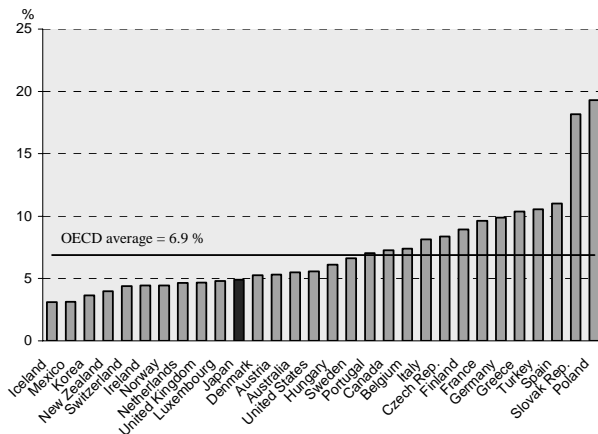


## Employment Outlook 2005

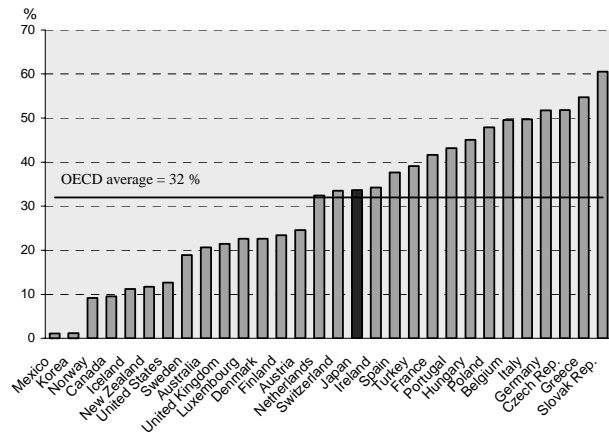
### How does Japan compare?

In 2004, unemployment in Japan, at 4.9%, remained relatively low by OECD standards, but the incidence of long-term unemployment, at 33.7%, stood slightly above the OECD average. Young people and women often face significant difficulties in getting a job, compared with their prime-age male counterparts; and when they do get a job it is often of a temporary or precarious nature. Likewise, jobseekers increasingly fall into long-term unemployment.

**Unemployment rate, 2004**  
Persons aged 15-64 years (percentages)



**Long-term unemployment rate, 2004**  
Percentage of total unemployment



Source: OECD (2005), *Employment Outlook*, OECD, Paris

The OECD's *Employment Outlook 2005* shows that certain policies currently under consideration in Japan may be quite effective in helping unemployed individuals back to work.

First, providing jobseekers intensive counselling, job-search support and participation in re-employment programmes after a certain period of unemployment is crucial. Such "activation" policies have to be seen as the counterpart for the payment of benefits – i.e. this is a "mutual obligations" approach. The higher the level and duration of benefits, the more important should be the activation component of the approach. Indeed, such a strategy lies at the heart of the success in reducing unemployment, and in particular long-term unemployment, in countries like Australia, Denmark and the United Kingdom. Moreover, in the absence of effective activation programmes, benefit schemes for the long-term unemployed become unsustainable or excessively costly in the long-run.

Second, it is also important to ensure that jobseekers have a financial incentive to go back to work. Generous welfare benefits tend to reduce these financial incentives, almost by definition, but it is possible to counteract this through tax-benefit reform (rather than cutting benefit levels). In particular, the study finds that the provision of re-employment bonuses or benefits conditional on accepting a job can be effective. These in-work supplements have to be sufficiently large, however – i.e. small supplements do not change work incentives enough to have a real impact on behaviour, while still entailing a budget cost. They also have to be targeted on the neediest families.

The system of re-employment bonuses in Japan, whereby individuals who find work before expiration of unemployment benefits receive a bonus proportional to the remaining entitlement, is one way to promote transitions from welfare to work. However, since the payment is in the form of a lump sum, it is not designed to overcome the effect of the withdrawal of other benefit payments on incentives to work longer hours.

But supply-side factors are only one part of the story. Policies to raise labour demand are also important. For instance, reforming employment protection legislation (EPL) may help young people and women enter employment. Indeed, as highlighted in *Employment Outlook 2004*, Japan is characterised by major differences between the regulation of *permanent* contracts and of *temporary* forms of employment. Regulation of individual dismissals of permanent workers is stricter than the OECD average and has not changed much since the late 1980s. Permanent workers who are dismissed do not have legal right to additional severance pay compared to those who quit, but they are often granted larger pay-outs. Unfair dismissal charges, meanwhile, give rise to reinstatement with some compensation. In practice firing permanent workers is rare in Japan, where the logic of lifelong attachment to a single employer is still predominant.

On the other hand, legislation governing the use of fixed-term contracts and temporary work agencies has been progressively eased over the past two decades. As a result, Japan nowadays stands well below the OECD average for the regulation of these forms of work. This may also harm the employment prospects of young labour market entrants, as temporary forms of employment are typically characterised by weak job attachment and limited opportunities for upgrading human capital, with negative effects on career progression and productivity. Indeed, about 25% of young people are on temporary jobs, accounting for 40% of all temporary workers. Overall, Japan could reform EPL for permanent workers while making it easier for temporary workers to accede to a permanent contract.

*OECD Employment Outlook 2005* is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on Japan, journalists are invited to contact Raymond Torres (tel: + 33 1 45 24 91 53 or email: [raymond.torres@oecd.org](mailto:raymond.torres@oecd.org)), or Glenda Quintini (tel: +33 1 45 24 91 94 or e-mail: [glenda.quintini@oecd.org](mailto:glenda.quintini@oecd.org)) in the OECD's Employment Analysis and Policy Division.