

CHAPTER 4

ACTIVE LABOUR MARKET POLICIES AND BENEFITS

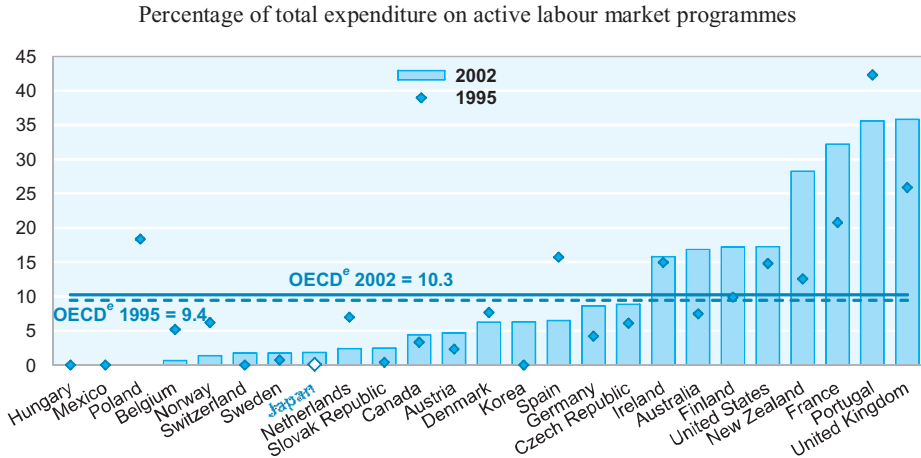
As reviewed in the previous chapters, young people in Japan today are facing more difficulties during the school-to-work transition period compared with previous generations. They experience more frequent and longer spells of unemployment and inactivity, as well as a higher probability of switching between precarious jobs. Responding to this new situation requires high quality job-search assistance, training and other employment support programmes provided by public employment service (PES). Equally important is to ensure that youth are covered by adequate unemployment benefit schemes.

This chapter reviews recent youth labour market policy measures and the operations of public and private employment services targeting youth as a response to the changing situation in the youth labour market during the past decade. It also sets out potential areas for improvement.

1. Recent measures to improve youth labour market performance

Between 1995 and 2002, the share of public spending on youth ALMPs in total ALMP expenditure in Japan was well below the OECD average (Figure 4.1). Indeed, most youth ALMPs in Japan were only introduced since the early 2000s, and until then, not much policy attention had been paid to youth labour market outcomes. Part of the explanation for this relative neglect was due to the fact that the Japanese labour market had traditionally ensured a smooth transition from school to work. Youth unemployment used to be taken less seriously because it was considered to be mainly voluntary and unemployed young people would be taken care of by their parents (Kazuyasu, 2007).

Figure 4.1. **Public spending on youth^a labour market programmes, OECD countries, 1995^b and 2002^{c, d}**



- a) Youth aged 16-24 for Norway, Spain, Sweden, the United Kingdom and the United States; youth aged 15-24 for Japan and all other countries.
- b) Data refer to 1996 for Italy.
- c) Data refer to 2000 for Denmark and Portugal, and to 2001 for Ireland.
- d) There is no age breakdown of ALMP spending in the OECD database from 2003 onwards.
- e) Unweighted average of countries shown. Data for Greece, Iceland, Italy, Luxembourg and Turkey are not available.

Source: OECD database on Labour Market Programmes.

However, the situation has changed in recent years. In response to rising youth unemployment and growing social concern about *freeters* and *NEET people*, the Japanese government has launched various employment measures targeting youth since the early 2000s, with a significant shift in policy weight from employment maintenance to job creation and employability enhancement (Gaston and Kishi, 2005; and Ohtake, 2004). In 2003, the *Strategy Council for Independence and Challenge for Young People* was set up by the relevant ministers and drew up a comprehensive policy package, *Independence and Challenge Plan for Young People*, with the aim of reducing the number of *freeters* and *NEET people* and facilitating a smoother school-to-work transition. This plan included the introduction of various innovative measures, such as the *Job Café* (see next section), the *Japanese Dual System* (see Chapter 2), and the *Independence Camp for Youth* (JILPT, 2005a; and Hori, 2007). Table 4.1 summarises the main policy measures implemented in 2007, which are mostly based on this plan.

Table 4.1. Major policy measures to improve youth labour market performance in Japan, fiscal year 2007

Measures	Details of programme
A. Measures to facilitate the transition of freeters into regular workers	
Youth Trial Employment	An employment subsidy programme, started in 2001, to promote the regular employment of young people aged under 35 including <i>freeters</i> (about 43 000 participants and JPY 9 750 million of expenditure in FY 2006).
Japanese Dual System	A programme to enhance the vocational ability of <i>freeters</i> and unemployed youth by combining education at private vocational training institutions and on-the-job training in firms. In FY 2006, there were 28 000 participants and government expenditure reached up to JPY 8 700 million (see Chapter 2).
Job Café	A regional one-stop employment service centre for young people, run by local government in connection with relevant bodies such as the Public Employment Security Offices (<i>Hello Work</i>). In 2007, there were 87 Job Cafés around the country and the annual number of visitors amounted to 1.67 million in FY 2006 (government expenditure in FY 2006: JPY 2 575 million).
Setting up special booths for <i>freeters</i> at <i>Hello Works</i>	Providing specialised services by professional staffs for the transition of <i>freeters</i> to regular employees, by counselling, job placement services as well as by hosting seminars and job fairs.
B. Measures to improve the willingness and ability of young people to work	
Independence Camp for Youth (<i>Wakamono Jiritsujuku</i>)	A typical three-month residential programme for discouraged young people, such as NEET, run by NGOs subsidised by the MHLW. As of FY 2006, around 700 young people participated in the programme offered by 25 camps around the country. Government expenditure in FY 2006 was JPY 1 000 million.
Local support station for young people	Established and run by regional governments, these stations provide counselling services and career development programmes in connection with local support networks for young people, in order to enhance the job consciousness and adaptability of young people, <i>i.e.</i> NEET. In FY 2007, 62 000 young people visited 50 stations between April and September (government expenditure in FY 2007: JPY 960 million).
C. Measures to facilitate a smoother school-to-work transition	
Junior Internship	A programme typically offering four-day work experience for lower and upper secondary students. In FY 2006, around 59 000 students from 1 000 schools participated in this programme held in 19 000 workplaces (see Chapter 2).
Career exploration programme	A programme to provide students with information on various occupations and the world of work, through visiting lecturers (<i>e.g.</i> company managers and employees, PES staffs). In FY 2006, around 4 000 schools (primary to upper secondary) and 400 000 students participated in this programme (see Chapter 2).

Source: Ministry of Health, Labour and Welfare – MHLW (2007b); and other submissions from MHLW.

Youth Trial Employment is an employment subsidy scheme started in 2001, to facilitate regular employment for young people, including *freeters* and non-employed young people. This scheme provides a monthly subsidy of JPY 40 000 for up to three months for employers who hire young people registered as jobseekers at the PESOs. It is the largest ALMP for youth, and around 40 000 young people annually participated in this scheme between FY 2004 and FY 2006. On average, 80% of participants have succeeded during

this period in obtaining a regular job, according to the MHLW. The total subsidy reached JPY 9.7 billion in FY 2006 (roughly JPY 0.2 million per participant), and then fell back to JPY 5.7 billion in FY 2007. Unfortunately, further information on the profiles of beneficiaries of this programme – *i.e.* breakdown of participating youth by gender and educational attainment or that of firms by sector – or evaluation of its effectiveness is not available.

Independence Camp for Youth (Wakamono Jiritsujuku) is a residential camp, run by NGOs subsidised by MHLW, targeting young people who have been NEET for more than one year. The programme usually lasts three months where 20 participants live and work together, and it includes mentoring, basic training for vocational ability and communication skills, training and work experience, to promote self-confidence and motivation for work.²² In FY 2006, 704 young people completed this programme in 25 camps around the country and 401 among them found a job (as of six months after completion of the programme). The budget for the programme in FY 2006 amounted to JPY 1 billion (JPY 1.4 million, equivalent to roughly EUR 9 000 per participant). Although this programme was introduced quite recently, concerns regarding the high cost of the programme and the difficulty in attracting participants have emerged (Hori, 2007). Meanwhile, for the disadvantaged youth group, such residential programmes may yield significant improvement in labour market and social outcomes, leading to high social rates of return (Quintini *et al.*, 2007). *Job Corps* in the United States is an eminent example of such a programme which is much more intensive, costly and large-scale. Courses of *Job Corps* last between six months to one year and consist of academic education, health education, vocational training, job placement and counselling services, delivered at 119 centres nationwide. Costs per participant reach over USD 20 000. Around 60 000 disadvantaged youth are participating annually in this programme (OECD, 2008c).

In addition, the Japanese government has implemented public vocational training for young jobless secondary school graduates, as discussed in Chapter 2. Through all these efforts, the government aims to reduce the number of *freeters*, which peaked at 2.17 million persons in 2003, to 1.74 million by 2010, as well as to promote the transition of 350 000 *freeters* into regular employment in FY 2008.

All these innovations in youth ALMPs in recent years are welcome in that they seek to address real shortcomings in the school-to-work transition process. Although it is too soon to evaluate the efficiency and actual impacts of these new initiatives, there appear to be some serious shortcomings in current policy approaches.

22. In FY 2008, the government is introducing a six-month programme.

First, and foremost, the scale of some of these innovations is tiny compared with the scope of the objectives. For example, some existing programmes, e.g. the *Independence Camp for Youth*, seem to be too small, in terms of number of participants (some 700 youth annually), to adequately address the needs of Japan's young people at risk (Honda, 2005). For example, the number of young people aged 15-24, who are NEET, was 1.2 million, and corresponding number among those aged 25-34 was 3.7 million in 2006. This is also true for the public vocational training programmes for young people, as reviewed in Chapter 2. Without a drastic expansion in scale, it is impossible to envisage such programmes making a real difference.

Second, the still widespread view in Japan appears to be that youth labour market problems are basically attributable to the lack of *motivation* (independence, determination, work ethic, etc.) of young individuals. This view is reflected in various Japanese terms, such as *freeters* and *parasite singles*. Such a view tends to place the blame for unemployment or under-employment on the young people themselves and thus risks insufficient attention being paid to finding adequate policy responses (Honda, 2005; and Miyamoto, 2005).

Third, most youth ALMPs are targeting *freeters* and *NEET people* aged between 15 and 34, rather indistinctively. It would be more effective to try to identify the specific needs of some subgroups – i.e. by age and by educational attainment – and design programmes that are likely to serve them better. For example, refocusing the *Youth Trial Employment* on the lower educated youth group would be beneficial.

However, all such expansion involves spending more public funds on ALMPs and it is vital to ensure that such spending on youth ALMPs is cost-effective. This, in turn, requires rigorous policy evaluation to establish what works and what does not. In Japan, the independent (external) evaluation of existing policy measures is scant, and this appears to be due in part to the lack of information and data available to the researchers (Ohtake, 2004). In order to be effective, policy measures will need to be accompanied by rigorous pre- and post-analysis. This is especially the case for employment subsidy schemes which are often subject to deadweight loss and substitution effects, and hence result in small overall net employment gains (OECD, 2006d).

In view of the fast-changing context of the school-to-work transition and the rising number of young people facing difficulties in their transition, stronger emphasis should be placed on ALMPs for youth, with a stronger targeting towards the less educated group of youth. Based on improved targeting and a thorough evaluation of all recently introduced programmes, more public resources should be allocated to youth ALMPs, especially given Japan's relatively low public expenditure on ALMPs for youth. In doing so, Japan could benefit from the experience of other OECD countries where

successful programmes appear to share some common characteristics in terms of content and design (OECD, 2007e; Martin and Grubb, 2001; and Betcherman *et al.*, 2004).

- *Job-search assistance* programmes are often found to be the most cost-effective for youth, providing positive returns for both earnings and employment. Some wage and employment subsidy programmes also yield positive returns, but they generally tend to perform poorly in terms of their net impact on the future employment prospects of participants.
- *Training programmes* should be designed in response to local and/or national labour market needs. In this respect, mobilising and involving the business sector and local community representatives to assess skill demand and local labour market requirements are crucial for project design.
- *Early action* is particularly important for young people, as those without work experience are often not entitled to unemployment benefits or other welfare transfers. A number of OECD countries already have major programmes for youth that come into play early, often before or at six months of unemployment. The European Commission has set the objective that an individualised action should be established for all unemployed youth within six months of becoming unemployed.
- Good *targeting* of the programmes is also essential. For example, programmes addressing teenagers should be distinguished from those for young adults, and particular attention should be paid to early school-leavers.
- Programmes that integrate and combine services and offer a comprehensive *package* seem to be more successful. An example of a comprehensive programme introduced over the past decade is the *New Deal for Young People* in the United Kingdom.

2. Public and private employment services

The *Hello Work* is the main PES in Japan, with 438 offices and more than 100 branch offices and 12 000 staff members around the country in 2008 (this number of staff has declined during the past decade). In addition, there are specialised service offices, such as the *Bank of Human Resources* (18 offices) which focuses on employment services for senior professionals, the *Mothers' Hello Work* (12 offices) which is specialised in services for mothers who want to return to the labour market, and the *Part-time Job Bank* (109 offices). Since the late 1990s, new services especially geared to youth have been established,

such as the *Comprehensive Support Centre for Student Employment*, *Student Employment Centres* (six offices) and *Counselling Offices* (40 offices), for the purpose of providing employment support to students and graduates of colleges and universities. These institutions offer employment information through Internet-based information systems and job counselling. They also host job-related events and provide assistance to the career services of colleges/universities (JILPT, 2006a).

Job café is another policy innovation under the *Independence and Challenge Plan for Young People*. Run by local governments, it is a one-stop service centre, dedicated to young jobseekers (*freeters*, the young unemployed and new graduates). *Job cafés*, in cooperation with local firms and educational institutions, provide young people with job information and job placement services, as well as opportunities for workplace experience. The central government, the MHLW, on request from local governments, set up *Hello Work* as an annex to *Job café* to offer on-site placement services. As many as 1.7 million young people visited 87 *Job Cafés* around the country in FY 2006 and 93 000 among them found a job, according to the MHLW.

Based on the 2003 *Youth Independence and Challenge Plan*, the PESOs also started counselling services designed especially for youth. The *youth job supporters* – 540 staffs specialised in the career development and employment for young people – now provide individually tailored assistance for job-search through settlement in a new job for secondary school students and unemployed school leavers, in close cooperation with schools. Another programme, the *Youth Employability Support* (the YES Programme), is designed to improve communication skills, career awareness, business etiquette and other basic skills for young people, and is provided by licensed vocational training institutions (Gaston and Kishi, 2005).

On the other hand, given the traditionally important role played by secondary schools in job placements of their graduates, there has been an established co-operation network between the PESOs and secondary schools. Under the *Employment Security Law*, upper secondary schools can share a part of the role for the PESOs, by, for example, receiving job offers and job applications and providing placement services and guidance to their students. There are about 3 900 schools providing these services in April 2007. Furthermore, under the same law, tertiary education institutions as well as secondary schools, after notifying the MHLW, can carry out fee-free employment services for their students. In April 2007, around 3 500 colleges/universities and 1 700 upper secondary schools were providing these services.

The government is also promoting private job placement services through, for example, the deregulation and co-operation and competition between public and private job placement services. The government, jointly with private job

placement agencies, private job information providers and temporary work agencies, set up an Internet-based job information system, the *Job Information Network* (www.job-net.jp) in 2001. Through this system, jobseekers can access job information using either the Internet or mobile phones.²³

Meanwhile, new hires among workers aged under 30 equalled around 3.3 million in 2006 according to the MHLW's Survey on Employment Trends, while the number of placements by the PESOs for the same age group was 597 000 in the same year, according to administrative data from the MHLW's Employment Security Statistics.

The recent reforms by the PESOs represent desirable steps, and the government should continue its efforts to make sure that all young people in need, especially those with lower educational attainment, can get access to high-quality employment services. Concerning the structure of the PES, the Japanese government has established the PES in accordance with the need of specific target groups; *i.e.* *Job Cafés*, *Mother's Hello Works* and *Part-time Job Bank*. Indeed, this approach is in sharp contrast to some other countries, notably Australia, which have established a unified and centralised "one-stop shop" for all kind of customers, the *Centrelink* (www.centrelink.gov.au) for both employment and welfare services. One advantage of the Japanese approach might be that it provides a more customer-friendly environment and in-depth services to specific groups, *i.e.* youth. On the other hand, there might be a risk of inefficiency due to overlap, *e.g.* between *Mother's Hello Work* and *Part-time Job Bank*, in the sense that part-time jobs in Japan are mostly for married women.

3. Unemployment benefits

To be entitled to unemployment benefits under the Employment Insurance (EI) system of Japan, individuals need a contribution history to the EI. As a result, school-leavers or the young unemployed, who lack a sufficient contribution history, cannot benefit from the EI. Furthermore, age is one of the main criterion for determining the amount and duration of unemployment benefits. The Japanese government has tightened the requirement on the mandatory contribution period and benefit duration in recent years.

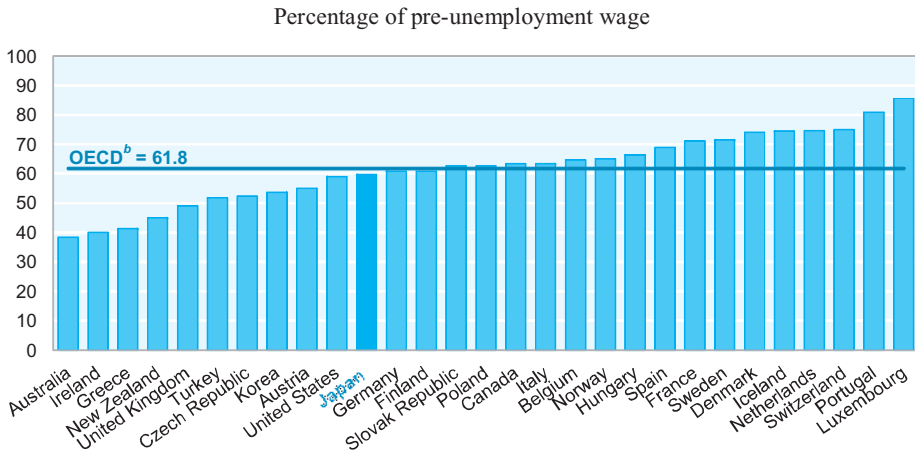
As a result of the recent reform implemented in October 2007, the minimum contribution period for those unemployed for reasons of bankruptcy, downsizings or dismissals is six months regardless of their employment status (*i.e.* full-time or part-time), while, for those unemployed

23. On 1st July, 2008, around 700 000 vacancies were posted on this site.

for other reasons, it is 12 months. Before this reform, it was six months for full-time workers and 12 months for part-time workers, regardless of reasons for unemployment. Therefore, the requirement for full-time workers unemployed for other reasons than bankruptcy, *etc.*, is lengthened, while that for part-time workers unemployed by reasons of bankruptcy, *etc.* is shortened from 12 months to six months.

The amount of unemployment benefit is determined according to the level of the previous wage, at between 50% and 80%. In addition, an upper limit is applied according to the age of the recipient; *i.e.* JPY 6 365 per day for young people under 30 and JPY 7 775 for those aged 45-59, as of August 2007. The *net* replacement rates – *i.e.* the benefit amount relative to pre-unemployment earnings, adjusted for the effects of taxation – on average for single persons earning 67% and 100% of the average production wage was 60% in 2006, slightly below the OECD average (Figure 4.2).

Figure 4.2. Net unemployment benefit replacement rates in OECD countries, 2006^a



- a) These data are *net* replacement rates, *i.e.* they are adjusted for the effects of taxation. They refer to the average of net replacement rates faced by single persons without children with pre-unemployment earnings of 67% and 100% of the average production wage. They relate to the initial phase of unemployment but following any waiting period. No social assistance “top-ups” are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (*i.e.* monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months.
- b) Unweighted average of countries shown. Data for Mexico are not available.

Source: OECD, Tax-Benefit Models (www.oecd.org/els/social/workincentives).

The maximum duration of unemployment benefits (the *Basic Allowance*) depends on the reasons of unemployment, the age and the contribution period (Table 4.2). Those unemployed because of bankruptcy, downsizings or dismissals are entitled to benefits for a longer period, on the grounds that these individuals have had less time to prepare for a re-employment. On the other hand, the maximum duration of benefits for those unemployed by reasons other than bankruptcy, etc., has been reduced significantly in 2001 and in 2003. Currently, young people under age 30, who are separated from the job for these reasons, can receive benefits for 90 to 180 days.

Table 4.2. **Unemployment benefit duration by reason of separation, age and contribution history, Japan, 2007**

Reason of separation, and age	Days				
	Contribution history of				
	6 months to less than 1 year	1 year to less than 5 years	5 years to less than 10 years	10 years to less than 20 years	20 years or more
1. Unemployed because of bankruptcies, downsizings or dismissals					
Under 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
2. Unemployed by other reasons listed above					
All ages	..	90	90	120	150
3. Those unemployed having difficulties to be re-employed					
Under 45	150	300	300	300	300
45-64	150	360	360	360	360

.. Not available.

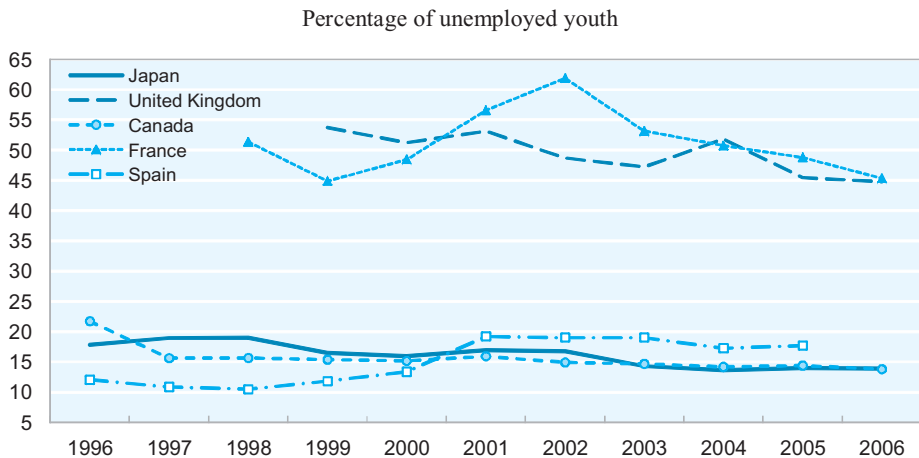
Source: Ministry of Health, Labour and Welfare (MHLW) website (www.mhlw.go.jp).

As an activation measure, the benefit recipients are required to report their job-seeking activities to the PES every four weeks. If a recipient refuses to accept a job offer or public vocational training offered by the PES without a valid reason, the *Basic Allowance* is suspended for the coming four weeks. Additionally, there is the *Employment Acceleration Allowance* scheme which provides an allowance equivalent to 30% of the *Basic Allowance* as a top-up to those benefit recipients who find a job before exhausting the maximum duration of benefits.

In March 2007, the number of young people aged under 30 insured by the EI was 7.8 million (MHLW, 2006), compared with 12 million employed young people in 2006 (annual average), in the corresponding age group, according to the labour force survey.

The ratio of the average number of unemployment benefit recipients to the number of young unemployed aged 15-29 is low and has declined slightly during the past decade (Figure 4.3). This ratio is relatively close to that recorded in Canada and Spain, but much below the share in the United Kingdom and France. On the other hand, there is no unemployment assistance system in Japan such as can be found in some European countries, Australia and New Zealand (11 OECD countries have either unemployment benefits or unemployment assistance available for the young unemployed people aged 20 without any employment record; see OECD, 2007f). Therefore, most Japanese youth lacking a sufficient contribution history to the EI appear to depend on their parents to secure their livelihood.

Figure 4.3. **Youth^a unemployment benefit recipients in selected OECD countries, 1996-2006**



a) Youth aged 15-29 for Japan, 15-24 for Canada and France, and 16-24 for Spain and the United Kingdom.

Source: Administrative data for recipients refer to the yearly average of monthly stocks for all countries [Ministry of Health, Labour and Welfare (MHLW), *Annual Report of Employment Insurance for Japan*]; and national labour force surveys for the unemployed refer to annual averages for all countries [Ministry of Internal Affairs and Communications (MIC), *Labour Force Survey for Japan*].

In view of the declining role of firms in securing income for young people and the growing income inequality in Japan (OECD, 2008a), the government might consider expanding the effective coverage of unemployed young people by the EI. In this regard, the government might need to ensure that more young workers, especially non-regular workers, are insured by the EI by, e.g. expanding the eligibility or raising the compliance of firms and

workers with paying EI contributions. In addition, the government might also consider raising the share of unemployed youth who receive unemployment benefits, by *e.g.* relaxing the benefit eligibility conditions. These measures to expand EI benefit coverage should go hand-in-hand with implementing a “mutual obligations” approach to provide strong incentives for the young unemployed to search actively for a job. This would include an effective threat of moderate benefit sanctions in the event the young job-seeker does not live up to his/her side of the agreement.

4. Key points

Active labour market policies for youth have developed fairly recently in Japan compared with other OECD countries, as the problems in the youth labour market arose only a decade ago. In response to a rapidly rising youth unemployment rates and increasing non-regular employment among youth, the government has introduced various labour market measures alongside measures to enhance the students’ awareness of the world of work since the early 2000s.

However, public spending on youth labour market programmes has been relatively low, and the number of participants in these programmes has been limited. Thus, stronger emphasis needs to be placed on expanding the scale and effectiveness of ALMPs for youth. For the existing programmes, more needs to be done to improve targeting, while addressing the difficulties faced by the lower educated group, and also for a thorough evaluation of the outcomes of the programmes.

Furthermore, the proportion of young unemployed receiving benefits also has been relatively low and declining during the past decade. In view of the growing mobility of the youth labour market and the waning role of schools and firms in youth transitions, it is highly desirable that the government, in close consultation with the social partners, steps up its efforts to reinforce employment support and income security measures for youth.

INTRODUCTION

Japan traditionally maintained a solid school-to-work transition system in connection with its lifetime employment system. Most school leavers used to find a stable job as soon as they graduated from school, due to a long-standing link between the school and the firm. Thus, unemployment rates, as well as long-term unemployment rates for youth, tended to be substantially lower than in most other OECD countries.

However, the picture changed during the so-called *lost decade* of the 1990s when the economic recession hit the youth labour market particularly hard. With the declining importance of lifetime employment and school-firm linkages in the transition process, youth unemployment rose between the mid-1990s and the early 2000s, and the incidence of long-term unemployment for youth also more than doubled during this period. Furthermore, with the rise of labour market dualism, more and more young people in Japan are being forced to take precarious temporary jobs, for which firms are less likely to provide on-the-job training.

To improve labour market outcomes for youth, the Japanese government has launched various measures since the early 2000s. The prolonged economic recovery that started in 2002 has brought some relief to the youth labour market, though the recent slowdown may well reverse some of these gains. In addition, if some of the problems that arose during the past decade in the youth labour market reflect a fundamental and irreversible shift, a more comprehensive strategy by the government is called for.

The purpose of this report is to: *i*) analyse the school-to-work transition in Japan; and *ii*) discuss policy options to address problems associated with this transition for some youth, on the basis of government measures already implemented. More specifically, Chapter 1 presents basic facts about the situation of youth in the Japanese labour market. The effects of education and training on the supply side are analysed in Chapter 2. The demand-side barriers to youth employment are explored in Chapter 3. Finally, Chapter 4 analyses the role of active and passive labour market policies and public employment services in supporting young people in need.

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TABLE OF CONTENTS

Summary and Main Recommendations	9
<i>Résumé et principales recommandations</i>	21
Introduction.....	35
CHAPTER 1. THE CHALLENGE AHEAD	37
1. Demographics and labour market outcomes.....	37
2. The transition from school to work	48
3. Key points.....	63
CHAPTER 2. EDUCATION AND TRAINING	65
1. The overall performance of the education system	65
2. Upper secondary education and the labour market.....	67
3. Tertiary education and the labour market.....	75
4. Between school and work.....	82
5. Training	84
6. Key points.....	88
CHAPTER 3. TACKLING DEMAND-SIDE BARRIERS TO YOUTH EMPLOYMENT	89
1. Employment practices	89
2. The seniority-pay system.....	97
3. Employment protection legislation and youth labour market.....	105
4. Key points.....	110
CHAPTER 4. ACTIVE LABOUR MARKET POLICIES AND BENEFITS	113
1. Recent measures to improve youth labour market performance	113
2. Public and private employment services	118
3. Unemployment benefits.....	120
4. Key points.....	124
Bibliography	125

List of Boxes

- Box 1.1. The NEET and the “*NEET people*”, a Japanese term 45
- Box 1.2. The categories of non-regular employees
in the Japanese Labour Force Survey 54

List of Figures

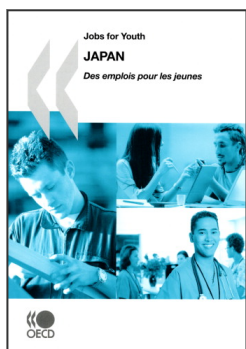
- Figure 1.1. Decreasing share of youth in working-age population
in OECD countries, 1975-2025..... 38
- Figure 1.2. Population of Japan by single year of age and gender,
October 2007..... 39
- Figure 1.3. Youth unemployment and employment indicators, Japan
and OECD, 1980-2007..... 40
- Figure 1.4. Youth unemployment and employment indicators, by gender,
OECD countries, 2007 41
- Figure 1.5. Youth unemployment rates of upper secondary graduates
relative to college and university graduates,
selected OECD countries, 2005 42
- Figure 1.6. Incidence of long-term unemployment among youth,
OECD countries, 1997 and 2007 43
- Figure 1.7. Employment rates by age and gender, Japan and OECD,
1980-2007 44
- Figure 1.8. Youth NEET rates by gender and educational attainment,
Japan, 2006 46
- Figure 1.9. Youth NEET rates by educational attainment,
OECD countries, 2006 47
- Figure 1.10. Job-finding rates of school leavers by educational attainment,
Japan, 1980-2006 50
- Figure 1.11. Job-hiring and job-separation rates by age, Japan,
1995 and 2005..... 51
- Figure 1.12. Three-year job-separation rates of 2004 school leavers,
by educational attainment, Japan 52
- Figure 1.13. Job-hiring rates in selected OECD countries, 2004 52
- Figure 1.14. Share of non-regular workers by age, Japan, 1988-2007..... 53
- Figure 1.15. Share of non-regular employees by gender, age
and type of employment, Japan, 2006..... 54
- Figure 1.16. Non-regular employees and *freeters*, Japan, 1987-2006..... 56
- Figure 1.17. Trends in youth temporary employment,
selected OECD countries, 1990-2007 57
- Figure 1.18. Trends in youth part-time employment,
selected OECD countries, 1990-2007 57
- Figure 1.19. Share of youth in a regular job, immediately after graduation
and at the time of survey, by age and gender, Japan..... 60

Figure 1.20.	Share of unmarried people leaving with their parents, by age, selected OECD countries and years	63
Figure 2.1.	Population aged 25-34, by educational attainment, OECD countries, 2005	66
Figure 2.2.	Japanese students' performance, based on PISA 2006	67
Figure 2.3.	Variance in student's performance between and within schools on PISA mathematics scale, selected OECD countries, 2006	69
Figure 2.4.	Relationship between school performance and socio-economic background, Japan and selected OECD countries, 2006	70
Figure 2.5.	Enrolment in general <i>versus</i> vocational education in upper secondary education, OECD countries, 2006	71
Figure 2.6.	Influence of business and industry on the school curriculum, OECD countries, 2006	73
Figure 2.7.	School drop-outs in OECD countries, 1997 and 2006	74
Figure 2.8.	Graduation rates in tertiary education by gender and programme, OECD countries, 2006	78
Figure 2.9.	Difference between girls and boys scores in reading and mathematics, OECD countries, 2006	79
Figure 2.10.	Gender gaps in tertiary education, OECD countries, 2005	80
Figure 2.11.	Tuition fees and public loans and/or scholarships/grants in tertiary-type A education, selected OECD countries, school year 2004-05	82
Figure 2.12.	Working students by educational attainment, selected OECD countries, 2006	83
Figure 2.13.	Share of firms who provided education and training to workers, Japan, 2005	85
Figure 3.1.	Average tenure of employees by age, selected OECD countries, 1996 and 2006	91
Figure 3.2.	Employment by industry and size of firms, Japan, 1970-2002	92
Figure 3.3.	Workers' attitudes towards lifetime employment, Japan, 2004	93
Figure 3.4.	Employment rates by age of the youngest child, women aged 15-64, latest year available	95
Figure 3.5.	Availability of childcare and young mother's employment rates, selected OECD countries, latest year available	96
Figure 3.6.	Wage profiles of full-time workers by gender, Japan and selected OECD countries, 1996 and 2006	98
Figure 3.7.	Relative earnings of 25-64-year olds, by educational attainment and gender, selected OECD countries, 2006	100
Figure 3.8.	EPL indexes for temporary and permanent employment, OECD countries, 2003	106

Figure 3.9.	EPL for regular employment and share of temporary employment, OECD countries, 2003	107
Figure 4.1.	Public spending on youth labour market programmes, 1995 and 2002.....	114
Figure 4.2.	Net unemployment benefit replacement rates in OECD countries, 2006.....	121
Figure 4.3.	Youth unemployment benefit recipients in selected OECD countries, 1996-2006.....	123

List of Tables

Table 1.1.	Destination of upper secondary graduates, Japan, 1990-2006	49
Table 1.2.	Share of non-regular youth employees by educational attainment, Japan, 2006	55
Table 1.3.	Career pathways of Japanese school leavers since graduation, by gender and educational attainment.....	61
Table 1.4.	Scoreboard for youth aged 15-24, Japan and OECD, 1997, 2002 and 2007.....	64
Table 2.1.	Students enrolled in tertiary education by type of institution, Japan, fiscal year 2006.....	76
Table 2.2.	Self-assessed study-job match, tertiary graduates, Japan, 2001 ...	77
Table 2.3.	Public vocational training in Japan, 2004 to 2006 fiscal years.....	86
Table 3.1.	Firms' view on lifetime employment in the personnel policy context for upcoming years, Japan, 1993 and 2002	90
Table 3.2.	Monthly wages by employment type, gender and age, Japan, 2007	101
Table 3.3.	Minimum wages (MW) for adults and youth in OECD countries, 2006.....	103
Table 3.4.	Tax wedge including employers' social security contributions in OECD countries, 2000 and 2006.....	104
Table 4.1.	Major policy measures to improve youth labour market performance in Japan, fiscal year 2007.....	115
Table 4.2.	Unemployment benefit duration by reason of separation, age and contribution history, Japan, 2007.....	122



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