Expanding income support for the unemployed

Traditional Japanese labour market practices such as long-term employment, seniority-based wages, firm-based training, flexibility in wages and working time and mandatory retirement, date back to Japan’s high-growth era and contributed to its economic take-off. However, these practices are no longer fully consistent with an economy characterized by slower growth, increased diversity in desired working patterns and the need to boost female labour force participation. Indeed, Japan’s working-age population fell by 5 per cent between 1994 and 2008, and the National Institute of Population and Social Security Research projects an additional decline of 10 per cent by 2020 and nearly 40 per cent by 2050. Boosting the participation rate of prime-age women (25–54 years old) from 71 per cent – the sixth-lowest rate among OECD countries – is thus a priority. It is also important to use older workers more effectively.

In addition, intensified global competition and the downsizing of many industries have prompted many firms to reduce fixed costs, including labour. To enhance flexibility, firms have increased non-regular employment, thereby reducing labour costs at the same time. Consequently, the share of non-regular workers has risen from around 20 per cent of employees in 1990 to 34 per cent in 2008. Part-time workers accounted for 67 per cent of non-regular workers in 2010, with temporary workers (19 per cent), dispatched workers (6 per cent) and other types of non-regular workers (8 per cent) accounting for the remainder. According to a 2007 government survey, 21 per cent of part-time workers in 2007 wished to become regular workers, in contrast to more than 50 per cent for temporary and dispatched workers. Indeed, the survey suggests that almost 4 million employees are involuntary non-regular workers, well above the number of unemployed. However, mobility between regular and non-regular employment is limited, making younger workers reluctant to accept non-regular employment, as it reduces their lifetime earnings.

The rising share of non-regular workers has a number of negative side effects. Non-regular workers receive less firm-provided training and develop less in terms of human capital, thus lowering their productivity and reducing Japan’s growth prospects. Equity is another concern as non-regular workers are paid substantially lower wages, bear the brunt of cyclical changes in employment and are not fully covered by the social insurance system.

The 2008 global economic crisis resulted in a significant hike in unemployment from 4 per cent in 2008 to a record-high 5.5 per cent in the summer of 2009. Non-regular worker’s accounted for two-thirds of the fall in dependent employment between 2008 and 2009, drawing attention to the limited coverage of the social safety net. Only 60 per cent of non-regular workers are covered by the Employment Insurance System (EIS). Moreover, as the benefits depend on the length of employment, temporary workers who are eligible for EIS receive benefits for only a few months. The gaps in the safety net revealed by the crisis prompted the Government to introduce a number of important measures, including:

- expanding the EIS coverage of workers with short-term contracts;
- increasing the availability of public assistance to unemployed workers; and
- introducing a subsistence allowance for workers who are receiving training and are not covered by employment insurance.

These policies were part of the Government’s effort to shift the focus of fiscal stimulus “from concrete to human beings” by expanding employment subsidies and increasing public job-creation programmes, which limited the rise in unemployment. Perhaps most important was the expansion of the Employment Adjustment Subsidy, which supports downsizing firms to maintain employment. The number of workers covered by the scheme jumped from 200,000 in FY 2008 to 2.5 million in FY 2009, as eligibility requirements were eased and subsidy rates were increased. The expanded subsidy may have saved about 400,000 jobs, suggesting that without it, the unemployment rate would have risen above 6 per cent. In addition, the 2008–09 fiscal stimulus packages spent more...
than ¥1 trillion (0.2 per cent of GDP) to create jobs, which is more than all active labour market programmes combined in FY 2007.

Expanding the coverage of unemployment insurance

Revisions of the Employment Insurance Law in 2009 and 2010 relaxed the eligibility requirement from covering only workers employed for at least one year to covering all those employed for 31 days or more. Given the large number of temporary workers, this reform was expected to increase the number of eligible workers significantly, by 2.6 million, and to boost benefit payments by ¥150 billion (0.2 per cent of central government spending). Available evidence suggests somewhat smaller effects and points to the need to accompany this legal change in eligibility requirement by greater efforts to ensure companies’ compliance with payments of social insurance premiums.6

Increasing the availability of public assistance to unemployed workers

The scope for unemployed persons to receive basic public assistance under the Basic Livelihood Protection programme has also been expanded. This programme provides a minimum standard of living primarily to those unable to work.7 In particular, the Ministry of Health, Labour and Welfare has reminded local governments that “the fact that the applicant has the capacity to work does not in itself preclude meeting the requirements under the law” for receiving assistance.8 This represents a break with the past where, in addition to the limited number of jobless receiving unemployment benefits, spending on public assistance has been low. In 2008, only 0.75 per cent of households headed by a person between the ages of 15 to 64 received assistance. In contrast, in other OECD countries the share ranges from 1 to 7 per cent, with a median of about 3 per cent.9 The low share in Japan is explained by a number of factors:

- Family-support requirement: applicants may be required to identify close relatives who may be asked to provide support.
- Asset test: assets such as land, farms and houses (except where the person is living) and household goods with a diffusion rate below 70 per cent must be sold in order to qualify for assistance.
- Ability-to-work criterion: assistance may be refused to a person who is deemed capable of earning income. This created a general understanding that ordinary unemployed persons were not eligible for public assistance.

In sum, it has been difficult for households with adults capable of working to receive public assistance. Consequently, many unemployed received neither unemployment benefits nor public assistance.10

Introducing a “second safety net”

The social safety net was also strengthened in 2009 by a new scheme to provide assistance to unemployed workers who are enrolled in training programmes but do not receive unemployment benefits. Japan has a long-standing system of vocational training for unemployment benefit recipients. The benefit period can be extended for those in training. The 2009 scheme, which is part of the “second safety net”, provides assistance (called “life security benefits”) for participants in such programmes who do not receive unemployment benefits, whose annual income from other sources does not exceed ¥2 million (about US$25,000), and who have assets of less than ¥8 million (US$100,000). The programme is targeted mainly at former non-regular workers who were dismissed due to non-renewal of a temporary employment contract. Support can take the form of a benefit of ¥100,000 (US$1,250) per month. The programme was initially funded by a 2009 fiscal stimulus package, but was made permanent by a bill enacted in May 2011.

Estimated impact

With temporary workers (including dispatched workers) amounting to 4.3 million, the change in eligibility for Employment Insurance was expected to increase the number of eligible workers significantly, but available evidence suggests an increase of about 2 per cent, from 37.5 million at the end of FY 2009 to 38.2 million a year later. In the case of persons receiving public assistance, a sharper rise took place, in line with the increase in unemployment following the 2008 crisis, as a result of the new approach toward granting social assistance to the unemployed (figure 1).

The change in the eligibility requirement for Employment Insurance will have a positive impact by providing three months of benefits to more non-regular workers, who face precarious jobs and who bore the brunt of the employment adjustment following the 2008 financial and economic crisis.

Moreover, the additional contributions by employers to employment insurance are a small step in narrowing the cost advantage to firms from hiring non-regular workers. Labour costs for a non-regular worker not enrolled in employment insurance or in the firm-based health and pension systems are 13 per cent lower. Cutting non-wage costs was cited by 21 per cent of firms as a reason for hiring non-regular workers in the Government’s 2007 survey.11

Japan’s decision to assist the unemployed by expanding access to public assistance rather than by lengthening the duration of unemployment insurance appears appropriate, as it has no impact on work incentives for most unemployed. In addition, relying on public assistance is a less costly approach. Expanded access...
may also help address the problem that unemployed workers have been reluctant to claim public assistance in the past, given the severe conditions and subsistence level of benefits.

In terms of the new scheme to provide assistance to unemployed workers who are enrolled in training programmes but do not receive unemployment benefits, around 200,000 persons (6 per cent of the unemployed) received such assistance between April and December 2010. The Government reports that 69 per cent of participants found jobs within three months of completing training.

**Conclusion**

While these measures were partly a response to the hardship created by the 2008 crisis, they should be extended permanently to strengthen Japan’s social safety net. In the short run, they are important to help cope with the dislocations related to the Great East Japan Earthquake in March 2011. Over the longer run, as the traditional practice of long-term employment is expected to weaken further and a greater share of workers has temporary or fixed-term contracts, an increasing number of workers are likely to face episodes of unemployment. Support to such persons through increased coverage of the EIS, enhanced access to public assistance and the creation of benefits to the unemployed engaged in training (the “life security benefits”) will limit hardship and the cost of adjustment.

The strengthening of the safety net should be accompanied by more effective activation policies to help beneficiaries return to work and to minimize the risk of higher unemployment. At present, the Public Employment Service rarely imposes sanctions on unemployment benefit recipients who fail to follow up job referrals and refuse job offers. In addition, the increasing number of unemployed receiving public assistance makes it important to strengthen links between assistance and active labour market policies. 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. Finally, making the “life security benefits” conditional on participation in training creates a risk of unnecessary training.

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1. OECD (2011a).
2. OECD (2010).
5. Duell et al. (2010).
6. ibid.
10. ibid.
References:


