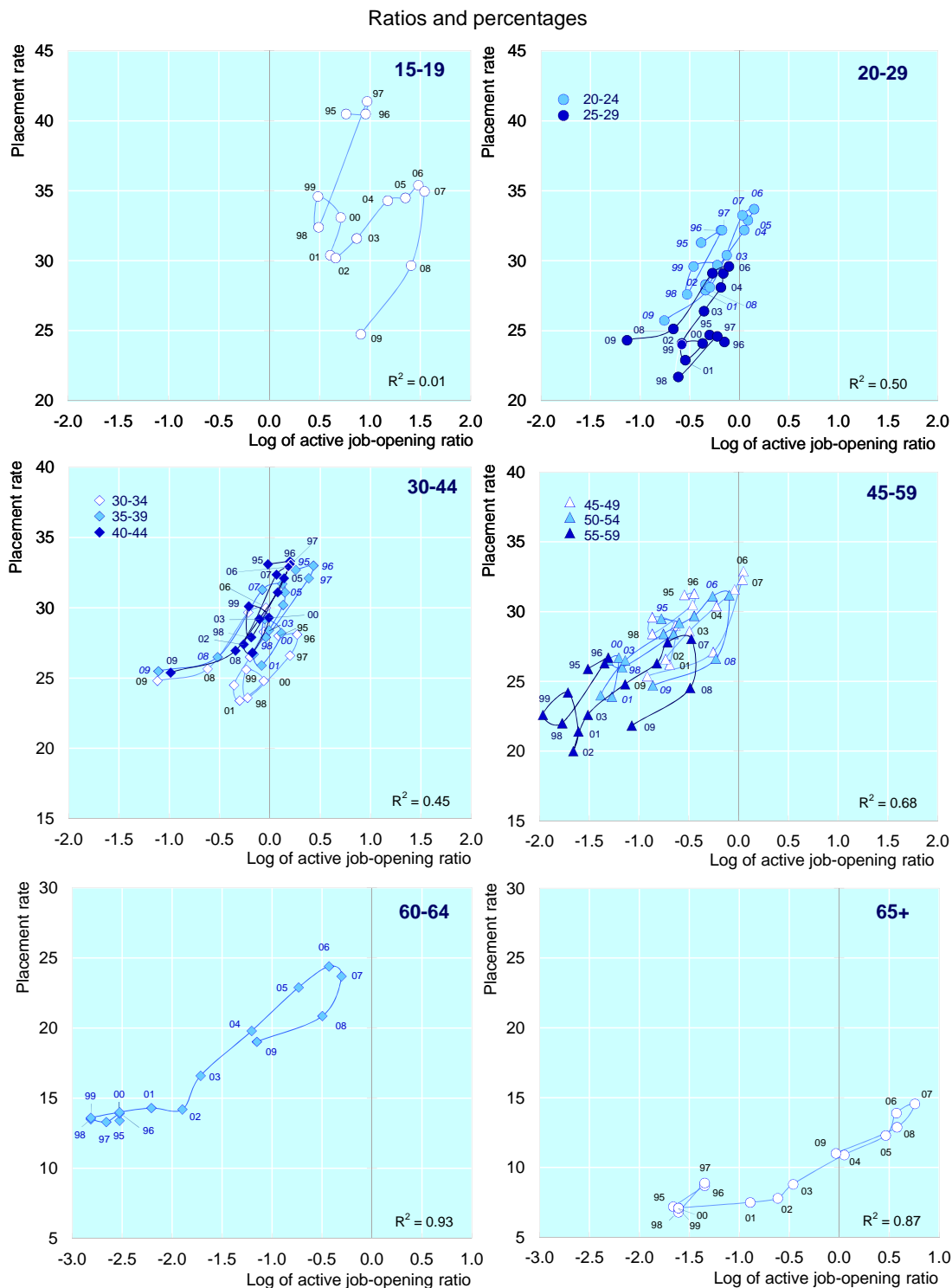
224. Since 2002, active job-opening ratios increased sharply for teenagers and the 65-and-over age group. As Fujii (2008) notes, this is likely to be related to the legislative and administrative drive to discourage age discrimination, which has resulted in an increase in the proportion of job announcements without an age limit. However, this does not necessarily imply that older workers are more readily hired. Given the enormous economic strain posed by an ageing population in Japan, it is important to give employers further incentives to recruit and retain older workers.

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66. OECD (1992, Chapter 3) noted that unfilled vacancies are displayed until the end of the second month after the month of notification, and that many employers notify vacancies at the beginning of the month in order to benefit from nearly 3 full months of display. This seems to be still the case because, since the early 1990s, the average duration of job vacancies (the ratio of the stock of unfilled vacancies to monthly inflows) has fluctuated between 2.5 months in recession years and 2.7 months in peak years. Vacancy notifications which do not relate to a specific post may often not be cancelled when the employer makes a related hiring through other channels.

67. The active job-opening ratio increases again for the age group 65 and above, but this may result from the fact that some job vacancies do not specify an age limit and are statistically classified as being available to all age groups, including the youngest and oldest age groups which have a relatively small number of labour market participants: unemployed workers 65 and over may less often be registered because they are not covered by the regular Employment Insurance system.

Figure 3.2. Correlation between placement rates<sup>a</sup> and active job-opening ratios,<sup>b</sup> 1995-2009<sup>c</sup>



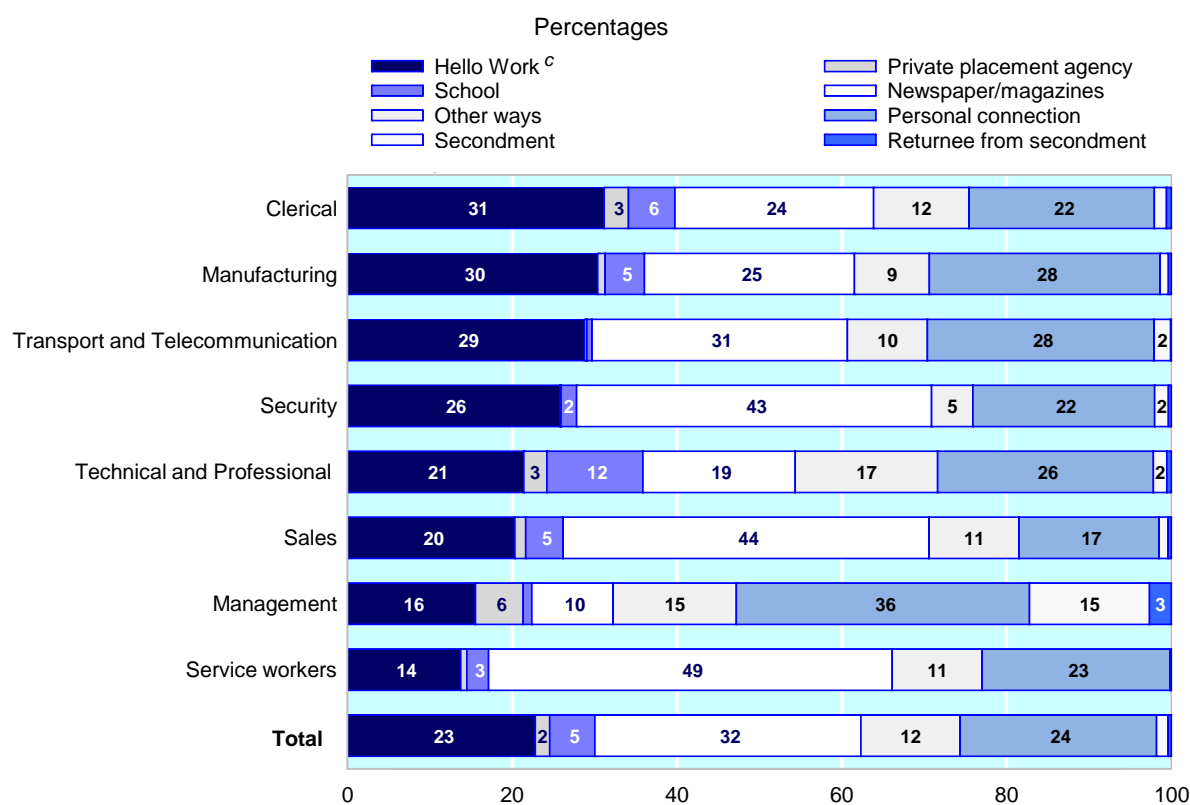
a) The *placement rate* is the ratio of placements to the inflow of jobseeker registrations in percentage.  
 b) The *active job-opening ratio* is the ratio of the stock of unfilled registered vacancies to the stock of registered jobseekers.  
 c) Each point on the chart refers to a different year from 1995 to 2009. From 1995 to 1999, data refer to October; and from 2000 onwards, data refer to fiscal years (April of the reference year to March of the following year).  
 Source: Ministry of Health, Labour and Welfare, Employment Security Bureau, *Report on Employment Service*, several issues for data from 1995 to 2006; and [www.mhlw.go.jp/toukei/list/114-1b.html](http://www.mhlw.go.jp/toukei/list/114-1b.html) for monthly data used to calculate 2007 to 2009 fiscal years.



### Recruitment channels

225. As in many other OECD countries, employers in Japan have no legal obligation to notify vacant job positions to the PES. Employers and jobseekers use a range of channels for recruitment and job finding (Figures 3.3 and 3.4). In 2007, Hello Work was the single most widely-used channel for employees hired in clerical work and the manufacturing sector, and newspaper/magazine advertisements were the single most widely-used channel for employees hired in security services, sales and the service sector. On average across the different sectors shown, the PES came in third position: 32.3% of hires were made through newspaper/magazine advertisements, 23.9% through personal connections and 22.8% through the Hello Work network (including its website service). The share of private placement agencies was relatively small: 6% for managerial posts, but 3% or less for other occupational categories. Larger firms (5 000 employees and over) used private employment agencies more often than Hello Work, and in smaller firms the share of Hello Work was more prominent.

Figure 3.3. Recruitment channels used by jobseekers,<sup>a, b</sup> Japan, 2007



a) Data are based on a survey of employment management by the Ministry of Health, Labour and Welfare.

b) Data include recent graduates.

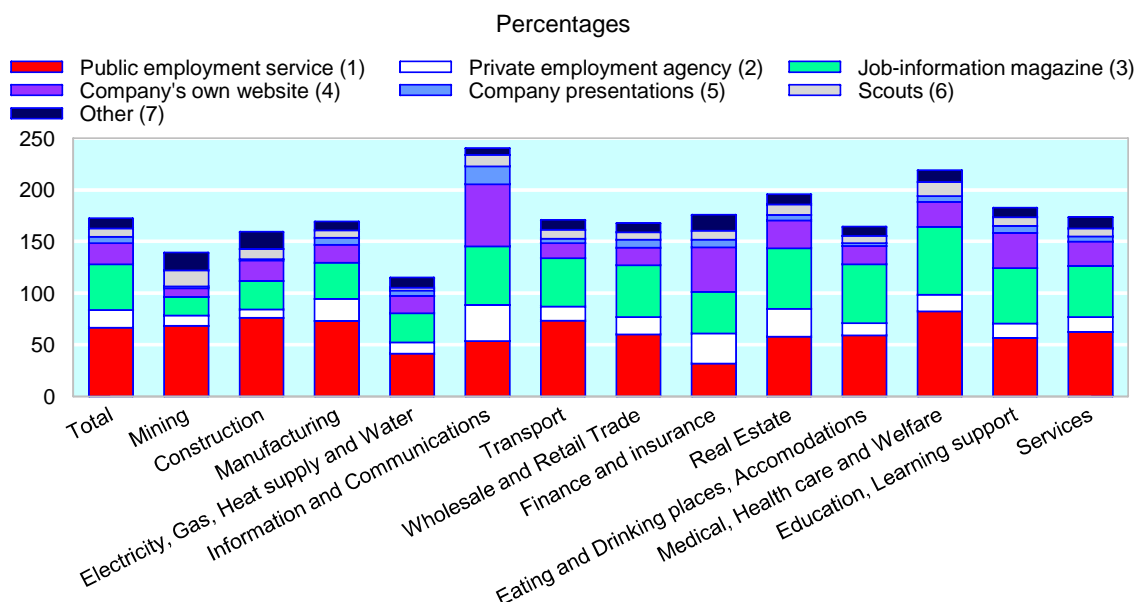
c) Including the Hello-Work website.

Source: Ministry of Health, Labour and Welfare, [www.mhlw.go.jp/toukei/list/9-19-2.html](http://www.mhlw.go.jp/toukei/list/9-19-2.html).

226. Surveys also regularly ask employers which methods they used to recruit new college graduates and mid-career hires (multiple answers possible). In 2007, for mid-career hires the most frequently cited method was the PES, followed by job-information magazines, company websites and private employment agencies (Figure 3.4). Results by firm size show a strong tendency for large firms to make greater use of all channels except the PES, which was used by 66.5% of all firms but only 36.9% of firms with 5 000 or more employees. Results by industry show that the employers in *Electricity, Gas, Heat supply and Water* used only slightly more than one method on average for mid-career hires, whereas employers in

*Information and Communications* used more than two on average. The PES also came out on top in channels used for hiring recent graduates (MHLW, 2008c).

Figure 3.4. **Methods used by employers for recruiting full-time mid-career employees, by industry, 2007**



The categories referring to the recruitment methods are plotted from 1 to 7 from the bottom to the top of the bars.

a) Data based on multiple responses, so that the sum of the responses exceeds 100%.

Source: MHLW (2008c), *Year Book of Labour Statistics 2007*, Table 57.

227. In the previous 2004 survey, the PES was again used by about two-thirds of employers for recruitment of mid-career hires, but only by a quarter for recruitment of new college graduates. For the latter jobseeker category, the PES at that time was only the fourth most-frequently cited method, after *i*) job-information magazine or website; *ii*) introduction or recommendation by teachers at school; and *iii*) job fairs or seminar (JILPT, 2009b).

### ***International comparisons of PES market share***

228. Table 3.4 shows the PES-performance indicators and market shares in Japan and other selected OECD countries in 2007. Among the countries included, Japan ranks top in terms of vacancies registered with the PES relative to estimated hirings in the economy as a whole at 78%. However, Japan's ratio of placements to vacancy registrations – described as the *job-filling rate* in Figure 3.1 above – at 21% is the lowest shown. As a result, its ratio of PES placements to hirings in the economy at 16% is lower than in Finland but higher than in Ireland or the United Kingdom, and its ratio of annual placements to total dependent employment at 4% is lower than in Finland or Ireland, and on a level with the United Kingdom. Japan's position in these comparisons is influenced by the relatively low *hiring rate* (annual hirings as a percentage of all dependent employment) assumed in the calculation of the table.

Table 3.4. Indicators of PES market share, selected OECD countries, 2007

Levels and percentages

	Finland	Ireland	Japan	Norway	Switzerland	United Kingdom <sup>a</sup>
<b>Employment service administrative data (000s)</b>						
Annual vacancy registrations <sup>b</sup>	564	170	9 668	399	101	3 515
Annual placements <sup>c</sup>	241	89	2 047	..	40	854 <sup>d</sup>
Average stock of unfilled vacancies	40	7	2 180	24	13	398
Average stock of registered jobseekers	440 <sup>e</sup>	101 <sup>f</sup>	2 094	46	109 <sup>g</sup>	929 <sup>h</sup>
<b>Labour market data</b>						
Dependent employment (000s)	2 169	1 743	55 230	2 231	3 891	24 396
Annual hiring rate (%) <sup>i</sup>	43	37	23 <sup>j</sup>	36	24	27
<b>Vacancy and placement rate indicators (ratios and annual rates, %)</b>						
Vacancy registrations/hirings <sup>k</sup>	60	26	78	50	11	53
Vacancy registrations/dependent employment	26	10	18	18	3	14
Placements/hirings <sup>k</sup>	26	14	16	..	4	13
Placements/dependent employment	11	5	4	..	1	4
Placements/vacancy registrations	43	52	21	..	39	24
<b>Vacancy to unemployment indicators (annual rate and ratio)</b>						
Annual vacancy registrations per person in the stock of registered jobseekers	1.28	1.68	4.62	8.66	0.93	3.78
Ratio of the stock of unfilled registered vacancies to the stock of registered jobseekers	0.09	0.07	1.04	0.53	0.12	0.43

.. Data not available.

a) Data for the United Kingdom exclude Northern Ireland and refer to 2006.

b) Annual vacancy registrations for Norway refer to the sum of vacancies notified directly to NAV by employers and vacancies registered by NAV staff from advertisements in the media. Vacancies notified directly by employers represent 32% of the total shown.

c) National definitions. In Finland, vacancies filled with a PES candidate (of which about one-fifth are vacancies filled by a direct referral); in Ireland, vacancies filled by FÁS referrals; in Japan, job vacancies filled by registered jobseekers; in the United Kingdom, vacancies filled by JobCentre Plus.

d) OECD estimate based on data for the first four months of the year (series discontinued in May 2006).

e) Total jobseeker clients including those on Unemployment Pension and Other (e.g. employed jobseekers).

f) Data on average stock of unfilled vacancies and average stock of registered jobseekers refer to 2006. In Ireland, the number of jobseekers registered with the placement service (FÁS) is well below the number of unemployment benefit claims on the Live Register.

g) Jobseekers refer to *Unemployed*.

h) UK claimant count, adjusted to exclude Northern Ireland. The United Kingdom does not register jobseekers who are not claiming benefit.

i) The annual hiring rates, here, refer to four times the percentage of employees who have a reported job tenure of zero to three months, unless otherwise stated. Estimates based on European Union Labour Force Survey detailed tabulations are averages of quarterly data, excluding quarters where data appear to be affected by coding errors as indicated by a high incidence of zero-month job tenures (excluding 2007 Q1 for Ireland and 2007 Q1 to Q3 for Norway).

j) For Japan, the hiring rate is estimated as the percentage of employees who have reported job tenure of less than one year, multiplied by 1.8 (which is approximately the average ratio observed in the European Union Labour Force Survey detailed tabulations) to adjust to the conceptual basis of four times the percentage with reported job tenure of zero to three months (see previous note).

k) Based on hirings calculated from dependent employment and the annual hiring rate, shown in previous rows of the table.

Source: For **Employment service administrative data**: Finland: Duell *et al.* (2009a), "Activation Policies in Finland", OECD SEM Working Papers, No. 98; and MEE (2008), *Employment Report 2007*, Table 2; Ireland: see Grubb *et al.* (2009), "Activation Policies in Ireland", OECD SEM Working Papers, No. 75; Japan: MHLW (2008), *Year Book of Labour Statistics 2007*; Norway: see Duell *et al.* (2009b), "Activation Policies in Norway", OECD SEM Working Papers, No. 78; Switzerland: OECD Main Economic Indicators database for **Registered jobseekers (unemployed)** and **Unfilled vacancies**, and national authorities for **Vacancy registrations**; United Kingdom/Great Britain: Nomis on-line database. For **Dependent employment**: OECD Online Employment database ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)). For **Job tenure**: European Union Labour Force Survey, special tabulations for European countries, and Statistics Bureau (2009), *2007 Employment Status Survey – Results for Japan*, Table 22 for Japan.

229. The active job-opening ratio (also sometimes called the *job-to-applicant ratio*, see Figure 3.2) is frequently used as an indicator of the relationship between labour supply and demand in Japan. Table 3.4 shows that this ratio is higher in Japan than in other OECD countries.<sup>68</sup> This reflects partly the high flow of vacancy notifications that are not necessarily targeted at immediate hiring for a specific post (see above), although it also suggests a structurally high level of labour demand relative to supply, at least in terms of activity registered with the PES. The ratio increased from 0.59 in 2000 to 1.06 in 2006, reflecting the expansion of the Japanese economy and tightness in labour market conditions, but then fell to 0.47 (in annual average terms, a record low) by 2009.

### 3.5. Key points

230. In Japan, over-the-counter job counselling and placement services are distinguished according to different types of jobseeker and job vacancy, so that specialised services can be provided. Although there has been a trend in recent years towards greater transparency of vacancies through the use of self-service facilities, it appears that counsellors quite often have information about job vacancies which is not posted on the internet, which would not so often be the case in most other OECD countries. Thus, there is a relatively high frequency of in-person visits to Hello Work offices by jobseeker clients. There is a constant stream of jobseekers consulting Hello Work computer terminals, and seeking additional information from PES staff. Similarly, employers are relatively often expected to come to Hello Work to clarify details of their vacancies. Although these procedures have some advantages, it is also important to free staff time through the availability and good quality of self-service resources.

231. Relatively short entitlements to Employment Insurance benefits and low benefit coverage have meant that many registered jobseekers are strongly motivated to find work. Initial registration, attendance at a briefing session for new recipients and in-person reporting to the PES every four weeks are the main requirements for continuing receipt of benefit. The PES has also introduced several types of job-search or action plans, with targets for the number of plans to be implemented, including the *Employment Realization Plan* for those in receipt of benefits for involuntary unemployment, the *Comprehensive Support Plan* targeted at middle-aged and older workers and the *Challenge Plan* for young jobseekers. However, participation in these measures is usually voluntary, even for participants with EI entitlement, and rates of participation in these plans, relative to the size of their potential target groups, are low.

232. Even if most unemployed people return to work quickly through their own initiative, interventions of a compulsory nature can make a critical difference for those whose own initiatives are reduced while they are receiving a benefit. Even motivated and “job-ready” jobseekers tend to benefit from meeting a counsellor. Furthermore, in Japan many of the short-term unemployed are EI recipients, and this group needs to be targeted for assistance in order to limit disincentive effects and benefit caseloads.

233. During the economic recovery in the early 2000s, the PES experienced an overall rise in the number of registered vacancies and placements. But despite the increase in vacancy registration across all age groups, placement rates for older workers remain particularly low compared with those for prime-age and younger workers. This can, to some extent, be attributed to the fact that until recently, employers could specify the age of jobseekers they wish to recruit in vacancy notices. Amendments to the Employment Measures Act stipulated that employers have a legal duty to provide equal opportunities in recruitment irrespective of age and, as a result, vacancies with age limits can be rejected by employment-placement organisations. But these changes alone do not necessarily imply that older workers are more readily hired, and are not sufficient to increase their employability in the labour market.

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68. In the United States, the unemployed-workers-per-job-opening ratio (the inverse of Japan’s *active job-opening ratio*) is commonly reported on the basis of survey data, which are not closely comparable with administrative data. It has been above 1 since 2000, and rose to more than 6 in 2009 ([www.nytimes.com/2009/09/27/business/economy/27jobs.html](http://www.nytimes.com/2009/09/27/business/economy/27jobs.html)).

## *Chapter 4*

### **UNEMPLOYMENT AND RELATED BENEFITS**

#### **4.1. Introduction**

234. In Japan in 2004, nearly 11% of the working-age population received an old age, survivor's or incapacity benefit (including social assistance paid on grounds of disability), which is close to the OECD average rate for these categories. By contrast, recipients of unemployment insurance and social assistance (not including payments on grounds of disability) totalled only 1.2% of the working-age population, far below the nearly-7% average for 15 other OECD countries (Duell *et al.*, 2009a, Table 4.1). Thus, the exceptionally low overall rate of working-age benefit recipiency in Japan is attributable primarily to low recipiency of unemployment and related benefits, which also implies low benefit coverage of unemployment. This chapter examines the targeting and coverage of these benefits and their incentive effects and role in the labour market.

235. The chapter first considers the Employment Insurance (EI) system, focusing mainly on the cash benefits provided.<sup>69</sup> A distinctive characteristic is that contributions to the regular EI system are not payable on earnings from some types of non-regular work, in particular until 2009 any work expected to last for less than a year. Japan provides the clearest OECD-country example of an unemployment insurance (UI) system that allows for the continuing existence of an uncovered sector, and its detailed provisions merit careful study by any other country that is considering the introduction of a UI system that may at first cover only workers in relatively stable and long-term employment – although Japan's recent reforms aim to extend coverage to short-term employment. The chapter then examines the management of Public Assistance, with a focus on the entitlement features and management practices that keep the benefit caseload particularly low. A final section summarises the main findings.

#### **4.2. Employment insurance (EI)**

##### *History of the EI system*

236. The OECD summary indicator of benefit entitlements<sup>70</sup> for Japan has taken values around 0.1 since 1961, with little trend change. In the calculation of this indicator for Japan, a

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69. For reasons of space, this chapter does not describe the special benefits for persons in Short-term Employment and for Day Labourers, the Outfit Allowance, Moving Expenses and Wide-Area benefits, Sickness and Injury Allowance provisions under the Employment Insurance law, the Skill Acquisition Allowance (for beneficiaries engaged in training) and Educational Training Benefit, the Childcare Leave Benefit and Family Care Leave Benefit. Expenditure on these special types of benefit (in most cases itemised in the *Japan Statistical Yearbook*, Table 20-22) is small relative to expenditure on basic allowances.

70. This is an average of the unemployment benefit replacement rates across two earnings levels, three household situations and three durations of the unemployment spell, including zero values in situations where no benefit is payable. See OECD (2007d, Figure 3.4).

prime-age worker with a long contribution record is assumed to receive a replacement rate of about 60% for about half of the first year of unemployment, and nothing in the second to fifth years of unemployment, since social assistance is assumed to be not payable as an unemployment benefit.<sup>71</sup> For comparison, this indicator takes a value of 0.35 or more in eight OECD countries that have relatively long-duration UI benefits as well as unemployment assistance or social assistance benefits payable when UI benefits have expired. In Japan, the OECD summary indicator declined to slightly below 0.1 in the late 1970s and early 1980s, rose as entitlements were extended slightly after the early 1980s through to the mid-1990s, and then again declined below 0.1.<sup>72</sup> Some of the more recent changes to the benefit schedule are summarised in Table 4.1.

Table 4.1. **An outline of the main changes in the schedule of entitlements to Employment Insurance, 1975-2010<sup>a</sup>**

<b>1975</b>	<i>Employment Insurance</i> replaces <i>Unemployment Insurance</i> . Benefit duration is made dependent on age instead of contribution record.
<b>1984</b>	Benefit duration is made dependent on both age and contribution record.
<b>1995</b>	Benefit duration for people in their sixties is extended by 30-60 days.
<b>2001</b>	The minimum income threshold for enrolment as a part-time insured worker is removed. The previous age by contribution record schedule determining benefit duration is replaced by separate schedules for “ordinary unemployed” and for “unemployed as a result of bankruptcy, dismissal, etc”. In the case of “ordinary” unemployment, benefit duration is reduced, particularly for older long-term insured workers. In the case of unemployment “as a result of bankruptcy/dismissal”, benefit duration is increased for persons aged 45-59, but reduced (below the duration for ages 45-59) for persons aged 60-64. The earnings ceiling (maximum earnings eligible for the benefit replacement rate of 0.6) becomes age-dependent, ranging from JPY 14 590 per day for workers aged less than 30, to JPY 19 450 for workers aged 60-64.
<b>2003</b>	For workers with 5 or more years of contributions, the maximum benefit duration is reduced by 30 days in cases of “ordinary unemployed” and increased by 30 days in cases of “bankruptcy, dismissal, etc.”. The earnings ceiling for ages 60-64 is reduced below the ceiling for ages 45-59. The gross replacement rate now declines from 0.8 to 0.5 as earnings increase (previously it declined from 0.8 to 0.6) for workers aged less than 60 (from 0.8 to 0.45 for workers aged 60 or more). As a result, the maximum benefit amount is reduced by about 25%.
<b>2009</b>	Fixed-term employees whose employers are “expected to hire them for six months or more” are allowed to contribute to the system (previously restricted to those “expected to remain employed for one year or more”).
<b>2010</b>	The applicable scope of employment insurance contributions is extended to include people who are expected to be employed for 31 days or more.

a) Table refers to changes in entitlements to the regular EI system’s contribution coverage and entitlements to cash benefits during unemployment, but not changes in EI contribution rates and employment promotion measures.

Source: *Benefits and Wages* country-specific files ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)); Hamaguchi (2008); Hatoyama Cabinet (2010); Hayami (2003); JIL (2003a; 2004); <http://yoshida-econ.info/cms/index.php>; MoF (2009) and [www.mhlw.go.jp/general/seido/anteikyoku/koyouhoken/index.html](http://www.mhlw.go.jp/general/seido/anteikyoku/koyouhoken/index.html).

237. From 1990 to 2000, labour force survey (LFS) unemployment in Japan increased from 1.3 million to 3.1 million, and the number of EI beneficiaries more than doubled (see Table 4.3 below). The rise in unemployment was related to a growing incidence of non-regular work. For example,

71. This indicator has equal weights on the gross replacement rate in year 1, years 2 and 3, and years 4 and 5 of a hypothetical long unemployment spell, so for Japan the calculation is approximately  $(0.6*0.5+0+0)/3 = 0.1$ .

72. The OECD indicator is based on the entitlements for a 40-year-old worker with over 20 years of contributions. The 2001 reform reduced the benefit duration in this case from 210 days to 150 days for an “ordinary” unemployed worker (see Table 4.1, and Hayami, 2003).

the number of “freeters” according to the commonly-used statistical definition doubled in the ten years to 1992 and doubled again by 2002 (Iwakami, 2007). After a period of surpluses up to 1992, in the later 1990s the Employment Insurance fund fell progressively into deficit, reflecting growth in the number of claims, particularly claims by older workers who had higher salaries and could collect benefits for a longer period.

238. The major reform of 2001 curtailed the duration of benefit entitlements for those making claims at the end of a temporary contract (unless they had a reasonable expectation of contract renewal and the employer was responsible for non-renewal), for those making claims upon retirement from their lifetime job, and for workers aged over 60. These changes sharply reduced the actual average duration of benefit spells and the benefit coverage of LFS unemployment (see the discussion of Table 4.3 below).

239. Until recently, a large proportion of all employees – according to some sources over a third – were not making EI contributions (see below). For some groups, such as young male non-regular workers, reported contribution coverage rates have been as low as a quarter. Since the mid-2000s enrolment rates have increased slightly. This may be related to the unification of the collection procedures for labour insurance contributions and other social insurance contributions and the extension of EI contribution coverage to temporary contracts of at least six months’ duration in 2009. The recent extension of contributions to employment expected to last for 31 days or more is expected to increase coverage further.

### ***EI coverage of non-regular employment and bonuses***

#### *Principles of exemption from contributions*

240. In European and North American countries, UI contributions are due on all employee income, with often no exception for either part-time work or temporary contracts,<sup>73</sup> although in some cases earnings below a particular threshold are exempted.<sup>74</sup> However, in Japan both part-time and temporary contract work can be exempt from UI contributions. Prior to the 2001 reform, the conditions for being obliged to contribute to the regular employment insurance system were:

- 1) Annual income of JPY 900 000 or more;
- 2) Work 20 or more hours per week regularly; and
- 3) Expect employment to continue one year or more.

In 2001, the first condition (the income minimum) was abolished. By June 2001 the number of part-timers enrolled in the insurance system was one third higher than a year earlier (Higuchi, 2001) – although aggregate statistics (see Table 4.3 below) suggest this change had only a minor longer-term impact. The third condition was modified in 2009 to cover employment expected to last for 6 months or more, and in 2010 to cover employment expected to last for 31 days or more.

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73. Commonly in other countries some part-time workers are liable to pay contributions on their earnings in work even though low hours or low earnings disqualify them from benefits, *e.g.* “In many states, when part-time workers lose their jobs, they are not eligible for unemployment insurance (UI) benefits even though their employers pay both federal and state unemployment taxes on their wages” (Shattuck, 2009).

74. In Austria in 2007, contributions were not payable on earnings of less than EUR 341.16 per month; in Germany “minijobs” paying less than EUR 400 per month are exempt from contributions; and in the United Kingdom in 2007-08, no national insurance contributions were payable on earnings of less than GBP 105 per week (OECD, 2009e).

241. Some observers see the partial exemption of non-regular work from social insurance contributions as a cause of the growth in non-regular work. According to Estévez-Abe (2009), large firms have increasingly hired non-regular workers because they are cheaper, due to the exemption of non-regular and contract workers from mandatory social insurance schemes (such as unemployment insurance and pension schemes). Bredgaard and Larsen (2006) state that on an hourly basis part-time workers are paid only 40% as much as full-time workers, and that firms “furthermore benefit from an additional 13% saving in non-wage costs since part-time employees are exempted from health insurance, pension contributions and unemployment insurance below certain thresholds, thus eliminating the need for co-payments from employers.” On the labour supply side, Ono and Rebick (2002) cite the income limit above which married women must pay health and pension contributions on their earnings as one of the factors that discourage women from working full-time.

#### *Coverage of part-time work*

242. According to the labour force survey, in 2008 about 20% of dependent employment was part-time and 14% was temporary. Part-time workers with basic working hours below 20 per week cannot be insured. Until 2001, there was a separate schedule of benefit duration for part-timers working between 20 and 30 hours per week. Although this separate benefit schedule was abolished in 2001, in payroll systems employees are still classified as either regularly insured or short-time insured (Peoplesoft, 2009). Hello Work Tokyo (2007) states that the UI-qualifying period for those working 1 to 13 days per month is 12 months (compared with 6 months for those working 14 or more days per month).<sup>75</sup>

#### *Benefit and contribution coverage of workers with short contribution records*

243. The Employment Insurance Law of 1974 (*Art. 6, and 38*) set out specific benefit entitlement rules for day labourers and “Specially Insured Persons in Short-term Employment”, but did not allow exemption from contributions on grounds only of the short-term nature of the employment.<sup>76</sup> However, the contribution coverage of short-term employment under the system for “Specially Insured Persons in Short-term Employment” is low.<sup>77</sup> The regular system in principle until 2009 covered only employment relationships expected to last for more than a year, yet entitlement to benefit arose after six months of contributions. Employers and workers have had an incentive to make contributions on employment relationships likely to generate a benefit claim after only six months, since the ratio of benefit received to contributions paid is particularly high in this case. The PESO therefore needed to enforce payment of contributions on relationships expected to last for more than a year, but also enforce the non-coverage of employment relationships likely to last for less than a year.

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75. Okamoto and Company (2009) state that the qualifying period is 12 months for non-permanent employees working over 20 but under 30 hours per week (approximately equivalent to 11 to 13 days per month).

76. The law stated that “undertakings in which a worker or workers are employed shall be covered undertakings” but it did not apply to “persons who are employed in a seasonal undertaking scheduled for a period not exceeding four months”.

77. After 6 months of contributions, whereas regularly insured persons were entitled to 90 days of benefit paid monthly, “Specially Insured Persons in Short-term Employment” were entitled to 50 days of benefit paid as a lump sum (see *Art. 13, 22, 40*, etc. of the EI Law of 1974); in the 2000s, the lump-sum amount was reduced to 30 days of benefit, later increased to 40 days (MHLW, 2009c). Many contributors to this system are seasonal construction workers.



244. The principle that people employed on a fixed-term contract for less than a year were not eligible for coverage was restated with the EI reform of 2001 and tightened in October 2007 with a statement that “normal workers” would only become entitled to benefit after making 12 months of contributions.<sup>78</sup> However, this was reversed in April 2009, when employees with an expected employment term of at least 6 months were made eligible both to contribute and to receive benefits.

*Enrolment rates and the implementation of the contribution coverage criteria*

245. A variety of statements are made about the principles of contribution coverage. Hosokawa and Kobayashi (2008) state that “workers may be ineligible for employment insurance if there is a clause in their contract allowing unconditional non-renewal if they have worked for less than a year”. Following the 2009 reform “in principle” workers on successive contracts that total more than 6 months should be enrolled (Okamoto and Company, 2009; and NIC, 2009). Also “[b]y law, workers have the right to request their employers to insure them” (NIC, 2009). Although firms must insure workers when their contracts specify 20 or more basic working hours per week, workers with lower basic working hours may have higher actual working hours. The government works hard to contact employers and ensure proper EI coverage, but the resources available for this remain relatively limited.<sup>79</sup>

246. Higuchi (2001) reported that the “percentage of workers contributing to employment insurance” was 62.6% (67.4% for men, 55.3% for women), which suggests low coverage of non-regular employment. If the numbers enrolled in the EI system (40.4 million in 1995 and 38.7 million in 2005) are compared with total number of employees aged 15-64, the implied EI coverage was 80% in 1995 and fell to 75% in 2005 (*Japan Statistical Yearbook*, Tables 16-3, and 20-8). However, in Statistics Bureau (2009) probably over 85% of employees aged 15-64 reported their duration engaged as a year or more and that they were working 20 or more hours per week.<sup>80</sup>

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78. NIPSSR (2003) states that after the EI reform of 2001, temporary workers had to work “at a same workplace for more than 1 year” to be “eligible to subscribe to the Employment Insurance”. The OECD *Benefits and Wages* country-specific file for Japan in 2008 specifies that “normal workers” were entitled to benefits after 6 months of contributions before October 2007, and after 12 months of contributions after October 2007. However in cases of dismissal, bankruptcy and unexpected non-renewal of a fixed-term contract, 6 months of membership was still enough.

79. In the field of income and consumption tax collection, Japan has less than one full-time equivalent staff working on administration and overhead functions per thousand people in the labour force, and has simplified key aspects of its tax system as compared with other OECD countries in order to reduce operational workloads (OECD, 2009f). It is difficult to envisage similar simplification of the collection of social insurance contributions, since even non-regular workers in small enterprises paying small amounts should be covered. Also, although the authorities can impose sanctions, Asakura (2000) claimed that “Society is rather tolerant of companies that avoid their liability for social insurance premiums. Not one criminal indictment has been tried in the past 15 years based on one party purposely avoiding the liability for social insurance premiums”.

80. Statistics Bureau (2009) provides a table where weekly working hours are cross-tabulated with days worked per year (less than 200 days/200 days or more), but not a table where they are cross-tabulated with age and “duration engaged in work”. However, only 13% of all employees reported their duration engaged as less than a year, and less than 3% of those working 200 days and over per year reported working less than 20 hours per week (Statistics Bureau, 2009, Tables 17 and 22) and this implies that about 85% work 200 days per year and 20 hours per week, or more. In the labour force survey, only 6% of employees reported their usual weekly working hours as less than 20 [*e.g.* see the OECD Online Employment database ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database))].

Thus, only about half of the apparent contribution non-coverage of 15-64-year-old workers could easily be attributed to a duration of engagement below one year or to low actual weekly hours of work.

247. Workers who are “part-time” on the basis of their contractual status may in fact (see Chapter 1) regularly work longer or indeed full-time hours. In 1999 (which appears to be the last time that the relevant survey was conducted), EI enrolment rates for part-time workers “whose hours of work and work days in a week are almost equivalent to those of regular employees but [who are] treated as part-time workers in terms of compensation, training, career opportunities, and so forth” ranged from 45% for single men up to 77% for married women. Across all male non-regular workers, EI enrolment rates varied from 24% for 20-24-year olds up to 80% for 50-59-year olds (Chatani, 2008, Tables 8 and 9). This strong age gradient in contributions probably reflects a tendency for older males to aspire to regular status, and is further encouraged by the age gradient in benefit entitlements (see below).

248. The promotion of EI coverage is an important task for Hello Work counsellors. Job-vacancy notifications that do not offer EI coverage are accepted, but counsellors remind the employer that jobs for more than 20 hours per week and an expected duration of a year or more (until 2009) should be covered. It remains to be seen how far problems of non-coverage will be eliminated by the extensions, in principle, of coverage in 2009 and 2010 (see Table 4.1).<sup>81</sup> Permanent full-time employees have in principle always been eligible for benefits even if their employer did not pay contributions,<sup>82</sup> and to enforce the new contribution rules, the PES could invite similar claims by non-regular workers regardless of whether their employer has paid contributions, in order to identify and pursue non-paying employers.

*Unification of the collection of social insurance and labour insurance contributions*

249. For several years after the unification of the two Ministries, Labour Insurance (Workers’ Accident Compensation and Employment Insurance) contributions, formerly managed by the Ministry of Labour, were still collected by regional Labour Bureaus separately from Social Insurance (Health and Pension) contributions. The definition of the wage used as the basis for calculating contributions differed between the two types of insurance. The collection of national taxes, local taxes and social security contributions in Japan involved an exceptional degree of overlap between tax bases and the responsibilities of multiple agencies, yet there had been virtually no discussion of this issue (Nishizawa, 2006; and Jang, 2007).

250. However, by 2007 unified *Social Insurance/Labour Insurance Contribution Levy Centers* had been established at Social Insurance Offices nationwide, and applications for enrolment of newly-hired workers and investigation and collection procedures were being managed jointly for both types of contributions. Legislation to harmonise features such as the submission deadline and calculation basis for the two types of insurance contribution was introduced in 2007 with application from 2009 (MHLW, 2008a; and NIPSSR, 2007). Thus the authorities can now to a greater extent expect all types

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81. As mentioned above, 1974 legislation already included provisions for workers in short-term employment, so the issue is mainly one of enforcement and administrative capacity. The ratio of people insured for EI to total employees in the economy changed little in the year to April 2010 but it rose a little later in 2010, suggesting that the 2010 extension of coverage is having more impact than the 2009 extension did.

82. This was stated on the PES website in 2005 (according to a blog entry at <http://forum.gaijinpot.com/showthread.php?t=27993>) and by OECD (1993), which notes that an enterprise that does not pay contributions runs a risk of detection when a former worker applies for benefit.

of social insurance contribution to be paid on approximately the same wages, and check that this is the case. The unification of collection procedures probably gives the authorities a better overview of situations where companies are not paying EI contributions on a large proportion of their wage bill. It encourages and supports the recent moves to abolish exemption from contributions for workers on short-term contracts.

### ***Benefit level and duration***

#### *Benefit amount*

251. The benefit amount is calculated from the daily amount of wages (DAW). The DAW is the total amount of wages, excluding bonuses, paid during the last 6 months divided by 180. For those aged under 60, the ratio of benefit to earnings (BR) is calculated using the following formula (in 2007):

- If  $2\,080 \leq \text{DAW} < 4\,100$ :  $\text{BR} = 0.8 * \text{DAW}$ ;
- If  $4\,100 \leq \text{DAW} < 11\,870$ :  $\text{BR} = 0.8 - 0.3 * (\text{DAW} - 4\,100) / (11\,870 - 4\,100)$ ;
- If  $11\,870 \leq \text{DAW} < \text{Maximum Amount}$ :  $\text{BR} = 0.5 * \text{DAW}$ ; and
- If  $\text{DAW} < 2\,080$ , the daily amount is fixed at  $2\,080 * 0.8$ , and if  $\text{DAW} \geq \text{Maximum Amount}$ , it is fixed at the  $\text{Maximum Amount} * 0.5$ . The Maximum Amount is JPY 12 790 for ages less than 30, JPY 14 200 for ages 30-44 and JPY 15 620 for ages 45-59. In the last case, the maximum benefit amount is JPY 7 810 per day, paid seven days per week.

252. For recipients aged 60 or over but under 65, the same formula ( $\text{BR} = 0.8 * \text{DAW}$ ) applies for DAW up to JPY 4 100, but for higher earnings:

- BR declines more steeply, reaching 0.45 when the DAW is 10 640 (rather than 0.5 when the DAW is 11 870); and
- The Maximum Amount is 15 130, so that the maximum the benefit ceiling is  $15\,130 * 0.45 = 6\,808.5$ , slightly below the maximum benefit amount for workers aged 45-59.

The maximum benefit for 45-59-year-old workers corresponds to about 61% of the average wage and is paid to people who have a DAW level of 121% of the average wage or more.<sup>83</sup>

253. The BR values of 0.8, declining to 0.5, overstate the *net* replacement rate for people who have bonuses (a large component of total remuneration in Japan) in work, since bonuses do not enter into the definition of the DAW.<sup>84</sup> However, the BR values also tend to understate the net replacement rate because the benefit is not taxable.

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83. This percentage is calculated using the average wage per full-time equivalent employee in 2007 (see OECD, 2009g, Table I).

84. *Benefits and Wages* country-specific file for 2007 and other sources, state that bonuses are excluded from the daily average wage (DAW) used to calculate benefits. However, since at least 2002 contributions for labour insurance (employment insurance and workers' accident compensation insurance) are levied on total annual wages including bonuses ([www.jil.go.jp/english/laborinfo/qa/costs3.htm](http://www.jil.go.jp/english/laborinfo/qa/costs3.htm); and Sawamura, 2007).

*Benefit duration*

254. Unemployment insurance benefits are paid for a period that varies from 90 to 360 days according to the period of employment insured, the age of the recipient and the reason of job separation, as shown in Table 4.2. In the case of “ordinary” unemployment, for contribution periods of less than 10 years the benefit entitlement is limited to 90 days (3 months). Even in the case of unemployment “as a result of bankruptcy, dismissal, etc.”, for workers aged below 45 with contribution periods of less than 5 years the benefit entitlement is limited to 90 days. Since a large proportion of all unemployment spells will probably fall under these two categories, the average entitlement duration for new benefit spells is likely to be considerably below 6 months, which is short relative to systems in other OECD countries. Only a minority of benefit claims are likely to qualify as “unemployed as a result of bankruptcy, dismissal, etc.”, given that voluntary quits, fixed-term contracts, and benefit claims upon retirement (see below) are common phenomena.

Table 4.2. **Duration of unemployment insurance benefits by unemployment status, age and insured period, 2007**

Days<sup>a</sup>

Unemployment status	Age	Insured period (in years)				
		Less than 1	1 to 4	5 to 9	10 to 19	20 or more
Ordinary unemployed	All ages	90	90	90	120	150
Difficult to re-employ <sup>b</sup>	Less than 45	150	300	300	300	300
	45-64	150	360	360	360	360
Unemployed as a result of bankruptcy, dismissal, etc.	Less than 30	90	90	120	180	..
	30-34	90	90	180	210	240
	35-44	90	90	180	240	270
	45-59	90	180	240	270	330
	60-64	90	150	180	210	240

.. Data not available.

a) Benefits paid 7 days per week (e.g. 90 days correspond to 3 months).

b) The “difficult to re-employ” are not precisely defined, since local PES offices decide whether individuals qualify. However, in Japan workers tend to be described as “difficult-to-employ” due to age, disability or the depressed state of the regional labour market. In FY 2007, about 4% of claims had a benefit period of either 300 or 360 days.

Source: *Benefits and Wages* country-specific chapter, 2007.

255. As seen in the table, a contribution record of up to 20 years can be taken into account. Entitlement in this case depends on presenting unemployment slips (work records) supplied by former employer(s) up to 20 years earlier, requiring workers to keep records (for this purpose) for longer than in any other country.<sup>85</sup> The contributions that qualify for long-duration benefits (e.g. 240 days for an

85. Two other OECD countries have taken relatively long contribution records into account. In Germany before 2005, workers aged 57 and over were entitled to 32 months of benefit if they had made 64 months of contributions in the previous 7 years. In the Netherlands, although benefit entitlements are usually described as increasing with the employment record up to 40 years (since the 2006 reform, up to 38 years), in practice “Labor experience is calculated as the number of years in the 5 calendar years prior to unemployment in which the individual has received wages for at least 52 days, plus the number of calendar years between the year that the individual turned 18 and the 5 years prior to unemployment. As a result... the PBD [potential benefit duration] for wage-related benefits depends almost completely on the age at which the individual becomes unemployed” (Heyma and van Ours, 2005).

employment record of 5 years and 330 days for an employment record of 20 years, for a worker aged 45-59) can only be used once, *i.e.* only contributions made after the previous benefit claim are taken into account for a subsequent claim.

*The distinction between “ordinary unemployment” and “unemployment due to bankruptcy or dismissal”*

256. As seen in Table 4.2, the introduction of a separate benefit entitlement schedule for cases of “ordinary unemployment” in 2001 particularly affected benefit entitlements for older workers with long contribution records.<sup>86</sup> Hello Work Tokyo (2007) states that people eligible for the longer-duration benefit are those “who are compelled to leave employment without a time margin to prepare for re-employment due to bankruptcy, dismissal or another reason”. “Bankruptcy or similar reason” includes people who have become unemployed “due to notification of mass employment changes” and “due to closing of place of employment”. This source clarifies that disciplinary dismissals do not qualify, and that various situations of constructive dismissal (involving employer fault, such as excessive overtime hours, unanticipated reduction of the wage and non-payment of the wage) do qualify.

257. Following the principle that longer benefits durations are payable only to people “without a time margin to prepare for unemployment”, neither termination of employment at the end of a temporary contract nor termination upon retirement<sup>87</sup> count as “dismissal”. The restriction of benefits following a temporary contract is particularly significant because in most OECD countries, a large proportion of entries to benefit follow the end of a fixed-term contract or another type of temporary contract.<sup>88</sup>

258. A few other OECD countries have made a partly-similar unemployment status distinction, providing more generous benefits to victims of collective or administratively-authorised layoffs.<sup>89</sup> This principle tends to protect the incomes of male breadwinners, and (insofar as there is a risk that plant closures will be blocked by opposition from long-tenure workers) to facilitate industrial adjustment. It

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86. Hayami (2003) presents the detailed benefit entitlement schedules before and after the 2001 reform.

87. Honda (2002) states that since 2001 the benefit entitlement is “90-180 days for those who were able to prepare for re-employment prior to losing their jobs [including those whose ‘re-employment’ amounted to retirement]”. The 180 days were reduced to 150 in 2003 (see Table 4.1).

88. For example in France, in the first quarter of 2001, 27% of new registrations followed the end of a fixed-term contract and 10% followed the end of interim (temporary-work agency) work, while less than 25% followed either a layoff or a quit (39% of new registrations were labour market entrants and other cases) (Pignoni and Zouary, 2003). In Finland in 2007, about half of the registered jobseekers were looking for jobs because their fixed-term employment contract had come to an end (MEE, 2008). In Canada, although the contract type is not recorded, more than half of those who applied for and received benefits in 1996 were characterised as repeat users (defined in terms of benefit income in at least three of the years 1992-96) (Schwartz *et al.*, 2001), although in stock terms only about 12% to 16% of employment is temporary [see the *OECD Online Employment database* ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database))].

89. In Italy for many years, victims of collective layoffs were granted, subject to administrative authorisation, generous long-term CIG (Wage Guarantee Fund) and “Mobility” benefits, while other unemployed could qualify at most for temporary benefits at a low rate. France from 1974 to 1982 paid a “supplementary waiting allowance” (*Allocation supplémentaire d’attente*) at a rate of 90% of former earnings for a year in cases of layoff for economic reasons (*Licenciement pour motif économique*): layoffs for economic reasons were subject to administrative authorisation, and in practice this high rate was relevant for only about a quarter of unemployment benefit recipients (OECD, 1994).

also, by excluding voluntary quits for individual reasons from the more generous benefits, reduces moral hazard. Unless benefits are conditional on events such as plant closure, it is often possible for separations agreed with the employer, or partly motivated by personal reasons of the worker, to qualify as involuntary although they also have a partly-voluntary character.

*Benefits following voluntary quit*

259. In other OECD countries, workers who voluntarily quit their job are often subject to a benefit sanction of about one to three months, but some countries apply a longer sanction or complete disqualification from benefit (OECD, 2000, Chapter 4).<sup>90</sup> In Japan, a three-month waiting period is imposed in cases of voluntary quit, with no loss of entitlement.<sup>91</sup> The claimant needs to register with the PES to start the three-month waiting period.

260. In the late 1990s the rate of sanctions (in Japan, waiting periods) for voluntary quit as a percentage of the inflow to benefits was 57%, in contrast to rates of sanction in the range of 1% to 13% reported by other OECD countries (Gray, 2003). There is some evidence that the percentage of claims assessed as voluntary quits was even higher in the past, because OECD (1993, Table 13) reported that about 70% of new claims were subject to a waiting period for voluntary quit. More recently, Rosen (2003) reported that “One Japanese official estimated that only one-third of those currently receiving UI were involuntarily separated from their jobs”, although this does not necessarily imply that two-thirds of claims were subject to a waiting period.<sup>92</sup>

261. Several factors seem to be involved in the high proportion of claims that are assessed as voluntary quits:

- The PES assesses whether a quit is voluntary or not on the basis of the reason for separation listed by the claimant’s former employer on the leaving certificate. By contrast, in European countries separations which are voluntary from the point of view of the employer are often not treated as voluntary: *e.g.* most countries do not impose a benefit sanction on a person who quits their job to accompany a spouse who is moving to a different area for professional reasons, or a person who quits in order to care for a sick relative and then returns to the labour market and claims benefit;<sup>93</sup>
- The high level of vacancies on offer in Japan makes employees willing to initiate separations. The average value of the “job-openings ratio” (the ratio of registered unfilled

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90. In Canada since 1993, and in most states of the United States, voluntary quitters are excluded from benefit.

91. Although since 2001, after a voluntary quit only the less-generous benefits (for “ordinary” unemployment) are payable.

92. When people who work on successive short-term contracts refuse (or fail to seek) a contract renewal and claim benefits, it is relatively difficult to document the voluntary nature of unemployment. The blog <http://forum.gaijinpot.com/showthread.php?t=27993> includes the exchange “[*Question*]. If I have finished my contract, I have neither quit nor been fired, therefore I should be eligible for this insurance after 7 days. Is this correct? [*Answer*]. Yes you should be entitled to it after 7 days. The person who did my job before me did (and we are on yearly contracts). I intend to claim when I finish this contract period”.

93. The fact that quits for personal reasons – in particular temporary non-availability for work – cannot be treated as involuntary in Japan helps to explain why policy-makers have considered it appropriate to apply a waiting period, rather than a formal sanction, in cases of voluntary quit.

vacancies to registered unemployment, in stock terms) over the last two decades was about 0.8, much higher than in most European countries; and

- In Japan, PES management is concerned to protect the EI fund and officials probably emphasise to employers the importance of reporting the reason for separation reliably.

### *The treatment of particular situations in the EI system*

#### *Benefits for seasonal workers, day labourers and contract workers*

262. As late as 1990, about one-sixth of unemployment benefit expenditure consisted of lump-sum payments for seasonal workers and special benefits for day labourers (OECD, 1993). However, these forms of employment have mostly been replaced by temporary contract employment, which is covered or not covered according to the rules of the regular EI system.<sup>94</sup>

#### *Benefits for older workers*

263. In many OECD countries, UI benefit entitlements do not change with age. However, in six European countries (Austria, Finland, France, Germany, the Netherlands and Portugal), the maximum duration of UI benefits is higher for older workers, often about twice as long as for prime-age workers, and this is also the case in Japan.

264. In European countries, many workers upon retirement from a long-term job immediately qualify for a public pension, and when older workers become unemployed their lengthy unemployment spells often end in retirement or early retirement. However, in Japan EI benefits for older workers function differently. First, many Japanese workers claim benefits after mandatory retirement from their lifetime job, with most companies setting their mandatory retirement age at 60. Second, after mandatory retirement followed, in many cases, by an EI claim for up to 5 months (300 days before the 2001 reform, but only 150 days now, as shown in Table 4.2) they typically take non-regular jobs, which in some cases result in claims based on short contribution records. Third, from the age of 65, a significant proportion of workers continue to work, but they are no longer covered by the regular EI system. They can, however, contribute on a voluntary basis to a special EI system which provides lump-sum benefits (see below).

265. In Japan, the age-related duration of benefit entitlements was introduced in 1975, although from 1984 durations were related also to the length of contributions. From 1975 to 2001, benefit durations increased uniformly with age. Genda and Rebick (2000) state that “older workers have typically received benefits with a high replacement rate of 60% for a period of one year following mandatory retirement”, noting that these benefits were “given without much regard to the desire to return to work and have been referred to as a ‘second severance payment’”. Higuchi (2001) explains that this problem motivated key features of the 2001 reform:

*“One controversy that then arose was how to treat workers who quit because they reach retirement age. According to the “Labor Survey,” a shockingly large percentage of workers in their early 60s – around 70% – collect unemployment benefits. The period of benefits was shortened to deal with this moral hazard problem.”*

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94. As explained above, the rules of the regular EI system do not allow employees with expected employment duration below a certain level to enrol. In 1999, about 30% of “temporary” workers, 60% of dispatched (temporary agency) workers and 80% of “contract” workers were enrolled in the EI system (Chatani, 2008), but by then very few were insured as daily employees.

266. Assuming an average benefit duration of 2/3 of a year, this information implies that on average about 10% of 60-64-year olds were collecting EI benefits at any point in time ( $0.7 \times (2/3) / 5 = 0.093$ ). Since unemployment beneficiaries are typically reported to be LFS unemployed in at least half the cases, unemployment beneficiaries in this situation can account for 5 percentage points or more of the unemployment rate for the 60-64-year-old age group. In practice, the male LFS unemployment rate for the 60-64-year-old age group<sup>95</sup> reached 5.4% in 1979 (four years after the introduction of age-related benefit entitlements: see Table 4.1), 7.6% in 1987 and 10.4% in 2000. From 1979 to 1998 it was three to four times the rate for prime-aged (25-54-year-old) workers, which itself more than doubled over the period.<sup>96</sup>

267. The EI reforms of 2001 and 2003 reduced the duration, and also for higher earners the level, of benefits paid upon reaching mandatory retirement age. After 2003, the 60-64-year-old unemployment rate fell rapidly to reach 5.1%, only 1.3 times the prime-age rate, by 2008. These patterns suggest that about half of all unemployment (as measured in the labour force survey) for this age group between 1979 and 2001 can be attributed to the relatively-generous benefit entitlements at mandatory retirement age.

268. Ichimura *et al.* (2009) state that “In most cases, larger firms provide an opportunity for re-employment in the same firm or their affiliated ones after reaching mandatory retirement age. But for a short period of transition, many people apply for unemployment insurance”. This indicates that, despite the 2001 and 2003 cuts in benefit duration and the maximum benefit amount, claiming UI immediately after mandatory retirement is still a common practice, possibly even for individuals who are later rehired by the same company.

269. In the Japanese context, where wages fall sharply after the age of 60, the backwards indexation of unemployment benefits on former earnings (earnings over the six months immediately prior to the first day of unemployment: see Hello Work Tokyo, 2007) creates a strong incentive for claiming benefits immediately upon reaching mandatory retirement age rather than later: if a claim is made later, it will be based on lower earnings. However, in some cases the 2003 reform (lowering the earnings ceiling) will have blunted this incentive.

#### *Employment Continuation Benefit (ECB) for Older Workers*

270. This scheme upon its introduction in 1995 made payments to employees aged 60-64 who have been insured for at least five years and continue to work at a salary below 85% of their salary at age 60. Initially the maximum benefit payment was 25% of the current salary, reduced if the current salary was between 64% and 85% of the salary at age 60. The average stock of beneficiaries rose from 46 000 in 1996 to 135 000 (about 3% of the labour force aged 60-64) in 2001 and 180 000 (about 3.7% of the labour force aged 60-64) in 2007.<sup>97</sup> Expenditure on this benefit represented about 5% of total expenditure on unemployment benefits. From 2003 (when regular EI benefit entitlements for 60-64-year olds were reduced), ECB was restricted to workers whose salary has fallen below 75% of their salary at age 60, and the maximum payment was set at 15% of the current salary, reduced if this is 61% to 75% of the salary at age 60. The benefit is paid for a maximum of two years, which makes

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95. The high unemployment rates mainly concern 60-year-olds (since mandatory retirement commonly occurs upon reaching the age of 60). Labour force survey data that average across a 5-year age range (60-64) are cited here because data for individual years of age are not available.

96. From 1968 to 1975, before age-related benefits were introduced, this ratio took values of 1.5 to 2.2 [data from the *OECD Online Employment database* ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database))].

97. Data from OECD (2004).



the total amount of ECB payable similar to the amount payable if ordinary EI benefit is claimed upon retirement.<sup>98</sup> The entitlement to ECB is lost or reduced if EI benefits are claimed at age 60-64 before re-employment (Iwamura, 1995; and OECD, 2004).

271. Large-firm employment practices that qualify workers for ECB are described by Taylor *et al.* (2004): "...almost all large firms have refused to countenance an extension to Teinen age [*i.e.* retirement from the "lifetime" job, usually at the age of 60]. Instead, some of them have instituted "re-employment schemes" for workers reaching Teinen age... Under such schemes, wages are halved, though a wage subsidy, the public in-work pension and a company pension provide a guaranteed take-home income of 70% of previous earnings, duties remain as before, and short-term contracts are offered on a selective basis to employees after the age of 60". The ECB thus makes a fairly small contribution to the total income of re-employed older workers.<sup>99</sup>

272. Two policy issues for the ECB, noted by OECD (2004), are:

- It is not targeted at the most disadvantaged groups among the older people, such as the unskilled long-term unemployed. Older workers who have benefited the most from lifetime employment practices and the seniority wage system will gain the most from it; and
- In combination with the rules for pension payments, tax and social security contributions, the withdrawal of the ECB as earnings increase generates a high effective marginal tax rate across a wide range of current earnings. This feature was only partly moderated by the 2003 reform. The ECB thus encourages older workers to take up or remain in lower-paid jobs.

The ECB also indirectly subsidises the practice of reducing salaries after the age of 60. It seems inconsistent with the policy of promoting an extension of firms' mandatory retirement ages to 65, since entitlements to ECB cannot be used in this case. However, the public policies of other OECD countries, which in most cases promote the retention of older workers through to age 65 or more without a wage reduction – although there is some subsidisation of labour costs in a few cases – do not achieve older-worker employment rates as high as Japan's. Thus, Japan's mixed policy – aspiring to maintain lifetime employment conditions through to age 65, but at the same time recognising the likelihood that this will not be feasible for all firms and that labour costs may need to be sharply reduced after the age of 60 – may be in practice more realistic and effective in terms of promoting older-worker employment.

#### *Employment Insurance for workers aged over 64*

273. After the age of 64, the payment of EI contributions is voluntary. Peoplesoft (2009) advises users that its software stops the payment of EI contributions automatically: "Employees with insurance

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98. A worker with 5 to 10 years of contribution record upon retirement from his/her lifetime job would typically be entitled to 120 days of EI benefit at a rate of 60% of pre-retirement earnings, equivalent to 2.4 months of pre-retirement earnings in total. Payment of ECB for 2 years, at a rate of 15% of current earnings, and given that current earnings are 40% lower than pre-retirement earnings, would be equivalent to 2.16 months of pre-retirement earnings in total.

99. For example, Sumitomo Electric Industries provides re-employed older workers with an income from monthly pay and bonuses (47.6%), the public old-age pension for active employees (27.7%), the corporate pension fund (18.0%) and the ECB (6.6%) (Yamashita, 2007). Sakamoto (2009) explains that the 1994 reform which introduced the ECB also revised the formula for reducing employed pensioners' pension benefits: OECD (2004a), Figure 3.10, illustrates the reduction schedule in 2003.

type Officer and Insured are subject to the deduction of employment insurance premiums unless their age is 64 or more at the time of payment. The age is determined by the system...”. Voluntarily insured elderly workers are entitled to 30 days of benefit after less than a year of contributions and 50 days after a year or more. After a one-time certification of unemployment, the benefit is paid as a lump sum (Hello Work Tokyo, 2007).

#### *Re-employment Allowance*

274. The Re-employment Allowance is the main provision under the heading of “Employment Promotion Benefits” in the 1974 Employment Insurance law (JIL, 2003b). As described in OECD (1993), the Re-employment Bonus was paid to beneficiaries who start a new job within the first half of their benefit entitlement period. Depending on the original benefit entitlement and the timing of the start in the new job, the bonus was equivalent to between one-third and two-thirds of the remaining benefit entitlement. For example, a person with 90 days original entitlement, who starts a new job with over 45 days remaining, would receive a payment of 30 benefit-days as a lump sum, which would be worth between one-third and two-thirds of the remaining entitlement depending on when the job started (*op. cit.*, Table 11). By 1997, the detailed formula had changed only slightly (*e.g.* an additional 15 more days of benefit could be paid as a lump sum to those who found a job with at last 60 days remaining) (*Benefits and Wages* country-specific file 1997). In the 2001 reform, it was specified that the allowance is payable to a person “who takes up steady employment or starts his/her own job”,<sup>100</sup> and in 2002 the earlier stepwise schedule was replaced by a rule setting the allowance at 30% of “the remaining benefit period x the daily amount of basic allowance” (OECD *Benefits and Wages* country-specific files for 2001 and 2002). This was on average a reduction in the amount of the Allowance. In 2009, the 30% rate was increased to 40% and “in some cases to 50%” (NIC, 2009).

275. The Re-employment Allowance was not very effective for older workers in 1990s, since they still tended to draw their maximum benefit entitlement (see below). However the Re-employment Allowance no doubt motivates some workers to participate in the Early (re-)employment support (programme, and the PES performance target for the early re-employment rate suggests that about a third of claims end early enough to qualify (see Chapters 2 and 3, and Table 5A.1). In 1995, about 40% of UI recipients received “some form of re-employment bonus” (Mazza, 2000).<sup>101</sup> In 2007, there were 365 000 payments of Re-employment Allowance representing nearly a quarter of the number of first payments of regular EI benefit, and allowance payments totalled JPY 60 billion representing 6% to 7% of total expenditure on regular EI benefit (MHLW, 2008d).

276. Such a bonus creates an incentive for workers to arrange to be laid off (or to refuse another temporary contract) and start a new job shortly afterwards, claiming EI and the Re-employment Allowance in the interval. Osaka-Rodo (2009) describes several provisions that seem likely to limit abusive or undesired use of the bonus:

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100. JIL (2003a) reported an expansion of the scheme to cover those whose new job is as a non-regular employee and Osaka-Rodo (2009) refers to “a stable position which ensures your continuous employment of longer than one year”.

101. The term “Some form of re-employment bonus” probably includes the other three types of employment promotion allowance listed in the EI law, *i.e.* the Outfit allowance for full-time employment, Moving expenses, and Wide area job-seeking activity expenses. However, the take-up of these allowances is low (see *Japan Statistical Yearbook*, Table 20-22).

- The claimant must not be re-employed by the employer (including the business proprietor of an affiliated establishment) by whom he/she was previously employed, and must not be employed by an employer who had unofficially decided to employ him/her before entitlement to EI benefit was recognised;
- The claimant must not have received re-employment allowance or an outfitting allowance within the past three years; and
- If the claim was subject to a waiting period (for voluntary quit), the new job must start after the waiting period has expired; and in the first month following the waiting period only a job found through the PES qualifies for the bonus.<sup>102</sup>

The last condition gives some recently-unemployed workers an incentive to prefer jobs advertised by the PES. The existence of a group of workers who may not be interested in taking job vacancies advertised through other channels also indirectly creates an incentive for employers to register their vacancies with the PES.

#### *Employment Adjustment Subsidies*

277. Employment Adjustment Subsidies (EAS) have in some years been the largest component, in expenditure terms, of the “employment stabilisation measures” introduced by the EI law of 1974.<sup>103</sup> They provided “those business owners who were obliged to suspend business operations with assistance in areas such as allowances for business interruptions, subsidies for training and the other costs involved in transferring employees to other firms. More precisely, the Minister of Labour identified particular industries that were facing a fall in production and jobs, and subsidised a part of such allowances to firms in such industries upon request” (Ohtake, 2000). In 2001, the government abolished industry selection criteria, replacing them with tougher establishment-level eligibility criteria, and reduced the allowance for training (Griffin, 2010). Since the EAS scheme acts partly an active programme, it is analysed further in Chapter 5. However, in the recent recession EAS payments seem to have been more closely related to the wage of workers on reduced hours or temporary layoff, suggesting that it has functioned to a considerable extent as a short-time work scheme, which is conventionally interpreted as a form of income maintenance.<sup>104</sup>

#### *Labour market impact and outcomes*

##### *Trends in benefit-recipient rates, spell durations and coverage of LFS unemployment*

278. Table 4.3 shows summary statistics for the EI system from 1980 to 2007. Some observations are:

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102. OECD (1993) describes the restriction that Re-employment Allowance cannot be claimed more than once in a three-year period; at that time, the Re-employment Allowance could be paid during the waiting period following a voluntary quit but in the first two months only a job found through the PES qualified.
103. In 1981, an earlier system which covered only reductions in working hours was replaced by Employment Adjustment Subsidies, which also cover training and transfers to other companies.
104. In the Eurostat/OECD database, Category 8.2 *Partial unemployment benefits* covers “benefits compensating for the loss of wage or salary due to formal short-time working arrangements, and/or intermittent work schedules, irrespective of their cause (business recession or slow-down, breakdown of equipment, climatic conditions, accidents and so on), and where the employer/employee relationship continues” (Eurostat, 2006).

- From 1980 to 2004, the ratio of EI contributors to total employees in the economy remained below 65%, but from 2004 to 2007 it rose slightly to reach 67% (Table 4.3);<sup>105</sup>
- In the 1990s and 2000s benefit-recipient rates averaged about 1% of the population of working age, falling below 1% after 2004.<sup>106</sup> By contrast, recipient rates for UI benefits in a number of European countries are in the range of 3 to 6%;<sup>107</sup>
- From 1980 to 2001, the number of EI beneficiaries increased by about 65%, but since the total number of people unemployed according to the labour force survey (LFS) nearly tripled, the ratio of EI beneficiaries to LFS unemployed fell sharply, from 62% to 34%; and
- From 2001 to 2004, the ratio of regular EI recipients to LFS unemployment fell further, from 34% to 23%.<sup>108</sup> Over the slightly longer period 2000 to 2005,<sup>109</sup> the average duration of benefit spells fell by more than one-quarter, from 6.1 months to 4.4 months, the lowest figure since the EI system was introduced in 1975.<sup>110</sup> This fall is clearly attributable to the 2001 reform of EI entitlements (see above).

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105. Note that in this ratio the denominator includes employees aged 65 and over (about 5% of all employees in Japan), for whom EI contributions are not compulsory.

106. In these data people are probably counted as recipients in a given month if they received benefits for at least one day of the month. By contrast, in the international comparison in Duell *et al.* (2009a), Table 4.1, the average number of beneficiaries is calculated from the number of benefit-days paid divided by 365, which results in a slightly lower figure.

107. See Duell *et al.* (2009a), Table 4.1. The two highest rates (those above 6%) include UI benefits only in Belgium, and unemployment insurance and unemployment assistance benefits together in Finland.

108. This ratio is based on the stock of recipients of regular monthly payments, without taking lump-sum payments into account. In FY 2007 expenditure on lump-sum benefits for specially insured workers was JPY 12 billion for day labourers, JPY 35 billion for persons in short-term employment, and JPY 25 billion for workers aged 65 and more. The total expenditure of JPY 72 billion on these lump-sum unemployment benefits was about 9% of expenditure on regular EI benefits (JPY 828 billion in 2007) (MHLW, 2008d). Given that recipients of lump-sum benefits have lower average salaries when they are in work, it might be argued that at least one unemployed worker was covered by a (recent) lump-sum payment for each ten covered by a regular monthly payment.

109. Benefit-spell durations calculated using inflow data are not exactly attributable to a specific year, because many benefit spells start in one year and end in another.

110. Historical series calculated from *Historical Statistics of Japan*, Table 23-34.

Table 4.3. **Employment insurance contribution coverage rate, benefit-recipient rates and average benefit-spell duration, 1980-2009**

Fiscal year	Ratio of EI persons insured <sup>a</sup>	Net EI beneficiaries <sup>b</sup>	Labour force survey (LFS) unemployment	Population 15-64	Ratio of EI recipients to		Average duration of completed benefit spells <sup>c</sup>
	to total employees in the economy				LFS unemployment	Population 15-64	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	%	Thousands, annual average			%	Months	
1980	62.9	683	1 100	78 740	62.1	0.9	5.8
1985	63.7	647	1 520	82 350	42.6	0.8	5.5
1990	64.9	496	1 310	86 080	37.9	0.6	5.7
1995	63.7	857	2 030	86 980	42.2	1.0	6.1
2000	62.6	1 069	3 110	86 570	34.4	1.2	6.1
2001	62.6	1 129	3 280	86 250	34.4	1.3	5.7
2002	63.1	1 064	3 500	85 770	30.4	1.2	5.5
2003	63.6	853	3 360	85 380	25.4	1.0	5.1
2004	64.6	697	3 020	85 140	23.1	0.8	4.7
2005	65.4	643	2 840	84 610	22.6	0.8	4.4
2006	66.0	598	2 630	83 960	22.7	0.7	4.4
2007	67.2	582	2 480	83 130	23.5	0.7	4.3
2008	68.5	622	2 530	82 440	24.6	0.8	4.2
2009	69.0	870	3 180	81 640	27.4	1.1	5.5

.. Data not available.

- a) Refers to people insured for regular (general and short-term) Employment Insurance (EI). The inclusion of persons insured as day labourers and seamen would increase the ratio by 0.5 percentage points in 1990 and 0.2 percentage points in 2006. Note that the denominator of this ratio includes employees aged 65 and over, who are excluded from regular EI coverage. Ratios are approximate because LFS data in this table relate to calendar years.
- b) On the definitional basis of Table 23-24 in the Historical Statistics of Japan, which includes extended benefits for participants in training, with OECD estimates on this basis for 2005-07. In these statistics, people appear to be counted as beneficiaries in any month where they receive at least one day of benefit.
- c) Duration in months estimated as 12 times the ratio of the average beneficiary stock to annual inflows, with weights of one-third on the previous year's inflows and two-thirds on the current year's inflows.

Source: Japan Statistical Association, Historical Statistics of Japan, Table 23-34 updated online at [www.stat.go.jp/english/data/chouki/index.htm](http://www.stat.go.jp/english/data/chouki/index.htm); Ministry of Internal Affairs and Communications (2010), *Japan Statistical Yearbook 2010*, Table 20-22, at [www.stat.go.jp](http://www.stat.go.jp) and labour statistics at [www.mhlw.go.jp/toukei/itiran/roudou/roukei/shihyou/index.html](http://www.mhlw.go.jp/toukei/itiran/roudou/roukei/shihyou/index.html); OECD Online Employment database ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)) and OECD estimates.

#### *Interactions between non-regular work and the EI system*

279. Several problems of the EI system in the 1990s and 2000s were related to the growing incidence of non-regular work. Non-regular workers have relatively high unemployment rates and (for a given contribution rate) this tends to increase the ratio of expenditure to contributions. Despite this, since an unemployed non-regular worker qualifies only for relatively short-duration benefits, non-regular work tends to reduce the benefit coverage of unemployment.

280. Non-regular work also exacerbates several incentive problems affecting the EI system:

- Because contract details can to some extent be varied without changing actual working relationships, non-regular work facilitates adverse selection (*i.e.* selective enrolment in EI by workers who expect to make a benefit claim). The possibility of avoiding EI contributions, except when the benefits obtained are likely to exceed the amounts paid, tends to function as a subsidy to non-regular work, encouraging its growth at the expense of regular work;
- At the end of a fixed-term contract, the PES assesses whether the claimant could have obtained a contract renewal or extension, and does not pay benefits when the entry to

unemployment was effectively voluntary. However, it can be difficult to get clear evidence in this type of situation;

- In a high-turnover labour market, workers can more easily postpone re-employment until near the time of benefit exhaustion.<sup>111</sup> Also, unemployment benefit durations tends to be low for non-regular workers, due to their short contribution record (the 2001 reform reduced benefit durations further, typically to 90 days), and activation measures during the benefit period are less effective when benefit durations are short.<sup>112</sup> Both these factors make it difficult to prevent EI benefit from becoming an entitlement that is not truly conditional on availability for work.

*Micro-economic evidence concerning benefit disincentives*

281. MHLW annual reports on employment insurance (see MHLW, 2008d) provide information on the distribution of new benefit recipients by age and duration of benefit entitlement, but not quite enough detail to calculate rates of exit from benefit (hazard rates) by duration of unemployment or exhaustee rates. However, the information available from occasional expert commentary and analysis suggests that (along with the objectives of providing insurance coverage of involuntary unemployment, encouraging employers and workers to contribute, and protecting the financial balance of the system), moral hazard and disincentives have always been significant issues for the EI system:

*“The Law was enacted in 1947. At that time the system was very simple. The requirement for benefit was 6 month service. The benefit rate was 40 ~ 80% of daily wages. The term of benefit was 180 days across the board. In 1955, the Law was revised to handle with one billion yen deficit in unemployment insurance account. The main factor of the deficit was moral hazards of seasonal workers and short-term workers who worked 6 months and received benefits for 6 months. The revised Law distributed the term of benefit from 90 days to 270 days, 90 days for short-term or seasonal workers and 270 days for long-service workers. In 1960s, high economic growth made the labor market situation very tight. Many companies complained about labor shortage. But the number of unemployment benefit recipients did not only reduce but even increased. They were very reluctant to get jobs and concentrated on just receiving benefits. This situation was criticized severely by the public opinion. Ministry of Labor intended to rectify the payment and required the pretended job-seekers to accept any job-offers if they did not want to lose the benefits. This policy brought about lots of troubles with recipients and PESOs were criticized for their merciless treatment of them. In some cases, pretended job-seekers were introduced job-offers and they went for job interviews to the companies, but they behaved not to be passed intentionally” (Hamaguchi, 2008).*

*“The unemployment insurance system in Japan may be another factor explaining the male’s long unemployment duration. Under the current insurance system, the amount and the duration of benefit are positively linked to a worker’s tenure and age (the 1999 employment*

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111. Kohara (2004) also reports that “the percentage of unemployed persons who receive full pay from unemployment insurance is low among those dismissed for non-personal reasons such as a firm’s bankruptcy”, implying that disincentive effects are less significant in such cases.

112. For example, when only two months of benefit entitlements remain, the benefit savings for the authorities that result from a placement and the sanction that can be imposed if the client refuses a suitable job offer are relatively small, making it difficult to justify the cost of intensive placement measures.

*insurance reform amended the system partially, though the linkage still remains). Since men tend to work longer years than women do and therefore are entitled to longer and greater benefits, it may be considered that an unemployed man is more likely to remain longer in the unemployed pool to obtain his full benefits than a woman [Tachibanaki (1984) reported that 70 to 80 percent of the unemployment insurance recipients received their full benefits]” (Fujiki et al., 2001).<sup>113</sup>*

*“In FY00, 29 percent of UI recipients, 290,000 workers, found new jobs within one month of the expiration of their benefits, which suggests that the jobless attempted to maximize their benefits. For older workers who were earning ¥400,000 a month, jobless benefits can exceed new salaries” (Migration News, 2002).*

*[The P]resent unemployment insurance scheme was built when the unemployment rate was one or two percent. Its disbursement period is short and disbursed amount is small compared with western developed countries. Moreover, a large number of workers such as part-time workers, self-employed and public officers, are not covered. It means that the scheme allows “adverse selection” which is not usually permitted by any insurance scheme. As long as the scheme is the public and compulsory one, it should not allow “adverse selection” (Tachibanaki, reported in ESRI, 2001).*

*“Kohara [2002] confirms that extension of unemployment insurance expiration increases unemployment rate. In Japan, Shimada et al. [1981] and Tachibanaki [1984] found the same effect in 1970s. Combining her result with Ohkusa’s result, Kohara concludes the extension of unemployment benefit especially in terms of duration is inefficient, because the long recipient of unemployment benefit is not one who is the most urgent job seeker” (Hayami, 2003).*

*“...unemployment insurance discourages unemployed persons in their twenties and thirties from getting out of their unemployed status. These results imply that the Unemployment Insurance Act revision of 2001, which reduced the period for unemployment insurance payments receivable by persons who quit their job for personal reasons, may provide the unemployed with an incentive to conduct job-seeking activities and help reduce long-term unemployment” (Kohara, 2004).*

*“Mayer (1990) and Kohara (2004) show that the probability of leaving unemployment rises dramatically just prior to when unemployment insurance benefits lapse. It seems that elderly Japanese tend to find a new job after fully receiving the benefits, as the maximum predetermined receivable period of unemployment insurance benefits for the insured elderly in 1997 is 300 days (10 months)” (Kajitani, 2008).<sup>114</sup>*

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113. By contrast, the statement by Mazza (2000) that in 1995 40% of UI recipients received “some form of re-employment bonus” suggests that only 60% of recipients used their benefit entitlement in full. For workers with a long benefit entitlement, the limitation of the benefit-payment period to one year (see Hello Work Tokyo, 2007) may be a specific disincentive to taking up temporary work. For example, a person who is initially entitled to 300 days of benefit but interrupts the claim for more than 65 days will lose some of the entitlement.
114. Figure 2 in Kajitani (2008) reports that after mandatory retirement in 1992, about 13% of workers found a new job in the first nine months and a further 24% in the next three months. For those who participated in training before mandatory retirement in order to allow continuation of work after

Thus, although only limited and partly-dated statistical evidence is available, Japanese experts highlight the issues of adverse selection at the contribution stage (*i.e.* selective enrolment in EI by workers who expect or plan to make a benefit claim), as well as disincentives for job search during the unemployment spell.

*Features limiting moral hazard*

282. By the 2000s, the EI system incorporated a range of features to limit different costs and different forms of moral hazard:

- Until 2009, jobs with an expected employment duration below one year (*e.g.* temporary contracts for less than a year) were not eligible;
- Benefit duration increases with the contribution record but after a claim based on a long contribution record, the contribution record is set back to zero;
- The Re-employment Allowance partly offsets the disincentive to take up work early in the benefit spell, even though the level of payments is limited by the risk of further undesired incentive effects (see above);
- The benefit duration is longer for older workers than for young workers based on an assumption that younger workers are able to find work more easily – although the longer durations for older workers were later curtailed; and
- Since 2001, the longer-duration benefits are only provided in situations where the worker did not have “a time margin to prepare for re-employment”. Short-duration benefits are paid for claims at the time of mandatory retirement and, in standard cases, at the end of a fixed-term contract.

283. However, Japan’s EI system is not strict in all respects. Following voluntary quit, benefits are still paid after a waiting period. Also, in the past very few sanctions were imposed for refusal of work (OECD, 2000, Chapter 4), although more recent statistics on this point are not available.

284. Against this background, the many measures that limit costs and moral hazard have been only partly effective. The labour market has developed practices such as non-regular work with specific or ambiguous contractual arrangements and mandatory retirement at the age of 60 that facilitate claiming EI benefits. The short duration and low coverage of unemployment benefits, rather than strict monitoring of availability for work, are key factors limiting unemployment rates and the incidence of long-term unemployment. In this context, policy objectives can include limiting the use of temporary contracts by ensuring that contribution rates on them reflect the costs they generate, removing opportunities for adverse selection (selective enrolment only of the labour market groups that are more likely to make a benefit claim) by enforcing the payment of contributions on all earnings, and increasing the effectiveness of activation measures for claimants with a long benefit entitlement.

***The “second safety net”***

285. Certain measures announced in response to the recent crisis are grouped together under the heading of a “second safety net” (MHLW, 2009a). These are:

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mandatory retirement job-finding rates were almost the same in the first nine months but much higher thereafter, with over 80% in work by the 25th month.



- Emergency loans and housing allowances for those who have lost jobs and homes, announced in April 2009. These provide assistance in finding a home, housing allowances for up to six months, and loans to cover daily living expenses (not more than JPY 0.2 million per month) for up to one year. However, this measure responded to dramatic press stories that many laid-off workers were also being evicted from company housing.<sup>115</sup>
- Training and daily life allowances *i.e.* subsistence allowances (in the form of a non-repayable loan) payable to participants in labour market training who lack an entitlement to EI (see also Chapter 5).

By early 2010, take-up of these measures was only a small fraction of the level originally anticipated.<sup>116</sup> The measures seem to provide Hello Work and welfare office staff with new tools to respond to certain personal emergency situations, but there are few signs that they are leading to a significant increase in benefit coverage of unemployment.

### 4.3. Public Assistance

286. The low social-assistance caseload in Japan arises despite a relatively high replacement rate and relatively low UI coverage of unemployment, two factors that generally tend to increase the social-assistance reciprocity rate. Only a small proportion of UI exhaustees, the unemployed more generally, single parents or older workers are on Public Assistance.<sup>117</sup>

287. Economic and social arrangements in the Japanese labour market have to a considerable extent adapted to the low coverage by public cash social assistance. For households headed by a prime-age male, the need for assistance is limited by the lifetime employment system (which is to some extent supported by public policy, for example through employment promotion and stabilisation measures).<sup>118</sup> Companies provide their lifetime workers with a functional equivalent to public welfare provision, minimising and often completely avoiding involuntary layoffs and in larger companies providing other (housing, family, etc.) benefits. Unemployed workers not covered by the UI system

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115. For example, Voice of America reported, in March 2009: “Tens of thousands of workers have been laid off, as the nation faces its worst economic downturn in decades... Esuyoshi Inaba [the head of a non-profit group’s welfare division] says compared to a year ago, the number of homeless coming to the soup kitchen has increased by up to 50 percent. ...most of these men are day laborers, and companies are now laying off this type of contract workers. ...in Japan, contract workers often live in dormitories provided by their companies. So when they lose their job, their housing goes with it.” ([www1.voanews.com/english/news/a-13-2009-03-23-voa28-68678382.html](http://www1.voanews.com/english/news/a-13-2009-03-23-voa28-68678382.html)).

116. In March 2010, “...those who actually received emergency cash loans for living expenses numbered 3,181, a fraction of the 180,000 users projected by the ministry. Bureaucratic hurdles apparently stand in the way. To simultaneously apply for a housing subsidy and a comprehensive relief loan, one has to not only submit the necessary forms but also go through a dozen or so screenings by the government’s Hello Work jobplacement offices and social welfare council” (Nihon Keizai Shimbun, 2010).

117. Public Assistance is also often called *Public Livelihood Aid* or *Livelihood Protection*. About 90% of Public Assistance recipients receive Livelihood Aid which is an income-replacement benefit, and 10% receive only one of the other forms of aid which cover specific expenses (Housing, Educational, Nursing or Medical-care Aid): see the *Japan Statistical Yearbook*, Table 20-40. In 2006, an average of 203 000 non-aged, non-disabled households were on Public Assistance, while 2 750 000 people were unemployed according to the labour force survey.

118. According to Estévez-Abe (2008), in international comparative terms Japan ranks very high on its reliance on agricultural subsidies, public works, and administrative intervention into the labour market as alternative forms of welfare provision.

are often youths, secondary earners, and seasonal and contract workers who can live on their income from temporary work and/or can rely on family support in case of difficulty. However, the labour market adaptations have a human cost for employed workers,<sup>119</sup> some unemployed workers suffer hardship as a result,<sup>120</sup> and although labour market practices and private welfare provision reduce the “demand” for public welfare support, strict entitlement conditions and tight administration reducing the “supply” are clearly also important.

288. This chapter describes the policies that lead to low rates of Public Assistance reciprocity by the standards of many other OECD countries and help to ensure that is a sustainable policy. In addition to strict entitlement criteria and strict benefit administration of the benefit, subsidised places in child-care institutions and a means-tested child-care benefit make it easier for single mothers with low earnings to survive without claiming Public Assistance.<sup>121</sup> The system of volunteer welfare commissioners, who stay in close contact with their local community, helps to identify potential cases of severe hardship so that the assistance available is relatively well-targeted.

289. Although it may be considered that Japan’s alternative arrangements substitute successfully for the relative lack of public cash welfare provision, more recently this argument has seemed less convincing. Levels of income inequality and poverty in Japan were not traditionally regarded as high, but recent studies have found that the incidence of relatively poverty is comparatively high, particularly for single mothers, despite their high employment rates (OECD, 2006a). However, this chapter will not attempt a detailed evaluation of inequality and poverty outcomes related to the welfare system.

### ***History of Public Assistance***

290. Garon (2002) explains the historical origins of the restricted provision of cash assistance:

*..by the turn of the [nineteenth] century most Japanese bureaucrats emphatically rejected the trajectory of European poor laws... Government spokesmen in the early twentieth century touted instead Japan’s own Relief Regulations, whose “principle of strictly limited assistance” ensured that relief be granted not as an unconditional right, but simply as an “act of mercy by the State.” Believing generous local governments in Germany and England to be the prime culprits in rising relief costs, Japanese administrators strengthened the central state’s powers to determine when assistance would be granted. Besides, they argued, the Japanese family supported its own and made public assistance unnecessary. Whereas Western families were portrayed as collections of autonomous individuals, in Japan – according to one senior official – “it is a family shame to send one of its own out to bother outsiders and to depend on others for assistance”.*

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119. For example, Mathews (2004) sets out various ways in which “Japanese salaried workers have long paid a high personal price for their corporate belonging”, and as discussed below single mothers tend to have high employment rates but still relatively difficult lives.

120. For example, the press quite often carries stories of people who, following layoff from a permanent job, in some way ended up with a much lower standard of living.

121. Housing subsidies also help some low-income individuals, but their role remains fairly limited. Abe (2007) cites estimates from the late 1990s that about 8% of households below the income criteria for entitlement to means-tested public housing actually live in public housing, and that 10% of households whose annual income is below JPY 2 million (certainly below the income criteria) live in public housing.

291. The Public Assistance law of 1947 was influenced by conditions imposed by the occupying powers, which included governmental responsibility to provide social welfare, and a guaranteed social minimum: “[T]he new law did not link eligibility to inability to work like the old one did” (Estévez-Abe, 2008).<sup>122</sup> In 1951 and 1952, Public Assistance was paid to roughly 4% of all households, and in the early 1950s it absorbed 50% of social security expenditure. Its importance, especially for people able to work, then declined with the growth of the male-breadwinner model of company welfare provision and the expansion of public social insurance benefits:

*... as the social insurance programs that started in the 1960s expanded exponentially, the programs based on pre-1960 laws were marginalized. ... the percentage of “other” households [households on social assistance that were not elderly, single-mother, sick or disabled] declined from 34% in 1965 to 7% in 2000 ... in practice, the Public Assistance has become a system which is extremely difficult to utilize for “normal” households, i.e. households with work-capable adult(s), either with or without children. Reasons for this are manifold: strict means and asset testing, strict application of “self-help” principle, inaccessibility of welfare offices, stigma that deters people from applying, just to name a few (Abe, 2003).*

*... the number of active households receiving public assistance gradually declined as a proportion of all recipients in tandem with changes in economic conditions, and in fiscal year 2004 the proportion of non-working households among all recipients of public assistance had risen to 87.5% (Komamura, 2008).*

292. After 1981 a “make-it-proper policy” – which might better be called a “make-it-strict policy” or “strict administration policy” – further restricted the number of recipients and even applicants (Uzuhashi, 2003).<sup>123</sup> The decline in the Public Assistance caseload was particularly rapid from 1985 to 1995, when the percentage of the population receiving Public Assistance reached a post-war low of 0.7% (Abe, 2003).

293. Abe (2003) highlights that although the main social insurance schemes, which were put in place in the 1960s and have continued to mature since then, are in principle “universalistic”, a significant proportion of the population does not contribute to social insurance schemes and has or will have inadequate benefit coverage. For example, in 2001 over 20% of potential contributors were exempted from National Pension contributions, and the default rate on monthly contributions due was nearly 30%. Perceived inability to pay is an important factor in contribution defaults. For these and other reasons, social insurance schemes do not entirely prevent current or future poverty. Especially given that non-regular workers and low-wage earners are often not well covered by the social insurance schemes, “...there exists a chasm in Japanese social security separating the ‘mainstream’ programs and the ‘residual’ programs... recent research using micro-data shows that the poor may not be benefiting as much as the middle and upper classes from the social security system in Japan...”. Public Assistance is the only “residual” programme that provides an income-replacement benefit, although some other means-tested benefits and services exist.

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122. However, “The GHQ’s social welfare policies were in line with the innovative nature of the American New Deal and included policies so progressive that they had not been fully adopted in the United States. Had the measures been adopted exactly as they had been proposed, Japan would undoubtedly have very quickly become a welfare state” (Adachi, 1998). The GHQ (General Headquarters) was the representation of the Allied Powers in Japan after World War II.

123. “Scholars of Japanese politics generally agree that attempts to cut back benefits in the latter half of the 1970s failed, whereas similar efforts in the 1980s were more successful... scholars agree that the 1980s was a time of successful reforms” (Estévez-Abe, 2008).

***Social-assistance benefit levels, reciprocity and coverage rates****Benefit levels*

294. Since the 1980s, the level of the Public Assistance benefit has been moderately high: “Amid the acute inflation of the mid-1970s, the government periodically increased living allowance levels until they eventually reached 60 percent of consumption expenditures by other lower-income households. In 1983, the MHW formally embraced this target of 60 percent, which it judged to be in line with public assistance policies in the United Kingdom and other advanced welfare states in the West” (Garon, 2002).

295. In 2007, the net replacement rate offered by Public Assistance in Japan, averaging across four family types with a single earner (single person and single-earner couple, with no children and with two children), for the case where earnings in work are two-thirds of the Average Wage, was 66%. Compared with net replacement rates in long-term unemployment in 28 other countries, this is a median level, or slightly below median if only the 25 countries that in principle provide a subsistence minimum level of social assistance are considered.<sup>124</sup> The net replacement rate in Japan is relatively high for single parents and couples with children, related to the availability of means-tested child-care allowances, and relatively low for single persons.

296. In many countries, the increase in net income when moving from social assistance to a minimum-wage job is small, and this is likely to be relevant in Japan where the ratio of the minimum wage to average earnings is comparatively low.<sup>125</sup> Komamura (2008) notes that “it is argued by some that livelihood assistance should be lowered in order to bring it into line with the minimum wage and the lowering of real benefits under the basic old-age pension with the pension reforms of 2004”. Public Assistance levels in some cases exceed incomes from minimum-wage work:

*If only Type 1 and Type 2 livelihood assistance [the basic components of assistance] for single-person households are compared with the minimum wage, the latter is certainly higher. If housing assistance is included, however, the positions are reversed in some prefectures. ... households on public assistance are also exempt from health insurance and national pension contributions, and pay reduced taxes, public charges, and fees for public services. This reversal creates a poverty trap... (Komamura, 2008).*

297. Table 4.4 shows benefit-reciprocity rates for Public Assistance. The overall reciprocity rate, defined as persons in recipient households as a percentage of the total population, rose quite rapidly in the 2000s. This may reflect population ageing which increases the incidence of disability, a declining in EI coverage of unemployment (see above), and administrative guidelines which have clarified that assistance should not be denied only on the grounds that claimants lack a fixed address or have work capacity (see below).

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124. See OECD (2007d), and [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives).

125. See the *OECD Online Employment database* entry for “Minimum relative to average wages of full-time workers”.

Table 4.4. Public Assistance recipiency rates by type of household, 1980-2007

	All recipient households				Non-aged recipient households				
	Number of persons		Per cent of total population	Number of households	Total	Total	Mother and child	Disabled and invalid	Other
	Total	Of which: recipients of Livelihood Aid							
	Thousands		Thousands	Thousands	Per cent of population aged 15-64				
1980	1 427	1 251	1.22	747	..	..	..	..	..
1985	1 431	1 269	1.18	781	..	..	..	..	..
1990	1 015	890	0.82	624	391	0.45	0.08	0.31	0.06
1995	882	760	0.70	602	347	0.40	0.06	0.29	0.05
2000	1 072	943	0.84	751	408	0.47	0.07	0.33	0.06
2001	1 148	1 014	0.90	805	..	..	..	..	..
2002	1 243	1 015	0.98	871	..	..	..	..	..
2003	1 344	1 202	1.05	941	503	0.59	0.10	0.39	0.10
2004	1 423	1 274	1.11	999	530	0.62	0.10	0.41	0.11
2005	1 476	1 320	1.16	1 042	588	0.69	0.11	0.46	0.13
2006	1 514	1 354	1.18	1 076	600	0.71	0.11	0.47	0.13
2007	1 543	1 380	1.21	1 105	605	0.73	0.11	0.48	0.13
						Average duration of benefit spells in months <sup>a</sup>			
2004-07 (average)						73	118	74	58

.. Data not available.

a) The *Average duration of benefit spells* is estimated as the annual average stock divided by exits in the month of September. This is the average duration that would arise if the exit rate observed in that month was maintained in other months of the year. Since the September exit rate may not be exactly representative, the estimates should be considered approximate.

Source: Ministry of Internal Affairs and Communications, *Japan Statistical Yearbook*, Tables 20-40 and 20-42, [www.stat.go.jp](http://www.stat.go.jp); Japan Statistical Association, Historical Statistics of Japan online at [www.stat.go.jp/english/data/chouki/index.htm](http://www.stat.go.jp/english/data/chouki/index.htm), Tables 23-37 and 23-38b; and for population aged 15-64, *OECD Online Employment database* ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)).

298. Japan does not have a separate minimum pension scheme for households above retirement age, and since 1995 about 45% of Public Assistance recipient households have been classified as “aged”. Non-aged recipient households totalled only 0.40% of the population aged 15-64 in 1995, rising to 0.73% in 2007.<sup>126</sup> About two-thirds of the non-aged households are classified as “invalid” or “disabled”. In the 2000s, single-mother recipients of Public Assistance averaged about 0.1% of the working-age population, while “other” recipient households (those not aged, disabled, or single mothers) also averaged about 0.1%.

299. These are extremely low recipiency rates in international comparison.<sup>127</sup> Examples of higher recipiency rates in some other OECD countries include:

- Over 3% of the population of working age was a recipient of a lone-parent benefit in the 2000s in Australia and New Zealand (Grubb *et al.*, 2009, Table 4.1);

126. According to data cited in press reports, the total number of recipient households increased further, by about 15%, from 2007 and 2010.

127. In other OECD countries which have a social assistance benefit as well as wage-related unemployment insurance, social assistance caseloads range from about 1% to 7% of the working-age population, with a median of about 3%. This is an estimate by the authors, referring to data from national sources for a sample of countries in the 2000s.

- In several OECD countries which have a non-contributory unemployment assistance benefit (Australia, Ireland, Finland, Germany, New Zealand), the number of recipients has exceeded 2% of the population of working age; and
- In Canada in 1997, about 45% of social-assistance recipients were classified as employable (NCW, 1998) implying that unemployed social-assistance recipients totalled about 3% of the population of working age. Similarly in France about half of the recipients of social assistance in the 2000s (the *Revenu Minimum d'Insertion* until 2009) were registered as unemployed, implying that unemployed social-assistance recipients totalled about 1% of the population of working age - even though much higher percentages are covered by unemployment insurance and unemployment assistance benefits.

300. Table 4.4 also shows the average duration of social-assistance benefit spells, estimated as the ratio of the average stock of recipients to the recipient inflow in the month of September. The implied average duration of spells for non-aged Public Assistance recipients is very long at 73 months (over six years).<sup>128</sup>

301. In this context, it can be noted that in Australia about 40 000 people (0.3% of the population of working age) until recently received unemployment assistance benefits but were referred to the Personal Support Program (PSP) for people with multiple barriers to employment, and were exempted from job-search requirements. Households in Japan in the “other” category of Public Assistance recipients have a labour force participation rate of 38%, well above rates for invalid and disabled households (8%), but below the rate for single mothers (50%) (Komamura, 2008). The benefit spell durations and labour force participation rates suggest that this “other” category, like PSP in Australia, includes mainly people who face severe barriers to finding work.

#### *Coverage of poverty*

302. According to estimates which have defined the poverty line in terms of the Public Assistance level of income and attempted to identify households with incomes below it, only one third of households below the poverty line, or fewer, receive Public Assistance.<sup>129</sup> Abe (2007) lists two estimates according to which the take-up rate was 19% in 1999 and 16% in 2001, and earlier estimates of 10% (published in 1998) and 5% (published in 1974), showing that “the low take-up of Public Assistance is not a recent phenomenon since 1990s, but rather a characteristic of the program for some time.” Komamura (2008) estimates that the proportion of under-65 working-poor households may be 9.2%: thus (since the proportion receiving Public Assistance is only about 1%) “it is possible that there exist huge numbers of working poor and borderline poor whose total household incomes fall below the public assistance standard and yet are unable to receive public assistance”.

#### *Impact on employment*

303. Strict benefit administration tends to deter benefit claims, and its impact on employment rates is difficult to observe directly. However, older workers and single parents, two large groups that

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128. Flows onto and off benefit are based on “case reports of the welfare administration”. Possibly caseworkers fail to make reports for short-duration benefit claims and/or only report case closures when the client has been off benefit for a year or more, so that flows are under-reported and the implied benefit durations are over-reported.

129. Garon (2002) cites an estimate of one third by the social policy scholar Soeda Yoshiya, but also states later that “three-quarters of the needy” are omitted.

in some other OECD countries experience high benefit dependency rates,<sup>130</sup> together with low employment rates, have high employment rates in Japan:

- The employment rate of 55-64-year-old workers in 2008 was 66.3%, higher than in the United States, and well above the European average; and
- About 85% of single mothers work, one of the highest rates in the OECD, and according to an analysis of the 1997 Employment Status Survey, more than 80% of them worked more than 200 days in the year and more than 80% worked more than 35 hours per week (Nitta *et al.*, 2003).

304. In the light of such comparisons, there is a plausible case that restricted access to UI and welfare benefits in Japan helps to keep the employment rates of several important demographic groups relatively high. However the employment rate for married women is likely to be influenced more by other factors.<sup>131</sup>

### ***Entitlement criteria***

#### *The asset test*

305. The low estimated take-up rates referred to above are based on estimates for the number of households with incomes below the Public Assistance standard, without reference to their assets. However, Komamura (2008) cites an estimate that the poverty rate based on the Public Assistance line (in terms of income) would be approximately halved if assets were taken into consideration (*i.e.* if individuals with assets above the Public Assistance line were not counted among those in poverty).

306. Several authors describe the strictness of the asset test:

*Assets such as land, houses and farms must be sold, except in the case where the person is actually living or utilizing it and the value of the assets is higher when it is utilised than when it is sold. Household goods such as TV are allowed if the diffusion rate of the goods is more than 70% in the region (NIPSSR, 2007).*

*Welfare recipients are not allowed to have things that might make their lives “wholesome and cultured” like pets or nonessential appliances (Brasor, 2007).*

*Unquestionably the controls that most offend the poor, in general, result from the MHW’s strict guidelines concerning which household items a recipient may possess and which are considered “luxuries”. Caseworkers from local welfare offices regularly visit homes to make sure clients do not own unacceptable possessions (Garon, 2002).*

*If a person on public assistance manages to save out of his monthly benefit, the same amount is deducted from his benefit. As the systems does not allow for anything but the minimum standard of living (Abe, 2003).*

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130. Mainly dependency on unemployment and invalidity benefits, not social-assistance benefits.

131. Married women rarely qualify for social assistance. Their relatively low employment in Japan is probably attributable to tax concessions and company fringe benefits for dependent spouses which are lost if they have high earnings, as detailed in Chapter 1.

307. The strict asset test alone would probably prevent most people from qualifying for Public Assistance upon exhaustion of EI benefits. People who have worked long enough to qualify for EI (*i.e.* for at least a year, in the case of temporary contract workers, before 2009) will often have acquired some household goods. Similarly, older workers after mandatory retirement from their lifetime job will – even if they have exhausted their EI entitlement and still have poor job prospects – often have many household goods. They typically could not qualify for Public Assistance until they have spent their savings and sold some household goods.<sup>132</sup> Rather than depleting assets to this extent, probably most people prefer to take work, even with poor working conditions – which is not necessarily the case in countries where welfare is more easily available.

*The unit of assessment and family support*

308. Applicants for Public Assistance in Japan may in principle be required to identify close relatives, who may be asked to provide income information and support the applicant:

*...the “duty to support” still applies to parents and children, siblings, and “relatives living together... In its new “guidance and inspection policy” of 1988, the MHW instructed municipal officials to take the following several steps before granting assistance: 1) Have you accurately located those who are obligated to provide support?, 2) Have you determined their actual living conditions, income, and assets—especially those of former husbands in the case of single-mother households and of children who have moved out [of homes of elderly parents]? ... The MHW in 1994 attributed the reduction [in caseload] in part to more rigorous investigations into family members’ abilities to provide support (Garon, 2002).*

309. According to Estévez-Abe (2008), “The stigma of getting family members involved deters many Japanese people from applying for public assistance”. By contrast, NIPSSR (2007) states:

*The civil law states that certain relatives and family members are required to support a person in need. Thus, the public assistance is given only after it is judged that this support is not available. In practice, spouses and parents of a minor (less than 20-years old) have strong responsibility to support the person.*

Since all countries expect spouses to support each other and expect parents to support their children up to a certain age, this more recent account casts some doubt on whether the family-support condition in Japan is still much stricter than in other countries.<sup>133</sup>

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132. Kakita (2004) remarks on the basis of interviews with the homeless: “a certain number of respondents answered that after they lost their job, they carried on living in the same place by paying the rent out of their savings until the savings ran out... For people one step from homelessness, the role of public assistance as the ‘last resort’ is very significant”. Thus after exhausting their UI claim, some people may successfully claim Public Assistance but only after a time interval during which they run down assets. This period without benefits during which assets are run down may be seen as the concrete manifestation of the “chasm” between mainstream and residual programmes described by Abe (2003).

133. Estévez-Abe (2008) states that “all other small welfare states simply require that individual applicants to public assistance fall under a certain income threshold”, but this is not entirely true. “In Austria, Germany, Switzerland and Japan, social-assistance claimants may be expected to seek support from parents or grandparents, or in the case of older claimants from children and grandchildren – even, in Switzerland, potentially from other siblings – before having recourse to public assistance... In Belgium too, regulations were recently introduced which oblige local authorities to seek to recover assistance payments from parents or adult children of claimants.” (Eardley *et al.*, 1996).



*Ability to work*

310. Although inability to work has not been an entitlement condition since 1947, Public Assistance is subsidiary not only to other sources of income, and ability to support oneself from assets, but also to the ability to support oneself through work:

*The person will not be able to receive assistance if he/she is judged as capable to work. If the person has a will and ability to work, but is unable to find work, it is unlikely that he/she would be given assistance (NIPSSR, 2007).*

*Even though the interpretation of the law has been relaxed some what in recent years, it is still difficult for a person who is deemed capable of earning income to receive public assistance, even if that person is currently unemployed and not earning any income (Abe, 2003).*

311. Sekine (2008) describes some recent policy changes:

*Until very recently, Art. 4 al.1 of the Law on Public Assistance, which requires the “full use of one’s capacity to work” as a prerequisite condition to applying for public assistance, constituted a severe obstacle to benefits allowance by persons of working age (15-64) with no disability. This was the consequence of a misinterpretation of the law, and resulted in a notice issued by the MHLW... indicating that “... the fact that the applicant has the capacity to work does not in itself preclude meeting the requirements under the law...” The capacity to work condition, as explained above, has had, as a consequence, claimants under the age of 65 very often being rejected by welfare offices, excluding single mothers, the long-term unemployed and the “homeless” from receiving allowances, or limiting the assistance provided to very short periods while at the same time imposing stringent controls on job searching. [However, recent changes include] instructing welfare workers to avoid rejecting the demands of applicants without a concrete examination of their efforts towards seeking employment.*

*Other restrictions*

312. Kakita (2004) reports findings from a survey in which 34 of the 74 homeless people interviewed reported that they had consulted administrative bodies, but in 23 cases “their inquiries were rejected”, in some cases because they could not give a stable address. Kakita states that “it is illegal under the current Public Assistance Law to refuse public assistance just because applicants have no stable address”. He cites evidence that those remaining homeless are often unwilling to take up accommodation in shelters that offer meals and bunk beds in shared rooms, although Okamoto (2007) describes the availability of such accommodation as quite limited. Sekine (2008) describes a 2002 Law which announced for the first time the State’s obligation to assist the rehabilitation of the homeless through securing stable employment, training, housing, and medical care, and MHLW guidance that “the lack of a fixed domicile or the capacity to work are not valid reasons to reject a person’s application for public assistance, and that the situation of such persons should be judged in a concrete manner”.

313. According to Brasor (2007), in some cities welfare offices have “pressured” or “browbeaten” clients into signing formal waivers of further benefits. In Europe, probably no national programmes use such a practice, even if municipalities in a few countries do so. However, some states in the

United States have a “diversion” programme which offers a lump-sum payment to families if they waive the right to apply for welfare (TANF) benefits for a prescribed period of time.<sup>134</sup>

***Benefit administration***

314. In Japan, local governments pay 25% of Public Assistance benefit costs.<sup>135</sup> In international terms, a 25% share is fairly low. Canada and the United States replaced a system with 50% local financing of social-assistance (welfare) benefits with 100% local financing of benefits in 1996, the Netherlands increased the local share in financing to 100% in 2004, and Finland increased the local share from 0 to 50% (for one large group of assistance benefit clients) in 2006.<sup>136</sup> However, the 25% financing responsibility in Japan gives local governments some financial interest in limiting benefit caseloads through strict administration of Public Assistance or the provision of employment-related services. It could be argued that 100% local financing would give local governments an excessive incentive to divert claims rather help clients with their problems.<sup>137</sup>

315. Local welfare office staff are appointed and funded by local government, and they work in local government premises. This leaves room for considerable local autonomy in management standards,<sup>138</sup> while giving local authorities administrative capacity and a further incentive to keep caseloads low.<sup>139</sup> Decision-making powers over some social welfare services were transferred to local governments in the 1990s, although Adachi (1998) cites an opinion that the welfare reforms of the Ministry of Health and Welfare were not true decentralization but “regulated decentralization”. Decentralisation leads to some unevenness of provision, which the central authorities try to correct:

*The Ministry of Finance Fiscal System Council frequently draws attention to the disparities between local governments in the proportions of households receiving public assistance, and cautions against creating a moral hazard that would increase the number of recipients of assistance more than necessary (Komamura, 2008).*

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134. Currently, to qualify for the Pennsylvania diversion programme the family must confirm that income will be received by the end of the diversion period so that it will not need to apply for ongoing TANF benefits ([www.dpw.state.pa.us/ServicesPrograms/CashAsstEmployment/003676614.htm](http://www.dpw.state.pa.us/ServicesPrograms/CashAsstEmployment/003676614.htm)). In 1998, 17 States specified a waiver for a prescribed period of time (<http://aspe.hhs.gov/hsp/isp/diverzn/chpttwo.htm>).
135. Prior to a 1985 reform, 80% of social security costs were supported by the national budget. Also, “Since 2004 and Koizumi’s local public finance reform (the so-called *Sanmi-ittai* reform), which resulted in a large cut in local tax allocation grants (tax transfers from the central government to local entities)... The Ministry of Health, Labour and Welfare (hereinafter MHLW) proposed a reduction in national budgetary contributions to national medical insurance (managed by municipalities) and public assistance, as well as child benefits under public assistance. Following a series of sessions between representatives of national and local authorities, apart from the child benefits part, the reduction was roughly retracted.” (Sekine, 2008).
136. These percentages refer to responsibility for financing benefits at the margin (*i.e.* for each additional person admitted to the benefit caseload). Central governments may finance none of the benefit costs at the margin yet largely cover the average costs in other ways (*e.g.* through formula grants or payments for specific services).
137. Sekine (2008) notes that “local authorities had neither budget nor financial assistance from the central government to construct a policy to help the homeless, and therefore measures directed towards them were temporary and casual”. For the homeless, in particular, local authorities may be reluctant to fund adequate assistance because this will attract applicants from other localities.
138. “...expenditure of livelihood assistance allowance is fundamentally carried out by the municipalities” (Uemura and Saitoh, 2007).
139. The social welfare law requires cities to have one caseworker per 80 households on welfare assistance (Japan Press Weekly, 2009).

316. MHLW guidance can involve, on the one hand, sending advisers to advise localities with high caseloads on how to reduce the number of payments, and on the other hand, providing guidance on claimants' rights under the Public Assistance law (Brasor, 2007). Although some accounts have described welfare offices as inaccessible (see above), websites now appear to provide the necessary basic information, e.g. "Livelihood protection is the institution which guarantees a minimum standard of living for people whose income is low because of illness, accident, and unemployment, or who have a difficult life because of medical costs... Please consult with the city, town or village welfare office, or the welfare office in the Prefectural Health Center" ([www.pref.kyoto.jp/en/04-05-01.html](http://www.pref.kyoto.jp/en/04-05-01.html)).

317. Welfare office staff visit the recipient's home in person at least twice a year to confirm work status, income, etc. Each welfare office formulates a visiting plan and implements door to door surveys. Welfare office staff interview recipients who are hospitalised and their doctor in charge at least once a year, and confirm the status of their illness.

318. Employable recipients who do not work must report their job-search activity (time spent, substance and result) every month. When employable recipients take no action to find work, authorities give them a verbal warning at first. If they continue to refuse to co-operate, written warnings are given. If these written warnings are ignored without just cause, authorities will reduce, suspend or abolish the benefit, following certain procedures, e.g. giving them an exculpatory opportunity in accordance with Art. 62 (4) of the Public Assistance Act.<sup>140</sup>

#### ***Unemployed recipients of Public Assistance***

319. Welfare offices traditionally provide few employment services, but since the early 2000s the need for placement assistance has been recognised. Welfare offices co-operate with Hello Work offices in the implementation of the joint Employment Support Programme. Municipal administrations have also developed relevant assistance programmes particularly for single mothers (see Box 3.1).

320. The less-strict application of the self-help principle, which facilitates applications by people who are unemployed, has probably been a key factor in growth of the caseload of the "other" category of Public Assistance, which doubled from 2000 to 2007 (see Table 4.4). In 2009, the Public Assistance caseload grew fairly rapidly, with dismissed temporary workers and workers whose unemployment benefit periods have expired among the applicants (Japan Press Weekly, 2009). This contrasts with a near-absence of cyclicalities in the welfare caseload in earlier downturns, and it suggests that coverage is no longer restricted to people with long-term personal barriers to employment.

321. As long as Public Assistance is granted to only a small proportion of the unemployed or single mothers, there is not a strong case for delivering employment services through welfare offices. However, any significant expansion in coverage of the unemployed will face the problem that the welfare offices do not have a significant employment-service capacity, or spare staff who could develop this. Such a capacity would be needed in order to effectively verify the job-search activities of larger numbers of potentially-employable clients and actively refer them to jobs.

#### ***Public Assistance and other benefits for single mothers***

##### *Public Assistance for single mothers*

322. In FY 2006, the monthly average number of households with mother-and-child(ren) households that actually received Public Assistance was 93 000 (*Japan Statistical Yearbook*, Table 20-40). The number of households consisting of a mother and child(ren) was at least 600 000

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140. Advice from MHLW.

and probably about a million,<sup>141</sup> so the implied reciprocity rate is 15% or less. Nitta *et al.* (2003) report a survey finding that 11.7% of mother-child households were recipients of Public Assistance in 2001, and Sekine (2008) estimates that roughly 9.4% are receiving Public Assistance. The high single-mother employment rate, about 85%, can be seen as a reflection of these low benefit-reciprocity rates.

323. Although there seem to be few accounts of Public Assistance being refused to single mothers (in contrast to reports of benefits being refused to older workers or the homeless), “in such cases, the authorities look first to the woman’s parents for support” (Garon, 2002). According to Sekine (2008), “adding to the stigma of public assistance, social pressure towards single mothers is very strong. Welfare offices are inclined to evaluate their capacity to work rigorously, compared to households with an elderly person or a person with disability, subjecting single mothers to strict work guidance. This strong social stigma is an important cause of the very low take-up of public assistance”.

*Child Rearing Allowance and subsidised child care provision for single mothers*

324. A key measure promoting the employment of single mothers is the Child Rearing Allowance,<sup>142</sup> which “is unique because of its relatively generous amount and less strict income-test threshold. While Child Benefit is eligible for those under 6-years old, Child Rearing Allowance is provided to children aged under 18-years old” (Tokoro, 2003).<sup>143</sup> Before 2002, a household consisting of a mother and a child received a monthly payment of JPY 42 370 when the annual income is less than JPY 904 000, and JPY 28 350 per month when the annual income is between JPY 904 000 and JPY 1.92 million (Nitta *et al.*, 2003). After 2002, the lower income limit (the income at which the maximum rate of Child Rearing Allowance is payable) was reduced from JPY 904 000 to JPY 190 000 and the schedule of benefit reduction was made quasi-continuous with steps of JPY 10 per month down to a minimum JPY 9 880 per month, or zero benefit when income is above an upper limit of JPY 2.3 million, or higher when there is more than one child.<sup>144</sup>

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141. Tokoro (2003) notes “It is always problematic to count how many lone parents exist in Japan. The number of lone parents is different, depending on surveys, partly due to the fact that many lone parents live with their elderly parents...”. Statistics Bureau (2009, Table 82) reports only 606 000 single-mother households, but Sekine (2008) reports around a million single-mother households. The Social Welfare Administration in 2000 reported that about 710 000 mother-child households receive child-care allowance, and “more than 70%” of such households receive child-care allowance (Nitta *et al.*, 2003). In New Zealand and the United States, the number of lone-parent benefits payments has at times appeared to exceed the number of single mothers in the country as reported in surveys (OECD, 2003, Chapter 4). Tokoro (2003) added: “It is very important to note that this benefit is only available to lone mothers, not lone fathers”. Under a revision of the Act on Child Rearing Allowances which came into effect from 1 August 2010, this benefit is now also provided to single fathers: but the research literature cited in this chapter refers to single mothers.

142. Although this allowance is called the Child Rearing Allowance in official statistical publications and by some experts, it is called “child-care allowances” in Nitta *et al.* (2003), and the “dependent children’s allowance (DCA)” by some other authors. Moreover, a different allowance, which can be paid to couples, is also described as “child rearing allowance”. Therefore, information in English should be interpreted with care.

143. The child age limit for Child Benefit was three years before 2000. It was raised to 12 years in 2008, when the monthly payment for the first child was set at JPY 5 000 or JPY 10 000 (Abe, 2010), and was raised to 15 years in 2010 with a further increase in the monthly rate.

144. Rules for 2004 and 2008 are outlined at [www.city.sendai.jp/kenkou/kodomo/kodomo/english/kyuufu/kyuufu\\_2.html](http://www.city.sendai.jp/kenkou/kodomo/kodomo/english/kyuufu/kyuufu_2.html) and [www.ccia-chiba.or.jp/pdf\\_03\\_e/0808e.pdf](http://www.ccia-chiba.or.jp/pdf_03_e/0808e.pdf). For many recipients, the 2002 changes resulted in a reduction of benefit

325. In contrast to the low proportion receiving Public Assistance, 70% to 80% of single mothers in Japan receive the Child Rearing Allowance.<sup>145</sup> As a means-tested benefit, it has some of the characteristics of “welfare” benefits paid by other OECD countries, but the benefit amount is well below subsistence or income-replacement level. But at the same time, the benefit withdrawal rate is lower than would be possible for an income-replacement benefit. For the large majority of single mothers who are not on Public Assistance,<sup>146</sup> this more-easily-available benefit leaves a strong financial incentive to work long hours that is absent in most other OECD countries.<sup>147</sup> The benefit when combined with preferential access to places in day-care centres, at heavily-subsidised rates for mothers on low incomes,<sup>148</sup> seems to make it possible even for mothers with rather low earnings capacity to achieve net incomes similar to – although probably still below, in some cases – the Public Assistance standard. These factors facilitate the high employment rate of single mothers and help to explain why a high proportion of them work full time. Many single mothers report that their lives, working full-time with still relatively low net incomes, are difficult, but the policies in place offer them no attractive alternative (Ezawa, 2006; and Chisa, 2008).

326. Despite the high employment rate of single mothers in Japan and the relatively low cost of the Child Rearing Allowance as compared to a full income-replacement benefit, the government in 2002 introduced a number of reforms to further limit expenditure.<sup>149</sup> These were motivated by continuing growth in the number of recipients. After 2002, the number of Child Rearing Allowance recipients increased further, reaching 956 000 in 2006, but the divorce rate – which is a leading indicator for this benefit caseload – started to fall (Chisa, 2008).

#### *Employment promotion programmes for single mothers*

327. Single mothers are one of the groups assisted by welfare offices in cooperation with Hello Work through the Employment Support Programme (see above). Chisa (2008) reports that “As work-related services, the Japanese government is urging local prefectures and cities to establish special job centers and job training benefits for single mothers”. Zhou (2009) describes five programmes for single mothers implemented by welfare offices, municipality offices and public job placement agencies, such as work skills seminars and cash assistance for participation in professional training. In a 2007 survey, 19% of single mothers reported that they were either previous or current users of the Centres for Work Resource and Life Support (CWR), and 15% had used the intensive assistance for job matching (AJM) programme, which was the only programme financed 100% by central government. Coverage (the proportion of municipalities offering the programmes) and participant numbers in these programmes doubled or tripled between 2003 and 2006.

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amount (see [www7.big.or.jp/~single-m/kaishoukai/honyakuhtml.htm](http://www7.big.or.jp/~single-m/kaishoukai/honyakuhtml.htm)). The upper income limits (at which the benefit entitlement falls to zero) had been lowered in 1995 and 1998 (Uzuhashi, 2003).

145. See Nitta *et al.* (2003), Ezawa (2006) and Chisa (2008).

146. OECD (2007b), Table 4.7, shows a net replacement rate of 75% when out of work, relative to being in work with two-thirds of the Average Wage. However, this calculation assumes receipt of Public Assistance, which in practice is quite difficult to claim on a long-term basis for mothers who are in fact able to work.

147. The benefit reduction rate averages less than 30% between annual incomes of JPY 190 000 and JPY 1 920 000.

148. Fujimura (2000) implies that day nursery fees are almost zero for households receiving Public Assistance, and then increase in line with incomes declared for tax purposes.

149. Although one restrictive measure announced in 2002, a reduction in the amount of Child Rearing Allowance paid after five years, was abandoned in 2008 before any reductions were implemented ([www.welfarewarriors.org/mwv\\_archive/sp08/sp08\\_japan.htm](http://www.welfarewarriors.org/mwv_archive/sp08/sp08_japan.htm)).

***The role of neighbourhood and voluntary work***

328. “Welfare commissioners” are unpaid volunteers who provide assistance with welfare issues at the local level. The welfare commissioners are arguably the most formal and visible component of “Japanese-style welfare policy” in which, according to Yamashige (2002), the government delivers welfare to individuals not directly but *via* families and communities.<sup>150</sup> In 2004, Japan had about 22 600 staff in welfare offices but about 230 000 volunteer welfare commissioners (*Japan Statistical Yearbook*, Table 20-43; and Haddad, 2004). The welfare commissioners are responsible for an average of 200 households in the neighborhood where they reside, and have during most of the postwar period taken care of issues such as means testing and monitoring abuse of public services (Estévez-Abe, 2003). Garon (2002) explains that their direct involvement in the administration of welfare services has gradually declined:

*According to Ben-Ari [who studied two suburban communities near Kyoto in the early 1980s], of the applicants for all welfare services (including public assistance), approximately 30% still made requests through the welfare commissioner and another 10% through local assembly members and heads of neighborhood associations. Nevertheless, Ben-Ari astutely concludes, today’s commissioners no longer possess the authority to bestow or withhold public assistance as public favors. The needy may apply directly at the municipal welfare office, and indeed most do.*

329. Although about three-quarters of all cases handled by welfare commissioners relate to the elderly, the commissioners also identify and tackle poverty associated with working-age disability or unemployment. For example, Kyoto prefecture’s website now advises citizens:

*The Life Welfare Fund seeks the economic independence and promotion of a motivated lifestyle for households with low income, aged people, and disabled people through the guidance and support of welfare commissioners and the provision of funds. This includes a rehabilitation fund, welfare fund, housing welfare fund, learning fund, nursing fund, disaster measures fund, and an unemployed people support fund. Please consult with local welfare commissioners and apply for the welfare assemblies in cities, towns and villages ([www.pref.kyoto.jp/en/04-05-01.html](http://www.pref.kyoto.jp/en/04-05-01.html)).*

330. According to Haddad (2007), the volunteer welfare commissioner system began in the late nineteenth century, and it has been very successful in terms of adjusting to the changing social reality. The system, although largely voluntary, is promoted and organised by public authorities:

*... volunteers are treated as local public servants... and they receive the same death and disability benefits as city employees if they are hurt while serving in their public capacity. Laws also help set the expectations and guidelines for professionalism... volunteer welfare commissioners are given initial training at the beginning of their three-year term, and subsequent trainings are largely voluntary... If a neighborhood resident contacts a volunteer welfare commissioner for assistance, the volunteer will help negotiate with the city bureaucracy to obtain the appropriate assistance. Every month all the volunteer welfare commissioners in a district meet together to share problems and concerns and raise issues that need to be brought to the city’s attention. They also submit monthly reports on their activities (keeping the individual identities of clients confidential), so the city is able to gather information on the kinds of problems residents are facing. The city compiles the information and identifies trends, which are then reported back to the volunteers. Constant*

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150. This is contrasted with “*laissez-faire* policy” in which the government is not engaged at all, and with “Western-style welfare policy” in which the government delivers welfare directly to individuals.

*interaction between the volunteers and the city officials enables both sides to meet the needs of city residents and adjust services to adapt to changing conditions... The Volunteer Welfare Commissioner Law requires the prefectures to cover the costs associated with the volunteer commissioner work, and volunteers are paid a lump sum to cover costs such as transportation to client meetings, copies, postage, phone calls, and so forth... They also have full use of public buildings to hold their monthly meetings, meet with clients, and so forth. City officials produce all of the training materials for the volunteers and print any information to be circulated to clients. Therefore... the volunteers do not have to spend time raising money to fund their activities (Haddad, 2004).*

331. This system plausibly in some cases solves individual problems without recourse to cash benefits and in some other cases ensures that people in severe hardship, who might not otherwise claim Public Assistance due to stigma or perhaps not knowing that it is available,<sup>151</sup> do receive cash benefits, so that although the coverage of poverty by Public Assistance is low, it is relatively well-targeted on those who need it.

#### 4.4. Key points

332. In Japan in 2004, recipients of unemployment insurance and social assistance (not including payments on grounds of disability) totalled only 1.2% of the working-age population – far below the nearly 7% average rate for 15 other OECD countries.

333. One factor contributing to low benefit coverage is that until 2009 employment relationships expected to last for less than a year were not eligible to participate in the regular EI system. This condition left many employees outside the system but, since it is difficult to enforce, it still allowed adverse selection, *i.e.* selective enrolment by non-regular workers who are more likely to claim benefits. Workers in shorter-term employment relationships should in principle be enrolled in the special EI systems for day labourers or for people in short-term employment, but in practice many of them are not enrolled anywhere. Eligibility for participation in the regular EI system was extended to employment relationships expected to last for at least 6 months in 2009, and to employment relationships expected to last for at least 31 days in 2010. However, in the second reform the contribution condition for entitlement was kept at six months, so the newly-covered group had less incentive to pay contributions. The recent unification of the collection procedures for labour insurance and social insurance contributions should facilitate enforcement in the longer term, although the increase in coverage rates so far has been modest.<sup>152</sup>

334. A large proportion of EI recipients re-enter work only at or after benefit exhaustion, particularly in the case of claims following mandatory retirement. In the 1980s and 1990s, claiming benefits upon reaching mandatory retirement age (typically 60), often for 300 days (10 months) became a standard labour market practice, and this seems to have been the principal cause of high older-worker unemployment in these years. In the 1990s, as the incidence of non-regular work and unemployment rates increased and more workers had a long contribution history, the EI system suffered growing deficits. The EI reform of 2001 reduced the duration of benefit entitlements for many types of claim and in the mid-2000s the ratio of EI beneficiaries to LFS unemployment fell to about a quarter, one of the lowest levels among OECD countries.

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151. Since the 1970s “fewer and fewer Japanese receive aid or know anyone who is a recipient” (Garon, 2002).

152. Approximately 2.55 million people should be newly covered under the 2010 extension: in the first six months of FY 2010, numbers contributing increased by about 0.75 million ([www.meti.go.jp/english/report/data/Monodzukuri2010\\_02.pdf](http://www.meti.go.jp/english/report/data/Monodzukuri2010_02.pdf), [www.mhlw.go.jp/toukei/itiran/roudou/roukei/shihyou/index.html](http://www.mhlw.go.jp/toukei/itiran/roudou/roukei/shihyou/index.html)).

335. The Re-employment Allowance, paid to unemployed workers who enter a job with more than one-third of their original benefit entitlement unused, partly offsets the work disincentives associated with benefit receipt. Early re-employment is also promoted by a jobseeker counselling programme, and the early re-employment rate is used as a PES performance indicator (see other chapters for details). However, participation in counselling programmes is voluntary and benefit sanctions are rarely implemented for the refusal of work, so activation measures are relatively weak.

336. Although unemployment should be better covered by benefits, a general increase in EI entitlements would tend to increase the duration of unemployment spells and the incidence of employment with a high benefit/contribution ratio (such as six-month contracts). This problem cannot easily be solved by strengthening activation measures, because benefit periods of three or six months are too short to allow the systematic referral of clients to ALMPs and systematic assessment of individual employability and job-search behaviour. Increases in some particularly low benefit entitlements (*e.g.* for younger unemployed with up to five years of contributions, who currently qualify for only three months of benefit), and an intensification of activation requirements targeted on long-term or repeat claimants, should be possible.

337. Few unemployed people qualify for Public Assistance. Factors that have kept the unemployed caseload very low include strict management of welfare offices by local authorities (which have to finance 25% of the benefit costs); the strict asset test, which prevents unemployed people from qualifying until they have exhausted their savings and disposed of non-essential household goods; the eligibility requirement for “full use of one’s capacity to work”, which often leads to rejection of applications or limiting the assistance provided to very short periods, except for the most highly-disadvantaged applicants; and the Child Rearing Allowance paid to low-income single mothers, which in combination with earnings from a low-paid job allows them to achieve a similar net income without support from Public Assistance.

338. Due to the assets test and other factors, only about 20% of households with incomes below the Public Assistance standard receive this benefit. However, it can be argued that benefit coverage is quite well targeted on the most needy and deserving cases. Japan’s large network of volunteer “welfare commissioners”, who monitor welfare issues at local level, provides non-cash assistance, and brings situations of severe hardship to the attention of the local welfare office.

339. In the early 2000s, MHLW advised welfare offices that work capacity should not in itself preclude applicants from eligibility for Public Assistance, and from 2000 to 2006 the number of “other” households (not aged, mother and child, or invalid/disabled) doubled. In 2009 the active caseload continued to grow, with a sharp increase in the number of people applying after job loss. Since the assistance benefit coverage of unemployment is still very low, there is a case for allowing this trend to continue.

340. Although welfare offices should in principle strictly monitor job search by clients with work capacity, under current institutional arrangements they do not provide employment services. At the same time, regular PES offices have limited resources for intensive job-search monitoring or resolving clients’ barriers to participation in the labour market. Along with any increase in the availability of assistance benefits for unemployed people, the organisation of activation measures for this target group needs to become more systematic.



## *Chapter 5*

### **ACTIVE LABOUR MARKET PROGRAMMES**

#### **5.1. Introduction**

341. In Japan, ALMPs are only rarely analysed as a distinct policy field. Partly related to the history of low unemployment and low coverage of the unemployed by UI benefits, programmes targeted on registered unemployed workers can cover only a relatively limited part of the labour market. Important measures have included Employment Adjustment Subsidies to prevent layoffs, particularly during recessions; vocational training for employed workers (mainly in SMEs, since large firms provide nearly all training in-house); and legislation and other measures to promote improvements in firms' employment practices, notably the extension of firms' compulsory retirement ages to 60 and the provision of opportunities for continuing employment to age 65. JILPT (2009a) describes a broader employment strategy with an emphasis on work-life balance, vocational training for non-regular workers and a "right to career", but the programmes in these areas are fairly recent. This chapter describes this range of programmes, with at some points a focus on ALMPs narrowly defined as programmes targeted on people who are unemployed, or employed but threatened with layoff, which is the concept applied in international statistics.

342. A difficulty in the analysis of ALMPs in Japan is the lack of statistics on expenditure and participant numbers by detailed programme using a consistent system of classification and terminology. This is partly related to a tendency to announce policy changes under the heading of new and ambitious strategic objectives. It may also be related to a fairly low intensity of external auditing, budget scrutiny and formal programme evaluation, which could help to crystallise terminology and the presentation of information. MHLW monitors programme participation and carries out in-depth studies of different areas of labour market policy (notably through the JILPT Research Report series, which summarises a range of research projects). Nevertheless, there are few statistical evaluations of the impact of participation in a specific programme on outcomes. This might be related to a lack of detailed or precise administrative data on programmes and their outcomes, as well as limited funding for such research, either in-house or by university researchers.

343. Section 5.2 of this chapter gives an overview of the history of ALMPs and expenditure on them and the different types of measures and instruments. Section 5.3 describes and analyses ALMPs for the main target groups, among which are youth, older workers, people with disabilities, women and workers with unstable employment conditions. Section 5.4 looks at employment programmes at the local level. Finally, Section 5.5 summarises key points.

#### **5.2. The history of active programmes and patterns of expenditure by main category**

##### *History of active labour market policy*

344. Traditionally, employment policies in Japan focused on public works and measures to maintain employment (Ohtake, 2004). At the time of the first oil price shock in 1974, the former unemployment insurance law was replaced by the Employment Insurance Law. From 1975 measures under the heading "Services, etc. for the Stabilization of Employment" of the 1974 Law, aimed at maintaining employment rather than paying benefits during unemployment, played a vital role. From 1981, Employment Adjustment

Subsidies provided both allowances during the suspension and curtailment of business operations (subsidies for short-time working) and subsidies for training and the other costs involved in transferring employees to another firm (*shukko*).

345. In 1977 and 1978, a series of special measures in designated regions were decided, such as job placement and vocational training, employment in public works, extension of unemployment benefits, grants and benefits for employment transfers (Ito and Yugami, 2005). In addition to traditional public works which aim to absorb unemployment, which are financed outside the 1974 Law, from the 1980s measures under the Employment Stabilization heading of the Law included lump-sum wage subsidies for firms newly hiring middle-aged and elderly workers and subsidies for SMEs that require human resources for business conversions and expansion (Genda and Rebick, 2000; Ohtake, 2000 and 2004).

346. In the early 2000s, younger workers were recognised as another group facing significant difficulties in the labour market, and a range of youth measures were introduced. In its White Paper on the Labour Economy 2004, MHLW addressed the challenge of demographic change, changing values and the need to create a society “where everyone can work”, and called for the review of working styles and the balance between work and private life. Human resources development was regarded as a further key area of policy. This focus was reflected in the 2006 Human Resources Development Plan (see Chapter 2).

347. In 2008 a “new employment strategy” was formulated with a broad range of objectives such as promoting the integration of youth, bringing *freeters* and NEETs, women, older people and people with disabilities into the labour market, as well as the improvement of working conditions (JILPT, 2009b). It designates “the next 3 years” (originally referring to mid-2008 to mid-2011)<sup>153</sup> as an “intensive period” in which tailored support measures adapted to individual needs should be implemented (MHLW, 2009a).<sup>154</sup> It announces a reform of the social security system to extend social security coverage to part-time workers (among whom there are many women and older workers). It includes support for non-regular workers’ conversion to full-time worker status using Job Cards (see below) and several measures concerning better information and awareness-raising regarding the employment of daily workers, dispatched (interim-agency) workers and fixed-term workers more generally.

348. A further key area of policies which has been given high weight in the context of the financial and economic crisis is the promotion of regional employment, in particular through the promotion of SMEs and the launch of the “Hometown Employment Revitalization Special Grant”, “Emergency Job Creation Programme” and “Employment Creation Programme for Priority Areas”. Furthermore, in the context of the economic crisis, employment subsidies are directed towards specific sectors, *e.g.* for temporary employment of laid-off workers by local governments, strengthening the forestry and fishery sectors and upgrading the health-care and long-term care sectors.

349. As the financial crisis developed, funding for these measures, as well as for PES staffing and regular unemployment benefits, was increased. Large sums were also allocated for several new programmes (described further below).

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153. In MHLW (2009a), the page about the “new employment strategy” cites a document dated 23 April 2008.

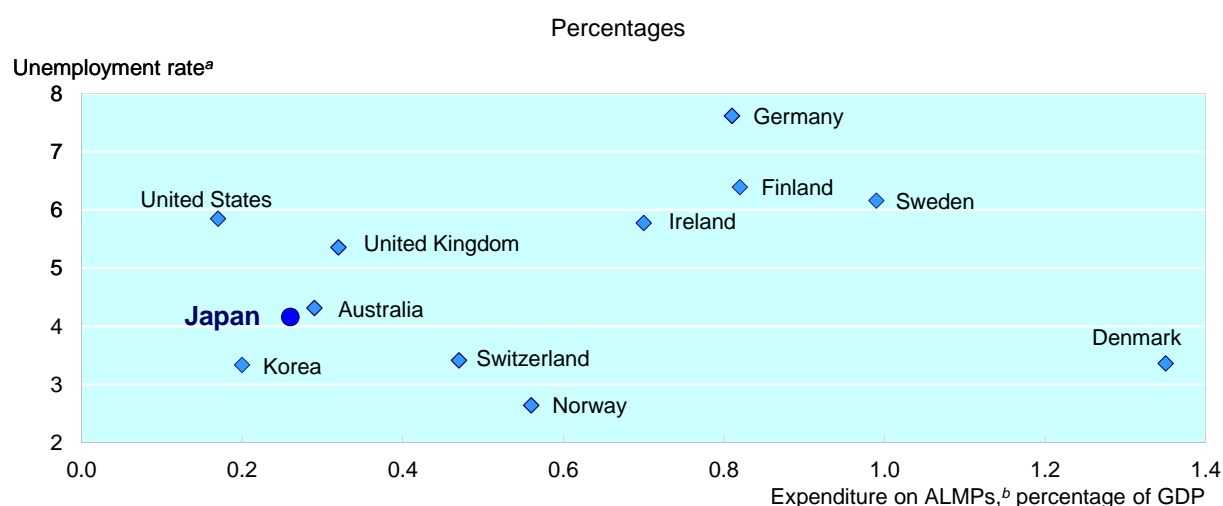
154. The main quantitative objectives for the three-year period are: *i*) increasing regular employment for 1 million people; *ii*) raising the number of women aged 25-44 in employment by 200 000; and *iii*) increasing the number of older workers aged 60-64.

## Expenditure on active labour market programmes

### International comparison

350. Expenditure for ALMPs, including placement services and administration, are low as compared with other OECD countries (see Figure 5.1).<sup>155</sup> Against the background of the relatively low unemployment rate, expenditure may not seem excessively low as compared with some of the Anglo-Saxon liberal countries. But in 2007 some countries of OECD Europe, such as Denmark, Norway and Switzerland, had comparably low unemployment rates with much higher expenditure on ALMPs. As already noted in Chapter 4, Japan has as a political and strategic choice encouraged self-reliance by individuals, families and local communities for tackling issues of social welfare, and it has in a similar way assumed that enterprises should provide vocational training and stable jobs for a large proportion of the workforce. These features explain the limited scale of interventions by central government and their focus, in part, upon promoting private sector practices that offer training and stable jobs.

Figure 5.1. Incidence of unemployment and expenditure on active labour market programmes, Japan and selected OECD countries, 2008



ALMPs: Active labour market programmes.

a) Unemployed as a percentage of the labour force. Data refer to 2008.

b) Data for expenditure refer to Categories 1 to 7 in the *OECD/Eurostat Labour Market Programme database*. For Japan, they refer to FY 2008; for Norway to 2007; for the United Kingdom to FY 2007; and for the United States to FY 2008.

Source: *OECD Online Employment database* ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)) for **Unemployment rates**; and *OECD/Eurostat Labour Market Programme database* for **Expenditure**.

351. Although Japan does not regularly provide statistics on participant stocks and annual entrants for the *OECD/Eurostat Labour Market Programme database*, the available data suggest that LMP participation rates are similarly far below those in most European countries. In FY 2007, there were 160 000 unemployed participants (planned) in EHDO training, and 135 000 participants in hiring subsidies and Trial Employment (see below for the sources of these statistics). These numbers probably represent most of the participants in programmes of type Category 2 *Training* and Category 4 *Employment Incentives* of the *OECD/Eurostat database*. They imply that only about 0.24% of the labour force

155. Data for ALMP expenditure for Japan are approximate, since the information relates to budgets which are not always fully spent, and do not include some expenditure from the EI funds (the Re-employment Bonus and Employment Continuation Benefit, discussed further below). The share of expenditures on ALMPs as a percentage of GDP is also lower in Mexico, which is not shown in the figure.

participated in publicly-financed labour market training and 0.20% in an employment incentive programme in that year. In a typical OECD country reporting to Eurostat, about 2.7% of the labour force participated in a labour market training programme and 1.4% participated in an employment incentive programme,<sup>156</sup> rates about 11 and 7 times higher, respectively, than those cited for Japan. Relatively-lower unemployment and labour turnover rates (see Table 3.4) in Japan could only account for a small part of this discrepancy.

#### *Trends and response to the recession*

352. The data provided by MHLW for the *OECD/Eurostat database* indicate that expenditure on Category 1 *PES and administration* declined by nearly 50% in nominal terms between FY 2003 and FY 2007<sup>157</sup> and expenditure for other active programmes – including training, employment incentives, start-up incentives and supported employment and rehabilitation – declined by about 25% (Table 5.1). The latter decline corresponds approximately to the fall in the number of unemployed people.

Table 5.1. **Expenditure on active labour market programmes, Japan, selected fiscal years 1990-2007**

Millions of yen (JPY)

	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007
PES and administration	1 223 795	1 255 174	1 061 505	1 077 930	1 101 587	1 155 517	1 058 469	960 668	720 322	594 500
Training <sup>a</sup>	135 541	162 804	198 338	211 701	217 651	208 692	185 319	196 263	183 082	171 008
Employment incentives	88 317	126 654	145 404	131 309	110 367	108 849	106 806	101 364	72 723	56 935
Supported employment and rehabilitation	9 087	13 712	11 106	9 185	8 924	7 966	7 814	7 263	6 822	6 756
Start-up incentives	–	–	–	–	1 500	7 822	7 084	11 987	7 986	4 424
Expenditures for ALMPs without placement and administration	245 304	313 285	358 095	353 655	338 442	333 329	307 023	316 877	270 613	240 793

Fiscal year refers to April of the reference year to March of the following year.

– Nil or less than 0.005.

a) Includes education and training allowances, but not unemployment benefits paid to programme participants.

Source: *OECD/Eurostat Labour Market Programme database*.

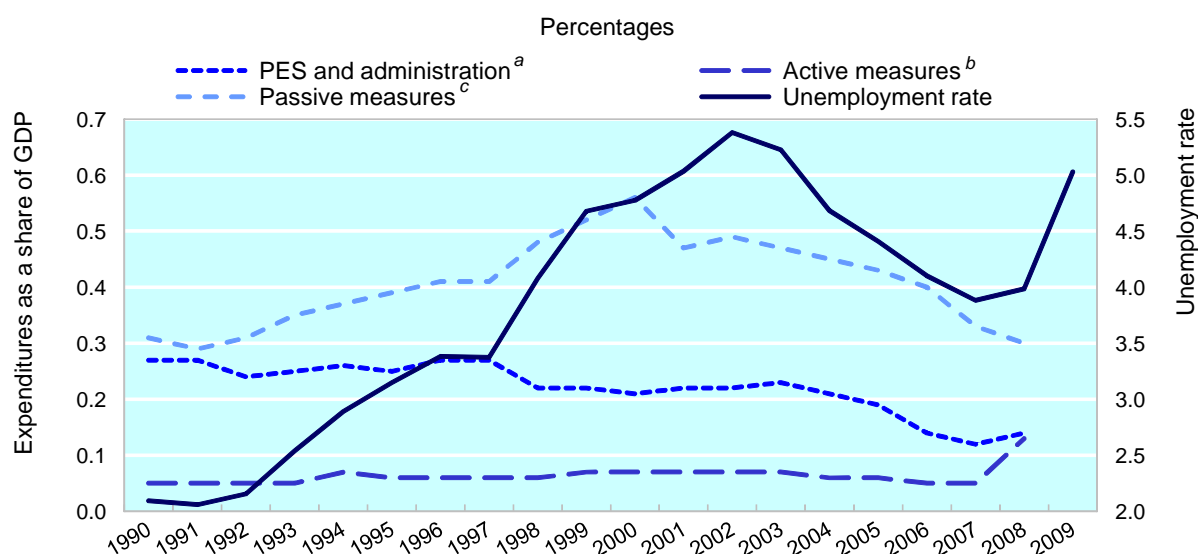
353. The history of LMP expenditure as a percentage of GDP (Figure 5.2) shows that expenditure on passive measures, in particular unemployment benefits, has been much more variable than expenditure on ALMPs. The peak in expenditure on passive measures in 2000 reflects the rise in unemployment during the 1990s, while the subsequent fall – despite still rising unemployment – was also strongly influenced by the 2001 and 2003 reforms of the EI system (see Chapter 4).<sup>158</sup> There has also been a long-term trend reduction in expenditure on PES administration. Expenditure on other active programmes has increased roughly in line with GDP between 1990 and 2007, although near-stability of expenditure as a percentage of GDP contrasts with the increase in the unemployment rate.

156. OECD calculations based on data for 10 OECD Europe countries that reported total entrants to training measures and 11 that reported total entrants to employment incentive measures in Eurostat (2009).

157. The time-series comparability of the data for Category 1 *PES and administration* seems questionable, because although the number of PES staff declined throughout the 2000s, the decline from FY 2003 to FY 2007 was only a few per cent.

158. Note that these data on a budget basis tended to lag behind and understate the size of the year-to-year fluctuations in actual expenditure, as reported in other sources.

Figure 5.2. **Expenditure on labour market programmes as a share of GDP and the unemployment rate, Japan, 1990-2009**



a) Category 1 in the OECD/Eurostat Labour Market Programme database.

b) Category 2 to 7 in the OECD/Eurostat Labour Market Programme database.

c) Category 8 and 9 in the OECD/Eurostat Labour Market Programme database.

Source: OECD/Eurostat Labour Market Programme database for **Expenditure**; and OECD Online Employment database ([www.oecd.org/els/employment/database](http://www.oecd.org/els/employment/database)) for the **Unemployment rate**.

354. In the context of the financial and economic crisis, the government decided to dramatically increase expenditure on ALMPs (MHLW, 2009a). Total expenditure in FY 2006 and FY 2007 on active programmes other than PES and administration was about JPY 250 billion. The increases in expenditure announced in supplementary budgets in FY 2008 and FY 2009 were much larger than this:

- The second supplementary budget for FY 2008 (announced in late 2008 and enacted 27 January 2009) included JPY 405 billion, of which about JPY 160 billion were allocated to FY 2009. This was mainly for the “Hometown Employment Revitalization Special Grant” (to “conduct projects that will create stable job opportunities for regional jobseekers”: JPY 250 billion) and the “Emergency Job Creation Programme” (temporary jobs of less than six months, created by prefectural governments or Silver Human Resource Centres, “for non-regular workers and middle-aged and older people, etc. who have been forced to leave their jobs in the current severe employment/unemployment situation”: JPY 150 billion). A number of small subsidy programmes were also allocated additional funds, with in particular an additional JPY 5.7 billion for securing and retaining personnel in long-term care services.
- A supplementary budget for FY 2009 (announced in April 2009) includes further expenditure of JPY 2 513 billion, of which JPY 1 256 billion are from the General Account (*i.e.* central government budget). Within this total, JPY 607 billion are subsidies for employers who avoid making dismissals, JPY 170 billion are for “Housing and daily-life support” measures (where participants may qualify for housing allowances for up to six months, and cash income support for up to a year, although the budget also includes the costs of counselling and assistance with finding a home), and JPY 684 billion are for funding regular unemployment benefits. The remaining JPY 1 050 billion are devoted mainly to an “Emergency Human Resource Development and Employment Support Fund” (JPY 700 billion)<sup>159</sup> and the “Emergency Job Creation Programme” described above (JPY 300 billion).

159. The plans for the *Emergency Human Resource Development and Employment Support Fund* in the supplementary budget tabulation were provisional. A description of the programme in MHLW (2009a)

355. The supplementary budget allocations do not imply a comparable increase in annual ALMP expenditure, because the expenditure occurs over two or more years (the second supplementary budget for FY 2008 was enacted only two months before the end of the fiscal year), and even the “active” measures are preponderantly local expenditure on public works and social services with only a proportion of the hires being targeted on the unemployed. Even allowing for this, they seem to represent large increases in the level of ALMP expenditure.

356. MHLW (2009a) also mentions, under a heading of “investing for the future”, much larger general growth-strategy programmes without specific employment content (including JPY 6.2 trillion for the low-carbon revolution and JPY 2.0 trillion for health, longevity and childcare). The complex package of policy responses to the crisis at first sight had an impact because the (seasonally-adjusted) unemployment rate, after reaching a peak of 5.7% in July 2009, fell below 5% in January 2010.

### *Analysis by type of action*

#### *Overview*

357. Data provided by MHLW to OECD for the *OECD/Eurostat Labour Market Programme database* report only category totals, without listing the individual programmes included under each of the category headings. Thus, it has not been possible to establish a correspondence between expenditure in the *OECD/Eurostat database* and the data and descriptions of programmes available from national sources.

358. It is also generally difficult to establish a consistent overview of LMP expenditure in Japan using national concepts. Among the difficulties are:

- Classification systems vary. MHLW (2009a) presents the second supplementary budget of 2008 and the main budget of 2009 using one set of headings, but presents the first supplementary budget of 2008 and the supplementary budget of 2009 using two other sets of headings. There are also differences in reporting standards used for the specific budget (the budget of the Employment Insurance system) and the General Account (national budget), which also finances some ALMP expenditure;
- Since the 1990s, the government has announced many emergency economic policy packages with supplementary budgets for employment measures but, as noted above, the time-frame of the expenditure, and whether it is additional to expenditure reported in earlier and later announcements, is not always transparent. Indeed, it is not entirely clear whether such supplementary budget allocations are ever followed by expenditure on a comparable scale. Ohtake (2000) reported that the number of participants in several special grant programmes financed by Emergency Packages of Employment Measures in the late 1990s had, by September 2000, totalled less than 10% of the announced target; and
- Only limited retrospective data for actual participant numbers in a particular programme are published, and data may not be clearly defined (in terms of participant inflows or stocks,<sup>160</sup> and the reference period/year).

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suggests that it includes “Housing and daily-life support measures”, although in the budget these are listed as separate items.

160. National publications for some OECD countries use a third concept, the total number of participants in a programme during a year.

359. However in recent years an official committee for evaluation of the operation of the EI System has developed a detailed analysis of individual programmes. The framework for the evaluation of the FY 2007 programmes<sup>161</sup> lists 135 separate programmes within the EI System, along with the FY 2007 and FY 2008 budget for each programme. This source identifies many of the programmes discussed in this review, such as “Navigators”, part-time job banks, job coaches for the disabled, the Job Card and the Japanese Dual system.<sup>162</sup> Table 5.2 shows expenditure by category and sub-category based on this source. Some points of interpretation are:

- The detailed listing covers only a fraction of total expenditure on the “PES and administration” function in Japan (*e.g.* PES management, local office operating costs and staff, computer systems and similar overheads). Most of the relevant expenditure on this function, in particular the salaries of PESO officials, is financed through the general budget allocation to MHLW;<sup>163</sup>
- Expenditure on vacancy display and jobseeker counselling is included not only in Category 1 *Strengthening of supply-demand adjustment*, but also to some extent in other categories;<sup>164</sup>
- Categories 2 to 4 promote the return to work by jobseekers and measures to “stabilise” certain types of pre-existing employment relationship;
- Categories 5 to 9 promote “career development” and vocational training;
- Categories 10 to 12 promote work-related childcare, equal opportunities at work and the payment of age pension contributions by employers, and fund the labour market policy research organisation JILPT; and
- The broad categories include individual programmes with various types of action, ranging from jobseeker counselling (a typical PES function) to wage subsidies, vocational training and self-employment start-up assistance (typical ALMP functions) and subsidies to improve management practices. Some of these detailed programmes arguably fall outside the scope of the *OECD/Eurostat LMP database*, either because they are targeted on employed workers or because of their type of action (childcare provision, promoting social insurance coverage).

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161. See Table 5A.1 for the source.

162. However, the names and coverage of the individual programmes differ between Table 5A.1 and the *OECD/Eurostat LMP database*. Clearly much expenditure is present in both databases, but direct comparison of the databases is not possible.

163. In July 2008, the rate of contributions to the EI system for unemployment benefits was 12/1000 (1.2%), split equally between employers and employees, and the rate of contribution for the “two services” of the 1974 Employment Insurance Law (Services for developing capacity and Services for the stabilization of employment) was 3/1000 paid only by employers. Thus funding for the “active” services of the EI system was in principle, before taking subsidies from government into account, a quarter of funding for passive unemployment benefits.

164. For example, under the category heading *Promote stability of employment*, programme 53 provides “disabled employment and life support”; 57 finances Hello Work annexes next to Job Cafés (as mentioned in Box 3.2); 58 provides “Job Supporter” counselling for new high-school graduates, and 60 plays a similar role for university graduates.

Table 5.2. **Active labour market programme expenditure grouped by categories used in the Employment Insurance accounting and evaluation system, fiscal years 2007 and 2008**

Billions of yen (JPY)

Category	Description <sup>a</sup>	Budgeted expenditure	
		2007/08	2008/09
	1. Strengthening of supply-demand adjustment to promote early re-employment	20.8	20.3
	2. Creation of employment opportunities for stable employment	31.2	39.6
Of which:	1) <i>Employment opportunities in SMEs</i>	9.4	9.9
	2) <i>Creation of employment opportunities in the regions</i>	6.8	14.9
	3) <i>Employment stabilisation</i>	2.3	1.1
	4) <i>Promotion and facilitation of labour mobility</i>	3.9	3.6
	5) <i>Industry-specific employment stabilisation measures</i>	8.7	10.1
	3. Promote the stability of employment according to worker characteristics	51.1	48.7
Of which:	1) <i>Promotion of the employment of elderly workers</i>	10.1	11.2
	2) <i>Promotion of the employment of persons with disabilities</i>	1.3	2.6
	3) <i>Promotion of youth employment</i>	10.3	9.9
	4) <i>Promotion of employment stability and employment for hard-to-place workers</i>	29.4	25.1
	4. Other employment promotion and assistance measures	23.1	23.0
	5. Career-development-support system	4.8	8.2
	6. Development of a Vocational Education and Training evaluation system	3.0	3.1
	7. Ensuring a variety of training opportunities	28.2	26.3
	8. Promote the development of the vocational skills of youth	9.7	9.1
	9. Other relevant vocational skills development	84.5	85.6
	10. Equal employment opportunities and support for part-time workers <sup>b</sup>	12.6	12.3
	11. Subsidisation of pension premiums in small enterprises	6.1	5.8
	12. Other <sup>c</sup>	3.6	3.6
<b>Total budgeted expenditure for the measures listed<sup>d</sup></b>		<b>278.7</b>	<b>285.6</b>

a) For further information about the coverage of each category, see the listing of large programmes in Table 5A.1.

b) Includes a large number of small programmes (mostly focused on maternity leave and parental leave) managed by the Japan Institute of Workers' Evolution ([www.jiwe.org](http://www.jiwe.org)).

c) Support for labour market policy research (through a grant to JILPT), good practice in international labour contracts and the resolution of industrial disputes.

d) Does not include the cost of PES staff and management structures, local office buildings and maintenance, etc., which have not been allocated to a particular programme.

Source: MHLW (2009e), "Setting goals for two projects funded by fiscal year 2008 employment insurance", in Japanese, [www.mhlw.go.jp/bunya/koyou/koyouhoken04/](http://www.mhlw.go.jp/bunya/koyou/koyouhoken04/).

360. In the source used for Table 5.2 – which here will be called the “EI system data” – 48 of the 135 programmes had budgeted expenditure of over JPY 1 billion in FY 2007 and/or FY 2008. Table 5A.1 (see Annex 5A) lists these programmes, together with a tentative allocation of each programme to Categories 1 to 7 of the OECD/Eurostat classification, which is a classification by “type of action” rather than by target group. The sub-sections below follow this approach, and include some comments based on Table 5A.1. Based on the tentative allocations of programmes to categories, it seems that Table 5A.1 includes about 70% of the expenditure reported in the *OECD/Eurostat database* in the areas of Category 2 *Training*, Category 4 *Employment Incentives* and Category 7 *Start-up incentives*.<sup>165</sup>

165. The OECD/Eurostat data report higher total expenditure on training than the EI system data because training programmes also receive funding from the general account (the national budget). See also references in this chapter to rehabilitation and supported employment.



*Employment subsidies*

361. In 2008, roughly 50 different subsidies and grants paid to employers and managed by the PES were listed in a guide to employers, most of them being rather small-scale programmes, and some of them falling outside the scope of the *OECD/Eurostat Labour Market Programmes database*. This sub-section discusses these subsidies, as well as grants paid to individuals who start a business on a self-employed basis.

## Recruitment incentives

362. In the EI system data (Table 5A.1) the largest programmes allocated to Category 4 *Employment Incentives* are 68/69 *Subsidy for hiring hard-to-place and elderly workers* (JPY 25 billion in FY 2008), and 56 *Subsidies for hiring youths aged less than 35 in trial employment and promoting the transition to regular employment* (JPY 5 billion).

363. The hiring subsidies (called *employment development* measures in Japan) are granted to employers who employ specified jobseekers (workers aged 60 and above, people with disabilities and other vulnerable groups stipulated by MHLW) as permanent workers through the PES and other agencies.<sup>166</sup> As a condition to be subsidised, employers should not have dismissed workers during specific standard terms (but dismissal is accepted if the cause is natural hazard and other inevitable reasons). Subsidies amount to JPY 150 000 to JPY 600 000 per half year, and may last for up to 1 to 2 years depending on the target group. Table 5.3 shows that the use of this type of subsidies decreased between FY 2003 and FY 2007.

Table 5.3. **Expenditure on hiring subsidies and participants, Japan, fiscal years 2003 to 2007**

Millions of yen (JPY), and numbers (stocks)<sup>a</sup>

	2003	2004	2005	2006	2007
Expenditures	24 734	23 477	23 318	22 946	23 076
Participants	90 679	85 121	84 996	82 821	81 488

a) The statistics report the number of six-month-maximum subsidies granted in each fiscal year: for some participants, companies may receive two grants in the same fiscal year.

Source: Direct submissions from MHLW.

364. The Trial Employment programme is a separate type of recruitment incentive managed by Hello Work offices for employing specific categories of workers who have difficulties in finding employment due to lacking vocational experience, skills and knowledge. The maximum subsidy is JPY 40 000 per month per worker for three months. The subsidised “trial” period facilitates mutual understanding and gives employers a clearer view of the abilities of the worker. The target groups include workers aged between 45 and 65, younger people up to the age of 35 (meaning in fact that only the age group 35-44 is not targeted), lone parents, people with disabilities, homeless and day workers, unstable workers losing their homes, seasonal workers and Japanese migrants (return migration from China). Table 5.4 shows that in FY 2007 most participants were youths. About 90% of the young people who start Trial Employment finish it and 80% of those finishing it move into regular employment. Transition rates are somewhat lower for single mothers, older workers and daily workers, but can still be regarded as quite high.

166. Advice from MHLW. The subsidies can be granted for the hiring of specified jobseekers through private employment agencies meeting certain conditions.

Table 5.4. Trial Employment subsidies, Japan, FY 2007

Levels and percentages

	Number of persons starting Trial Employment	Share of participants %	Budget Millions of yen (JPY)	Persons moving into regular employment <sup>a</sup> %
Middle-aged and older persons	3 461	6.46	540.0	76.2
Youth	41 988	78.37	5 814.8	80.2
Mothers in single-parent	290	0.54	54.0	72.0
Seasonal workers <sup>b</sup>	17	0.03	84.0	66.7
Disabled persons	7 744	14.45	902.4	82.3
Day laborers, homeless persons	80	0.15	23.0	71.1
<b>Total</b>	<b>53 580</b>	<b>100.00</b>	<b>7.4</b>	<b>80.2<sup>c</sup></b>

a) Persons moving into regular employment (employment for an unlimited term) as a percentage of workers in the group who completed Trial Employment.

b) The Trial Employment programme for seasonal labourers was started in FY 2007.

c) Weighted average.

Source: Direct submission from MHLW.

365. Recruitment incentives may also take the form of subsidies paid to formerly unemployed workers. Japan's Re-employment Allowance (see Chapter 4 for discussion) is not included in the EI system data (Table 5A.1), but other OECD countries report similar programmes (*e.g.* the Back to Work Allowance in Ireland, which also involves partial payment of the former unemployment benefit entitlement to people who have taken up work), as recruitment incentives in OECD/Eurostat Labour Market Programme data.

#### Employment maintenance incentives

366. In the EI system data (Table 5A.1), the *Employment Adjustment Subsidy* appears as only a small programme (JPY 1.1 billion in FY 2008), since the data do not reflect its expansion later in the year as the economy entered recession. The Employment Adjustment Subsidy finances a proportion of wage payments if the firm has to scale down its business operations for cyclical or industrial restructuring reasons and, without dismissals, adopts measures such as temporary leave with pay, in-house education or training, or temporary transfer of employees to other firms.

367. In the context of the economic crisis, many firms experienced a decline in production qualifying them for participation in the programme. Moreover, the eligibility criteria were relaxed and the programme's coverage was expanded (MHLW, 2009a):

- Eligibility was extended to the case of a drop in the volume of production of 5% or over (instead of 10% previously), referring to either the previous 3 months or the same 3-month period in the previous year;
- Eligibility was extended to non-regular workers;
- The subsidy rate was increased to two-thirds instead of a half (and to four-fifths instead of two-thirds in case of SMEs); and
- The subsidy period was increased to 300 days in 3 years (the same for SMEs) instead of 150 days, and the waiting period of 1 year before reuse was eliminated.

In FY 2008, about JPY 6.8 billion was spent on this programme, mainly in the beginning of 2009 when participant numbers started to increase. JPY 650 billion were allocated to the programme through two supplementary budgets for FY 2009, when the number of participating firms shot up to almost 100 000, and employees in participating firms to 2.6 million (ILO, 2010), which corresponds to almost 3% of wage and salary earners.

368. Short-time work not only prevents unemployment but also facilitates a rapid expansion of economic activities when demand increases again. It helps to avoid redundancies which may lead to loss of firm-specific human capital, and a later need for recruitment which is costly and time-consuming (OECD, 2009g). The rationale for short-time work schemes is strongest for companies whose financial difficulties are linked to the business cycle rather than to structural factors. However, the restructuring process is often accelerated during recessions, and some dead-weight losses are inevitable. In order to improve the instrument and its impact on the future job situation of the workers, some other OECD countries, *e.g.* Austria, Belgium, France and Germany,<sup>167</sup> promote the training of workers in the short-time-work subsidy scheme (OECD, 2009g). In Japan, past descriptions of the Employment Adjustment Subsidy have implied that it primarily keeps workers employed (or in training), and this measure is allocated to Category 4.2 *Employment maintenance incentives* of the *OECD/Eurostat LMP database*.<sup>168</sup> In the 1980s, support for “temporary business closures” without training (which may encompass reductions of working time) was almost eliminated in favour of support for “temporary closures with training” and “sending workers to other establishments”, but in the 1990s expenditure on the first category became again the dominant component (Griffin, 2010), and it has no doubt also been the dominant component in the current recession.

369. The EI system data (Table 5A.1) include two other programmes that might be counted as *Employment maintenance incentives*.<sup>169</sup>

- Programme 18 *Wage subsidy for the year-round employment of seasonal workers* (JPY 7 billion in FY 2008); and
- Programme 113 *Grant to employers to create in-house (or on the way to work) child-care centers* (JPY 4 billion), which aims to protect workers from the threat of job loss due to motherhood, and might on this basis be regarded as an employment maintenance programme.<sup>170</sup>

370. Employment maintenance incentives may also support the continuation of an existing employment relationship beyond a certain age (programmes of this kind are reported by Austria and Spain) or after formal recognition of the employees’ disability status (programmes of this kind are reported by

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167. See OECD (2010d) for a description of the changes to the short-time working scheme in the crisis in Germany. In addition to incentives for employers to provide training, short-time work benefit recipients may be placed in training courses by the PES (in this case the PES bears the costs of training).

168. Similar schemes in other countries are usually reported, in the OECD/Eurostat LMP data, as short-time work, allocated to Category 8.2 *Partial unemployment benefits*.

169. Although a strict interpretation of Eurostat (2006), which specifies that “Employment maintenance incentives are only applicable in relation to specific cases of restructuring or similar”, might justify the exclusion of these programmes.

170. Support for the creation of childcare centres is not generally counted as an active labour market programme. In this case the childcare provision is strictly reserved for employees, and a formal target for the programme is to keep the workers who use it in employment in 90% of cases. It is implemented by the Japan Institute of Workers’ Evolution ([www.jiwe.org](http://www.jiwe.org)).

Luxembourg and Poland). On these grounds, Japan's Employment Continuation Benefit (ECB: see Chapter 4) for older workers might also be included.<sup>171</sup>

#### Start-up incentives

371. In the EI system data the two main programmes in Category 7 *Start-up incentives* are 14 *Self-employment start-up assistance for disabled and elderly* (managed by JEED: JPY 1.3 billion) and 15 *Self-employment start-up assistance for EI recipients* (managed by Hello Work: JPY 2 billion).

#### Other grants to employers

372. Many grants and subsidies payable to employers promote improvements in personnel management practices and working conditions, which mainly affect incumbent employees and do not have individual participants, and are not labour market programmes in the usual sense. In the EI system data, this concerns various programmes listed in Table 5A.1: 36 and 44 to improve personnel management in the long-term care (nursing facilities for older people) and construction sectors; 46 and 48 to increase firms' mandatory retirement ages or effective retirement ages; 85 *Grants for employers introducing career development measures*; 99 *Promotion of skill inheritance*; 113 *Subsidy for on-site or on-the-way-to-work child care centres*; and 132 *Grants to help small employers pay pension contributions*.

373. Although (as mentioned above) in all about 50 types of grant are available to employers, their total budget was probably less than JPY 50 billion,<sup>172</sup> only about 0.001% of total compensation of employees in Japan's economy, and a small fraction of the budget for PES officials or unemployment benefits. These grants allow PES officials to stay in touch with private sector personnel management practices, and define and publicise a broad agenda for improving them. However their direct impact is limited to a few participating firms and to generating examples of good practices (some of the grants directly support innovative practices, or cover exceptional costs arising from a change in practices). This type of programme plausibly has some impact and offers a relatively good ratio of benefits to costs, although it is hard to see how the benefits from examples of good practice can be quantified. To achieve more significant impact (*e.g.* changes in retirement practices) the authorities need to use stronger tools, such as broadly-applicable financial incentives and legislation.

#### Direct job creation

374. Although there were attempts in earlier decades to provide temporary employment for workers made redundant through the closure of military bases and coal mines (OECD, 1993), this later came to be regarded as impractical in a society where the "lifetime" employment model is the norm to which most workers aspire. Since the 1990s, little or no expenditure has been reported within the *OECD/Eurostat Labour Market Programme database* Category 6 *Direct job creation* in the case of Japan.

375. Public works have continued to play an important role in Japanese employment policies, but as a demand-side measure and a regional development policy, rather than a labour market programme where jobs are reserved for the unemployed. Over the three earlier decades, public works spending of this kind used to be higher than in other major OECD countries such as the United States, the United Kingdom, France and Germany (Higuchi, 2005). Public works spending per capita has been higher in rural areas as compared to large cities, and the difference has increased over time.

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171. The ECB is paid to the employee rather than the employer (it substitutes for the entitlement to passive EI benefit that may otherwise arise at the age of mandatory retirement), but it acts in a similar way, especially since in Japan the wage level falls after mandatory retirement age.

172. The average budget of the grants mentioned in the text is about JPY 3 billion but the average for the others, which are mostly too small to appear in Table 5A.1, is probably well below JPY 1 billion.

376. A new focus in the objectives of public works is observed at the beginning of the 2000s, shifting from improving economic efficiency at regional level to creating jobs. The employment measures decided in the context of the financial and economic crisis reflect this new tendency, as the two largest measures include targets for hiring people who were previously unemployed: 50% of the expenditure on the “Hometown Employment Revitalization Special Grant” (see Section 5.4) should be labour costs for people who were previously unemployed, and 75% of the people hired through the “Emergency Job Creation Programme” should be people who were previously unemployed. The detailed procedures applied to reserve places for the unemployed are important, because if authorities at local level interpret these flexibly, the expenditure may tend to provide additional funding for services rather than acting as a labour market policy instrument.

#### *Supported employment and rehabilitation*

377. Only one moderately large programme in the EI system programme data, programme 76 *Job Coaches (workplace adaptation for the disabled)* (JPY 1 billion) acts mainly in the area of Category 5 *Supported employment and rehabilitation* (see also the discussion below of programmes for People with Disabilities).

#### *Training*

378. In the EI system data, the largest programmes in Category 2 *Training* are programme 105 *EHDO operational budget* (JPY 77 billion in FY 2008), programme 94 *Support and job-matching services for public and private vocational training providers by EHDO and Hello Work* (JPY 22 billion), programme 101 *Japanese Dual System* (JPY 6 billion), and programme 111 *Vocational skills formation (Job Card) system* (JPY 4 billion: this was a new programme in FY 2008).

379. The public vocational training system targets the unemployed as well as the employed workforce undergoing further training. It also provides some initial vocational training for new school graduates, but in this area it plays only a minor role as compared to privately provided vocational training. Vocational training is implemented mainly by the public sector institutions managed by EHDO (*e.g.* polytechnic colleges) in the area of manufacturing occupations, while vocational training for service-sector occupations is usually purchased by EHDO from private training organisations.

380. Unemployed workers are offered mainly training for a duration of six months or less, while training for employed workers is mostly only for few days. Vocational training for new school graduates is for one or two years. For those changing occupations and currently unemployed, and for the physically disabled, vocational training is offered free of charge (JILPT, 2006, p. 112).

381. For FY 2007, the planned number of unemployed participants in publicly-financed vocational training was 160 000 (including 110 000 in outsourced training), together with 170 000 employed participants and 30 000 school graduates (MHLW, 2007). Thus only 44% of participants were unemployed. However, these participant data appear to refer to programme starts (inflows) rather than stocks. Unemployed participants plausibly account for a larger proportion of expenditure, due to both the cost of subsistence allowances and the short duration of the courses for employed participants.

382. The number of unemployed participants in public vocational training measures decreased from 190 000 in FY 2004 to 160 000 in FY 2007 (a 16% decrease), and the *OECD/Eurostat Labour Market Programme database* records a peak in total (labour market) training expenditure in FY 2002 followed by a gradual decrease (by 21% in nominal terms by FY 2007), although total unemployment declined more rapidly over this period. The supplementary budget for FY 2009 expands vocational training for job losers by 35 000 places, with 17 500 additional places in three-month courses and 17 500 in longer-term training (9 760 in the long-term care sector, 5 240 in IT and 2 500 other sectors). It also expands means-tested “life security benefits” (which first created in 2008) for participants in labour market training who do not have an

entitlement to EI benefits and whose annual income from other sources is not more than JPY 2 million, and who were dismissed due to non-renewal of a temporary employment contract, were referred to the training under the Job Card system (see below), or are participating in preparatory training (MHLW, 2009a, pp. 41-42). These take the form of a non-repayable loan of JPY 0.12 million per month.<sup>173</sup>

383. The proportion of unemployed participants who got a job after completing the training was 82% for EHDO-run institutions and 71% for outsourced training.<sup>174</sup> Research based on a survey among 147 trainees carried out in 2004 indicates that training had a positive impact on the job-search activities for those participants who feel that they acquired specific skills through training. In this context Okutsu (2004) stressed the importance of giving vocational guidance and allocating unemployed people to training courses according to their abilities and interests. The survey also indicated that willingness to change job and to carry out a job different from the one they would have initially preferred increased over the training period. A follow-up survey showed that 13.3% of the trainees found a job within a month after the end of training and another 36.4% found a job within two months. It can be assumed that many trainees found a job in the subsequent months, but in the absence of any control group the size of the positive impact as compared with the alternative of non-participation in training is not clear.

384. With a view to promoting the transition from non-regular to regular employment, in particular for young people, the so-called “Job Card system” was set up in 2008 (see Box 5.1). Participants in the Japanese Dual System, introduced in 2004, as well as other types of training are covered by the expanded Job Card system (MHLW, 2009a).

385. The Japanese Dual System and Job Card are inspired by two foreign experiences: the German dual vocational training system and the British National Vocational Qualification (NVQ) system. However, in contrast to the German dual initial vocational training system, the main objective of the Japanese Dual System is not to provide a vocational qualification for a high number of school graduates – Japan has other systems and mechanisms for this in place – but to integrate groups who encounter difficulties in finding a permanent job. It aims to enhance the vocational ability of freeters and unemployed youth by combining education at private vocational training institutions and on-the-job training in firms (OECD, 2009a). At the same time, the targeting criteria of the Job Card system show that it is not aimed at documenting formal qualifications attained by the population in general.<sup>175</sup>

386. Dual vocational training is increasingly being implemented by countries which do not have a tradition of it, in order to ease the transition from school to employment (*e.g.* France and Norway). However, the setting-up and expansion of such systems is proving to be a long-term process, as recognition by all actors in the labour market is needed and this takes time to develop. Experience from countries such as Germany shows that it is important for the system to have a good reputation, and not only provide training to problem groups, although problem groups may still need additional funding.<sup>176</sup>

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173. The rate was initially announced as JPY 0.1 million per month, but it was increased in the second supplementary budget of FY 2008. In addition, training participants can also receive a repayable loan of JPY 80 000 per month (MHLW, 2009a).

174. Advice from EHDO.

175. Key elements in the British NVQ system are the setting-up of occupational standards and the accreditation of skills and competences gained through learning modules within a flexible training system. EI system programme 93 (with a JPY 2.3 billion budget in FY 2008) is engaged in expanding the coverage of the national system of testing and certification of vocational skills (see [www.javada.or.jp](http://www.javada.or.jp)), but this is at an early stage and probably not yet relevant for Job Cards.

176. In Germany, measures for problematic groups mainly consist of additional training measures in order to better prepare disadvantaged young people for vocational training within the dual system (Duell, 2008).

### Box 5.1. The Job Card system

The Job Card is a document which records the education and training backgrounds and employment history of its holder, updated after any further training. The declared target groups are:

- Freeters (mainly young people);
- Women who stopped working for child-rearing purposes and wish to return to work;
- Lone mothers; and
- Recent graduates.

First, at either a Hello Work office or a Job Café, the jobseeker provides information on his/her work experience, educational and training background, certificates obtained and qualifications. On this basis, the career consultant formulates and reviews his/her aspirations for vocational capabilities and career development. The consultant may then recommend participation in the vocational capability development programme and give the jobseeker a career sheet (the Job Card), to be used in job search and further training (OECD, 2009a).

Provision of training within the dual vocational training system combines off-the-job and on-the-job-training. Two different schemes are operating which are both supervised by EHDO (MHLW, 2009a):

- **Employment-type training:** In this case the Job Card holder is employed by a company. The employer gets a 50% wage subsidy (more recently increased to three-fourths or two-thirds for large firms) and a commission covering 100% of costs is paid to the training institution providing the training. Employment can last between three and six months.
- **Commission-type training:** Participants typically are unemployed. The duration of the scheme is four months, of which three months consist of training at a training institution or polytechnic college and one month is devoted to on-the-job training in the company. The company is compensated for its costs. The training is free for participants eligible for unemployment benefits. Participants who are not entitled to unemployment benefits can receive a loan (the loan is means-tested, although from 2009 people with annual income below JPY 2 million can qualify), and is paid at a rate of JPY 46 200 per month. However, if they find work, they do not have to pay back the loan. If they do not find employment but can prove active job search, only 20% of the loan needs to be paid back. The proof of active search for work follows the same procedure as for claiming unemployment benefit. In the context of the current crisis, specific target groups are exempted from repayment of the loan (e.g. lone mothers, older freeters).

At the end of the training, Job Card holders are evaluated. Collaboration with other workers is marked, as well as other “soft skills”, but the certificate is not a formal certification of acquired (hard) skills. If card holders show good results, they have a good chance of remaining with the company at which they have been trained or finding a permanent job with another employer.

The Job Card System was implemented from June 2008. Between June and October 2008, there were 30 000 participants and two-thirds of them took part in “commission-type training”. In December 2008, there were 1 500 employers on the waiting list for participation in the scheme. MHLW plans to issue 1 million Job Cards over the first five years, with 400 000 Job Card holders completing a vocational capability development programme. Central and regional Job Card Centers which advise employers will also be set up.

*Source:* OECD (2009a); MHLW (2009a); and advice from MHLW.

387. Participants in public vocational training can continue to receive EI benefits, and EI benefits can be extended beyond their normal maximum duration and through to course completion. Although one objective of the recently-created “life security benefits” (described above) is probably to increase the number of applicants for public vocational training (which is largely in skilled manual occupations, which tend to suffer from labour shortage), this is also seen as a key measure in the “second safety net” available to unemployed people who lack an EI entitlement.

### 5.3. Main target groups

388. An increasing target-group orientation of employment policies can be observed, and with the structural changes in the labour market and society, new target groups of ALMPs have been defined, independently from the current crisis.

#### *Youth*

389. From the early 1990s to 2003, the youth unemployment rate in Japan doubled and the incidence of long-term unemployment for youth more than doubled (OECD, 2009a). According to later estimates which defined the term statistically, the number of freeters grew from 0.5 million in 1982 to 1.01 million in 1992 and 2.08 million by 2002. But in 2002, the share of public spending on youth labour market programmes in total ALMP spending in Japan was still well below the average for other OECD countries for which this information was available.<sup>177</sup> Against this background, in the early 2000s – related to intense public debate about freeters, and a survey of freeters’ attitudes and lives and an article highlighting the youth unemployment rate and excessive policy focus on middle-aged and older workers (Genda, 2000) – youth was recognised as a target group deserving more attention in labour market policy.

390. The White Paper on the Labour Economy 2004 highlighted the problem of freeters and the increasingly difficult transition between education and work, but related part of it to changed values of young people. However, it may also be the lack of demand for graduates that causes the problem.

391. The “Independence and Challenge Plan for Young People” of 2003 and the “Independence and Challenge Action Plan for Young People of 2004 and revised in 2006” supported the transition of freeters towards regular employment mainly through five measures.<sup>178</sup> The quantitative objective was a successful transition of 200 000 freeters into regular jobs (MHLW, 2006; and OECD, 2009a). These objectives were pursued subsequently with the introduction of the Job Card system in 2008, and programmes focused more specifically on new school graduates, the problems of NEETs and the employment of older freeters as regular workers have featured prominently among the post-financial-crisis employment measures (MHLW, 2009a). Recent targets for youth refer to increasing the male employment rates (objectives for the employment rates of young women are not specified), reducing the number of freeters, and increasing the number of freeters who make career decisions at Regional Youth Support Stations.

392. Other countries have also implemented specific training courses for developing basic skills for people who are highly detached from the labour market. One key element is intensive guidance and follow-up of the participant once the measure is completed. For example, Finland provides “Workshops” for the integration of hard-to-place jobless people and in particular youth. A Workshop is a community in which work, training and guidance services are used to improve an individual’s life-management skills and readiness to seek education and employment.<sup>179</sup>

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177. See OECD (2004b, Statistical Annex). “Youth measures” were reported as a separate category of ALMP expenditure until reference year 2002, after which the classification system was changed.

178. The five measures were: *Placement Support* by Hello Work and the establishment of *Job Cafés*; *Trial Employment for youth*; the Japanese Dual System; a *self-support school* programme (providing work experience); and the establishment of *regional youth support stations*.

179. The Workshops are mostly run by the municipalities, but also by different kinds of NGOs. There are 200 of these Workshops in Finland, organised in the National Workshop Association, providing annually services to 10 000 to 12 000 trainees.



*Intensified guidance*

393. One key element of the new approach towards youth employment policies is intensified guidance at the PESOs and at the regional Job Cafés (see Chapter 3). MHLW is also increasing the number of “Regional youth support station” sites, which “provide fine-tuned consultation to young people needing support with mental issues”, from 25 to 50 (MHLW, 2007, and MHLW, 2009a).

*Wage subsidies and Trial Employment*

394. A scheme of Trial Employment for three months was introduced for disabled jobseekers in 1999 ([www.jil.go.jp/jil/bulletin/year/2000/vol39-02/02.htm](http://www.jil.go.jp/jil/bulletin/year/2000/vol39-02/02.htm)). However since the Trial Employment project for youth was started in 2001, most of the participants in the scheme have been youth (see also Table 5.4 above). The programme aims to encourage early regular employment and to promote the transition from school or from non-standard employment to regular employment. It is based on the assumption that young people experience a difficult transition from school to regular employment because of uncertainty among both employers and young people about whether they are suited for a particular job. In FY 2004, about 44 000<sup>180</sup> young people participated in the programme, of whom 37 000 completed Trial Employment. Eighty per cent of young people who completed Trial Employment (70% of all those who started Trial Employment) entered regular employment (MHLW, 2005). This positive result suggests that the programme does often overcome the reluctance of employers to hire young people. It remains quite small relative to the size of the youth labour market, and may tend to be used by more-employable or more-motivated candidates: OECD (2009a) argues that refocusing on less-educated youth groups would be beneficial.

395. In 2008, a new theme of “addressing corporate job-offer withdrawals” was introduced. Employers who hire as regular workers new school graduates who are unable to find a job despite active job-search can be paid a grant of JPY 1 million per worker (or half of this sum for large companies) (MHLW, 2009a).

*Youth training measures*

396. The Japanese Dual System had about 28 000 participants and a budget of JPY 8.7 billion in FY 2006 (OECD, 2009a; see also Annex 5A). This is now one of the main forms of “commissioned-type training” accessed through the Job Card system (see Box 5.1).

397. Short internships, lasting mostly only four days, offer lower- and upper-secondary students a first work experience. In FY 2006, about 59 000 students from 1 000 schools participated in this scheme. As many as 120 000 tertiary-level students may also participate annually in internships. Short internship schemes for pupils have also been introduced in other countries, *e.g.* in France they are compulsory for all high-school students (OECD, 2009h).

*Older workers*

398. In contrast to many other OECD countries, Japan has been developing approaches to enhance employment rates of older workers for several decades. In the 1970s, a quota system was implemented (by the Revised Law concerning Special Measures for Employment Promotion for Middle-aged and Older Workers).<sup>181</sup> The target of the new employment strategy of 2008 was to increase the number of employees aged 60 to 64 by 1 million, and increase the employment rate of this age group from 55% to 57%, between

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180. Youth Trial Employment had about 43 000 participants and a budget of JPY 9.75 billion in FY 2006 (OECD, 2009a).

181. The employment quota for people aged over 55 was set at 6%.

2007 and 2010. Another target was to increase the percentage of companies where workers can continue to work until the age of 70 from 12% to 20%. However, the current economic crisis threatens the achievement of these objectives.

### *Raising the retirement age*

399. After reaching the firm-specific mandatory retirement age, the work contract usually ends.<sup>182</sup> However, quite commonly older workers are re-employed in the same company, in subsidiaries or related firms. Whether re-employed in the same company, in a subsidiary or related firm, or in the external labour market, employment conditions usually worsen substantially, involving a large cut in wages and a transfer to non-regular forms of employment.

400. In the context of the mandatory retirement system, job separation rates rose significantly over the 1990s for workers aged 60-64, while they changed little for prime-age workers (OECD, 2004). At the same time, the unemployment rate of 60-64-year-old men more than doubled in the 1990s, from 5.1% in 1990 to 10.4% in 2000. However, this seems to primarily reflect the increasingly systematic practice of claiming of EI benefits for nearly a year after mandatory retirement. After the EI reforms of 2001 and 2003 restricted the duration and level of benefits for this age group (see Chapter 4), its unemployment rate rapidly fell back, again reaching 5.1% by 2008. In addition to restricting the EI entitlement after mandatory retirement, the government has promoted continued employment through incentive measures and legislation (see below).

401. The average wages of male 60-64-year-olds are sharply lower than the wages of prime-aged workers (which typically peak at ages 45-49) in Japan and only a few other OECD countries – most markedly Australia, Korea and the United Kingdom (OECD, 2006b). These other countries have, like Japan, relatively high older-worker employment rates.<sup>183</sup> Many other OECD countries are attempting to increase the employment rates of older workers without arrangements for systematically reducing labour costs beyond the age of 60. The measures can include eliminating early retirement policies, promoting training for older workers, developing late career paths and promoting transfer of know-how (Lindley *et al.*, 2006). Although these strategies have some success, international experience seems consistent with the notion that keeping labour costs low is important.

402. Since the late 1980s, the Elderly Employment Stabilization Law was amended several times in order to raise the mandatory retirement age (MHLW, 2008e).<sup>184</sup> In 1986, 1994 and 2000, the aim was to implement the mandatory retirement age at the age of 60. In 2004 the law was amended again, and from 2006 the aim is to gradually increase the age of continued employment<sup>185</sup> to at least 65: it is to be extended to 62 in 2006, to 63 between 2007 and the end of 2009, to 64 between 2010 and the end of 2012 and to 65

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182. As the minimum age for public pension is now being progressively increased there will be a growing gap between the mandatory retirement age, which is still typically 60, and the minimum age for a public pension (see Chapter 1).

183. OECD (2006b) also identifies a strong negative correlation between the hiring rate of men aged 50-64 and the relative earnings of 55-59-years olds.

184. The Law for the Stabilisation of Employment of Older Workers was already introduced in 1971 (OECD, 2004a). Under an amendment of 1994, from April 1998 it became illegal for firms to set a mandatory retirement age below 60 (Fujimoto, 2008).

185. Since the obligation on firms to “introduce measures for continued employment of employees beyond the age of 60” from April 2006 (Fujimoto, 2008), the term “mandatory retirement age” is potentially ambiguous given quasi-entitlements, in some cases, to continued employment. Here, in line with common usage, it refers to the age at which standard employment conditions cease (still typically 60 in large companies), even if final retirement typically occurs later.

from the year 2013 onwards, mirroring the increases in the minimum age for a public pension. The new employment strategy adopted in 2007 also formulates the objective of increasing the percentage of companies implementing the retirement age of at least 65 years from 37% in 2007 to 50% by 2010.<sup>186</sup>

403. In order to implement the law, companies can choose between three measures: *i*) increase the mandatory retirement age;<sup>187</sup> *ii*) introduce a continued employment system; and *iii*) abolish the mandatory retirement age (MHLW, 2008e). This means that companies have to reach the objective of employing older workers independently of the existence of a mandatory retirement age system in their company.<sup>188</sup> As for the continued employment scheme, although firms are required, in principle, to introduce a scheme whereby all those who wish to remain employed are eligible, firms may set eligibility standards in a labour-management agreement (Fujimoto, 2008). Although MHLW has indicated that criteria for the standards should refer basically to motivation and abilities and should be as objective as possible, the possibility of defining eligibility criteria seems to give firms much freedom over the extent to which they implement the objectives of the law. Criteria to qualify for continued employment often include a certain level of performance, the acceptance of the job description presented by the firm and specific skills. The detailed enforcement of the law is therefore problematic, and needs to be backed up with other measures. But if, for example, a company sets arbitrary criteria, MHLW issues advice, guidance and warnings so that the implementation of measures for securing employment of older persons is ensured: thousands of such notices were issued in FY 2009.

404. In 2008, nearly all companies had a mandatory retirement age system in place. About 85% of them have set their retirement age at 60, another 4% have set it between 60 and 65, and 11% at the age of 65. About 71% of companies had a re-employment system, and 11% had an employment-extension system in place. About 8% had both systems (MHLW, 2008c).<sup>189</sup> A 2005 JILPT survey on Human Resource Strategies shows that willingness to employ older workers is generally higher in the management, office work and technical departments of firms than in the production and operating departments (Mitani, 2008). Only 12% of surveyed companies implementing a continuous employment system in 2006 stated that they employed older workers having reached mandatory retirement age as full-time regular workers. Most others offered them fixed-term jobs (83%) and/or part-time jobs (20%) (Fujimoto, 2008). Furthermore, in many cases employment contracts of older workers are changed, even if they perform the same tasks and continue to work full-time. As a result the annual income of these older workers, including corporate pension and public benefits as well as wages, was commonly about 50% to 70% of their annual income at the mandatory retirement age.

405. On the basis of the above-mentioned survey, Mitani (2008) concludes that many firms are planning to adapt human resources strategies to demographic change and to promote the employment of older workers in the future, but only a small number are planning to extend the mandatory retirement age and or to continue to employ all who wish to work.<sup>190</sup> The JILPT Survey on employment and lifestyles of

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186. This statement of the objective contrasts with survey findings cited below according to which 85% of companies had a mandatory retirement age of 60 in 2008.

187. This can either be done through labour-management agreements or, subject to a time limit (March 2011 for employers with less than 300 employees), by unilateral employer decision.

188. OECD (2004a) recommended the abolition of the mandatory retirement system, either directly or by progressively raising the mandatory retirement age.

189. According to another survey, about 86% of companies introduced a continued employment scheme, 12% raised the mandatory retirement age and only 2% abolished the mandatory retirement age (Fujimoto, 2008).

190. About 39% of companies which have an employment security scheme in place set-up a system for employing all those who wished to continue in employment and 61% have set a standard of eligibility (Fujimoto, 2008). It is interesting to note that according to a JILPT survey conducted in 2006, large companies are more likely than SMEs to set standards for eligibility to continuous employment. The

the “JBB generation”<sup>191</sup> of 2006 gives an indication of the expectations of those older workers who wish to continue to work until their desired retirement age (which is roughly 65 years on average). About one-third of all surveyed workers thought their wish was likely to be realised, while another 39% thought their wish would be only realised if certain conditions are met (Sato, 2008). Both surveys suggest that not all older workers will have the option of continuing in work. Given the eligibility criteria described above, it can be assumed that individual prospects depend on factors such as individual productivity, acquired skills and degree of specialisation, as well as the general human resource management approach of the company.

406. In companies with a mandatory retirement age of 60, pensions are typically paid from that age not only to workers who leave but also to those who participate in one of the forms of continued employment. In some cases income is further supplemented by payments of the Employment Continuation Benefit, which was introduced in 1995 as part of the EI system to promote continued working rather than taking up passive unemployment benefits. In FY 2007 on average about 180 000 people, representing 3.7% of the labour force aged 60-64, received this benefit (see also Chapter 4).<sup>192</sup>

#### *Guidance and subsidies promoting the implementation of age-management approaches*

407. The Japan Organization for Employment of the Elderly and Persons with Disabilities (JEED) provides guidance and implements training seminars for employers on age management and second-career counselling for middle-aged and elderly workers. Employers’ organizations providing guidance to SMEs on the implementation of age-management strategies with the aim of lengthening working lives receive subsidies covering the costs of the guidance.

408. Two types of subsidy can be paid to SMEs which implement a system of continued employment for all employees who wish to continue to work. One reduces the financial burden for employers who raise the retirement age to 65 or above, or who abolish their mandatory retirement policies altogether. Another makes a grant, covering half of the implementation costs, to employers who implement age-management approaches that serve as model programs for the local labour market ([www.jeed.or.jp/english/subsidies.html](http://www.jeed.or.jp/english/subsidies.html)). However, these are relatively small measures with a combined budget of about JPY 5 billion in 2008 (see Table 5A.1).

#### *Hiring subsidies and Trial Employment for older workers*

409. The “job development” subsidy for hiring hard-to-place and elderly workers is a relatively large programme in spending terms, with a budget of JPY 25 billion in FY 2008 (see Table 5A.1). The budget for the older-worker component was JPY 7 billion. As pointed out by OECD (2004), it is questionable whether the subsidies are sufficiently targeted on the more-disadvantaged groups of older workers. The number of subsidised workers who were older than 60 decreased from 40 000 in FY 2003 to 31 000 in FY 2007, and their shares among all recipients of this type of subsidies decreased from 45% to 38%. In addition, there are a variety of other subsidy and grant schemes for creating employment opportunities for middle-aged and older workers. Subsidies can also be granted for Trial Employment of older workers, but the level of expenditure involved is small (see Table 5.4 above).

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finance and insurance sector as well as the information and communication sector were those with the highest shares of companies that have introduced eligibility criteria (Fujimoto, 2008).

191. The JBB (Japanese Baby-Boom) generation refers to the baby-boom generation that will retire soon. In the 2001 survey, the age group born between 1946 and 1950 is covered, and in the 2006 survey, those born between 1947 and 1951 are covered.

192. Information provided by MHLW.

*Training for older workers*

410. Overall participation rates of older workers in training activities appear to be relatively high by international standards, and not much lower than for younger workers (OECD, 2004).<sup>193</sup> However, there is a large gender gap.

411. The government has been actively promoting “self-training” and, to this end, has introduced the Education and Training Benefit which covers part of the training fees paid by individuals. However, the participation of older workers in this benefit has been rather low (OECD, 2004). A possible explanation for the low take-up was that the content of the training courses were not very attractive to older workers. Differences in learning needs and appropriate teaching methods by age have recently also been recognised as an area for improvements in other countries.<sup>194</sup>

412. Consequently, tools are being developed on the basis of research carried out by JILPT in order to adapt counselling to the specific abilities and competencies of middle-aged and older workers. In this context a “Career In-site Mid-Career (MC)” computer-assisted guidance system was developed, aiming to assist middle-aged and older jobseekers in their job search and career choices (JILPT, 2009a).

413. SMEs which provide job training to employees aged 55-64 and which at the same time increase the retirement age get half of the training costs reimbursed ([www.jeed.or.jp/english/b-1.html](http://www.jeed.or.jp/english/b-1.html)). About 5.5% of companies indicate that they got public support for education and training of older workers (JILPT, 2006, p. 60f.).

*Promoting post-retirement employment*

414. The employment of workers beyond retirement age has been a societal issue since the 1970s. In 2008, nearly 6 million people aged 65 and over were economically active. Many people continue work for regular businesses but especially for those aged over 70, the Silver Human Resource Centres are a relatively important source of employment, and the government has been promoting their further expansion (see Box 2.1 in Chapter 2).

*People with disabilities<sup>195</sup>*

415. The employment quota system is the pillar of employment policies for the disabled. It was first established in 1960 as a moral obligation for employers, and became a legal requirement in 1976 (Matsui, 1998). The main features of the policies currently in place to support the labour market participation of people with disabilities appear in the Basic Programme for Persons with Disabilities, which runs from FY 2003 to FY 2012. In addition, already in 2003 MHLW formulated a Five-Year Plan for increasing the number of people with disabilities who can find a job through the PESOs (JILPT, 2006).

*The employment quota system and the levy and grant system*

416. The quota and levy system for the employment of disabled people is regulated by the Act for Employment Promotion of the Disabled. In private companies employing more than 56 regular employees,

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193. However, very few companies indicate that they implement education and training for employees aged 60 and over (2.6% in 2004) (JILPT, 2006, p. 60f.)

194. See, for instance, pilot projects as described in case studies carried out in Europe by Lindley *et al.* (2006).

195. Much of the information in this section, where no other source is cited, is based on advice from MHLW.

people with disabilities should represent 1.8% of all employees.<sup>196</sup> Mentally disabled people are not included in the quota system. However, the employment of people with severe physical or intellectual disabilities counts double in the calculation of the fulfilment of the quota. Part-time employees have usually not been counted, but with the revision of the levy and grant system implemented in July 2010, part-time workers were to be included in both the number of employees and the number of disabled workers ([www.jeed.or.jp](http://www.jeed.or.jp)).

417. Employers have to pay a levy for each person below the quota. For some years the levy has been JPY 50 000 per month per person. On the other hand, employers who over-fulfil the quota can apply for an “Adjustment Allowance for Employing Disabled Persons”, fixed at JPY 27 000 per month per person ([www.jeed.or.jp/english/levy\\_and\\_grant\\_system.html](http://www.jeed.or.jp/english/levy_and_grant_system.html)).<sup>197</sup>

418. About 240 companies have set up special subsidiaries for the employment of people with disabilities.<sup>198</sup> Since 2002, the number of these special subsidiaries more than doubled and the number of people with disabilities in these companies nearly tripled to reach about 12 000. With the revision of the levy and grant system, SMEs as well will be required to file levy forms and they will become eligible for adjustment allowances.

#### *Hiring and job retention subsidies*

419. Hiring subsidies can be granted to employers who hire a person with disabilities through Hello Work as a regular worker (JEED, 2008b). To be eligible for the subsidy, the employer should not have dismissed any workers for the past six months. The subsidy varies between JPY 300 000 and JPY 1 200 000 per month depending the type of disability, the degree of disability, age and length of working hours. The support period is one year, or 1.5 years for people with severe disabilities.

#### *Trial Employment*

420. In FY 2007, 82% of disabled participants who completed Trial Employment moved into regular employment, a higher success rate than for other target groups (see Table 5.4 above).

#### *Further employment support measures: job coaches and training*

421. In March 2008, there were about 900 job coaches, most of them working from prefectural vocational rehabilitation centres for people with disabilities.<sup>199</sup> In FY 2007, 3 000 people received support at these centres and the job retention rate (6 months after completion of support) was 84%. There are also schools for development of the vocational capabilities of people with disabilities (JILPT, 2006).

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196. The quota is set at 2.1% for national and local authorities and special organisations and at 2% for educational boards in prefectures. The quota was raised in the course of different reforms; in 1985 the quota for private enterprises was 1.5%.

197. SMEs can apply for a reward of JPY 21 000 per person for each person hired in excess of the set quota. A special adjustment allowance exists for large employers (> 300 regular employers) in case the person with disability is engaged in home-based work or support organisations for home-based work.

198. Including cases where this is done for the entire group, including affiliates.

199. Job coaches are included in the EI system data as programme 76 (Table 5A.1 reports a budget of about JPY 1 billion in FY 2008). Overall expenditure reported to the OECD in Category 5 Supported employment and rehabilitation (JPY 7 billion in FY 2007) probably includes the costs of the National Vocational Rehabilitation Center for Persons with Disabilities (NVRCD) and the three large regional and 47 local (prefecture-level) vocational rehabilitation centres (see NIVR, 2008; and NVRCD, 2008) (which are not funded through the EI system).

*Sheltered employment and supported employment*

422. Welfare facilities run sheltered workshops, rehabilitation facilities and special support schools.<sup>200</sup> They help those willing to find employment and are supported in their efforts by PESOs at different stages. There is an objective of increasing the number of employees in sheltered work who make a transition to regular (non-supported) employment from 2 000 in 2005 to 8 000 by FY 2011 through team support by relevant organisations. A Law on Supporting the Independence of People with Disabilities in 2006 promotes this transition and fosters inter-institutional co-operation (MHLW, 2006).

423. Project managers at PESOs in charge of people with disabilities, as well as deputy project managers of welfare facilities and other specialised organisations, such as centres providing employment and life support to people with disabilities,<sup>201</sup> welfare offices and others, set up employment support teams for people with disabilities. These teams develop employment support plans, including measures such as combining vocational training at welfare facilities and workplace-related training. Finally, they follow up the people with disabilities once they are employed by an enterprise and provide support for job retention and working life. Prefectural labour bureaus organise information and know-how transfers between enterprises and welfare facilities in order to improve employment support provided by the welfare administration. This is based on understanding of the needs of enterprises and why enterprises hesitate to employ clients of welfare facilities. Weaknesses, as perceived by enterprises, may include poor technical ability due to insufficient vocational training at the facilities, and lack of basic work habits.

*Outcomes*

424. The number of people with disabilities registered at PESOs who found a job increased by 78% between 1998 and 2007, while the number of new registrants also increased by 37% (Figure 5.3). The increasing inflow is regarded as a success, as it reflects motivation to search for a job among people with disabilities.

425. The actually-achieved employment quota in private companies has risen over the last two decades from 1.26 % in 1985 to 1.45% in 1995 and 1.49% in 2005. This development may indicate that the quota system helped to increase the share of people with disabilities employed in private companies, although there has not been any clear impact related to the increase in the legal employment quota from 1.6% to 1.8% in 1998.

426. The extent of implementation of the employment quota has increasingly diverged by firm size. For larger companies, it has increased steadily since the beginning of the 1980s, whereas among medium-sized companies (59 to 299 employees) it declined between 1995 and 2005, although it has risen again since then. The decline motivated the introduction of specific policy measures to promote the employment of people with disabilities in SMEs.

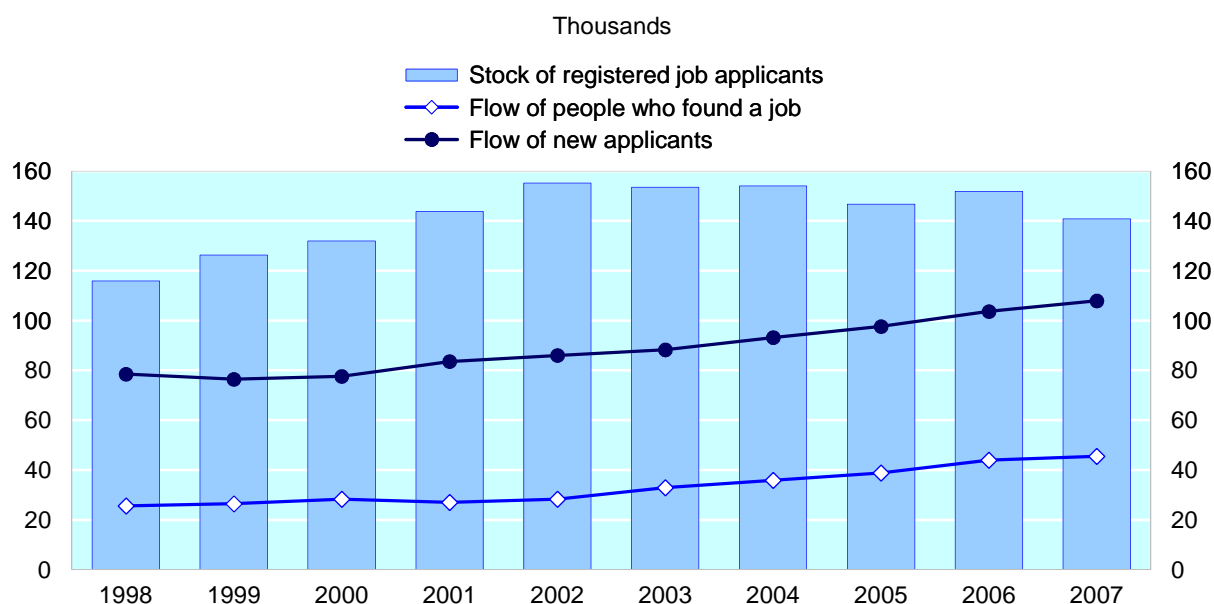
427. In FY 2008, about 45% of enterprises met the official employment quota. In addition to variations by firm size, there are large differences by sector. In the information and communications sector, only 20% of the companies comply with the quota, whereas 61% of companies in agriculture and fisheries and 55% of companies in manufacturing comply. This suggests one area where major improvements may still be made.

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200. They encompass also medical, health and welfare institutions and establishments involved in social adaptation projects for the mentally disabled.

201. In FY 2007, about 135 such centres were in place and the authorities intended to extend their number.

Figure 5.3. Job search of people with disabilities registered at PESOs, Japan, 1998-2007



Source: JILPT (2009b), Table V-6.

### Women

428. According to the Employment Status Survey 2002, there were about 700 000 women with children under 12 years of age looking for a job and another 1.8 million who would like to hold a job but were not seeking a job at the time of the survey (MHLW, 2006). Linked to demographic change and the pressure to make better use of labour resources, in 2004 the Equal Employment Subcommittee of the Labour Policy Council submitted a number of proposals to MHLW to promote equal employment opportunities between men and women. As a result, the Equal Employment Opportunity Act was amended to strengthen anti-discrimination regulations. In this context, MHLW is intensifying guidance and awareness-raising measures (JILPT, 2006). Furthermore, a Child Rearing Support Plan was formulated by the government in 2004 and a reform of the childcare facility system has been launched. Childcare measures are one of the pillars of the 2008 Comprehensive Immediate Policy Package to Ease Public Anxiety, as well as of the 2009 Policy Package to Address the Economic Crisis (MHLW, 2009a). This has become necessary as there is a shortage of childcare facilities for mothers at work.

429. The Next Generation Law since 2005 obliges companies with more than 300 employees to submit an action plan to promote the reconciliation of working life and childcare (MHLW, 2006). The government makes grants to family-friendly companies, although this programme is, again, small in expenditure terms.

430. The focus on improving guidance is reflected in the setting-up and expansion of Mothers' Hello Work centres and corners (see Chapter 3). However, only few programmes actively support women who want to come back to the labour market after having stopped employment for child-rearing. The key measures first provide initial information and guidance and then provide two types of activities *i*) useful information for preparing reemployment; and *ii*) "challenge-again support programme", consisting, *inter alia*, of career consulting and workplace experience training sessions.<sup>202</sup> Only 230 women finished workplace experience sessions, and several thousand women participated in seminars and interviews.

202. Information provided by MHLW.



431. There are specific active labour market programmes for lone mothers. About 80% of lone mothers are working, although more than half of them are temporary or part-time workers. As in many other countries, lone mothers get priority access to childcare facilities (MHLW, 2006).

432. Overall, the programmes for helping women (and not only lone mothers) come back into the labour market are fairly small in scale and labour market programmes would need to be more strongly focused on women if their labour market participation rate is to be significantly enhanced. To give an example of ALMPs in other countries, in Germany, between 2002 and 2006 women returners represented about 4.4% of the unemployed, but between 7% and 9% of participants in training measures (Deutscher Bundestag, 2007).

### ***Workers with unstable employment conditions***

#### *Dispatched workers*

433. In FY 2008, an additional budget of JPY 0.68 billion was allocated for supporting the transition of dispatched workers to direct employment by the user company (MHLW, 2009a). Special counselling services for daily dispatched workers (“Steady Employment Counters”) were to be provided by Hello Work. Guidance is also directed towards participation in the Job Card system, and referrals to Trial Employment can be made. As for other target groups, and in line with the high weight of the PES and Administration function within total ALMP expenditure in Japan, there is a strong emphasis on information and counselling.

434. Under the “Emergency Policy Package for Protecting Daily Life”, a new subsidy programme is created for employers who hire their agency workers (JPY 1 million per worker or JPY 0.5 million in the case of fixed-term employment, or half of these amounts for large companies).

#### *Older freeters*

435. Companies can receive grants for providing Trial Employment to freeters aged 25-34 and unstable workers in their late thirties, and further subsidies when they give these workers full-time positions after Trial Employment. Further measures include the extension of intensive counselling for this group of workers. As has already been mentioned, older freeters are also a target group of the Job Card system (MHLW, 2009a).

436. In the context of the financial and economic crisis, a system of grants (again, JPY 1 million per person for SMEs and JPY 0.5 million for large companies) was introduced for employers who hire older freeters (aged 25-39) by allocating certain job openings to them (MHLW, 2009a).

#### *Non-regular Worker Employment Support Centres*

437. Non-regular Worker Employment Support Centres are being created in five metropolitan areas which have a particularly large proportion of non-regular workers, one of which is Tokyo. To help them find steady jobs, the services offered include the provision of job vacancy information, tailored career counselling, placement services for Trial Employment, referral to training courses and support for participating in the Job Card system. In other prefectures, the same services will be provided by major Hello Work offices.

#### 5.4. Employment programmes at local level

438. In 2007, the central government set up the Regional Employment Creation and Employment Promotion Programme.<sup>203</sup> The content and implementation are under the responsibility of the municipalities located in areas where the job-opening ratio is below the national level. About one half of the regions can qualify for this Programme. In 2007 and 2008, between 34 and 36 regions started the Programme. Large cities have not participated. Municipalities have to file an application to central government. The proposal is submitted by a Council of Regional Employment Creation, in which the municipality and other local stakeholders<sup>204</sup> are represented, to the Prefectural Labour Bureau which forwards it to MHLW. This Council is then also the implementation body. The maximum budget granted is JPY 200 million per year per region and for a maximum duration of 3 years. For FY 2008, the government announced a budget of JPY 4.5 billion with the objective of selecting 50 regions per year. This budget has been increased since then. Three types of measures can be implemented under this Programme:

- Measures for expanding employment. This includes measures for attracting core staff, business consultation for start-ups and for expanding employment in SMEs.
- Measures for human resources development, which consist mainly of training targeted at jobseekers, in particular in areas which are fruitful for local development, *e.g.* tourism, managerial skills, etc. The training may involve inviting teachers and trainers from outside the region.
- Measures for employment promotion, including displaying job offers at the regional level in a specialised newspaper or a regional website, and providing information and guidance for jobseekers and job applicants.

439. In the context of the economic crisis, the creation of regional employment opportunities is strongly supported through the following measures (MHLW, 2009a):

- Expansion of the Emergency Job Creation Programme (see above) and establishment of the Hometown Employment Revitalization Special Grant. Through the latter subsidy, local governments support the creation of jobs (with one-year employment contracts, in principle) by private enterprises for the development of new local products and locally provided services (*e.g.* childcare). Furthermore, in 2010 an Employment Creation Programme for Priority Areas started to create employment and human resources in areas such as long-term care, medical care, agriculture and forestry.
- Additional training for those who have left their jobs in the eight most-affected prefectures: this measure was implemented in the supplementary budget of FY 2008; and
- Establishment of the Emergency Prefecture Joint Employment Support Programme, which reinforces co-operation between Prefectures and the PESOs in areas facing severe labour market problems.

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203. Information submitted by MHLW. In 2004, a similar project was implemented, but it was not designed to be a permanent programme.

204. *E.g.* regional economic organisations, the prefectural government, external experts, etc.

## 5.5. Key points

440. Expenditure on ALMPs as a percentage of GDP in Japan is low relative to the OECD average. Within the total, Japan until 2008 spent an exceptionally high proportion on the Public Employment Service and Administration function and a low proportion on other types of active programme. Active policies based mainly on counselling and referrals to job vacancies have at most times been able to help keep unemployment rates considerably below the OECD average. Expenditure on all forms of subsidised employment was particularly low until FY 2007, but this pattern changed substantially with the large increases in expenditure on Employment Adjustment Subsidies and funding of direct job creation measures in response to the financial crisis.

441. Youth labour market issues (apart from the initial transition from school to employment) previously received little attention but from the early 2000s this changed with the introduction of several new measures (notably Job Cafés, Trial Employment, the Japanese Dual System, and the Job Card) organised to meet the needs of different youth target groups (NEETs, freeters and older freeters seeking stable employment). However, throughout the early and mid-2000s, expenditure on labour market training declined.

442. Although the Japanese Dual System for youth training is inspired by international experience which indicates that dual vocational training helps to integrate young people into the labour market, Japan does not have an existing system of standardised apprenticeship qualifications which are generally recognised by employers as a basis for hiring young people in the relevant sectors. The Job Card (which may be seen as a counselling tool) and the Japanese Dual System (which in the case of commission-type training provides one month of relevant work experience after three months in public vocational training) do not represent a radical break from the past structure of public vocational training measures. However, these measures, along with the introduction of “life security” benefits for participants without an EI entitlement, seem designed to reverse the earlier decline in training participation, which is a welcome change.

443. Older-worker policies are mainly focused on those aged 60-64, with a policy objective of increasing actual ages of retirement to at least the minimum age for a public pension, which is being progressively increased to reach age 65 in 2013. However, MHLW seems unwilling or unable to enforce further increases in the mandatory retirement age. In this context, measures promoting continued employment beyond the age of 60 are important. Measures have included the introduction of the Employment Continuation Benefit in 1995, restrictions on generous passive EI benefits for older workers in 2001 and 2003, legislation requiring firms to adopt a continued employment system from 2006 and MHLW surveillance of the eligibility criteria for continued employment after mandatory retirement age. International experience suggests that MHLW should add training provision for older workers, the development of late careers paths and the promotion of know-how transfer to its recommendations for good practice.

444. The levy and quota system for disabled seems to work well, although the proportion of companies complying with the quota remains low in some sectors of the economy. The mentally disabled are not a target group of the different policies promoting employment of disabled, which focus on physically and intellectually disabled.

445. Programmes facilitating entry to work by women with childcare responsibilities focus on information and guidance, and are too small in scale to ensure better use of the female workforce. Combining working life and family life needs to be further developed and companies need to rethink their employment and career models, as well as working hours. Active labour market programmes tend to focus on lone mothers, who get stronger support to (re)-enter the labour market than married women. A further

challenge is to enhance the skills of women and increase their participation in university studies. Only if Japan makes big efforts in the above-mentioned areas will it be possible to significantly increase the utilisation of the female labour force in more productive workplaces.

446. New policy orientations tackle the problem of non-regular workers. Freeters are one target group and the government is promoting the conversion of temporary and other types of precarious jobs into more stable employment. But it is difficult to assess whether the measures set up will be very effective.

447. The job-creation programmes funded in response to the economic crisis are implemented by regional and local authorities. However, it needs to be kept in mind that funding for job-creation programmes tends to be difficult to reverse, since it may be used by local governments to provide local services. In addition, evaluations of direct job creation measures in many OECD countries often find no positive impact on participants' rates of transition to unsubsidised employment.

448. Through its research arm, the JILPT, Japan conducts in-depth analysis of a wide range of labour market policy issues, published in JILPT Research Reports and the Japan Labor Review. However, statistical evaluations of the impact of particular ALMPs are rare. Monitoring information about programme participation and outcomes based on administrative registers should be improved and regularly published. Currently, initial and supplementary budgets with a breakdown across the different ALMPs are published, but the classification of measures through time is not consistent and information on participant stocks and flows is rarely available. Related to this, information for Japan in the *OECD/Eurostat database* on LMP expenditure lacks detail and coherence, and needs to be improved. Such problems make it difficult for expenditure to be subjected to proper political scrutiny, and for researchers to undertake statistical evaluations based on administrative data.

**ANNEX 5A**

*Supplementary tables*

Table 5A.1. Labour market and related programmes financed by the Employment Insurance System with a FY 2008 budget of over JPY 1 billion

Number	Name <sup>a</sup>	2008 budget (JPY billion) <sup>b</sup>	Further description of the programme	Implementing bodies	Tentative OECD/Eurostat category
Category	Sub-category	Programme(s)			
Sub-category	Sub-category	Programme(s)			
1.	1-11. Strengthening supply-demand adjustment to promote early re-employment	20.3	78.7		
	Employment "Navigators" (counsellors)		3.3	Implementing the re-employment assistance programme for workers aged 35+	Direct control
2.	Challenge plan		2.0	Job-search assistance and comprehensive support for workers in unstable employment or displaced	Direct control
4.	Early re-employment measures		7.2	Seminars, information services, vocational counselling, etc. for benefit recipients	Direct control (some non-government organisations)
6.	Hello Work Information Plazas		2.9	Simple and efficient exposure of job vacancies; placement and counselling services	Direct control
7.	Part-time job banks		0.8	To support the expansion of the part-time labour market. Mainly located in large cities	Direct control
8.	Mothers' Corners		2.0	For women who want to work while raising children	Direct control
2.	12-44. Creation of opportunities for stable employment	39.6	39.6		
2.1.	12-17. Employment opportunities in SMEs	9.9	8.0	JPY 0.3 million or 0.4 million grant for new hires	EHDO
12.	Subsidies for hiring by SMEs		4.7	Funds a portion of costs when three or more workers aged 45+ jointly establish a business	JEED
14.	Self-employment start-up assistance for disabled and elderly		1.3	Covers one-third of business start-up costs to a maximum of JPY 200 million	Direct control
15.	Self-employment start-up assistance for EI recipients		2.0		
2.2.	18-26. Creation of employment opportunities in the regions	14.9	12.6		
18.	Wage subsidy for the year-round employment of seasonal workers		6.8	Aims to increase the number of workers covered by regular social insurance contributions.	Direct control
19.	Regional vocational counselling rooms		1.2	PESO contribution to vocational counselling centres operated jointly with municipalities	Direct control
24.	Promotion of local employment creation projects		4.6	Funds projects for three years as a rule	Private organisations
27.	Employment stabilisation		1.1	Short-time work and related measures	Direct control
27.	Employment adjustment subsidy		1.1		
2.4.	28-30. Promotion and facilitation of labour mobility	3.6	3.2		
30.	Industrial Employment Stabilisation centres		3.2	Can pay wages or fund training in firms affected by fluctuations or a changing industrial structure	Industrial Employment Stabilisation centres
2.5.	31-44. Industry-specific employment stabilisation measures	10.1	7.5		
31.	Construction industry education and training grants		3.8	For small businesses and vocational training corporations	EHDO
36.	Subsidy to secure human resources in the long-term care sector		2.6	To improve management in areas such as nursing; can finance hiring of qualified social workers etc.	EHDO
44.	Subsidy to secure human resources in the construction sector		1.1	To improve management of medium-sizes construction projects	EHDO
3.	45-69. Employment stabilisation measures by type of worker	48.7	48.7		
3.1.	45-52. Promotion of the employment of elderly workers	11.2	8.6		
46.	Incentives for raising the retirement age to 65 or more		3.9	Grants can also be paid for providing options to work to age 70 or abolishing the retirement age	JEED
48.	Incentives for SMEs to ensure employment of older workers up to age 65		1.5	Subsidises employer groups to provide relevant counselling to their members	JEED
50.	Senior Work Programme (subsidy for training and hiring)		3.2	Subsidises employer groups to provide skills training for motivated older workers	Private organisations
3.2.	53-55. Promotion of the employment of people with disabilities	2.6	2.5		
53.	Employment-related counselling for people with disabilities		2.5	E.g. advice on social life or condition management	Private organisations
3.3.	56-67. Promotion of youth employment	9.9	8.3		
56.	Trial employment for youth		4.8	Subsidises for up to three months, promoting the transition of youths (<35) to regular employment	Direct control
57.	Hello Work annexes next to Job Cafés to establish One-Stop offices		1.7		
58.	'Job Supporter' counsellors		1.0	Provides vocational counselling and job-matching services for new school graduates and freeters ( <a href="http://www6.cao.go.jp/youth/english/whitepaper/2006/part2.html">www6.cao.go.jp/youth/english/whitepaper/2006/part2.html</a> )	Private organisations Direct control

Table 5A.1. Labour market and related programmes financed by the Employment Insurance System with a FY 2008 budget of over JPY 1 billion (cont.)

Number Category Sub-category Programme(s)	Name <sup>a</sup> Category Sub-category Programme(s)	Expenditure (JPY billion) <sup>b</sup> Category Sub-category Programme(s)	Further description of the programme	Implementing bodies	Tentative OECD/ Eurostat category
60.	Student Employment Centre employment assistance		Job-matching services for university, college and school graduates before and after graduation	Direct control	1
<b>3 69-69.</b> 68,69.	<b>Promotion of employment stability and employment for hard-to-place workers</b> Individual job-development grant	<b>25.1</b> 25.1	Subsidy for hiring hard-to-place people with disabilities and elderly workers. Turnover for convenience of the employer is not eligible.	Direct control	4.1
<b>4.</b>	<b>Other employment promotion measures</b>	<b>23.0</b>			
70.	Job-search and self-employment intensive support and group seminars	1.1		Direct control (some non-government organisations)	1
76.	Job Coaches	1.0	Workplace adaptation for the disabled	JEED	5
77.	Japan Organisation for Employment of the Elderly and Persons with Disabilities (JEED)	16.7	Funding of this organisation (see <a href="http://www.jeed.or.jp/english/index.html">www.jeed.or.jp/english/index.html</a> )	JEED	4.2
<b>5.</b>	<b>85-90. Career-development support system</b>	<b>8.2</b>			
81.	Special assistance with search for regular jobs	1.4	Aims to increase notification of regular full-time job vacancies	Direct control	1
85.	Grants to employers introducing career-development measures	6.9	Subsidies for employee training which achieves a 50%-pass rate on a vocational aptitude test	EHDO	x
90.	Career-support donors	3.0	Career counselling for those who wish to change jobs	EHDO	1
<b>6.</b>	<b>91-93. Development of the vocational education and training evaluation system</b>	<b>3.1</b>			
93.	Creation of job-skills standards by the Vocational Ability Development Association	2.3	Create and test standards and examinations to test vocational skills	Direct control	2
<b>7.</b>	<b>94-100. Ensuring a variety of training opportunities</b>	<b>26.3</b>			
94.	Support and job-matching services for public and private vocational training providers	22.6	Provides training in human resources development, teaching materials, etc.	EHDO, State	2
95.	Helping employers to improve the vocational training of employees with disabilities	1.1	Co-ordination of the company's human resource needs and the diverse needs of people with disabilities	State	2
99.	Promotion of skill inheritance e.g. competitions	1.4	E.g. organising skills competitions	Central Vocational Association	x
<b>8.</b>	<b>101-104. Promoting the development of vocational skills of youth</b>	<b>9.1</b>			
101.	Japanese Dual System	8.7		EHDO, State	2
102.	Grants to promote effective use of vocational training by small business proprietors	6.5	[See main text, Chapter 5]	State	2
103.	Grant to vocational museums	1.0	E.g. the Work Experience Vocational Museum of Kyoto	EHDO	2
<b>9.</b>	<b>105-111. Other relevant vocational skills development</b>	<b>85.6</b>			
105.	EHDO operational budget	85.2		EHDO	2
106.	EHDO buildings maintenance and equipment	76.9	EHDO promotes business development for employment, business skills development and worker training	EHDO	2
107.	EHDO modernisation of vocational training	1.7	Repair etc. of training centre buildings and services	EHDO	2
111.	Vocational skills formation (Job Card) system	2.7	Repair etc. of training facilities and equipment	State	2
<b>10.</b>	<b>112-131. Equal employment opportunities and support for part-time workers</b>	<b>12.3</b>			
112.	Job Card centres, promotion of the "evaluation sheet" model, competence assessment and employee development	3.9	Job Card centres, promotion of the "evaluation sheet" model, competence assessment and employee development	Direct control, private organisations and EHRDO	2
113.	Subsidy for on-site or on-the-way-to-work child-care centres	7.5	See <a href="http://www.jive.org">www.jive.org</a>	JIVE	4.2
119.	Promotion of child-care leave and subsidies	4.0	For employers providing maternity leave with continuity of employment	Direct control	4.2
127.	Grant to small businesses for introducing child-care leave and shorter working hours	2.3		Direct control	4.2
<b>11.</b>	<b>132. Subsidisation of pension premiums for small enterprises</b>	<b>5.8</b>			
132.	Grant to help small employers pay pension contributions	5.8	For small businesses that establish a retirement plan or retirement benefits for their workers, e.g. by joining a mutual aid association	Retired workers' Mutual Aid Associations	x
<b>12.</b>	<b>133-135. Other</b>	<b>3.6</b>			
133.	JILPT	2.4	JILPT studies and researches employment policies, maintains international contacts, provides training for MHLW officials, etc.	JILPT	1

a) Short Category/Sub-category/Programme names chosen by the authors.

b) Figures in italics show Category/Sub-category expenditure on the programmes listed below i.e. not including small programmes with a budget of less than JPY 1 billion. Source: MHLW (2009e), "Setting goals for two projects funded by fiscal year 2008 employment insurance", in Japanese, [www.mhlw.go.jp/bunryu/koyou/koyouhoken04/](http://www.mhlw.go.jp/bunryu/koyou/koyouhoken04/).





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