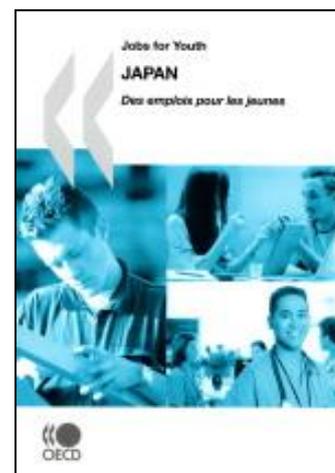


Jobs for Youth/Des emplois pour les jeunes **Japan 2009**

Summary in English



Despite some progress in recent years, young people face significant challenges in the labour market

The youth labour market in Japan has gone through major upheavals over the past two decades. Until the early 1990s, it was characterised by a rapid transition of school leavers into stable employment, low unemployment and low job turnover. These patterns were explained by a combination of strong labour demand and a unique school-to-work transition system in which schools were directly linked to firms and provided placement services to most of their students. In a context of generalised lifetime employment practices, firms hired new staff upon school completion with the prospect of long-term employment and provided intensive on-the-job training to new hires.

This picture changed radically in the “lost” decade of the 1990s, when the overall contraction of labour demand resulting from the prolonged recession made it more difficult for many young Japanese to gain a secure foothold in the labour market and move up the career ladder. The youth unemployment rate rose to 10% in 2003, compared with a steady 4-5% in the early 1990s. The incidence of long-term unemployment for youth also more than doubled between the early 1990s and the early 2000s, exceeding the OECD average.

The prolonged economic recovery which started in 2002 has brought some relief to the youth labour market, and the overall job prospect for youth has been improving. The youth unemployment rate dropped to 7.7% in 2007, and was accompanied by a significant decline in long-term unemployment. These recent improvements also reflect the demographic context in Japan, as the first baby-boomers started to reach the retirement age around 2007, thereby increasing firms’ demands for young workers to replace them.

However, some major legacies of the *lost decade* in the youth labour market seem to persist. One important source of concern is that of growing labour market dualism

primarily affecting young people in Japan. In 2007, more than 31% of young workers aged 15-24, excluding students, were in various non-regular forms of employment, *i.e.* temporary, part-time and temporary work agency jobs (for all young workers including students, the share exceeded 46%).¹ These jobs provide low income, limited career prospects and fewer skill development opportunities. There is also a substantial gap in social insurance coverage (*i.e.* unemployment insurance, public health insurance and employee pension) between young regular workers and young non-regular workers. Meanwhile, the degree of *vertical* mobility – the probability of transition from non-regular employment to regular employment – is very limited, thus leaving many young people trapped in precarious jobs. In this context, young people with lower educational attainment seem to face more severe difficulties in their school-to-work transition, with higher incidence of unemployment, job turnover and insecure employment. Although the share of school drop-outs, defined as young people leaving school without upper secondary qualifications, is relatively low in Japan by international comparison (4.5%), it still represents around 0.3 million youth aged 15-24.

This situation appears to reflect several structural factors. First, the declining importance of lifetime employment and company-based training have brought to the fore the weaknesses of the existing education and training systems in Japan: a relative inability of the education system to meet labour market requirements, given a high reliance on general education; limited work experience before students enter the labour market; and under-developed vocational training structures. Second, employment protection regulations, which have traditionally been geared to lifetime employment, might have created a wedge between regular and non-regular contracts. At the same time, some hiring and employment practices in the workplace, based on age and gender, might also have reinforced rigidity in the youth labour market. Third, despite some recent reforms, many young people do not benefit from adequate public support – *i.e.* access to active labour market programmes and income security – during their transition from school to work and the early phases of work life.

In sum, despite some improvements in recent years, the Japanese youth labour market experienced significant problems, similar to those observed in some other OECD countries. Japan's traditional system of swift school-to-work transition, which guaranteed a quick settlement of school leavers into secure employment, is now facing challenges, at a moment when Japanese lifetime employment practices are also under strain. To address these youth labour market problems and, in particular, the rising number of young non-regular workers, the Japanese government has introduced a wide range of reforms since the early 2000s, including a policy package for youth employment, efforts by the educational authorities to help facilitate the school-to-work transition, and reforms of employment regulations.

Recent reforms in response to the youth labour market challenges

In 2003, the government formulated a comprehensive *Independence and Challenge Plan for Young People*, with the aim of reducing the number of *freeters* and facilitating a smoother school-to-work transition. This plan includes various innovative measures, such as the introduction of the *Japanese Dual System* (a kind of vocational training programme for *freeters* and unemployed youth) and the establishment of both *Job Cafés*

1. In Japan, young people in non-regular jobs are often called “freeters”.

(a one-stop service centre for young jobseekers) and *Independence Camps for Youth* (a residential camp targeting discouraged youth).

In connection with this plan, the Japanese government has stepped up its efforts to enhance the linkage between education and the labour market and to strengthen the delivery of career guidance at all levels of education. For example, the *Career Exploration Programme* was adopted to offer special lectures by guest lecturers to secondary school students on the world of work. The government is also encouraging internships for tertiary students, by e.g. providing financial support to universities/colleges.

Furthermore, the government introduced another ambitious initiative, the *Job Card System*, in April 2008. These cards provide details on the holders' education, training and employment history, together with their vocational qualifications. Unemployed young people or *freeters* can be issued the card after receiving career counselling at the Public Employment Security Offices or other job-placement agencies. *Job Card* holders can then be invited to participate in one of the *Vocational Ability Development Programmes*, upon completion of which the *Vocational Ability Evaluation Sheet* will be issued by employers and recorded in the *Job Card*. The card will mainly be used in the job-seeking process and to start further training. The government expects to issue 1 million *Job Cards* during the next five years and expects that this new system will help promote both practical vocational training and career development for youth.

These initiatives have been accompanied by some reforms of the employment regulations. According to a 2007 government survey, 36% of job announcements by firms contained age limits. The government introduced a ban on age limits in recruitment and hiring by revising the Employment Measure Law in 2007. The Law on Part-time Workers was also revised in 2007 (and implemented in April 2008) in order to improve the working conditions of a growing number of part-time workers. The revised law requires employers to ensure a proportionate treatment of all part-time workers relative to regular workers. In particular, the revised law prohibits discriminatory treatment of a small group of part-time workers who have the same job description, indefinite contract and transferability as regular workers (estimated to account for around 4-5% of all part-time workers).

Recommendations for further reforms

These recent reforms represent a step towards improving the labour market situation of young people. However, the experiences in the Japanese youth labour market since the mid-1990s appear to reflect a fundamental and irreversible shift in the business environment, characterised by increasing competition, changes in industrial structure and in corporate governance. Thus, it seems essential that the government steps up its efforts in three main areas: *i*) ensuring a smoother transition from school to work; *ii*) tackling demand-side obstacles to youth employment; and *iii*) reinforcing employment support and income security measures.

Ensuring a smoother transition from school to work

The education system in Japan has performed very well for several decades, with a high level of educational attainment and low disparities among its young population. This translated into good results in international tests such as the OECD Programme for

International Student Assessment (PISA). There was a clear division of roles between school-based initial education and company-based training. The former was in charge of general academic education, while the latter provided vocational and company-specific skills to young workers, in a context of lifetime employment arrangements.

The increasingly complicated business environment cited above has led to a declining commitment on the part of firms to long-term employment and company-based training. This has triggered demand for schools and universities to make greater efforts to equip young people with skills that can be immediately used by firms. But, vocational education is not well developed within the Japanese secondary education system. It is predominantly school-based, and its curricula do not seem to be adequately linked to the needs of the labour market. There is also evidence of skill mismatch in the labour market. For example, many graduates from tertiary education tend to occupy positions where they do not use the knowledge and skills they acquired in their field of study.

Students in Japan tend to have limited opportunities to benefit from work experience. International evidence shows that working a moderate number of hours helps young people gain work experience that will facilitate their successful transition, without compromising their scholastic achievement. Promisingly, the Japanese government is currently encouraging internships. But this welcome initiative needs to be further developed.

On the other hand, Japanese firms reduced expenditure on training during the recession period of the 1990s. While this was a natural response to depressed product demand, it also heralded a more structural shift in firms' behaviour. And this translated into less training opportunities offered by firms, particularly for young, non-regular, workers. A recent survey by the Ministry of Health, Labour and Welfare revealed that 72% of Japanese firms offered off-the-job training to their regular employees, while only 38% of firms offered similar training to non-regular employees in fiscal year 2005. It should be stressed that these developments intervene in a context where publicly-provided youth training programmes are still relatively limited in Japan.

All these challenges mean that a better and smoother school-to-work transition system in Japan will require renewed and stronger efforts by the government. It is particularly important to develop closer links between initial education and work and to provide young people with adequate skills to meet the fast-changing labour market requirements. To achieve these goals, the following measures could be envisaged:

- *Further strengthen the links between education and the labour market.* Given that the majority of young Japanese today enter the labour market with a tertiary education degree, it is essential that tertiary education institutions, especially universities that enrol the greatest proportion of students, establish close ties with the labour market. The government has launched measures to improve the education-industry link recently, through, for example, "joint industry-academia education programmes" to train entrepreneurs and professionals. To further systematise these linkages, it is desirable that a greater role be given to labour market participants, such as business and industry representatives, in shaping the curricula, pedagogy, staff profiles, and the skills of graduates. This might be encouraged by, for example, developing a formal structure to promote communication and collaboration between universities and business or industry associations (e.g. the Business, Industry

and Higher Education Collaboration Council and the Business and Higher Education Round Table in Australia could serve as possible models).

- *Promote vocational secondary education.* In a context of a high demand for tertiary education and vertical hierarchy of upper secondary institutions, vocational secondary education is relatively rare by international comparison and carries a low prestige in Japan. There is also a large perceived gap between vocational curricula and labour demand. Vocational secondary education should be made more attractive to students and firms. This could be done by, for example, making in-work training available to all students attending vocational education. This will certainly require a strong commitment and involvement from the part of employers. Strengthening pathways between secondary vocational education and tertiary education would be another option to promote vocational secondary education and raise its status in Japanese society.
- *Provide more work experience to tertiary students.* As an effective way to provide work experience to students and hence facilitate the school-to-work transition, internship programmes need to be further promoted through coordinated efforts by educational institutions, businesses and the government, and inter-ministerial co-operation within the government. The different options include raising financial incentives to participating firms (for example, through a subsidy for wages/allowances). Another option might be to encourage universities/colleges to expand internship requirements in their curricula and to promote stronger agreements or partnerships between businesses and universities/colleges.
- *Expand public vocational training for young people through, e.g. a successful promotion of the Job Card System.* The government's Job Card initiative, in connection with the Vocational Ability Development Programme, is a promising step in so far as it could not only help to enhance the vocational ability of young people but also promote job seeking activities and career development. The success of the new system will largely depend on the extent of business participation in providing practical training opportunities. Thus, an appropriate financial incentive scheme to participating firms (i.e. in the form of wage subsidy) might be necessary. Meanwhile, if Japan wants to further boost overall investment in training, it would also be desirable for the government, together with the social partners, to build social consensus on how to share the burden of financing training between firms, workers and the public purse and between public funds – i.e. general budgets and the Employment Insurance fund.
- *Improve the data collection on the school-to-work transition.* Many governments in OECD countries collect and disseminate data on school-to-work transitions systematically. These data, especially those with a longitudinal dimension, are invaluable in helping decision-makers to identify problems and formulate good policy strategies. Given the growing complexity of the school-to-work transition and the problems youth face in the labour markets, Japan should consider as a high priority launching more youth-specific surveys, including a longitudinal survey on school leavers.

Tackling demand-side obstacles to youth employment

Some employment regulations as well as employment and wage-setting practices still present in Japan were built around the lifetime employment concept. In the new emerging environment with less reliance on lifetime employment, these regulations may create increasing obstacles to youth employment. Concerning the employment protection legislation (EPL), Japan has, by international comparison, very different EPL regimes for regular and non-regular workers. Regulations for non-regular workers are rather lax, but those for regular workers are very strict and coupled by court case laws and social norms. In the past, internal flexibility (hours worked and wages) allowed firms to respond to demand fluctuations, but this is more difficult under today's more dynamic environment in which they operate. Indeed, employers are now more reluctant to hire young employees on regular contracts if they are not sure to keep them permanently, and instead prefer to hire non-regular workers. The recent reform on part-time work is a rather moderate first step toward reducing the gap in wages and working conditions between regular and non-regular workers. However, more reforms in EPL need to be pursued to reduce the gap in effective protection between these two groups of workers.

Indeed, growing labour market dualism and the waning significance of lifetime employment practices seem to warrant a serious re-orientation of labour market as well as social policies. Reforms of employment regulations might need to be preceded by the provision of more generous unemployment benefits and other social insurance systems based on workplaces, as well as enhanced active labour market policies (ALMP) to improve the functioning of the external labour market. The challenge is to find ways of enhancing both *security* and *flexibility* in the labour market, so as to focus more on *employment security* rather than on *job security* and to develop the external labour market. In this regard, the *flexicurity* approach, *i.e.* combining moderate EPL with a well-designed and generous system of income support and strong ALMP measures, applied under a mutual obligations approach, which is currently much discussed in Europe, might also contain several relevant elements for Japan. However, flexicurity schemes tend to be costly and require well-functioning labour market institutions.

Other traditional hiring and employment practices in the workplace, largely based on age and gender, might also create barriers to upward mobility of youth, thus hindering the transition from non-regular employment to regular employment. The 2007 revision of the Employment Measure Law banning age-based conditionality in recruitment is a welcome development which could help enhance hiring prospects in the youth labour market.

The employment rate for women aged 25-29 in Japan has continued to rise during the past two decades, recently surpassing the OECD average (at 71% in 2007, compared with an OECD average at 69%). However, the employment rate of young mothers with a child under the age of two remains very low at 29%, compared with 52% for the OECD average. Furthermore, most returning mothers work in precarious jobs, and many Japanese people take it for granted that a part-time job is appropriate for married women. Although this situation reflects several key elements of the Japanese labour market and attitudes towards working mothers, there is no doubt that the relatively limited availability of public childcare facilities and of paid maternity leave entitlements also tend to aggravate the situation. Thus, it is important to help young mothers continue to work through well-designed family-friendly policies.

On the other hand, wages and non-wage labour costs do not appear to create a major obstacle to youth employment in Japan. Wages for young regular workers start at a relatively low level in the seniority-wage system, and for young regular workers, the relatively lower wage is expected to be compensated by the prospects of rising wages with seniority in the firm. However, Japanese employers now appear to try to seek for more flexibility in wages through increased use of non-regular employment, as well as of performance-related pay. Japanese employers cite the need to contain labour costs as the primary reason to hire non-regular workers, and there is a substantial gap in wages between regular and non-regular workers, even if this gap is smaller for young workers.

To cope with increasing labour market duality and to help boost the demand for young workers, the following measures could be considered:

- *Reduce the gap in effective protection between regular and non-regular workers while at the same time enhancing flexicurity.* This would include better protecting fixed-term workers, part-time workers and temporary agency workers, while easing the strictness of EPL for workers in regular contracts. One option for the latter would be to introduce a clearer, more predictable and speedier procedure for dismissal settlements for workers under regular contracts, rather than the current procedure that mainly depends on legal rulings. It would be desirable that these reform measures be developed and implemented together with broader measures to enhance both security and flexibility in the labour market, and, as a rule, through consensus building among the social partners.
- *Tackle discriminatory differentials in wages and benefits.* Reducing discriminatory practices related to wages and other employee benefits – for example, by implementing anti-discrimination legislation – would weaken the incentive to hire non-regular workers. Increasing the coverage of non-regular workers in social security systems based on the workplace (i.e. unemployment insurance, public health insurance and employee pension) would also be important. On the other hand, encouraging and facilitating greater use of performance-related pay might help reduce the earnings gap between regular and non-regular young workers.
- *Continue to address discriminatory employment practices based on age.* Given the strong importance put on age in Japanese employment practices, the recently adopted law banning age limits in recruitment needs to be implemented in a consistent and systematic way, so as to ensure that actual hiring decisions by firms are not based simply on age.
- *Remove obstacles faced by young mothers to keep working.* It is essential to encourage the social partners to make workplace more family-friendly, while focusing on making working-time practices more compatible with workers' family commitment. A high priority also needs to be placed on increasing availability of affordable and conveniently located public childcare facilities.

Reinforcing employment support and income security measures

The development of ALMPs for youth in Japan is a fairly recent trend compared with what has been done for a long time in other OECD countries. This is partially explained by the fact that, until recently, youth labour market problems were rather limited. Although the government has introduced various labour market measures together with

measures to enhance students' awareness of the world of work since the early 2000s, so far public spending on youth ALMPs (as well as on overall ALMPs) has been relatively low by international comparison. Not surprisingly, the number of participants to these programmes has been limited. Given the fast changing context of the school-to-work transition in Japan and the growing number of young people facing difficulties in settling into secure employment, there is a strong case for greater emphasis to be placed on high quality job-search assistance, training and other employment support programmes. For the existing programmes, more needs to be done towards better targeting the lower educated group. Finally, it is essential to carry out thorough evaluations of the outcomes of the programmes to establish what works and what does not.

Around 7.8 million young people aged under 30 were insured by the Employment Insurance system in March 2007, compared with 12 million employed young people in the corresponding age group, according to the labour force survey. Meanwhile, the ratio of the average number of unemployment benefit recipients to the number of unemployed youth in the age group 15-29 is low and has been declining slightly during the past decade. Strict eligibility conditions and the short duration of unemployment benefits might explain this situation. Thus, most young unemployed Japanese have to depend on their parents to secure their livelihood. The issue in Japan, therefore, is not one of benefit dependency *per se*, but how to ensure that young people have more access to high-quality employment services and unemployment benefits, within a mutual obligations framework.

In this connection, the following measures could be envisaged:

- *Further strengthen youth ALMPs, with a stronger targeting towards the less educated group of youth.* Some existing programmes appear to be too small in size to respond adequately to the needs of the high numbers of young people at risk or in precarious jobs, as discussed above. Therefore, the government needs to consider allocating more public resources to ALMPs for youth, in line with efforts to enhance the overall flexicurity in the labour market. Also, stronger emphasis and more resources should be directed towards less educated young people.
- *Promote more precise targeting of youth ALMPs.* The existing youth ALMPs have mostly targeted freeters or non-employed people aged 15-34, 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 instance, one option might be to refocus the Youth Trial Employment on the lower educated group.
- *Undertake thorough evaluations of existing programmes.* Independent (external) evaluation of existing youth policy measures is very weak in Japan, in part due to the lack of related data and information available to researchers. Thus, more thorough evaluations of these programmes, both internally and externally, are required, especially for employment subsidies, such as the Youth Trial Employment, which international evidence would suggest that they are often subject to deadweight loss and substitution effects.
- *Expand the coverage of unemployed youth by the Employment Insurance system, while implementing a mutual obligations approach.* First, the

government might need to ensure that more young workers, especially non-regular workers, are insured by the EI by, for example, expanding the eligibility for the EI or raising the compliance of firms and workers with paying EI contributions, in close consultation with the social partners. Second, the government might also consider raising the share of unemployed youth who receive unemployment benefits. This could be done by, for example, easing 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 actively search for a job.

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