

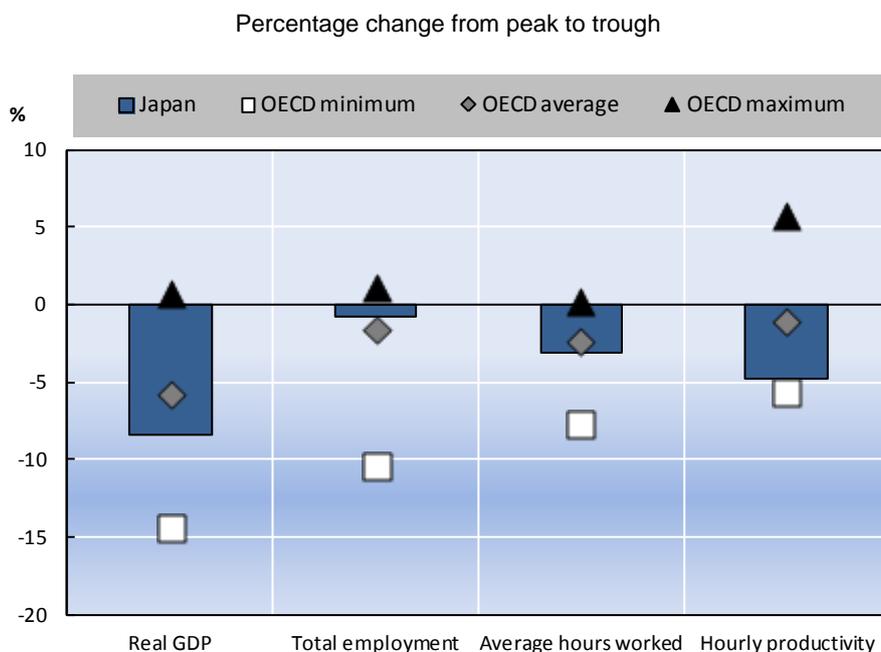


Employment Outlook 2010 – How does JAPAN compare?

Even though the economic recovery has been underway in Japan since early 2009, the unemployment rate in May 2010 was 5.2% which is still 1.4 percentage points higher than the unemployment rate prior to the global financial crisis. Labour market recovery is also lagging behind the GDP recovery in most other advanced economies according to new estimates presented in the 2010 *OECD Employment Outlook*. The OECD average unemployment rate in May was 8.6%, which is 2.8 percentage points higher than its level before the crisis and corresponds to 17 million additional jobless persons.

Japan experienced a relatively deep recession, but job losses were small by comparison to those in most other OECD countries. Real GDP in Japan fell by 8.4% in the year up to the first quarter of 2009, substantially greater than the 5.8% OECD average decline during the recession (see Figure 1). Japanese employment fell by only 0.8%, about half the 1.7% fall observed for OECD countries on average. These differences reflect the greater extent to which Japanese employers preserved jobs despite the sharp deterioration of business conditions, so-called “labour hoarding”. Preserving jobs in this manner had the advantage of limiting the build-up in unemployment, but it meant that lower production translated instead into lower weekly hours of work and lower hourly productivity. The 3% decline in average hours per worker in Japan was near the OECD average, while the 4.8% fall in productivity was one of the largest among OECD countries.

Figure 1. The impacts of the recession on employment, hours and productivity differed strikingly across countries



Note: OECD is an unweighted average. Peaks and troughs are determined using real GDP series in levels.

Source : OECD calculations based the OECD Economic Outlook Database.

Short-time work programs reduced job losses during the economic contraction. New OECD analysis shows that public short-time work programmes, such as *Koyo-chosei-kyosei-kin* in Japan, preserved jobs that otherwise would have been lost in the recession by encouraging employers to adjust to lower demand by reducing workers' hours ("work sharing"), rather than through layoffs. Twenty-four OECD countries operated this type of scheme during the recession and they significantly reduced job losses. The OECD analysis also suggests that these schemes were only effective in preserving the jobs of regular workers, presumably because few employers chose to enrol their non-regular workers.

Even in countries where public short-time work schemes played an important role in preserving jobs during the recession, the largest part of the reduction in average working time occurred outside of short-time work schemes. These reductions took varied forms, including reduced overtime hours, employer-initiated reductions in standard working hours for full-time workers and increased numbers of involuntary part-time workers. Downward flexibility in compensation is another factor that helped employers to preserve jobs in the recession. The *Employment Outlook 2010* suggests that the working time reduction in Japan coincided with a similarly sized reduction in real monthly earnings.

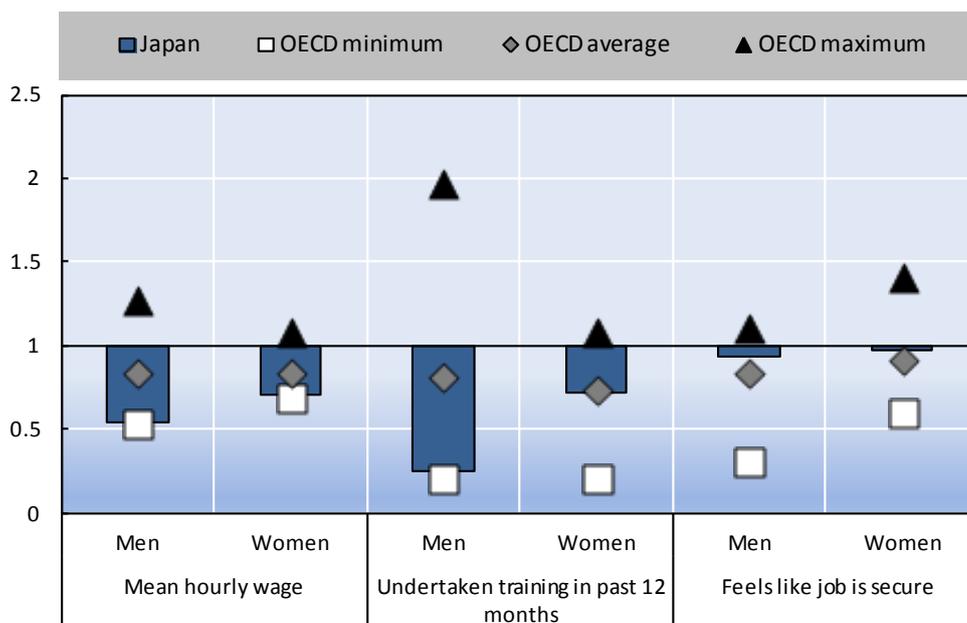
The 2010 *OECD Employment Outlook* cautions that heavy reliance on labour hoarding during the recession will tend to dampen employment growth in the recovery period. For example, **output in Japan could expand by over 7% in the recovery without any new hiring if average hours per worker and hourly productivity returned to their pre-crisis levels.** While some employment growth will nonetheless occur, the OECD projections foresee relatively modest hiring and hence a very gradual decline in the Japanese unemployment rate, which is projected to be still at 4.7% in the fourth quarter of 2011. The report argues that a slow labour market recovery increases the risk that some of the cyclical upsurge in unemployment will become structural. Governments face a difficult twin challenge of reducing high unemployment and under-employment, while also starting to tackle unprecedented fiscal deficits.

One key to preventing a permanent increase in structural unemployment is to assure that the public employment service provides effective re-employment assistance to the unemployed and other job seekers. The *Employment Outlook 2010* shows that the number of job seekers in Japan had already grown by 11.5% between 2007 and 2008, but PES staffing increased only by 4.7% implying an increased caseload for each staff member. Perhaps as a result, the number of jobseekers placed in jobs declined by 6.3%. After the Lehman Brothers' bankruptcy in September 2008, the government decisively increased PES staffing so that case loads fell in 2009, despite a 23.4% increase in the number of job seekers, and the number of placements rose by 8.8%. Japanese public employment agencies have provided an important matching function in labour markets, particularly for low-wage workers, such as part-timers and despatched workers, who were much less likely than regular workers to benefit from employers' labour hoarding. No other OECD country moved as decisively to increase PES staffing.

The quality of jobs available to "non-standard" workers in Japan raises longer-run concerns, beyond their special vulnerability during the recession. The share of certain forms of non-standard employment, including part-time work, has tended to increase in Japan even though the job quality gap between full- and part-time work is relatively large compared with other OECD countries (see Figure 2). For example, the mean hourly wage of part-time workers in Japan is only 54% of that for full-time workers for men and 70% for women. Training opportunities are also relatively limited for part-time workers. Part-time men are only 24% as likely as their full-time counterparts to have undertaken training in the past 12 month while the corresponding value for women is a significantly higher at 72%. In contrast, there is almost no difference between full and part-time workers in their assessment of whether their job is secure. Despite evidence that important characteristics of part-time jobs compare poorly with those for full-time jobs, the OECD report emphasises that most part-time workers in Japan and other OECD countries report that they prefer working part time. This is a useful reminder that part-time schedules can be attractive to

workers, especially those with important caring responsibilities in their families. It is a concern, nonetheless, that the very high marginal tax rate applying to low-wage Japanese workers moving from part-time to full-time employment – which is one of the highest in the OECD – may be discouraging some part-time workers from seeking full-time jobs and the improved career opportunities associated with those positions.

Figure 2. Earnings potential, job training and job security, ratio of part-time to full-time employees



Source : Wage data are from the European Structure of Earnings Survey and national sources. Training and job security data are OECD calculations using data from the European Working Conditions Survey (2005) and the International Social Survey Programme (2005).

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Japan, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Paul Swaim (tel: +33 1 45 24 19 77 or e-mail: paul.swaim@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.