



Back to Work

JAPAN

**IMPROVING THE RE-EMPLOYMENT
PROSPECTS OF DISPLACED WORKERS**



Back to Work: Japan

IMPROVING THE RE-EMPLOYMENT PROSPECTS
OF DISPLACED WORKERS

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Foreword

The OECD Employment, Labour and Social Affairs Committee (ELSAC) has decided to carry out a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. This review builds on other recent research conducted by ELSAC on topics such as youth unemployment, activation policy, skills and the labour market impact of the Great Recession.

Nine countries will participate in the review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States. Once the country reviews are completed, a synthesis report will be prepared highlighting the main issues and policy recommendations emerging from the review.

This report on Japan was prepared by Elena Crivellaro and Paul Swaim with contributions from Gwenn Parent, Shruti Singh and Naoki Yamazaki. Statistical assistance was provided by Sylvie Cimper and Agnès Puymoyen. It is the second such country report prepared in the context of this thematic review supervised by Mark Keese. The report benefited greatly from discussions with officials, employer federations, trade unions, academics and businesses during an OECD mission to Japan in September and October 2013, and from detailed comments provided by the Ministry of Health, Labour and Welfare.

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Acronyms and abbreviations

ALMP	Active labour market programme
BLPP	Basic Livelihood Protection Programme
CPI	Consumer price index
EAS	Employment Adjustment Subsidy
EHDO	Employment and Human Resources Development Organization
EI	Employment Insurance
EPD	Employment placement dispatching
EPL	Employment protection legislation
ESB	Employment Security Bureau
ESS	Employment Status Survey
ETS	Survey on Employment Trends
FY	Fiscal year
GDP	Gross domestic product
HQ Sharp	Support for Sharp-related Displaced Employees Headquarters
HRDB	Human Resources Development Bureau
HRM	Human resource management
IESC	Industrial Employment Stabilization Center
ILO	International Labour Organization
ISCO	International Standard Classification of Occupations
JEED	Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers
JIL	Japan Institute of Labor
JILPT	Japan Institute of Labour Policy and Training
JPY	Yen
KEIDANREN	Japan Business Federation
LFS	Japan Labour Force Survey
LOSEF	Japanese Longitudinal Survey on Employment and Fertility
LSB	Labour Standards Bureau
MHLW	Ministry of Health, Labour and Welfare
NRR	Net replacement rate
PCC	Chiba Vocational Training Support Center – Polytechnic Center Chiba
PES	Public employment service

R&D	Research and development
RENGO	Japanese Trade Union Confederation
SME	Small- and medium-sized enterprise
STW	Short-time working

Executive summary

Workers who are involuntarily displaced from their jobs face substantial economic and social costs. On average during 2002-08, 1.4% of employees lost their job each year in Japan due to economic reasons such as corporate downsizing and business closings. The displacement rate rose above 2.0% in 2009, due to the impact of the global financial crisis, but had returned to its pre-crisis level by 2012. Less than one-half of all displaced workers become re-employed within one year and re-employment rates are particularly low for older workers, women and less educated workers. When they succeed in moving back into employment, many displaced workers earn substantially less than on their prior job and/or accept non-regular employment. The unemployment and earnings losses following job displacement underlie the importance of public policies assisting job losers to find new jobs where they can be economically secure while making good use of their productive skills.

Overall, Japan has a sound set of policies and programmes to minimise the adverse consequence of displacement, but more can be done to reduce the costs borne by many displaced workers. The Japanese Government spends relatively little on unemployment insurance and active labour market policies as compared with other OECD countries, but this spending is well targeted to meet the needs of displaced workers and was effectively scaled up when displacement surged following both the global financial crisis and the Great East Japan Earthquake and Tsunami. Regular workers in Japan also benefit from the commitment of many employers – particularly large corporations – to avoid unnecessary redundancies and reduce the adjustment costs borne by workers when displacements cannot be avoided.

Notwithstanding this relatively favourable set-up, some areas of weakness exist. In particular, the income support available via Employment Insurance may be inadequate for certain groups of displaced workers who receive little or no severance and outplacement support from their employers. The re-employment services that Hello Work (Japan's public employment service) offers to displaced workers could also be better co-ordinated with the outplacement services many employers offer when downsizing their workforce. Finally, the costs borne by displaced workers are likely to remain high in many cases, despite public and private adjustment assistance measures, if the employment opportunities available to mid-career job changers remain limited.

The OECD recommends that policy makers in Japan:

- Continue the recent shift in policy emphasis from excessively preserving existing jobs to fostering the smooth mobility of workers from firms that are reducing employment to those that are recruiting new employees.
- Assess whether there are gaps in the adequacy of public income support for some groups of displaced workers that need to be filled, particularly as regards younger, female and other groups of displaced workers who are most at risk of receiving little severance or outplacement support from their employers.
- Develop synergies between public and private re-employment support for displaced workers by taking advantage of the relative strengths of private and public outplacement services and strengthening partnerships to begin providing adjustment assistance during the notice period.

Assessment and recommendations

A significant fraction of workers are displaced every year in Japan and many of them experience a difficult adjustment in the labour market, notably in the form of long periods of joblessness and re-employment at significantly lower wages. On average during 2002-08, 1.4% of employees lost their job each year due to economic reasons such as corporate downsizing and business closings. The displacement rate rose to 2.0% during 2009-10, due to the impact of the global financial crisis. The incidence of displacement is somewhat lower in Japan than in the five other OECD countries where comparable estimates could be made. However, it is important to emphasise that care is required when comparing the incidence and the consequences of displacement in different countries.

There is no indication that displacement rates in Japan have risen permanently since 2000, but they do appear to have trended upwards during the 1990s as the economy entered a period of lower growth and the unemployment rate drifted upwards. The risk of displacement has temporarily increased during recent recessions, as was clearly seen following the global financial crisis in 2008. Re-employment prospects are also poorer when labour market slack is high and jobs are harder to find. Some workers are particularly vulnerable to displacement. The risk of displacement is relatively high for older, less educated and non-regular workers (particularly workers on temporary contracts), as well as those who are employed in small firms, or in certain sectors – notably, manufacturing and eating and drinking places and accommodation. Nonetheless, displaced workers form a diverse group not too different from the overall labour force.

Between 2002 and 2013, less than one-half of all displaced workers become re-employed within one year, while about one-third remain unemployed and one-quarter leave the labour force, at least temporarily. Re-employment rates are particularly low for older workers, women and less educated workers, but do not vary much between workers displaced from different industries or different sizes of firms. When they succeed in moving back into employment, many displaced workers earn substantially less than on their prior job and/or accept non-regular employment. Although the evidence is limited, large earnings losses appear to be quite persistent and they represent a particular risk for older displaced workers. These earnings losses underlie the importance of private and public efforts to assist job losers to find new jobs, where they can be economically secure while making good use of their productive skills.

Displaced workers require various types of adjustment assistance

Providing adequate income and re-employment support to displaced workers is important to limit the costs of displacement. The often high earnings losses that follow displacement – and the lost productive potential they represent – also suggests that measures to minimise the incidence of displacement could play a useful role, provided they can be designed so as to avoid impeding the flexibility of employers and the overall labour market to adapt to changing economic conditions. For example, some of the jobs at risk of being lost during recessions might be viable in the long run, if they can be preserved during the period of temporarily low demand. Even when jobs cannot be preserved, it may be possible to help more of the affected workers to move directly into new jobs without becoming unemployed.

Some unnecessary dismissals can be avoided, but it is important not to protect jobs that are no longer economically viable

Prevention and early intervention policies are well developed in Japan and they make an important contribution to lowering the number of displaced workers and the costs that they bear. The key prevention policies in Japan are the *Employment Adjustment Subsidy* (EAS), a short-time working scheme that played an important role in preserving viable jobs during the 2008-09 recession, and employment protection legislation (EPL). Both the EAS and EPL must be used cautiously, however, because overuse of either can become a major impediment of growth-enhancing mobility and economic dynamism more generally. Accordingly, it is very welcome that the Japanese Government announced major reforms in June 2013 that are intended to shift the policy mix away from excessive job preservation and towards promoting labour mobility, but to do so in a way that minimises the resulting insecurity for workers. However, there is a need to carefully monitor the impacts of the large expansion foreseen of the *Re-employment Support Subsidy* and the newly created *Subsidy to Support Job Training for Re-employed Workers*, since there is a potential for large deadweight and displacement effects.

Even when displacement cannot be prevented, EPL rules requiring employers to give advance notice to workers who will be displaced play a valuable role by allowing these workers to get an early start retraining or searching for a new job. The additional requirements that employers anticipating a large decline in the number of employees – including mass displacements – must provide advance notice to the Public Employment Security Office and develop a *Plan for Assisting Re-employment* also promote early intervention measures by making it possible for public labour market programmes to prepare for a geographically concentrated surge in the demand for adjustment assistance and, possibly, also to begin providing assistance to workers during the notice period. These requirements also encourage employers to be proactive about organising adjustment assistance for workers who will be displaced.

Employers play a constructive role in preventing some dismissals and providing early adjustment assistance in other cases...

One reason that prevention and early intervention policies are particularly well developed in Japan is that they complement a widespread predisposition of employers to treat the displacement of regular workers as a last resort. A considerable range of human resource management (HRM) practices have been developed that reduce the number of displacements of regular workers, particularly in large firms. When displacements cannot be avoided, employers often make considerable efforts to transfer workers directly to other companies (e.g. through the *shukkō* system) or to provide them with the services of a private outplacement agency. Of course, not all workers benefit from these types of protections, leaving gaps that should be filled, at least in part, by public measures. Non-regular workers, who represent approximately one-third of total employment are particularly unlikely to benefit from these types of measures.

These gaps can be filled in several ways. One possibility is that public measures can encourage more companies to implement preventative measures to avoid dismissals (e.g. the *Employment Adjustment Subsidy* is used to encourage the use of short-time work) or to offer outplacement services (e.g. via the Labour Mobility Subsidy). This is a useful approach, but these types of subsidies need to be carefully designed so as to encourage adequate take-up rates while avoiding large deadweight and displacement effects. A second approach is for public labour market programmes to fill gaps by providing adjustment assistance directly to displaced workers while they are still on their old job. This happens to a limited extent during the notice period for mass displacements. For example, officials from *Hello Work* (Japan's public employment service) visit companies that are planning large displacements in order to provide these employers with advice on compliance with relevant laws and the affected workers with information about the services that will become available to them. However, most of the initiative for early intervention is left with employers during the pre-dismissal period, whereas the role of public labour market measures comes to the fore once workers become unemployed.

... but the co-ordination of public and private support is complex

The active role that some large employers play in providing adjustment assistance for displaced workers is very welcome. However, the co-ordination of public measures to assist displaced workers with the adjustment assistance provided by employers can be complicated. For example, the type and intensity of public assistance required by displaced workers who benefit from these HRM practices is likely to be

quite different from the income support and job-search assistance needs of displaced workers whose employers do not provide these types of assistance. Another co-ordination challenge is to achieve an efficient division of labour between public and private actors, when both are providing similar forms of adjustment assistance (e.g. career counselling and job placement). This report presents evidence that potentially important complementarities may exist, as is illustrated by the differences in the types of jobs that Hello Work places jobseekers into and the types of placements achieved by the Industrial Employment Stabilization Center (IESC) and private outplacement agencies. Unfortunately, evidence is lacking about how effectively these different actors co-ordinate their activities so as to minimise duplication and create synergies. Labour market authorities should explore whether potential complementarities between these different actors could be further developed, especially if the current policy push to expand private outplacement services for displaced workers is pursued. Better realising these complementarities may require the government to play a more active role in providing adjustment assistance to displaced workers during their notice period, generalising good practice examples such as the *Support for Sharp-related Displaced Employees Headquarters* (HQ Sharp) office that was set up to co-ordinate adjustment assistance for the large number of Sharp employees displaced in Nara Prefecture in late 2012.

Once unemployed, displaced workers require income support until they can find another job

The primary source of income support following displacement is the unemployment benefits provided by the *Employment Insurance System*, although some displaced workers can rely as well on severance payments from their former employer. It is clear the overall support available to some workers displaced from large companies is quite generous, particularly in the case of long-tenure workers who participate in a voluntary early retirement plan and also become specific qualified recipients of Employment Insurance (EI) benefits. However, it is also clear that many displaced workers receive less generous (or no) income support from either the public EI System or their employer. In such cases, last resort income transfers such as public assistance, appear to be relatively inaccessible for displaced workers. The OECD net replacement rates indicate that the overall generosity of the public unemployment benefits system for displaced workers is somewhat below the OECD average in Japan, even though the EI benefit structure is relatively more favourable to displaced workers as compared with other groups of unemployed persons. On the other hand, some displaced workers in Japan probably receive relatively generous severance pay in comparison with their counterparts in other OECD countries, especially long-tenure workers displaced from large firms.

The available data sources in Japan provide considerable information about the public and employer-provided income support that displaced workers receive in Japan, but they also have important limitations. A first limitation is that they do not provide sufficient information about the income replacement needs of these workers to reach firm conclusions about benefit adequacy. For example, the shorter EI income support entitlement durations of female and younger displaced workers, which are documented in this report, might accurately reflect their lower income support needs, but that has not been verified here and gaps in benefit adequacy may exist. A second limitation is that it is not possible to analyse the extent to which displaced workers cumulate different types of income support, such as EI benefits and severance payments, although it seems likely that long-tenure workers displaced from large companies frequently cumulate 270-330 days of EI entitlement with large severance payments, while young, female and temporary workers typically receive less (or no) support from both sources when they are displaced. However, direct evidence is lacking. Similarly, very little information is available concerning which types of training or job-search assistance displaced workers receive and how effective these services are for this group. There is considerable scope to improve labour market information sources about the support received by displaced workers and how it affects the short- and long-run costs of displacement.

Providing public income support to displaced workers raises difficult policy challenges

A first policy conclusion is that income support appears to be particularly generous for long-tenure workers displaced from large companies and this may well make sense in the Japanese context where mid-career mobility is difficult for this group. However, it also raises the question whether other groups of displaced workers are receiving adequate income support. A second conclusion is that the crisis measures that were taken to plug gaps in EI coverage for job losers (e.g. low-tenure workers losing their jobs) and increase benefit generosity for others appear to have been sensible, but it has not been possible to rigorously evaluate their impacts. A final conclusion is that workers receiving generous severance pay may represent a particular challenge for the public employment service, because these workers can afford to remain unemployed for a long period of time and some of this group appear to be difficult to motivate to search intensively for a new job. Disincentive effects of this type may help to explain why less than one-half of all displaced workers become re-employed within a year.

The re-employment support offered by Hello Work offices is also critical

Even though expenditure on active labour market programmes (ALMPs) as a percentage of GDP is low in Japan relative to the OECD average, the public employment service and vocation training system appear to be very cost-effective. Since data on which ALMPs displaced workers access and how they fare is limited, it is not possible to reach any firm conclusions about how effective the re-employment and training programmes are for this specific group. Most indirect indications are, however, reassuring, but it would be worthwhile collecting more complete data about which types of measures are most effective for this group since the evidence presented in this report shows that a relatively large share of displaced workers experience long spells of unemployment and large earnings losses once re-employed. It would also be useful to explore further how potential complementarities between public ALMPs and private placement agencies can be further developed. Finally, it would be useful to learn more about how displaced workers who appear to receive relatively little assistance from their employers and government fare, since it is not currently clear whether they are underserved or have limited needs for support.

The extra measures taken in response to recent crises have been timely and apt, providing a model for dealing with future upsurges in displacements

The Japanese Government and the administration of Japan's labour market programmes have demonstrated an impressive capacity in recent years to quickly organise extra labour market assistance when large groups of workers are displaced through making good use of the nationwide network of Hello Work to swiftly identify what needs to be done and deliver the needed services. This is illustrated by the recent responses to the recession triggered by the global financial crisis and the destruction caused by the Great East Japan Earthquake and Tsunami. While every crisis is unique, similar responses should be forthcoming should future events cause large numbers of workers to be displaced in a short period of time and job-search prospects to become particularly difficult.

On a more localised level, a co-ordinated rapid response plan can play a positive role in supplementing the general services offered by the public employment service when a mass dismissal occurs. The HQ Sharp office that was set up in Nara Prefecture when the 2012 voluntary early retirement plan was announced by the Sharp Corporation provides a good example. This early intervention initiative demonstrated the value of a co-ordinated response involving the national, prefectural and local levels of government and other actors, such as the prefectural office of the IESC and private outplacement agencies. The Ministry of Health, Labour and Welfare should take an active role in evaluating such initiatives and disseminating information about good practice nationally.

Key policy recommendations

- Evaluate the effectiveness of recent initiatives to promote labour mobility without unemployment, such as the large expansion of the *Re-employment Support Subsidy*, the introduction of the *Subsidy to Support Training for Re-employed Workers* and measures to encourage the *Industrial Employment Stabilization Center* to play a larger role in providing outplacement services to displaced workers. Key questions include whether changes are needed to reduce deadweight costs associated with the two subsidies intended to promote mobility for displaced workers and how effective these measures are in giving additional displaced workers access to effective private outplacement or retraining.
- Consider additional measures to improve labour mobility for mid-career workers, such as making it easier for these workers to document the skills they have acquired on the job and reducing the ambiguity in the definition of unfair dismissals which may cause employers to be particularly cautious about recruiting new workers into skilled jobs.
- Take steps to encourage mutual learning across Prefectural Labour Bureaus in the provision of public early intervention policies to assist workers and regions affected by mass dismissals. For example, find ways to diffuse best practice cases such as HQ Sharp in Nara Prefecture.
- Assess whether the temporary extensions of access to longer duration *Employment Insurance* benefits to additional groups of displaced workers (e.g. classifying temporary workers whose request for a contract extension was denied as specific qualified recipients), which were introduced following the global financial crisis, should be made permanent. More generally, assess whether gaps in benefit adequacy need to be addressed for certain sub-groups of displaced workers who receive relatively little assistance from their employers, among whom youth, women and non-regular workers are over-represented.
- Better co-ordinate the job-search counselling and re-employment services offered by *Hello Work* offices with the adjustment assistance some employers offer to workers they displace. In particular, to ensure that displaced workers who receive large severance payments are encouraged and helped to begin searching effectively for a new job right away. Explore whether there is scope for greater information exchange between private outplacement agencies engaged by employers and Hello Work, so as to avoid duplication and identify potential synergies.
- Assess the suitability of the active labour market programmes that Hello Work offers to medium- and long-tenure displaced workers. Tailored services are offered to certain groups of jobseekers, including mothers with young children, youth in temporary jobs and foreign workers, but it is also possible that additional measures are required that are tailored to the needs of some formerly stable workers who have been displaced. Similarly, the job-placement performance of Hello Work is impressive but almost all of these placements are into small firms. Should it be possible to expand placements into larger firms, doing so would be of great value to many displaced workers. Any such initiatives should be funded via an expansion of overall spending on active labour market programmes, rather than a diversion of spending from other groups of jobseekers.

Key policy recommendations (*cont.*)

- Building on the successful responses to the global financial crisis and the Great East Japan Earthquake and Tsunami, stand ready to ramp up adjustment assistance programmes for displaced workers, should a deep economic downturn occur at either the national or regional level.
- In the context of policies to increase the retention of older workers, it is important to improve mid-career mobility opportunities to prevent over-reliance on voluntary early retirement schemes.

Chapter 1

Job displacement in Japan and its consequences

This chapter examines the prevalence and consequences of job displacement in Japan while taking account of the impacts of Japanese employment practices on employers' decisions concerning retrenchments and the labour market opportunities of displaced workers. The risk of job displacement in Japan does not appear to have increased during the past decade, but is higher when economic conditions are poor. Some groups of workers are more vulnerable to displacement than others, and spend longer out of work if they are displaced. On average, displaced workers who find new jobs are paid less than on their previous jobs. The limited evidence available suggests that costs of being displaced vary widely and can be large and persistent.

Introduction

OECD labour markets are characterised by their dynamism. Each year, more than 20% of jobs, on average, are created and/or destroyed, and around one-third of all workers are hired and/or separate from their employer (see Chapter 2 in OECD, 2009).¹ These large job and worker flows are driven by a continuous process of labour reallocation, both across industries and between declining and growing firms within the same industry. This reallocation is an important source of productivity gains, since more productive firms expand at the expense of less productive firms and earnings rise on average for workers changing jobs, particularly workers who voluntarily quit one job in order to move to another. However, high job turnover is also a source of insecurity for workers, especially those who are displaced from their jobs because their employer downsizes its workforce or goes out of business altogether. A common challenge facing OECD governments is thus to nurture labour market dynamism while keeping the adjustment costs that are borne by displaced workers as low as possible.

OECD (2013a) provides new evidence on the incidence and consequences of job displacement in OECD countries, confirming that all countries require policies to cushion the income losses of displaced workers and assist them back into work. Evidence suggests that around 2%-7% of all employees, with at least one year of tenure on their jobs, experience involuntary job loss each year due to economic factors, such as structural change and economic downturns. Once displaced, workers experience large earnings losses while searching for a new job. Even after they are re-employed, displaced workers typically earn less than they did on their old job, especially when employed in new jobs that do not make good use of their skills.

The most straightforward way for governments to minimise displacement-related costs is to take measures to reduce the number of workers who are dismissed for economic reasons. Most governments have employment protection regulations in place that limit the circumstances when dismissals are allowed or create incentives for employers to restrict their use of displacements by requiring them to make severance payments or provide other forms of assistance to workers they displace (see OECD, 2013b, Chapter 2). However, there is an extensive body of research showing that excessively strict employment protection rules create large economic costs, including by undermining productivity growth and creating a segmented labour market. Employment protection should thus be used judiciously and effectively combined with other measures to preserve economically viable jobs and, when jobs are no longer viable, accommodating as much labour reallocation as possible through internal reassignment of workers and transfers to other firms, rather than job displacement. This report discusses

prevention and early intervention measures in-depth in Chapter 2, showing that they are particularly well developed in Japan.

Even when an effective package of prevention measures is in place, a significant number of workers still will be displaced and many will require government assistance to adjust successfully. The two main policy tools for assisting displaced workers are well known, namely, unemployment insurance and other income support benefits, which cushion income losses during the period of joblessness that typically follows a redundancy, and active labour market programmes providing re-employment services to job losers, such as job-search counselling and retraining. This report devotes considerable attention to assessing how well these two types of programmes meet the needs of displaced workers in Japan. Income support schemes are analysed in Chapter 3 while re-employment assistance is analysed in Chapter 4.

The policy analysis in Chapters 3 and 4 describes the assistance that passive and active labour market programmes currently provide to displaced workers and assesses how it could be improved, without losing sight of the fact that these programmes have limited resources and must also address the needs of other persons who are out of work or need to improve their employability. Indeed, it sometimes can be difficult for labour market programmes to effectively serve both workers who had good career jobs before being displaced and jobseekers with long-standing barriers to accessing good jobs (“disadvantaged” groups). This raises the question whether special programmes are required to assist displaced workers, such as the rapid response units sometimes created to manage mass dismissals and the wage insurance programmes for displaced workers that operate in a few OECD countries, or if this group is best served by general labour market programmes that assist all jobseekers facing similar difficulties, irrespective of whether they were displaced from a previous job or not. Both types of measures will be analysed in this report.

The global financial crisis that began in 2008 highlighted the importance of labour market policies that can respond quickly to a sharp economic downturn that dramatically increases the number of workers at risk of being displaced, while also increasing the risk that job losers will remain unemployed for a long time (OECD, 2009). Accordingly, this report also describes how the Japanese Government adjusted public assistance to displaced workers, including measures to preserve jobs that were viable in the long run, in the wake of the global financial crisis. Drawing on this experience and that in other OECD countries, it assesses what was learned about which types of crisis measures are most effective and should thus be kept ready for possible implementation during future downturns. This issue cuts across all three policy chapters.

Along with assessing the impact of particular policies on the adjustment costs of displaced workers and how beneficial effects could be strengthened, the report also analyses how the various measures can be assembled into an overall policy package that fosters efficiency-enhancing mobility in the labour market, while keeping the costs borne by displaced workers acceptably low. In recent years, the “flexicurity” concept has received a lot of attention as representing a template for achieving both flexibility and security (OECD, 2004a). The purpose of this report can be characterised, in large part, as providing guidance about which policy reforms could contribute to the development of the a nationally suitable form of flexicurity in Japan.

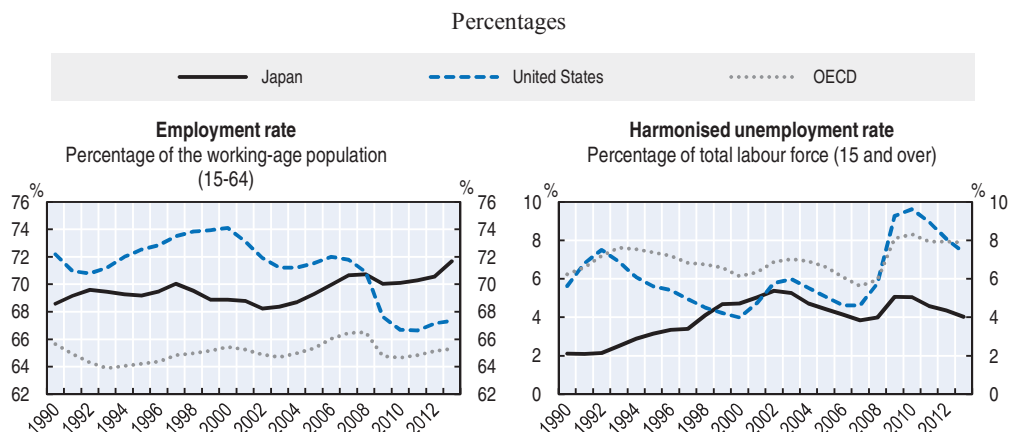
The types of adjustment assistance that displaced workers require, as well as the relative priority that should be accorded to general and targeted programmes, depends to a considerable extent on the types of workers who are displaced and the nature of the adjustment difficulties that they encounter. The remainder of this chapter presents a detailed statistical portrait of Japanese displaced workers which is intended to clarify those issues. The chapter is organised as follows: the next section reviews Japanese labour market structure and recent trends. The following two sections analyse the incidence of job displacement and of the characteristics of displaced workers, and the re-employment prospects of displaced workers. The final section assesses the costs of displacement.

The Japanese labour market context

The labour market has shown considerable resilience

Overall labour market performance in Japan has been somewhat weaker since the asset bubble burst in the early 1990s and signalled the end of the post-World War II period of rapid economic growth, yet it has also demonstrated impressive resilience. The past two decades of slower growth have been characterised by persistent deflationary pressures and a series of large negative economic shocks – including, the impacts of the late 1990s Asian financial crisis, the 2008-09 global recession and the Great East Japan Earthquake and Tsunami of 2011; yet overall employment and unemployment rates in Japan have continued to compare favourably with those in most other OECD countries.² As is shown in Figure 1.1, overall the employment rate has continued its long-run increase, despite a dip between 1997 and 2002. At 71.7% in 2013, the Japanese employment rate was well above the 65.3% OECD average value.³ The unemployment rate more than doubled between 1992 and 2002 and is no longer at the very low rates that characterised the high-growth period. Nonetheless, unemployment in Japan has remained well below the OECD average. At 4.0%, in 2013 Japan had the 3rd lowest unemployment rate in the OECD area, where the average rate was 7.9%.

Figure 1.1. **Employment and unemployment rates in Japan, the United States and the OECD area, 1990-2013**



Source: OECD Online Employment Database, www.oecd.org/employment/database for employment rates; and OECD Short-Term Labour Market Statistics Database, <http://stats.oecd.org/Index.aspx?DataSetCode=STLABOUR> for harmonised unemployment rates.

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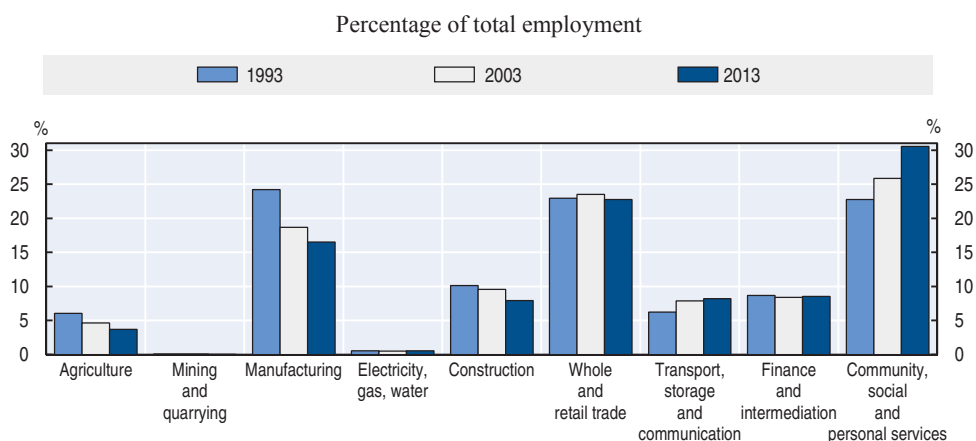
The resilience of the Japanese labour market in the face of negative demand shocks reflects a number of positive factors. The importance of the long-term employment system is one. The human resource management (HRM) practices associated with “lifetime employment”⁴ include a strong commitment by employers to preserve jobs during economic downturns, whenever feasible. While this does not preclude dismissals, it does mean that they are treated as a last resort option to be considered only after exhausting other margins of adjustment (e.g. eliminating overtime hours and bonuses, and implementing a hiring freeze) and this orientation is reflected in the internationally high level of job security enjoyed by workers who are covered by these practices (Kambayashi and Kato, 2011).⁵ The Japanese Government has supported these practices through the Employment Adjustment Subsidy, a public short-time work scheme that was used effectively to preserve jobs during the 2008-09 economic crisis (see Chapter 2 for details).

Japan also remains strong as regards workforce skills. Adults in Japan display the highest levels of proficiency in literacy and numeracy among adults in all countries participating in the PIAAC Survey of Adult Skills (OECD, 2013c). Japanese employers build upon this strong base of general skills by investing heavily in the vocational training of regular workers, although access to training is more limited for non-regular workers (JILPT, 2014). By training

their regular workers broadly and practicing job rotation, employers enhance the opportunities for adjusting to demand shifts by reassigning affected workers to different positions within the firm or transferring them to an associated firm, rather than dismissing them or encouraging them to accept an early retirement package.⁶

Figure 1.2 shows that the sectorial composition of employment in Japan has changed significantly over the last 20 years, suggesting that the labour market has shown considerable flexibility. As in most other OECD countries, employment has shifted away from goods production and towards services. While employment increased by 7.3 percentage points in community and social services and by 2 percentage points in the financial sector, it declined by 8 percentage points in the manufacturing sector, from 24.2% in 1993 to 16.2%, in 2013. This rapid structural change has forced Japanese firms to enhance their flexibility to respond to changing economic conditions and also occasioned much discussion about the continued viability of the lifetime employment system (Rebick, 2005).⁷

Figure 1.2. **Employment by economic sector, 1993, 2003 and 2013**



Note: For the year 2013, employment data in broad economic activities as defined in the ISIC Rev. 3 have been reclassified to correspond as closely as possible to broad activities using ISIC Rev. 2 classification (as used in 1993 and 2003).

Source: OECD Employment and Labour Market Statistics Database, <http://dx.doi.org/10.1787/data-00289-en>.

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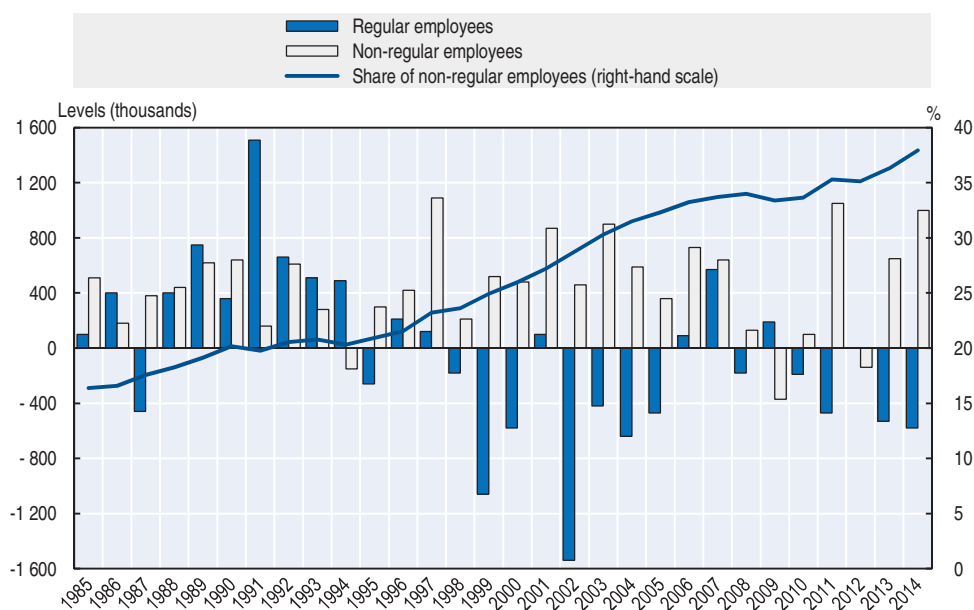
Employment relations are changing in ways likely to affect the incidence and consequences of job displacement

In an era of slower economic growth, employers have placed a premium on increasing their flexibility to adjust employment levels and hold down

labour costs, including by replacing regular workers with non-regular workers. Indeed, the share of non-regular workers has steadily increased, rising from 16.4% in 1985 to over one-third (37.9%) in 2014 (Figure 1.3). Since non-regular workers tend to have less job security than regular workers, this trend could tend to increase the incidence of job displacement and affect who is laid off in bad economic times. Indeed, the 2009 data in Figure 1.3 suggest that employers used non-regular workers as shock absorbers during the global recession, in order to provide employment security for regular workers. Despite the overall fall in employment in 2009 associated with the recession, regular employment rose modestly even as non-regular employment fell.⁸ However, the trend increase in the share of non-regular employment in total employment resumed in 2010 and regular employment is now below its pre-crisis level.

Figure 1.3. **Regular and non-regular employees, 1985-2014**

Annual level changes and percentages



Note: Data refer to February until 2001, and to the first quarter since 2002.

Source: OECD (2011), *OECD Economic Surveys: Japan 2011*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-jpn-2011-en; Ministry of Internal Affairs and Communications, Special Survey of the Labour Force Survey from 1984 to 2001; the *Japan Labour Force Survey – Detailed Tabulation – Historical data – Table No. 9* (database), www.e-stat.go.jp/SG1/estat/GL38020103.do?_toGL38020103_&classID=000001007607&cycleCode=0&requestSender=estat since 2002; and MHLW (2014), Data supplied to the OECD Secretariat, October, for the most recent updates.

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There is also some evidence that the risk of displacement may have risen for some groups of regular workers. Kambayashi and Kato (2011) analyse changes in job ten-year retention rates since 1982 and conclude that job security has held up very well for regular workers who were hired directly upon graduation (*haenuki*), but that job security deteriorated during the slow growth period for regular workers who were mid-career hires (*chutosaiyou*). While the former are fully integrated into the lifetime employment system, that is only partially the case for the latter, especially those who are employed on fixed-term contracts.

The particular exposure of non-regular workers to job loss in a recession raises the concern that some displaced workers may have difficulty qualifying for employment insurance due to their insufficient contribution history (see Chapter 3). That is probably less a concern for regular workers, included those who were mid-career hires. While there are some grounds to conjecture that the risk of displacement may have increased for a significant portion of the labour force, these developments also raise the possibility that the earnings losses experienced by displaced workers may have tended to decline. The incidence and consequences of job displacement in Japan are examined below in detail.

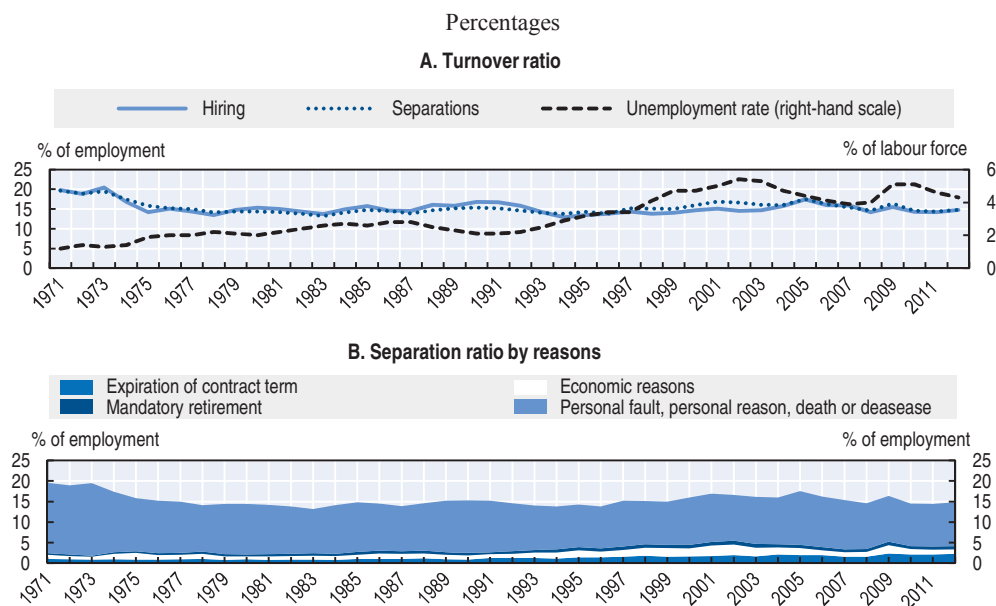
The increase in non-regular employment also raises more general concerns that are not analysed in this report, but are briefly noted here. Non-regular workers receive lower wages and less training, experience less employment stability, and more often lack social insurance and pension coverage than regular workers. These differences raise concerns about equity and the possibility that a rising share of non-regular workers could become an impediment to productivity growth (OECD, 2014). The Japanese Government has undertaken numerous reforms intended to address these concerns, but they will not be evaluated here.

Overall labour turnover in the Japanese economy

Despite the increase in the share of non-regular employment and the increased pressures on Japanese firms to respond flexibly to changing market conditions, the available data suggest that total labour turnover has been quite stable since the mid-1970s (Figure 1.4, Panel A). Annual hirings and separations have both ranged between 14% and 16% of total employment during this period, showing some cyclicalities but no long-run trend. The stability in these turnover rates contrast with the considerable increase that has occurred in the unemployment rate. After varying between 2% and 3% in the 1970s and 1980s, the unemployment rate climbed to 3.4% in 1994 and since ranged between that level and 5.5%. The share of the unemployed who are out of work a year or longer also increased during the low-growth era, rising from 12.9% in 1993 to 38.5% in 2012. While the share of workers

leaving their jobs every year has not increased, a growing share of them appear to be at risk of falling into unemployment and potentially remaining jobless for an extended period of time.

Figure 1.4. **Evolution of hires and separations, 1971-2012**



Source: Fujii, M. and R. Kambayshi (2014), “Long-term effect of job displacement in Japan: A conservative estimate using the Japanese Longitudinal Survey on Employment and Fertility (LOSEF)”, mimeo, and calculations using data from the Survey on Employment Trends (ETS).

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Differentiating among the reasons that workers separate from their employers provides a possible explanation why unemployment rose, despite the apparent absence of any decrease in the overall stability of employment, at least for core workers. Figure 1.4, Panel B shows that the frequency of involuntary separations has increased since the early 1990s, as have all three of its subcomponents: end of contract term, separations for economic reasons and mandatory retirement.⁹ Since 1993, the overall rate of involuntary separations, namely the sum of separations due to economic reasons, expiration of contract and mandatory retirement, has ranged between a minimum of 3.2% (in 1993) and a maximum of 5.5% (in 2002), averaging 4.2% over the period 1993-2012, as compared with 2.5% during 1971-92.¹⁰ It is also evident that the rate of involuntary separations is counter-cyclical, showing peaks around 2002 and 2009. As is discussed in

the next section, job displacement is conventionally defined as encompassing some or all of these forms of involuntary separations. The patterns documented here provide a rationale for directly examining the incidence and consequences of job displacement and their implications for labour market and social policy.

Displaced workers: Incidence and characteristics

This section presents direct evidence on how many workers are displaced from their jobs as well as on the types of workers most at risk of job displacement.

Defining and measuring job displacement

The starting point for this analysis is the internationally harmonised definition of job displacement that was implemented in OECD (2013a and 2013b) – i.e. individuals separated due to economic reasons. This report also makes use of two comparison groups who experience other types of involuntary job separations, namely those due to end of a temporary employment contract and mandatory early retirement (see Box 1.1).

Box 1.1. Defining job displacement in Japan

Generally, the term *displaced worker* refers to workers who lose their jobs due to economic or technological reasons or as a result of structural change (i.e. separations for *economic reasons* such as redundancies, permanent layoffs, business slowdowns, firm closures, mass dismissals, etc.). OECD (2013a) presents an international assessment of job displacement in 14 countries: 13 OECD countries, including Japan, and the Russian Federation. In defining job displacement, that study added the condition that the worker should have at least one year of tenure with their employer before they were dismissed. This condition is intended to focus the analysis on the job losses of workers who previously had some degree of employment stability, thereby differentiating job displacement from a chronic instability of employment (e.g. workers holding very short-term jobs, such as seasonal workers).

This ideal definition was then modified somewhat in light of the limitations of the available data. For example, workers dismissed for individual cause, such as poor job performance and insubordination, were included in the operational definition of displacement because it was not possible to exclude them in all countries and this group tends to be small in any case. Similarly, displaced workers had to be defined differently in countries where the data used came from employers and no information was available concerning the reasons for each individual separation. In that case, displacements were inferred when workers left their firm in the same year that total employment at that firm declined by 30% or more, suggesting that a mass dismissal had occurred (so-called *firm-identified displacement*).

Box 1.1. Defining job displacement in Japan (*cont.*)

The definition of job displacement that was adopted for Japan in OECD (2013a) is workers who separated for economic reasons, but it deviates in several ways from the harmonised definition that was targeted. First, the conditions that workers must have at least one year of tenure on the lost job and that the worker should not be a multiple job holder were not implemented in the Japanese statistics, due to limitations in the information available in the source data from the labour force survey. For similar reasons, workers who were dismissed for cause were omitted from the sample. Finally, the analysis was restricted to employees in firms employing at least ten workers.

Even though most research on job displacement outside of Japan focuses only on separations for economic reasons, the relatively small literature on job displacement in Japan often adopts a broader definition including end of contract and mandatory retirement as causes of job displacement (see for example, Abe et al., 2002; Bognanno and Delgado, 2008; and Bognanno and Kambayashi, 2013). This report does not adopt that broader definition. However, it should be borne in mind that the definition of displacement adopted here excludes some involuntary job losers whose situation is similar to that of displaced workers. In particular these groups also face the challenge of finding new jobs. Nonetheless, it is arguable whether most workers separated from their jobs due to end of contract or mandatory retirement are displaced in the sense that job displacement is intended to reflect job losses that are largely unpredictable and are occasioned by economic factors such as a business downturn or structural change. For example, some workers reporting they separated from a firm due to the end of their employment contract may not have requested that it be renewed (although many of the temporary workers whose contracts were not renewed during the recession in 2009 probably did want their contract to be renewed and might reasonably be considered as being displaced). Similarly, corporate mandatory retirement ages are first and foremost an integral and predictable part of the lifetime employment system, rather than a mechanism for downsizing the labour force when business conditions unexpectedly deteriorate. By contrast, workers enrolling in voluntary early retirement programmes are properly considered to be displaced, as is discussed in detail in Chapters 2 and 3. This group is included in the definition of displacement used here because these workers are classified as having separated for economic reasons in official Japanese statistics. These considerations suggest that the definition of displacement used in this report should be considered as providing a lower-bound estimate of the incidence of displacement while concentrating attention on the workers whose job losses are most unpredictable and most unambiguously linked to downward labour adjustment.

Rather than broadening the definition of displacement to include end of contract and mandatory retirement as causes of job displacement, these two groups are incorporated into the empirical analysis in this report as comparison groups which provide a useful benchmark for how displaced workers fare. Whenever possible, the report compares the labour market situation of displaced workers with that of these two other groups of (largely) involuntary job separators.

Source: OECD (2013), “Back to work: Re-employment, earnings and skill use after job displacement”, Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf; Abe, M., Y. Higuchi, P. Kuhn, M. Nakamura and A. Sweetman (2002), “Worker displacement in Japan and Canada”, in Kuhn, P. J. (ed.), *Losing Work, Moving On: International Perspectives on Worker Displacement*, Chapter 3, pp. 195-300, Upjohn Institute for Employment Research, Kalamazoo, United States; Bognanno, M. and L. Delgado (2008), “Job displacement penalties in Japan”, *Research in Labor Economics*, Vol. 28, pp. 225-250; and Bognanno, M. and R. Kambayashi (2013), “Trends in worker displacement penalties in Japan: 1991-2005”, *Japan and the World Economy*, Elsevier, Vol. 27, pp. 41-57, August.

Following the methodology used in OECD (2013a and 2013b) as closely as possible, the sample of analysis consists of workers aged 20-64, who are employees in firms with ten employees or more. Employers, the self-employed and unpaid family workers are excluded from the analysis, as are workers in the public administration, defence, community, social and personal service activities and extra-territorial organisations. Unfortunately it is not possible to distinguish employees with at least one year of tenure. Imposing this restriction would have allowed the analysis to focus more sharply on workers with some degree of job stability, by better differentiating between displaced workers and workers facing chronic instability in the labour market.¹¹

This report makes use of three different sources to measure job displacement in Japan: the Japan Labour Force Survey (LFS), the Employment Status Survey (ESS) and the Survey on Employment Trend (ETS) covering the period 2000-13. LFS is adopted as the reference source, since it is the one that is best suited for making comparison with other OECD countries, as was already done in OECD (2013a and 2013b). Box 1.2 provides further information about these three data sources, including an explanation of the important additional information that can be gleaned by supplementing LFS data with data from the ESS and the ETS.

Box 1.2. Measuring job displacement in Japan

This report makes use of three different data sources to analyse job displacement in Japan:¹

The Japan Labour Force Survey (LFS): A household survey conducted since 1947 with the goal of elucidating the current state of employment and unemployment in the country. Data are available for the years 2002-13. The LFS contains retrospective questions on displacement and it allows the identification of workers displaced for *economic reasons* (i.e. due to bankruptcy and personnel cutbacks). A single, combined comparison group can be identified consisting of workers separating for *end of contract/mandatory retirement*. Note that in this dataset it is not possible to exclude multiple job holders nor employees with less than one year of tenure, so they generally refer to involuntary job loss among all employees aged 20-64. In this report, analyses using LFS are made among workers employed in firms with ten or more workers.

Employment Status Survey (ESS): A household survey that is implemented every fifth year and tracks transitions of employment status retrospectively. Data are available for 2002, 2007 and 2012 and allow displaced workers to be identified, as well as the two comparison groups, based on the workers own assessment of the reason for the separation from their previous employer. These data also allow the analysis of job losers to be restricted to workers with at least one year of tenure, but do not distinguish single from multiple job holders. The sample selected for analysis is thus composed of employees aged 20-64, with job tenure of at least one year. This dataset covers firms with ten or more workers for the waves 2002 and 2007, and all sizes of firms for the wave of 2012. The analysis of these three aggregated waves includes all sizes of firms regarding previous jobs.

Box 1.2. Measuring job displacement in Japan (*cont.*)

Survey on Employment Trends (ETS): An establishment survey covering establishments and workers which is conducted twice a year. This survey encompasses both a *hired-employees questionnaire* and a *separated-employees questionnaire* which provide retrospective data on job transitions. The microdata are available from 2000 to 2012. Displacement is identified based on the employer's assessment of the reason for job separations. It is not possible to exclude workers with less than one year of tenure when identifying displaced workers, except in the data drawn from the separated-employees questionnaire. Both of the comparison groups – end of contract and mandatory retirement – can be identified in the separated-employees questionnaire data, but not in the data from the hired-employees questionnaire. This dataset covers establishments with five or more workers and the sample selected for analysis is composed of all employees aged 20-64 of all job tenures.

The table below presents a comparison of the different separation rate estimates when implementing the different definitions with the different data sources. The LFS and ESS data provide very similar estimates, but the displacement rates based on ETS data are somewhat lower, while separations due to end of contract are slightly higher than the ones found in the ESS. The source of this difference is not clear but it may be related to the fact that the LFS and ESS are household surveys whereas the ETS is a survey of firms.

Separation rates according to different type and data source

Percentages

	2002	2007	2009	2012
Labour Force Survey (Household Survey)				
Economic reasons (Displacement rate)	2.2	1.0	2.3	1.0
End of contracts and mandatory retirement age	1.5	1.4	1.8	1.8
Total	3.7	2.4	4.1	2.8
<i>Sample: Employees at year $t-1$, aged 20-64, all tenures included.</i>				
Employment Status Survey (Household Survey)				
Economic reasons (Displacement rate)	2.5	1.1	..	1.1
End of contract	..	0.6	..	0.7
Mandatory retirement age	..	0.8	..	0.9
End of contracts and mandatory retirement age	1.5	1.4	..	1.6
Total	4.0	2.5	..	2.6
<i>Sample: Employees at year $t-1$, aged 20-64, at least one year of tenure.</i>				
Survey on Employment Trends (Business Survey)				
Economic reasons (Displacement rate)	1.5	0.8	1.6	0.6
End of contract	1.7	1.4	2.2	2.1
Mandatory retirement age	0.8	0.7	0.8	0.6
End of contracts and mandatory retirement age	2.5	2.0	3.0	2.7
Total	4.0	2.8	4.6	3.3
<i>Sample: Employees at year t, aged 20-64, all tenures included.</i>				

Note: t : Displacement year; ..: Data not available.

Source: MHLW calculations using microdata from the Japan Labour Force Survey (LFS), the Employment Status Survey (ESS) and the Survey on Employment Trends (ETS).

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Box 1.2. Measuring job displacement in Japan (*cont.*)

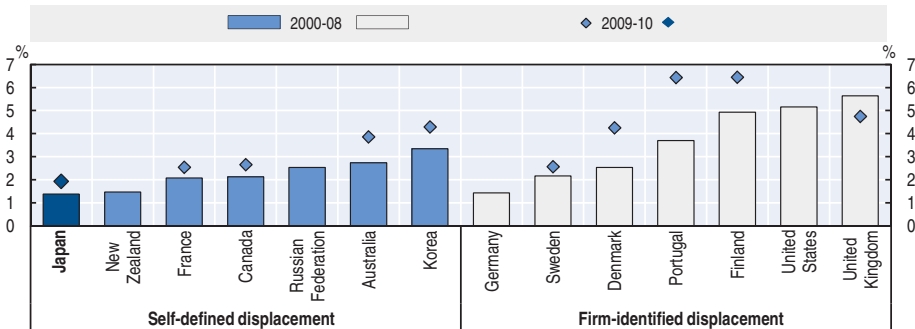
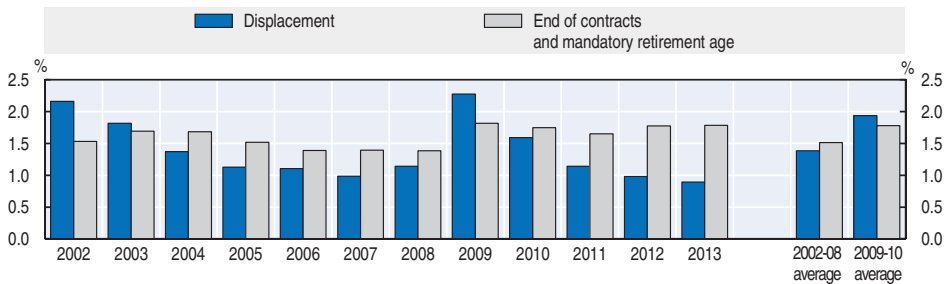
For sake of clarity and ease of comparison with other OECD countries, most of the empirical analysis presented in this report is based on the LFS data. However, the ESS data are used as a robustness check to validate the findings. The ETS data are primarily used in this report to analyse the wage losses of displaced workers. ETS provides information on the changes, both increases and decreases, between the pre- and post-displacement wages, but not on the amount of pre- and post-displacement wages.

1. The authors would like to acknowledge the extensive and expert contribution of Mr. Hirokazu Fujii from the Employment Security Bureau of MHLW to the statistical analysis of displacement that is presented in this report.

The incidence of job displacement

Figure 1.5, Panel A shows the risk of displacement – defined as separations due only to economic reasons – in 14 OECD countries, including Japan, and the Russian Federation for the period 2000-08 and 2009-10. The estimates for the seven countries on the left side of the chart are based on household survey data in which worker's self-assessments of the reason they left their job in the past year is used to identify who was displaced (self-defined displacement), while the seven countries on the right define displacement as separations from a firm during a year when its total employment fell by at least 30% (firm-identified displacement). Comparisons within the two groups of countries are likely to be more meaningful than comparisons across the two groups.¹² The effect of the recession is clear, with higher displacement rates for all countries (except the United Kingdom) in 2009-10 than in previous years.

Japan shows the lowest displacement rate both before and after the Great Recession which shows up in the data beginning in 2009, 1.4% and 2.0% respectively, much lower than in Korea, where displacement rate was higher than 3% before the crisis and greater than 4% after the recession. The low displacement rate for Japan is particularly striking, since the inability to restrict the sample to workers who had at least one year of tenure on their prior job and single job holders should inflate the estimates for Japan.¹³ These comparisons are thus consistent with the lifetime employment system having caused the risk of displacement to be relatively low in Japan.

Figure 1.5. **Displacement rates, Japan and selected OECD countries**A. Percentage of employees aged 20-64 who are displaced from one year to the next, averages, 2000-10^aB. Percentage of employees in Japan by reason for separation, 2002-13^b

a) *Displacement* is defined as dismissals for economic reasons or end of contract for workers with at least one year of job tenure. See OECD (2013, Chapter 4) for details on the definitions, samples and years used for each country.

b) Employees aged 20-64, excluding those working in public administration; all tenures are included.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in OECD, *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-8-en for Panel A; and MHLW calculations using data from the Japan Labour Force Survey (LFS) for Panel B.

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However, there is a possibility that the international comparisons in Figure 1.5, Panel A may understate displacement incidence in Japan. As is discussed in more detail in Box 1.1, a small share of displacements in Japan may show up in the LFS and other statistical sources as separations due to end of contract or reaching mandatory retirement age and, in any case, workers experiencing these two types of involuntary separations can serve as interesting comparison groups for displaced workers. Figure 1.5, Panel B shows the evolution over the period 2002-12 of both the displacement rate and the combined incidence of these two other types of involuntary separations (i.e. due to early mandatory retirement/end of contract). Both types of job separations are counter cyclical, but displacement due to economic reasons varies more strongly with the business cycle than do separations due to end of contract/mandatory

retirement. For example, separations due to economic reasons (i.e. displacements) rose from 2.5% in 2008 to 4.1% in 2009, while that due to end of contract/early retirement rose from 1.4% to 1.8%.¹⁴ Although it is difficult to separate cyclical variation and secular trends with such a short time series, there is no apparent trend in the displacement rate in Japan since 2002, whether defined narrowly or broadly.

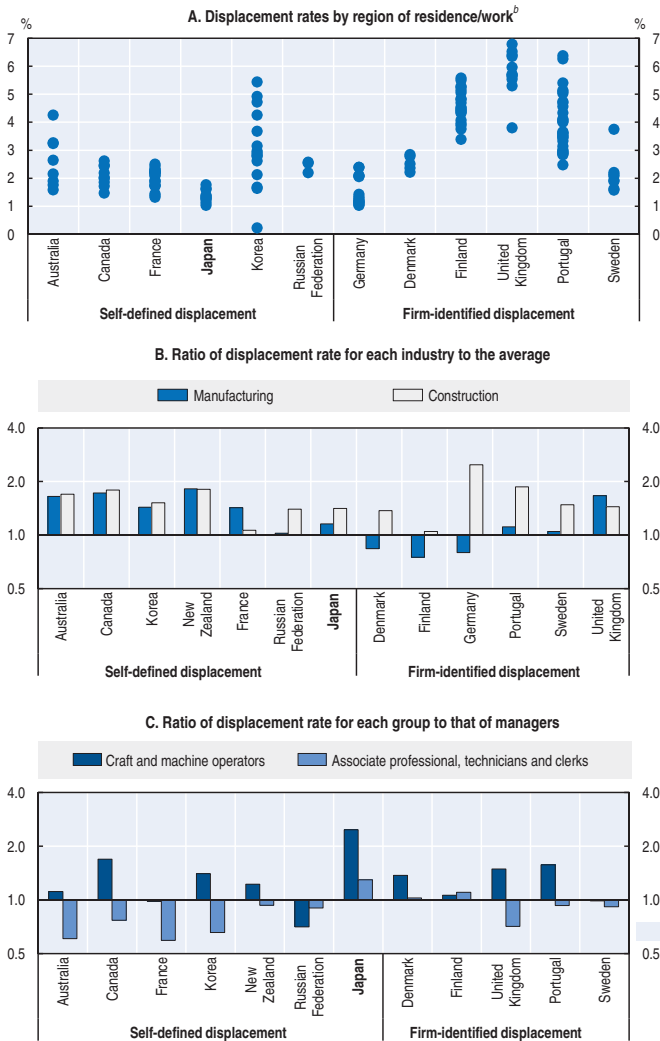
Displacement rates and local labour market conditions

Displacement rates are generally correlated with local labour market conditions. However, Figure 1.6, Panel A shows that in Japan territorial differences appear to be much smaller than in other OECD countries such as Korea, Portugal or Australia. The industries most affected by displacement vary across countries. Again, Japan stands out for the relative uniformity of displacement rates. The sectors that are slightly more affected in Japan are construction and manufacturing. Concerning occupations, Japan stands out as a country where the displacement rate of managers is relatively the lowest relative to the displacement risk for other occupational groups. It is the only country where associate professionals, technicians and clerks have a significantly higher rate of displacement than managers, as well as the country where the relative risk faced by craft and machine operators is the highest.

How do displaced workers compare with all employees?

In many respects, displaced workers look a lot like the overall workforce, but there are also some notably divergences, several of which may impede their ability to find work quickly after displacement and justify policy interventions to prevent long spells of unemployment and large wage losses. OECD (2013a and 2013b) show that displacement rates tend to be higher among men, as well as for the youngest and the oldest workers, and for workers with lower tenure and lower education. Japan conforms to some of these patterns, but deviates from others. As in most OECD countries, displaced workers over the period 2002-13 are mostly men (55.4%), but this reflects the higher share of men in employment and not a greater risk of displacement among male than female workers. The age distribution of displaced workers due to economic reasons is not too dissimilar to that of regular employment, although workers aged 45 and older are moderately overrepresented among the displaced.¹⁵ However, separation rate of workers reaching the age of mandatory retirement or the end of contracts heavily concentrated on older workers, with workers between the ages of 55 and 64 accounting for fully 60% of all such separations.¹⁶ Less educated workers are also overrepresented among displaced workers (67.2% of all displaced workers hold no more than an upper secondary qualification versus 53.3% of employees and 60.0% of the other involuntary separated). Both older and less educated displaced workers have been shown to experience especially large earnings losses in a number of countries, raising the possibility that assisting these groups back into good jobs could represent a particular challenge for labour market authorities.

Figure 1.6. **Variation in displacement rates by region, industry and occupation, 2000-08^a**



Note: Logarithmic scales for Panels B and C.

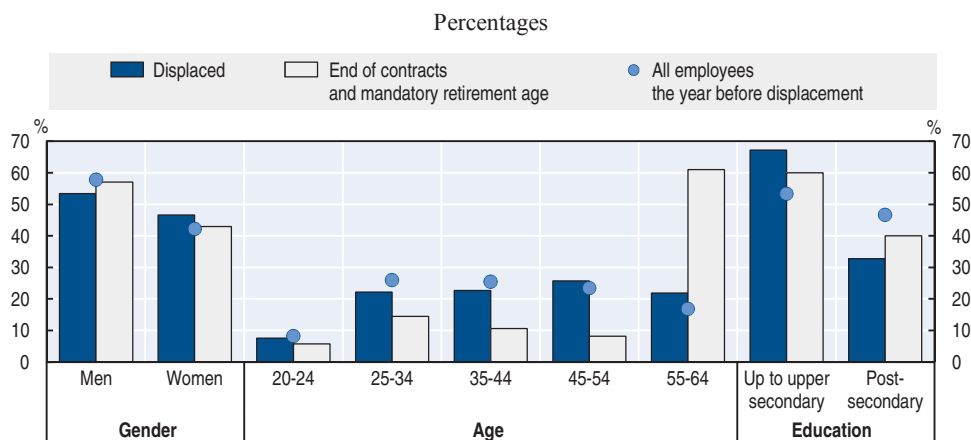
- See OECD (2013) for a full description of the samples, years and definitions used for each country.
- Displacement rates are calculated as the percentage of employees aged 20-64 who are displaced from one year to the next. They refer to the region of residence in countries where displacement is self-defined and the region of work for countries where firm-identified displacement rates are used.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf.

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Figure 1.A1.1 uses ESS data for 2007 to analyse distinctly workers separated because of non-renewal of contract and those separated because of mandatory retirement (see the chapter's annex). As would be expected, these two groups differ a lot. Workers separated because of mandatory retirement are mainly men aged 55-64, while those separated due to end of contract are mostly younger women. These results highlight again that displaced workers are a diverse group and are likely also to differ in how much adjustment assistance they require, if any, and the types of assistance that would be suited to them.

Figure 1.7. **Characteristics of displaced workers and other job separators, 2002-13**



Source: Japan Labour Force Survey (LFS).

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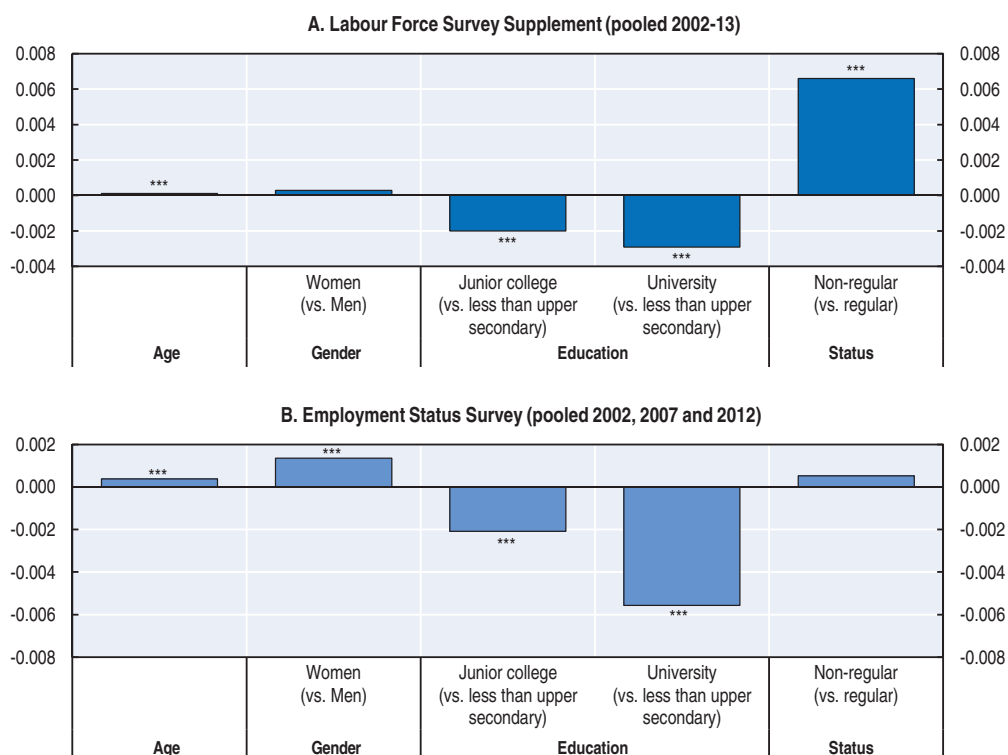
Which workers have highest risk of job displacement?

The observation that some types of workers are over represented among displaced workers, such as those with lower levels of education, need not imply that the characteristic defining this group is causally related to higher risk of displacement. For example, the over-representation of less educated workers could reflect the fact that they tend to be employed in industries that are shrinking and not because employers tend to singly out less skilled workers when cutting their workforces. Multivariate methods are required to isolate which worker and job characteristics determine the risk of being displaced.

Figure 1.8 reports key results from a probit analysis of the probability of displacement that was conducted using both LFS and ESS data.¹⁷ This analysis confirms that the risk of displacement in Japan varies in predictable ways across workers with different personal characteristics or holding different types of jobs. In particular, the risk of displacement, other things equal, is higher for woman than for men and for non-regular workers

than for regular workers. The risk of displacement also rises with age, and falls with tenure and educational attainment. Displacement risks are also higher for workers in certain industries (notably, manufacturing and eating and drinking places and accommodation), and in smaller firms (see Figure 1.A1.3 in the annex to this chapter).

Figure 1.8. **Marginal effect of selected characteristics on the likelihood of displacement**



Note: Marginal effects calculated from a probit model estimated on a sample of employees (regular and non-regular workers) aged 20-64 using LFS data for Panel A and ESS data for Panel B. The dependent variable is dummy variable indicating whether the worker was displaced in the previous year. Explanatory variables include age, gender, educational attainment dummies (high school degree or lower as baseline), dummies for occupation (specialist and technical workers as baseline), industry (manufacturing as baseline), firm size (LFS only with 10-29 employees as baseline), a labour demand proxy and tenure (ESS only).

***, **, *: Statistically significant at 1%, 5% and 10% levels, respectively.

Source: Estimates provided by MHLW based on microdata from the Japan Labour Force Survey (LFS) and the Employment Status Survey (ESS).

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It is reassuring to note that the estimation results are similar across the two data sets. Splitting the sample into sub-samples of regular and non-regular workers, some differences emerge: Among “non-regular employees”, the analysis with LFS data shows that, *ceteris paribus*, men and younger workers are more likely to be displaced, while this does not emerge from the analysis with ESS data. However, the ESS data show that shorter tenure workers, including regular employees, are slightly more likely to be displaced.

Getting back into work

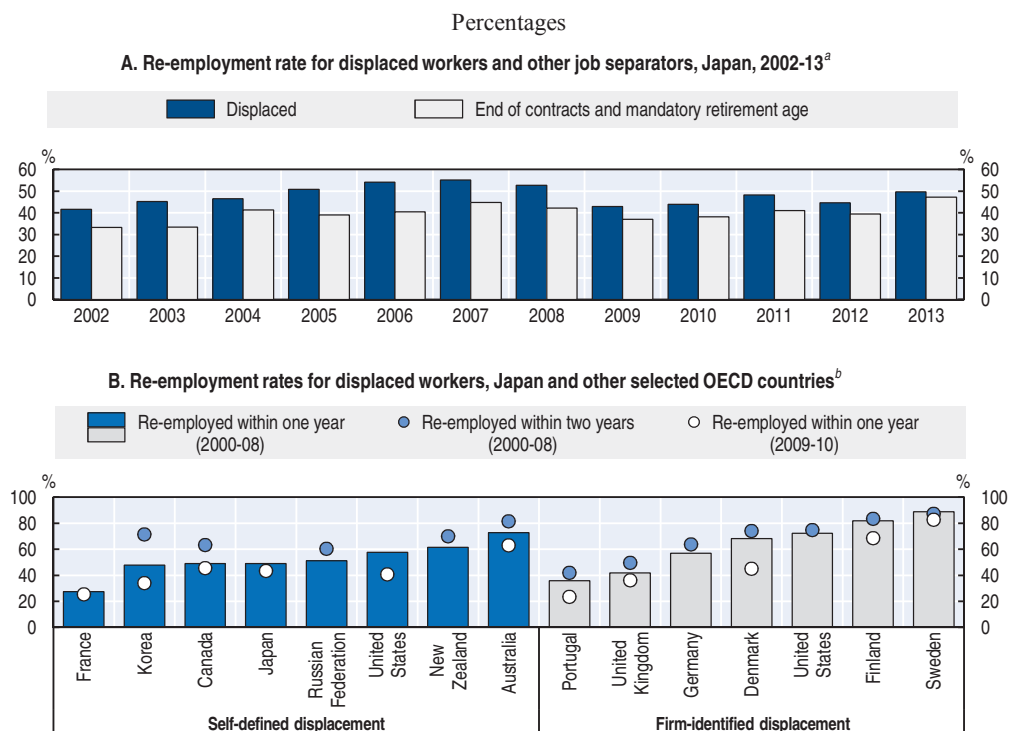
How rapidly do displaced workers find new jobs?

Figure 1.9, Panel A, shows the proportion of displaced workers in Japan who were re-employed within one year, where re-employed is defined to include finding new paid work, whether as an employee or as a self-employed worker or employer. On average during 2002-13, just under half of displaced Japanese workers become re-employed within one year (48%), whereas a little less than 40% of workers separated due to end of contract/mandatory retirement were re-employed (39.8%).

Re-employment rates of displaced workers are clearly pro-cyclical, as would be expected. This rate rose steadily during the pre-crisis period and reached a peak of 55.2% in 2007, when labour market conditions were relatively good and the unemployment rate fell below 4%. However, the re-employment rate then fell to just 42.9% in 2009, as the global financial crisis depressed the economy and pushed unemployment back above 5%. Re-employment success also appears to be pro-cyclical for workers separated due to end of contract/mandatory retirement, but somewhat less so. There is no discernable trend in the employment rate for workers displaced for economic reasons, but there is a hint that the rate may be trending upward for other separated workers whose 2013 rate is already above its peak value in 2007 (47.3% versus 44.9%).

OECD (2013a and 2013b) present estimates of re-employment rates for displaced workers for a number of OECD countries using comparable time periods, samples of workers and definitions of displacement. By comparison with other OECD countries for which similar data are available, Figure 1.9, Panel B shows that Japan is in the middle of the group, together with Canada and Korea, as regards re-employment rates within one year of displacement (all just under 50%). Re-employment rates are low in Japan compared with the more than 70% rates for displaced workers in Finland, Sweden, Australia and New Zealand, but high compared with the rates observed in France and Portugal (around 30%). As was the case in Japan, re-employment rates generally were lower during the period 2009-10 than in the pre-crisis period.

Figure 1.9. Re-employment rates of displaced workers and other job separators



- a) Re-employment within one year. Re-employment can include employees, self-employed or employers.
- b) Data for Germany refer to 2004 and for Canada to a 2000-08 average. There are no data on re-employment within two years for France, Japan or the United States. For Australia, Canada, France, Korea, New Zealand and the Russian Federation, data refer to workers who were displaced for economic reasons, due to the end of a temporary contract or for cause. For Denmark, Finland, Germany, Portugal, Sweden, the United Kingdom and the United States, data refer to workers who were displaced due to a mass dismissal or firm closure. For full details of the data sources and methodology, see OECD (2013), “Back to work: Re-employment, earnings and skill use after job displacement”, Final Report, OECD Publishing, Paris, October, www.oecd.org/els/emp/Backtowork-report.pdf. For Korea, the figures shown are slightly different to those used elsewhere in this report because they include dismissals for cause. This is to make the definitions as comparable as possible across countries.

Source: OECD calculations based on Japan Labour Force Survey (LFS) data provided by MHLW for Panel A; and OECD (2013), “Back to work: Re-employment, earnings and skill use after job displacement”, Chapter 4 in OECD, *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-8-en for Panel B.

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The data in Figure 1.9, Panel B also show that the re-employment rate usually is significantly higher in the second year following displacement than in the first year. Unfortunately, data limitations make it impossible to verify whether this is also the case in Japan. It seems likely, however, that some workers require considerable time in order to become re-employed, suggesting that there could be a role for public labour market authorities to try to speed the return to work.

Which displaced workers find jobs most quickly?

The probability of re-employment following displacement in Japan varies considerably across different demographic groups. Figure 1.10 shows the results of a multivariate analysis intended to isolate the independent effect of various worker and job characteristics on the probability of rehiring, where Panel A reports selected coefficients that were estimated using LFS data and Panel B the corresponding coefficients that were estimated using ESS data (see the note to the figure for details about the estimation procedure). Other things equal, re-employment probabilities are higher for men than for women, increase with education and decrease with age and job tenure. These findings are consistent with the extensive research literature on displaced workers in Canada, the United States and several European countries that particularly single out older, long-tenure and low-educated workers as likely to confront particular adjustment difficulties following job displacement (see the literature survey in OECD, 2013b).

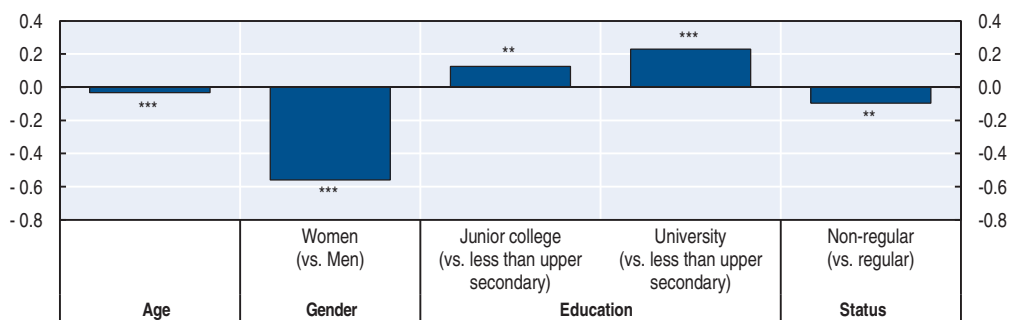
While a number of individual characteristics have a systematic impact of re-employment prospects, the size and industry of the previous employer do not appear to be significant determinants of which workers move back into work within one year (see Figure 1.A1.4 in the annex to the chapter). However, displaced workers who had recently received training are estimated to become re-employed more rapidly, a pattern that is particularly strong for non-regular workers.¹⁸ In most other respects, the impacts of worker and job characteristics on the probability of re-employment are very similar for regular and non-regular workers.

Displaced workers transition to a variety of activities

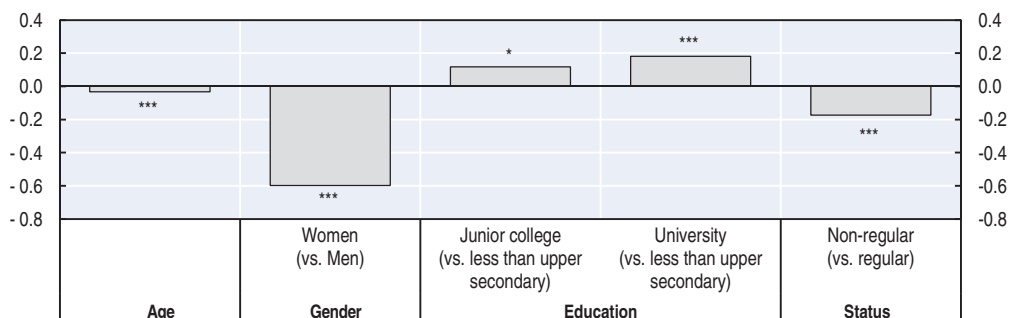
As was discussed above, about one-half of displaced workers in Japan have not become re-employed within a year in recent years. This is potentially worrisome, both because being out of work directly implies an immediate loss of income and because job-search prospects tend to deteriorate as the period out of work lengthens. Understanding what happens to displaced workers who do not find a new employment quickly should provide useful guidance concerning which types of policy measures could foster faster re-employment while minimising the risk that displacement leads to a permanent withdrawal from the labour force.

Figure 1.10. **Marginal impact of selected characteristics on the likelihood of being re-employed following displacement**

A. Labour Force Survey Supplement (pooled 2002-13)



B. Employment Status Survey (pooled 2002, 2007 and 2012)



Note: Coefficients from an ordered logit model estimated on a sample of employees (regular and non-regular workers) aged 20-64 who were displaced in the year preceding the survey interview. The Panel A effects were estimated using microdata from the LFS and the Panel B effects using micro-data from the ESS. The categorical dependent variable is coded as: 1. for workers who have left the labour force; 2. for workers who are unemployed; 3. for workers re-employed and working fewer than 35 hours per week; and 4. for workers re-employed and working 35 or more hours per week. Explanatory variables include age, gender, educational attainment dummies (high school degree or lower as baseline), dummies for occupation (specialist and technical workers as baseline), industry (manufacturing as baseline), firm size (LFS only with 10-29 employees as baseline) and a labour demand proxy.

***, **, *: Statistically significant at 1%, 5% and 10% levels, respectively.

Source: Estimation results from an ordered logit analysis conducted by MHLW using microdata from the Japan Labour Force Survey (LFS) and the Employment Status Survey (ESS).

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Table 1.1 provides a more complete accounting of the status of displaced workers in the year following their separation from their previous employer, differentiating between those who have found a job in new firm (employees), have become self-employed, are unemployed and are out of the labour force. A first clear lesson from this table is that the post-separation status of workers differs sharply between those who were displaced and those who were separated due to end of contract/mandatory retirement. While most of the former group who are not re-employed are unemployed (40.9%), rather than inactive (11.4%), slightly fewer of the latter group search actively for a new job and, hence, qualify as unemployed (28%), rather than withdrawing from the labour force (32.6%).

Table 1.1. **Main activity status one year after displacement or other job separations, by characteristics, 2002-13**
Percentages

		Displaced workers			
		Employees	Self-employed	Unemployed	Not in the labour force
Gender	Men	46.3	2.2	46.4	5.1
	Women	46.0	0.7	34.6	18.7
Age	20-24	56.2	0.2	40.4	3.2
	25-34	55.1	0.8	37.4	6.7
	35-44	51.6	1.6	39.1	7.7
	45-54	41.7	1.7	45.5	11.2
	55-64	33.8	2.1	41.3	22.8
Education	Up to upper secondary	44.0	1.4	42.1	12.5
	Post-secondary	50.8	1.5	38.6	9.1
Total		46.2	1.5	40.9	11.4

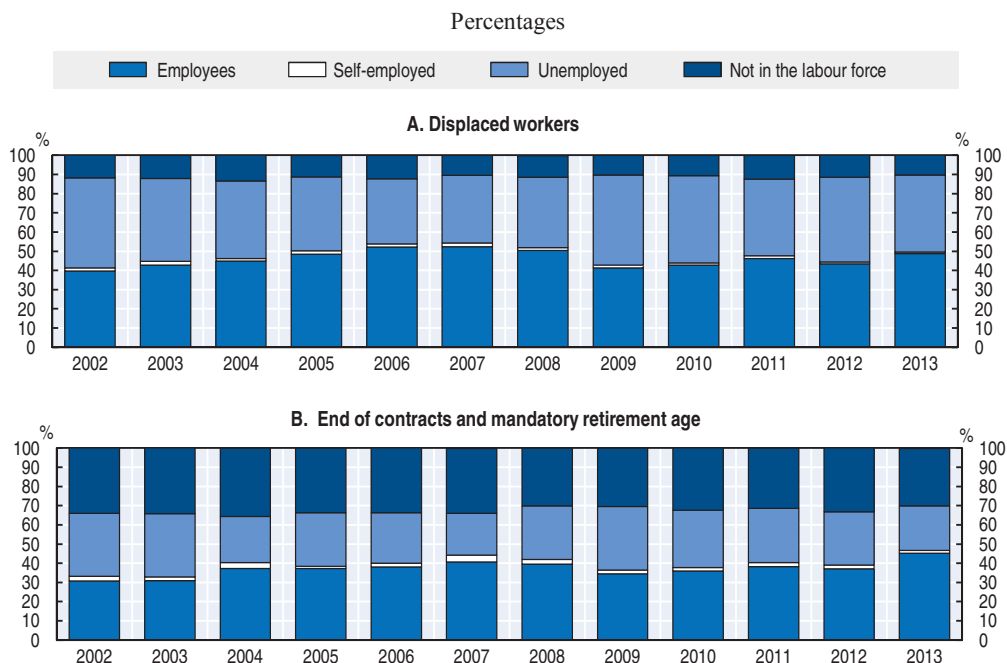
		End of contracts and mandatory retirement age			
		Employees	Self-employed	Unemployed	Not in the labour force
Gender	Men	36.0	3.3	30.1	30.7
	Women	38.9	0.6	25.2	35.3
Age	20-24	58.1	0.0	33.7	8.2
	25-34	54.5	0.5	34.1	10.9
	35-44	50.1	0.6	32.0	17.2
	45-54	43.9	1.5	33.8	20.8
	55-64	27.9	3.1	24.5	44.5
Education	Up to upper secondary	31.1	2.3	29.6	37.1
	Post-secondary	46.7	1.9	25.5	25.9
Total		37.3	2.1	28.0	32.6

Source: MHLW calculations using microdata from the Japan Labour Force Survey (LFS).

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Regardless of the reason for displacement, there are some clear tendencies for different demographic groups to make particular transitions following job displacement. For example, women are more likely to leave the labour force, whereas men more often become unemployed. Older workers and those with lower levels of education also have above-average propensities to leave the labour force. For example, 22.8% of displaced workers aged 55-64 withdraw from the labour force, versus only 6.7% of displaced workers aged 25-34. Groups with a high propensity to withdraw from the labour force in the year following displacement are also likely at an elevated risk of becoming permanently lost to the workforce. In countries where the transitions of displaced workers can be followed into the second post-displacement year, OECD (2013a and 2013b) shows that there is a sizeable drop in the proportion of the unemployed, but a much smaller drop in the proportion of those remaining out of the labour force. This difference suggests that those searching actively for work are more likely to re-enter re-employment within two years than those who are less connected with the labour force after one year. Unfortunately, the available data do not provide any information about the re-employment rate in Japan two years after displacement. Indeed, there is a general lack of data concerning the longer-run consequences of displacement which makes it more difficult to assess policy needs.

Figure 1.11 shows how the status of workers one year after displacement has varied during the period 2002-13. Panel A confirms that most of the decline in the re-employment rate during recessions translates into more unemployment, rather than into an elevated propensity to leave the labour market. For example, the re-employment rate for displaced workers decline by 5.5 percentage points between 2007 and 2009 was (a bit more than) fully accounted for by the 6.2 percentage point increase in the number of workers unemployed the year following their job loss. While the short-run impact of the global financial crisis was to increase the share of displaced workers experiencing a significant period of unemployment following displacement, there is a real danger that some of these workers will eventually become discouraged and drop out of the labour force permanently.

Figure 1.11. **Main activity of workers one year after displacement or other job separations, 2002-13**

Source: MHLW calculations using microdata from the Japan Labour Force Survey (LFS).

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Changes in wages and job characteristics following displacement

Despite the evidence provided in previous section that many displaced workers get back into a new job within a year, the effect of displacement on their pay and working arrangements may be long-lasting. This section examines post-displacement penalties in terms of earnings losses (due to both time jobless and lower wages on the new job), as well as other changes in employment conditions, such as the degree of employment security.

Earning losses after displacement

Numerous studies have investigated the earnings losses experienced by displaced workers in the US labour market, finding penalties in the range of 15%-40% (Topel, 1991; Jacobson et al., 1993; and von Wachter et al., 2009b).¹⁹ Similar findings have been reported for Canada and several European countries (see the literature survey in OECD, 2013b), but Japanese evidence is more scarce. The comprehensive study by Abe et al. (2002),

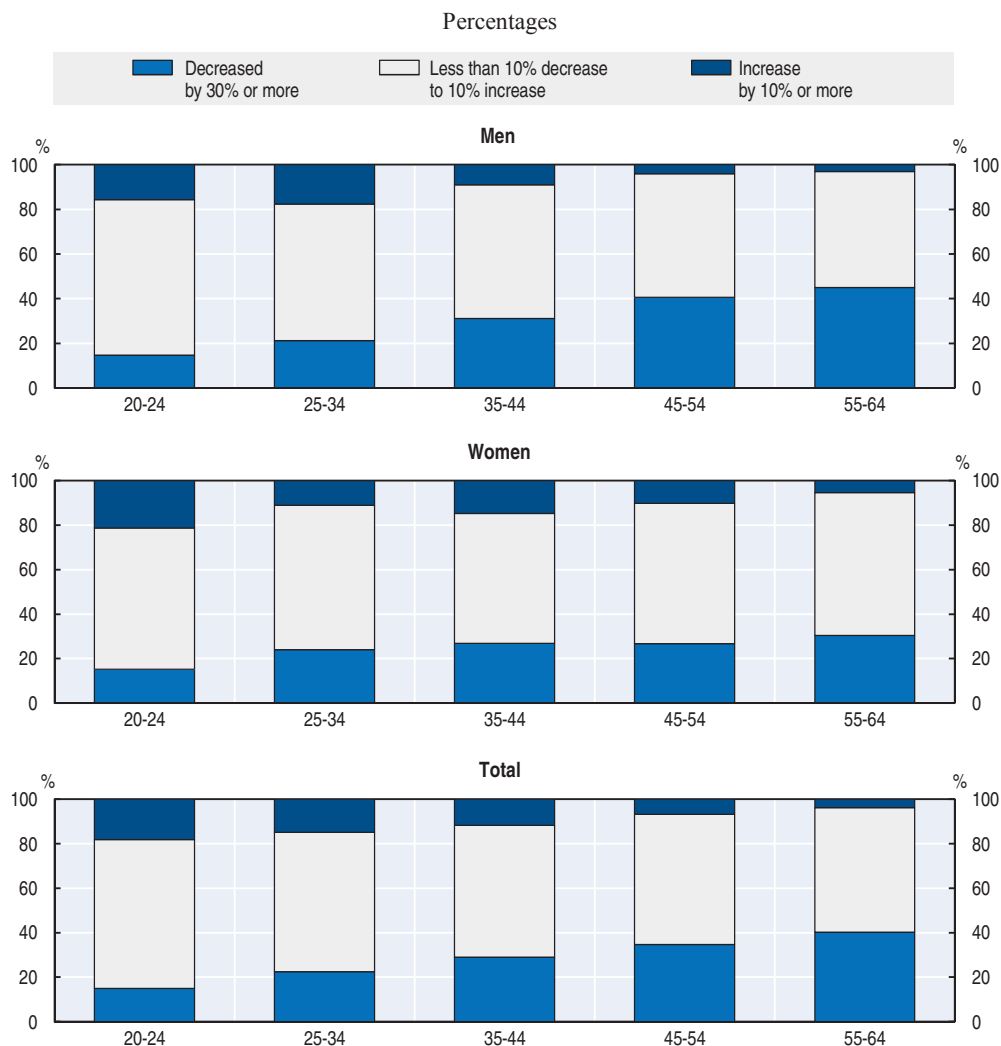
using ETS data from 1995 finds an average wage loss of 4.3% for males, due to involuntary separations. This wage loss seems to be driven mainly by men above age 55 who had an elevated risk of large wage losses (i.e. 30% or more). These large losses probably can be attributed to the wide-spread practice of mandatory retirement at relatively young ages in Japan, where retirement from a career job is typically followed by low-paid or part-time work in another firm. Using data from 2000 through 2003, Bognanno and Delgado (2008) find larger job displacement penalties than Abe et al., but confirm the tendency for losses to rise with age. They estimate average losses of 25.5% which rise with age beyond age 35, suggesting severe consequence for the oldest workers losing their jobs. However, their dataset was not nationally representative casting doubt on the generality of their findings. More recently, Bognanno and Kambayashi (2013), using nationally representative ETS data from 1991 to 2005, confirm these findings: older workers' experience larger wage losses from involuntary job change than younger workers, and this pattern became more pronounced during the period studied.²⁰

Figure 1.12 presents descriptive evidence on the short-run change in earnings between the lost job and the new job, for workers displaced for economic reasons who become re-employed within one year. These estimates are based on ETS data pooled over the period 2004-12) and show that the earnings consequences of displacement are very disparate. While the average wage loss for displaced workers is 5.1%, some actually enjoy substantial increases in earnings while others experience large losses. For example, 11.8% of displaced workers between the ages of 35 and 44 are re-employed at a wage 10% or more above that on their old job, while 29.1% suffer wage losses of at least 10% and 59.2% are re-employed at a wage relatively close to their previous wage. A second lesson from these data is that wage losses mount steeply with age. Whereas large wage losses affect only 14.9% of displaced workers aged 20-24, this share raises to 40.2% for workers aged 55-64. Finally, earnings losses tend to be larger for men than for women. While 31.1% of men aged 35-44 experience a wage loss of at least 10%, the corresponding share for women is a lower 26.9%.

A multivariate analysis was conducted to better identify the causal determinants of the earnings losses following displacement.²¹ The estimation results tend to be consistent with those reported in earlier studies, both for Japan and for other OECD countries. Even after controlling for other factors, older workers fare significantly worse than younger workers, suggesting a substantial loss of employer-specific human capital, but maybe also the loss of the seniority wage premium on the previous job. As a whole, industry, occupation and career change negatively affect the wage change in separations compared to those who transited jobs without any change.²² And this result is valid for all types of separations, namely displacement due to economic reasons, displacement due to end of contract

or mandatory retirement age, and also for voluntary separations and Shukkō²³ assignments. The transition from regular to non-regular jobs is another factor that increases expected wage losses.

Figure 1.12. **Wage changes, 2004-12**



Note: Average ETS data for the period 2004-12. The sample is composed of workers 20-64 years of age who were re-employed within one year from displacement in firms with five or more employees.

Source: MHLW calculations using microdata from the Survey on Employment Trends (ETS).

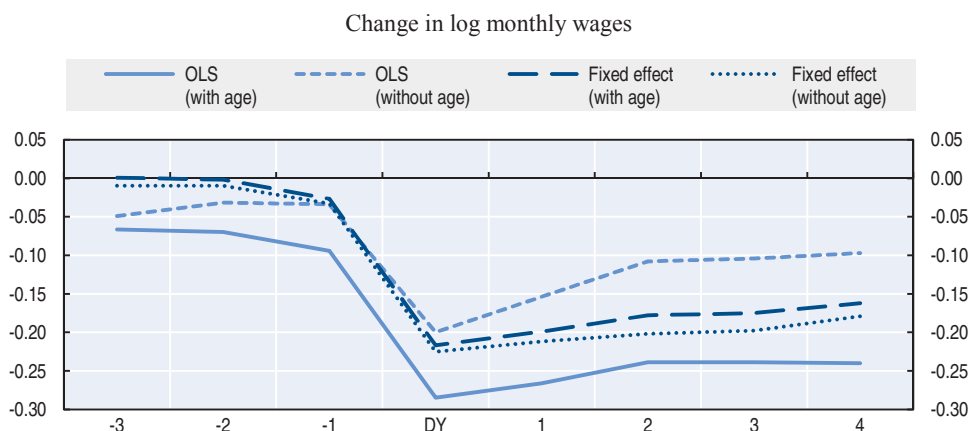
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Since both the descriptive and econometric results highlight the large earnings losses of older displaced workers in Japan – as in most other OECD countries where this issue has been analysed, it is worthwhile considering the possible explanation for this pattern and what it implies for labour market policy. Economic theory offers several explanations why the displacement penalty could be greater job for older workers. According to Fallick (1966), the main sources of job displacement penalties include the loss of specific human capital, a superior job match, union or industry wage premiums, and seniority premia. If specific human capital, job match quality and wage premiums are increasing in job tenure, then older workers should have greater losses upon job displacement since they tend to have longer job tenure. Lazear's (1979) model of delayed payment contracts suggests that seniority wage premia may be particularly important for older displaced workers in Japan. In this model, workers are motivated to remain with the firm and perform well by a contract paying that pays them less their marginal product early in their tenure with the firm and then more than their marginal product later in their career. Mandatory retirement is an essential element of these employment contracts since the firm would otherwise be exposed to the risk that workers would choose to stay on and collect wages exceeding their marginal products beyond the date when the underpayments early in worker's career have been fully recouped. Lazear's model may be particularly relevant in Japan because it accords well with key features of the lifetime employment system (Bognanno and Kambayashi, 2013; and Hashimoto, 1990). If so, then this model also helps to explain the large earnings losses of older displaced workers and its close relationship to the HRM practices of Japanese employers, especially large corporations.

All of the evidence on the earnings losses of displaced workers in Japan discussed above refers only to short-run earnings losses. For the purposes of labour market policy, it is crucial to know whether these losses are only transitory or if they are persistent. Fujii and Kambayashi (2014) provide the first evidence on the long-term effect of displacement on earnings in Japan, showing that these effects may be substantial and long-lasting. Using 1971-2013 data on monthly wages from the Japanese Longitudinal Survey on Employment and Fertility (LOSEF), the authors present evidence that displaced workers suffer an average fall of approximately 21.7% in real monthly earnings upon displacement. – ranging from 17.2% to 30.0% according to the different specification and estimation model.²⁴ Comparing earnings changes for displaced workers before and after displacement with those for workers who were not displaced, the estimation strategy provides much more rigorous estimates of the causal effect of displacement on earnings in the short-run than the before and after comparisons based on ETS data previously discussed.²⁵ Even more importantly, this study is able to look at how losses evolve as time since displacement increases. The average loss is seen decline somewhat between the first and second

years following displacement, but then appears to be between 9.2% and 21.3% even up to four years after displacement below their pre-displacement (Figure 1.13).²⁶ These results are in line with the already quite extensive empirical literature on this topic in other OECD countries in both North America and Western Europe, and they strongly suggest that labour market policies in Japan may also need to take account of the fact that job displacement can result in large and lasting earnings losses for a considerable number of workers, although further research is needed to establish the robustness of these findings and whether they generalise to other samples of displaced workers.

Figure 1.13. **Wage penalty of displacement, 1971-2013**



Note: OLS: Ordinary least squares; DY: Displacement year. The profiles charted are based on differences-in-differences regression models.

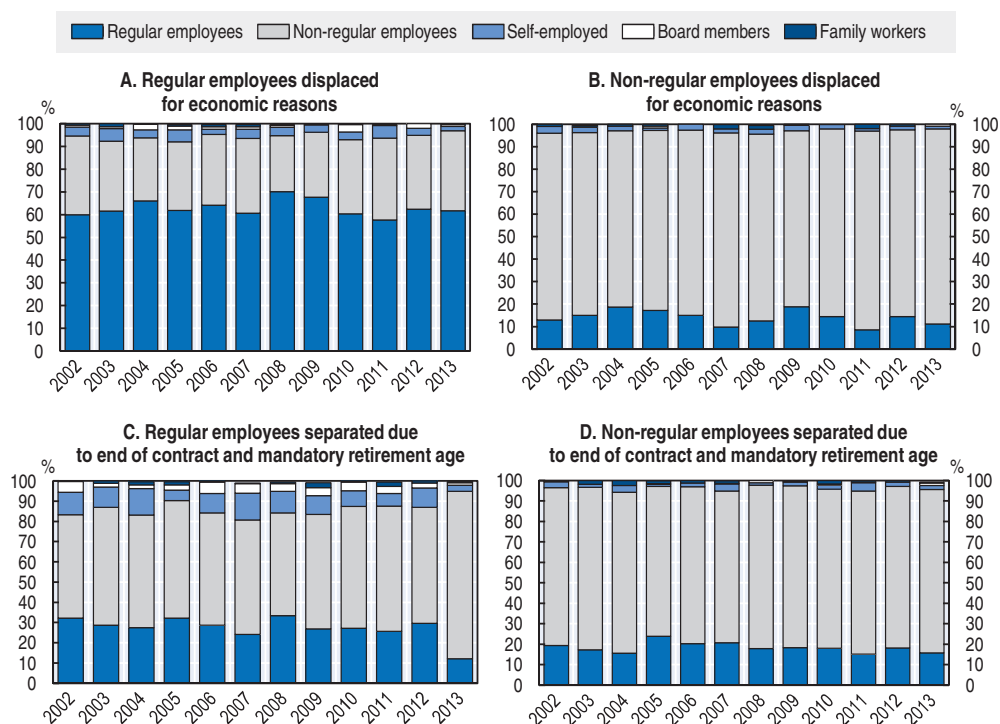
Source: Fujii, M. and R. Kambayashi (2014), “Long-term effect of job displacement in Japan: A conservative estimate using the Japanese Longitudinal Survey on Employment and Fertility (LOSEF)”, mimeo.

StatLink  <http://dx.doi.org/10.1787/888933175378>

The estimates of earnings losses presented in Figure 1.13 are intended to provide a conservative estimate of the losses experienced by regular workers, by focussing only on the group that becomes re-employed in another regular job. Figure 1.14 indicates that this is the case for the majority of regular workers who are displaced for economic reasons, yet a quarter or more of this group become re-employed in non-regular jobs (Panel A). Regular workers displaced due to end of contract/mandatory retirement are much more likely to become re-employed in non-regular jobs and only one-third or less find another regular job (Panel C). Not surprisingly, non-regular workers who are displaced are particularly unlikely to move into a regular job, although 10-20% of this group manages to do so (Panels B and D).

Figure 1.14. **Employment status of re-employed displaced workers and other job separators, 2002-13**

Percentages



Source: MHLW calculations using microdata from the Japan Labour Force Survey (LFS).

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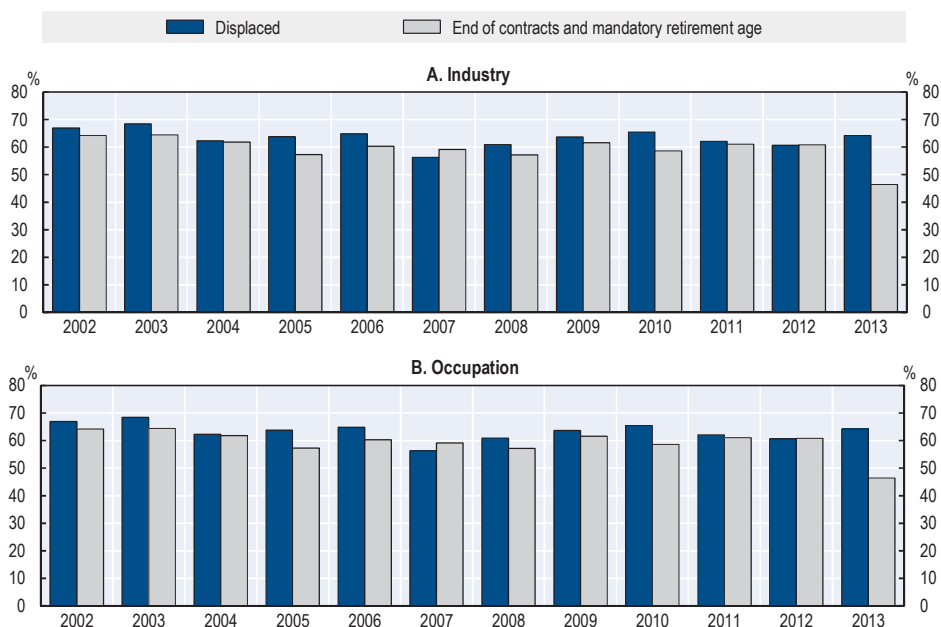
The apparent difficulties that many displaced workers encounter in finding regular employment suggest that a broader analysis of the quality of post-displacement jobs and how they compare with the pre-displacement jobs would be very interesting. OECD (2013a) performs such an analysis for Australia, France and Korea and confirms that the earnings losses experienced by displaced workers are often accompanied by other reductions in job quality. For example, workers tend to have fewer paid holidays and sick days on their post-displacement jobs, to work more often on weekends (France) or on shifts (Korea), to be less likely to have a supervisory position (Australia and France) or to benefit from social insurance coverage (Korea). Unfortunately, the data available do not allow these issues to be analysed for Japanese displaced workers in this report.

Changes of industry and occupation after displacement

Among displaced workers who find work within one year, many change occupation or industry. Figure 1.15 shows that, between 2002 and 2013, on average, 61.2% of re-employed displaced workers have changed industry and 54.7% occupation. If human capital is occupation-specific to a considerable extent, then widespread occupational changes suggest sizeable skill losses following displacement. OECD (2013b) presents evidence on the skill requirements of different occupations and shows that occupational changes following displacement frequently lead to over-skilling and over-qualification for several other OECD countries.²⁷ This pattern suggests that human capital waste is an important concern when designing adjustment assistance measures for displaced workers and that re-employment assistance should attempt to promote good worker-job matches. However, the lack of skills-use data for the pre- and post-displacement jobs means that these conclusions should be applied to Japan with caution.

Figure 1.15. **Change in industry or occupation after displacement and other job separations, 2002-13**

Percentage of re-employed displaced workers and other job separators



Source: MHLW calculations using microdata from the Japan Labour Force Survey (LFS).

StatLink  <http://dx.doi.org/10.1787/888933175392>

Other losses due to displacement

In addition to the losses of wages and job quality experienced by many displaced workers, there are non-pecuniary costs associated with displacement and the unemployment that it occasions. Starting with Clark and Oswald (1994), a large empirical literature finds that unemployment significantly reduces people's happiness. Di Tella, MacCulloch and Oswald (2003) analyse how the unemployment and employment rate affect the level of happiness and subjective wellbeing in 12 European countries. Everything else equal, they find unemployed people to be less happy than the employed.

Subjective evidence on well-being in Japan appears to be relatively limited. Using data from the Questionnaire Survey on Lifestyle and Society (2002) and the National Survey on Lifestyle Preference (1978-1999), Ohtake (2012) explores the effect of unemployment on individual happiness. His findings are in line with the literature for other countries: unemployed people appear to be less happy than those with jobs, also controlling for income; additionally the fear of unemployment reduces people's happiness as well.

Job displacement also adversely affects health. Sullivan and von Wachter (2009) find higher mortality rates for displaced workers in the United States in the 1980s (50-100% higher soon after displacement), with evidence suggesting that these effects are due to the associated decline in income. Equivalent increases in displacement have been found to lead to smaller increases in mortality in Sweden and in Denmark (Eliason and Storrie, 2009; and Browning and Heinesen, 2012). Other studies have attempted to look directly at job displacement and health: Browning and Heinesen (2012) use data from the Danish population and find that displacement increases certain types of hospitalisation in Denmark. Black et al. (2012) find that displacement in Norway has a negative effect on cardiovascular health of both men and women, with much of this effect being driven by an increase in smoking.

A strong correlation between unemployment and suicide rate has also been documented by many empirical studies and this association has been found to be higher in Japan than in other OECD countries (Chen et al., 2012a).²⁸ The authors hypothesised that the recent suicide epidemic is related to the economic recession, in the wake of the so-called "lost decade" in Japan in the 1990s, after the burst of the bubble.²⁹ The social stigma and mental depression often associated with job and wage losses and unemployment are likely to account, in part, for the association between unemployment and suicide.

In sum, displacement and unemployment are not just an issue of income losses and productivity foregone. They also directly affect the well-being and daily life of the affected persons and their families. Job displacement is a social and human problem, and not just a labour market problem.

Conclusions

There is no indication that displacement rates in Japan have risen over the past decade. However, the risk of displacement increases when economic conditions worsen, as was clearly seen during the recession that followed the global financial crisis that began in 2008. Re-employment prospects are also poorer when labour markets slack is high and jobs are hard to find. Some workers are particularly vulnerable to displacement. The risk of displacement is relatively high for older, less educated and non-regular workers, as well as those who are employed in small firms, or in certain sectors – notably, manufacturing and eating and drinking places and accommodation. Nonetheless, displaced workers form a diverse group and do not look too different from the overall labour force.

Less than one-half of all displaced workers become re-employed within one year, while about one-third remains unemployed and one-quarter leaves the labour force, at least temporarily. Re-employment rates are particularly low for older workers, women and less educated workers, but do not vary much between workers displaced from different industries or different sizes of firms. When they succeed in moving back into employment, considerable numbers of displaced workers earn substantially less than on their prior job and/or accept non-regular employment. Large earnings losses appear to be quite persistent and they represent a particular risk for older displaced workers. These earnings losses underlie the importance of private and public efforts to assist job losers to find suitable new jobs quickly, where then can be economically secure while making good use of their productive skills.

Due to its unique employment system, it is difficult to compare displacement in Japan with that observed in other OECD countries. For example, the role of voluntary early retirement as a form of downward workforce adjustment in Japanese firms appears to be particularly strong. Nonetheless, it is clear that there are some important commonalities between Japan and other OECD countries. Most importantly, a significant fraction of workers are displaced every year and many of them experience a difficult adjustment in the labour market, notably in the form of long periods of joblessness and re-employment at significantly lower wages.

Providing adequate income support and re-employment services to displaced workers is important to limit the personal costs of displacement. The often high earnings losses that follow displacement – and the lost productive potential they represent – also suggests that measures to minimise the incidence of displacement could play a useful role, provided that can be designed so as to avoid impeding the flexibility of employers and the overall labour market to adapt to changing economic conditions. For example, some of the jobs lost during recessions might be viable in the long run if they can be preserved during the period of temporarily low demand. Even when jobs

cannot be preserved, it may be possible to help more of the affected workers to move directly into new jobs without becoming unemployed. These possibilities are examined in detail in the next chapter.

Notes

1. OECD (2009) does not present internationally harmonised data on total worker turnover for Japan, but estimates of total hirings and separations from the Survey on Employment Trends suggest that total worker re-allocation – defined as the sum of all hirings and separations in a given year – has been around one-third of total employment in Japan in recent years (see Figure 1.4 below).
2. Recently, Japan is showing signs of renewed economic dynamism and there is reason to hope that the “New Growth Strategy” implemented by the current government will produce an exit from deflation and power a broad revitalisation of the Japanese economy.
3. Japanese employment rate is calculated using data of those who are between the ages of 15 and 64. While the 80.8% employment rate of Japanese men is well above the 73.2% OECD average and lags only those observed in Iceland and Switzerland, the 62.5% employment rate of Japanese women is only a little above the 57.5% OECD average and far lower than the highest rates observed in the OECD area.
4. “Lifetime employment” is arguably a misnomer, since even in its ideal form it is associated with a relatively young age of mandatory retirement, after which most workers find employment in other firms, rather than withdrawing from the labour force. Nonetheless, this term captures well the strong relationship between workers, who are typically recruited straight out of school, and their employers under this system (Ono, 2010).
5. For example, 22.2% of Japanese workers had 20 or more years of tenure with their current employer in 2011, as compared with 10.6% of US workers in 2012 (JILPT, 2014). Steinberg and Nakane (2011) analyse how human resource practices associated with lifetime employment led to relatively few displacements for regular workers.
6. As will be discussed in more detail in Chapters 2 and 3, Japanese employers who have decided to reduce the size of their regular workforce often pursue this objective by encouraging part of this group to enrol in a voluntary early retirement package. However, “voluntary retirement” can be somewhat of a misnomer in this context. The targeted workers may come under considerable pressure to enrol, as is illustrated by the controversy and court cases related to “chasing-out rooms” (Tabuchi, 2013; and *The Japan Times*, 2014).

7. The discussion of lifetime employment practices in this report is limited to assessing their implications for the incidence and cost of job displacement. It should be borne in mind that this employment model also encompasses a complex set of practices and incentives encouraging workers to actively participate in problem solving and information sharing activities (e.g. quality circles and joint labour-management committees) which are intended to allow the firm to achieve high levels of productivity and quality assurance. It is largely for this reason that many analysts have concluded that these employment practices played a large role in the rapid economic growth and competitive success of the Japanese economy during much of the post-World War II period (Moriguchi and Ono, 2006; and Morita, 2005).
8. While the data presented in Figure 1.3 show regular employment increasing slightly in 2009, quarterly data indicate the regular employment fell during the fourth quarter of 2008 and several quarters in 2009.
9. In Figure 1.5, separations for “economic reasons” include workers who are temporarily transferred to related companies (e.g. Shukkō assignments which will be discussed in detail in Chapter 2), as well as workers returning from Shukkō assignments. The concept of separations for economic reasons that is used later in this chapter to define displaced workers does not include Shukkō assignments.
10. By contrast, the combined rate of other separations (i.e. voluntary quits, dismissals for cause and separations due to death or ill health) has trended downwards: averaging 12.8% during 1971-1992 before drifting down to 11.1% during 1993-2012.
11. Another minor deviation from the harmonised definition that was targeted in OECD (2013b) is that multiple job holders are not excluded from the sample.
12. In a direct comparison of these two types of data, von Wachter et al. (2009a) use matched survey and administrative data for California for the period 1990-2000. They find that administrative data tend to overstate the incidence of displacement (by including many voluntary job separations) while survey data tend to understate the incidence of displacement because workers tend to ignore “less severe” job displacements (i.e. those which lead to only short spells of unemployment or small earnings losses) when asked about their recent experiences. These limitations should be kept in mind when comparing displacement incidence and outcomes across countries, particularly when comparing estimates for self-defined and firm-identified displacement.
13. On the other hand, the relative displacement rate in Japan is depressed by the exclusion of workers employed in very small firms and workers dismissed for cause.

14. The lesser cyclical nature of separations due to end of contract/mandatory retirement is consistent with the conjecture that many of these separations are not related to job displacement as usually understood (see the discussion in Box 1.1).
15. This may reflect the classification of many workers enrolling in voluntary early retirement plans as workers who separated from their employer for economic reasons.
16. In line with the Act on Stabilization of Employment of Older Persons, “older persons” are defined in Japan as persons aged 55 or above.
17. See the note to Figure 1.8 for details about the probit model and how it was estimated.
18. Estimation result based on ESS data for 2007 (not shown).
19. The seminal paper by Jacobson et al. (1993) attempted to accurately measure the cost of displacement by comparing earnings changes for displaced workers before and after displacement with the earnings trajectories of workers who were not displaced. This type of analysis takes account of the possible wage rises that would have occurred for displaced workers in their previous job, if they had not been displaced. Using longitudinal data for the state of Pennsylvania, they find short-term and long-term losses of 50% and 25% of quarterly earnings, respectively. Losses seem to vary modestly with local labour market conditions; industry and firm size, and appear to be large even for workers re-employed in similar firms. Using a similar methodology and Longitudinal Employee-employer data for the United States, von Wachter et al. (2009b) estimate a short-term (annual) earnings loss of 30% and a long-term (20 years) wage loss of 20% for workers dismissed during mass layoff over the period 1980-86.
20. The authors show that older displaced workers often experience very large wage losses. For example, 53% of the men between the ages of 60 and 64 who were displaced experienced wage losses of at least 30%.
21. Since the ETS reports wage changes in terms of seven intervals, an OLS regression model has been estimated using an ordinal dependent variable (i.e. an indicator variable indicating the magnitude of the wage change). The sample has been restricted to displaced workers who are re-employed within a year. This model was estimated separately for workers separated due to: *i*) economic reasons (displaced); *ii*) end of contract or mandatory retirement; and *iii*) voluntary separation; as well as for the last two groups pooled. The estimated coefficients are not presented in this report, but the text discusses which types of effect were most significant (detailed results available on request).

22. Human capital can be specific to a particular firm, industry or occupation. To a considerable extent, the latter two types of specificity are captured by a dummy variable for career change, defined as a change in both industry and occupation.
23. See Chapter 2 for a description of Shukkō and its role in preventing unemployment when firms shed regular workers.
24. The estimated effects differ somewhat according to the regression equation that is estimate (e.g. the precise list of regressors and whether individual fixed effects are included in the model), as well as the sample analysed (i.e. whether it is restricted to regular workers or also includes non-standard workers).
25. To examine the long-term effect of displacements on monthly wages, the authors use the differences-in- differences method, as was first introduced by Jacobson et al. (1993). This more complex approach compares the earning profiles of displaced workers with those of comparable non-displaced workers and, thus, provides more reliable estimates of the earnings impact of displacement than simple before and after comparisons of wages for displaced workers.
26. It has to be kept in mind, however, that LOSEF data are not nationally representative since the sample only includes workers enrolled in the public pension scheme for employees (*Kosei Nenkin Hoken*). Measurement error is also present in that the only earning measure available is standard monthly pay. However, it seems likely that excluding extra allowances and bonus from the analysis is likely to provide a conservative estimate of earnings losses. Indeed, the authors intentionally structure their analysis so as to provide a lower-bound estimate of the earnings losses experienced by regular workers when they are displaced. For example, the analysis excludes workers who become re-employed in non-regular jobs at any time.
27. This is the case in some OECD countries: the United States, Australia, Korea, France, Canada, Sweden, the United Kingdom, Denmark, Finland and Portugal (see OECD, 2013a, Chapter 4).
28. For a depth review of unemployment and suicide see also Platt (1984), Chen et al. (2012b) and Sawada and Sugano (2009).
29. In Japan, in the mid-1990s, amid a prolonged period of economic recession, a rash of suicides started. From 1997 to 1998, the number of suicides jumped by 34.73%. Despite the recent economic recovery, Japan's suicide rate remains high.

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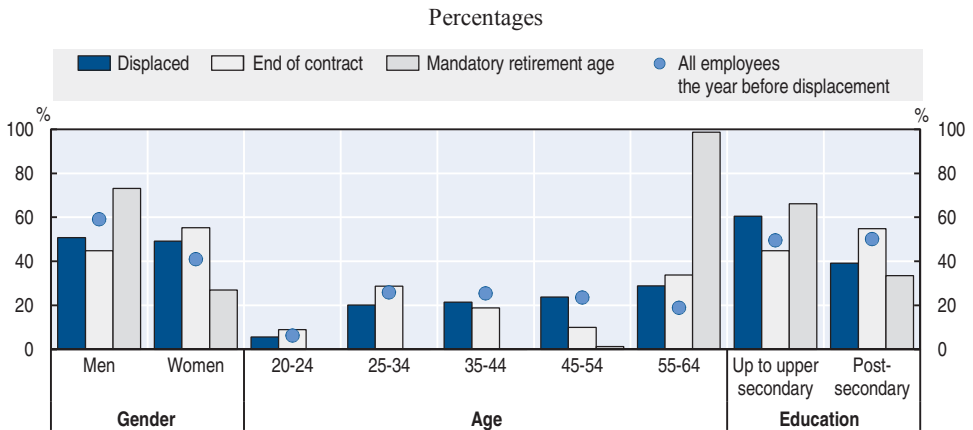
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Annex 1.A1

Additional figures

Figure 1.A1.1. **Characteristics of displaced workers and other job separators according to the Employment Status Survey, 2007**



Source: MHLW calculations using microdata from the Employment Status Survey (ESS).

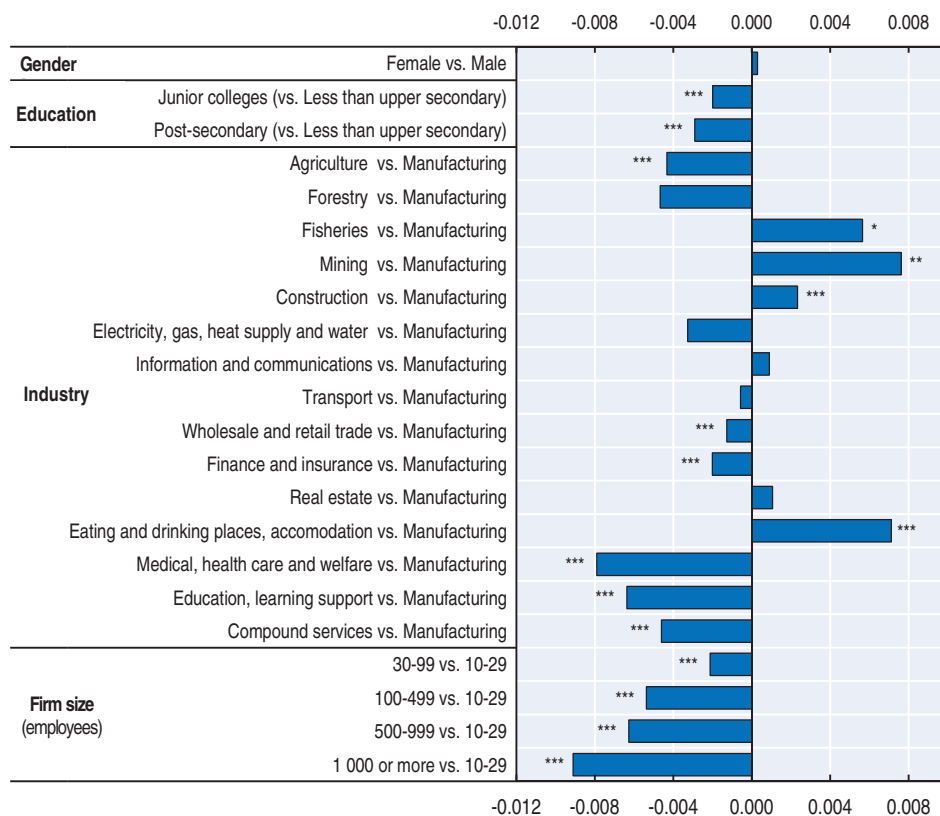
StatLink  <http://dx.doi.org/10.1787/888933175403>

Figure 1.A1.2. **Incidence of displacement and other types of separations according to the Employment Status Survey, 2002, 2007 and 2012**



Source: MHLW calculations using micro-data from the Employment Status Survey (ESS).

StatLink  <http://dx.doi.org/10.1787/888933175411>

Figure 1.A1.3. **Marginal effect of selected characteristics on the likelihood of being displaced, 2002-13**

***, **, *: Statistically significant at 1%, 5% and 10% levels, respectively.

Source: MHLW probit model estimates using microdata from the Japan Labour Force Survey (LFS).

StatLink  <http://dx.doi.org/10.1787/888933175422>

Figure 1.A1.4. **Marginal impact of selected characteristics on the likelihood of being re-employed following displacement, 2002-13**



***, **, *: Statistically significant at 1%, 5% and 10% levels, respectively.

Source: MHLW ordered logistic regression model estimates using microdata from the Japan Labour Force Survey (LFS).

StatLink  <http://dx.doi.org/10.1787/888933175434>

Chapter 2

Japan's measures to prevent job displacement and other forms of early intervention

This chapter analyses the most important policy measures that take effect before workers are dismissed, both measures to prevent excessive job displacements and early interventions that provide workers who will be displaced with an early start at finding a suitable new job. Compared with their OECD peers, Japanese employers take an unusually active role in both types of proactive measures. As a consequence, a large part of the government's role during the pre-dismissal phase consists of encouraging and supporting employers' efforts to avoid displacements, when possible, and to foster rapid outplacement when it is not. Government also has an important role to play in supporting the private provision of adjustment assistance for displaced workers and filling gaps in that assistance. Currently a particular policy challenge is to effectively implement the welcome policy shift from a heavy emphasis on preserving existing jobs, which came to the fore during the recent recession, to placing more emphasis on helping workers to move smoothly from declining firms and sectors to growing parts of the economy.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Employers' labour requirements vary continually as sales fluctuate and production technologies evolve, but many of these changes can be accommodated through internal adjustments, rather than hiring and firing. For example, employees may be retained during a business downturn by temporarily reducing their hours of work or assigning them to nonproduction activities (e.g. training or maintenance work). Even when a firm's labour requirements have permanently declined for a certain type of worker, it may be possible to retrain those workers and transfer them to other parts of the firm. When such transfers are not feasible or there is a need to reduce the overall size of the workforce, employers may still provide workers they are displacing with outplacement services. All of these types of preventative and outplacement measures can reduce the incidence of displacement and its adverse consequences for workers. However, they are also costly for employers and this limits the number of workers who benefit from these types of human resource management (HRM) practices.

Compared with their counterparts in other OECD countries, Japanese employers – particularly large firms – are unusually committed to taking preventative measures when faced with temporarily low demand and providing outplacement services when they have no choice but to downsize their regular workforce. Indeed, such measures are integral to the lifetime employment model which is characterised by long-lasting employment relationships in which workers receive broad training and are expected to be highly flexible about taking on different work assignments.¹ When internal flexibility is insufficient and regular workers must leave the firm, it is common for their employers to organise transfers to positions in other firms, either directly (e.g. through *shukkō* and *tenseki*)² or indirectly (e.g. by engaging outplacement agencies to assist these workers to find new jobs). These practices are most prevalent for regular workers employed by large corporations or the government, but a considerable share of the workforce probably benefits from these types of HRM practices, at least to some degree.

In this context, the government's role in the areas of prevention and early intervention consists, in large part, of supporting employers in their already strong predisposition to minimise the number of displacements and assist workers whose dismissal cannot be avoided to find new jobs. Since employer-provided outplacement services sometimes fail and not all workers receive this type of assistance, government programmes are needed to fill gaps left by these private measures. This chapter discusses the major public policies that are intended to limit the number of displacements or deliver adjustment assistance to displaced workers before they are

dismissed, notably, the *Employment Adjustment Subsidy*, *Employment protection legislation*, the *Labour Mobility Subsidy* and other early intervention initiatives which provide timely adjustment assistance to workers affected by mass dismissals. Private prevention and outplacement measures are also described in considerably detail, because one of the challenges facing public labour market programmes is to effectively co-ordinate with and supplement employer-initiated measures.

Preventing job displacement

Two types of public labour market policies that play a particularly important role in limiting the number of displacements in Japan are discussed in this section. The first is the *Employment Adjustment Subsidy* which is a public short-time working scheme that is intended to encourage employers to retain workers during temporary economic downturns. Attention then turns to employment protection legislation which is intended to prevent undesirable dismissals, while also reducing adjustment costs when economic dismissals cannot be avoided and assuring the fairness of the criteria used by employers to determine who is dismissed.

Employment Adjustment Subsidy

The Employment Adjustment Subsidy (EAS) is probably the most important policy measure in Japan for preserving jobs and avoiding displacements during recessions and other situations where firms experiencing temporarily low demand. The purpose of *Short-time working* (STW) schemes, such as EAS, is to avoid the permanent dismissal of workers during a business downturn whose jobs would be viable in the long run, while also providing income support for workers whose hours are reduced due to a shortened workweek or temporary layoffs. Accordingly, these schemes provide a public subsidy to employers who make use of work sharing in order to avoid dismissals during a period of decreased sales, provided they satisfy certain conditions. While the majority of OECD countries operate a STW scheme, an OECD analysis concluded that the EAS was particularly effective at reducing job losses for permanent workers during the recession that followed the global financial crisis (see Chapter 1 in OECD, 2010).

Like other types of job subsidies, STW schemes are subject to *deadweight* and *displacement* effects that reduce their cost effectiveness. Deadweight occurs when STW subsidies are paid for jobs that employers would have retained even in the absence of the subsidy, implying that this spending is a pure transfer which does not limit total job losses. This may occur when firms have sufficiently strong predisposition to retain redundant

workers during the period of reduced output demand, as may frequently be the case for Japanese firms that are committed to long-tenure employment relationships. Displacement effects occur when STW schemes preserve jobs that are not viable without the subsidy, even after business conditions recover. If these subsidies are maintained, they lock workers into low-productivity job matches and thus represent a barrier to job creation and growth-enhancing labour mobility.³

One of the key challenges when operating a STW scheme, such as the EAS, is to design the programme so as to preserve as many viable jobs as possible while limiting deadweight and displacement effects. A number of the features of the EAS appear to be quite well designed to meet this challenge:

- ***Subsidy level:*** If the firm's application is approved, the EAS subsidy covers only a part of the employer's costs in continuing to pay workers for the hours not worked, where the proportion of the costs covered by the subsidy ranges from one-half for large firms to two-thirds for small- and medium-sized enterprises (SMEs). If the employer chooses to offer training to the workers during the time not worked and this training is demonstrated to be relevant for the firm's production needs, then an additional subsidy is available to defer a portion of the training costs (e.g. JPY 1 200 per day per trainee for both large enterprises and SMEs as of September 2014). This cost-sharing model appears to be generous enough to help employers to afford the expense of retaining workers who are temporarily redundant, without being so generous as to encourage employers to retain workers no longer needed by the firm, even after business conditions improve.⁴
- ***Eligibility criteria:*** In order to receive the EAS subsidy, employers must satisfy three main eligibility criteria that are intended to limit deadweight and displacement effects. The employer must: i) provide justification of economic need (e.g. proof that production in the past three months has declined by at least 10% relative to one year earlier); ii) have consulted with the union or worker representatives and obtained their agreement to temporarily shorten working time or suspend the business under the EAS; and iii) show that the participating workers are covered by the EI System (e.g. have contributed for six months or more). These criteria make it more likely that the firm is facing significant economic difficulties and that the workers participating in the scheme are part of the firm's core workforce.

- ***Subsidy duration:*** Displacement effects are most likely to be severe when a STW scheme offers subsidies for a long period of time. The EAS scheme limits the maximum number of subsidised days to 100 days within a year and 150 days within a three-year period, as of September 2014.

These eligibility criteria appear to strike a reasonable balance between encouraging take-up when short-run economic conditions threaten employment that is viable in the long run, on the one hand, and limiting deadweight and displacement effects, on the other. Hijzen and Venn (2011) compare STW schemes in 24 OECD countries, showing that most other OECD countries have adopted eligibility rules that are similar to those in Japan. The employer's share of the cost of compensating workers for hours not worked is relatively high under EAS rules (third highest among the 24 countries analysed), which could discourage participation. However, this may be a desirable feature in the Japanese context where employers are already strongly disposed to retain workers through periods of low demand and the risk of deadweight effects is correspondingly high. The maximum duration of the benefit is also relatively high in Japan (second highest of the 23 countries compared) and this could mean that EAS generates excessively large displacement effects, although there appears to be little evidence this is the case (see below).⁵ A minority of OECD countries condition STW subsidies on additional requirements, such as compulsory training (e.g. the Czech Republic and Hungary) or job search (e.g. Denmark, Norway and Spain), but the case for such requirements appears to be weak.

During recessions, the balance of costs and benefits associated with short-time work schemes may temporarily become more favourable. The efficiency cost of short-time working may be reduced during a recession since many more jobs are at risk, especially those in firms with limited access to credit, while the social cost of locking workers into unviable jobs is temporarily lower since there is little prospect they could move quickly into more productive jobs. The gains from preventing "excessive" dismissals during a recession may also increase due to the longer expected duration of unemployment and its adverse impact on future careers. These considerations suggest that it is generally desirable to modify eligibility rules and subsidy levels as business cycle conditions change, so as to particularly encourage take-up during recessions while keeping participation low during growth periods (OECD, 2009).

The Japanese Government moved quickly to encourage widespread use of the EAS during the recession that followed the global financial crisis by temporarily relaxing the eligibility rules and raising the subsidy levels. For example, all workers contributing to the EI System became eligible (rather than only those who had contributed for at least six months),

the subsidy rates for compensating hours not worked and training costs were substantially increased, and the maximum length of time during which the subsidy could be paid within a single year was increased. All of these changes were subsequently phased out as the economy recovered. Most other OECD countries operating a public STW scheme took similar measures and the OECD monitored this experience closely in order to assess the effectiveness of the countercyclical use of work-sharing schemes, concluding that these measures were quite successful at preserving jobs, particularly in Japan and a few other countries where employer take-up was substantial (OECD, 2009 and 2010).

The number of firms and workers participating in EAS declined during the business cycle expansion prior to the global financial crisis, reaching a low level in 2006-07 (see Table 2.1). Participation subsequently soared, as economic conditions deteriorated, eligibility rules were relaxed and the subsidies were made more generous, peaking in 2009. Hijzen and Martin (2012) estimate that the take-up rate peaked at 4.6% of dependent employment in October of that year and that the percentage-point increase in participation in Japan was the highest amongst the 18 OECD countries for which they analysed the performance of STW schemes during the global recession. The reasons why Japan, along with a few other OECD countries such as Belgium and Germany, succeeded in encouraging a large expansion in take-up are likely to include: i) the prompt and well publicised moves to temporarily render the programme more attractive to employers and workers; ii) the pre-existing familiarity of employers with these STW schemes; and iii) widespread perceptions amongst employers that the steep fall in sales due to declining export demand was likely to be relatively short-lived. Participation in EAS has been decreasing since 2009, as business conditions improve, albeit more slowly than they rose during the crisis.⁶

How effective was the large expansion in EAS take-up in saving jobs that otherwise would have been lost? This is a difficult question to answer because some of the jobs subsidised would have been maintained in any case (deadweight) and others may vanish after the subsidy ends, since they are no longer economically viable without the subsidy payment (displacement). The OECD (2010) has estimated the number of jobs that were preserved by short-term working schemes in the wake of the global financial crisis in 14 OECD countries, including Japan, and concluded that deadweight and displacement effects were sufficiently small to allow significant numbers of permanent jobs to be saved, while there is no such benefit for temporary jobs. Hijzen and Martin (2012) extended this analysis to cover 23 countries and the recovery period through Q4 2010 and reached the same qualitative conclusions. The *Kurzarbeit* programme in Germany is

estimated to have preserved the greatest number of jobs during the crisis period (peaking at 580 000 jobs equivalent to 2% of dependent employment), while EAS in Japan had the second largest impact (445 000 jobs saved, equivalent to 1.1% of dependent employment). These cross-country estimates largely reflect differences in the size and timing of the increase in STW participation and do not adequately account for possible cross-country differences in the importance of deadweight and displacement effects. Estimates from the Cabinet Office are better tailored to Japanese conditions. These estimates indicate that the EAS programme decreased unemployment rates by 0.5 to 1 percentage point, confirming that it had a positive effect during the recession.

Table 2.1. **Number of firms and workers participating in EAS^a and public spending**

Fiscal year	Number of firms using the subsidy	Number of employees covered	Spending level (millions JPY)
2005	947	25 053	582
2006	521	10 157	229
2007	518	11 843	247
2008	4 888	254 181	6 779
2009	794 016	21 298 449	653 472
2010	755 716	10 034 336	324 502
2011	519 873	7 748 094	236 169
2012	329 860	4 619 676	113 434

a) The numbers of firms and employees are totals of monthly payments determined, so that the same firms and workers are counted multiple times when they participate for multiple months or participate both in the basic short-time subsidy and the training subsidy.

Source: MHLW (2013), Data supplied to the OECD Secretariat, August.

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As was mentioned in Chapter 1, the rising share of non-regular workers in total employment raises concerns, including that many non-regular workers may face high levels of insecurity due to employers' use of this group as a "shock absorber" to protect the jobs of regular workers during economic downturns. OECD-wide evidence suggests that EAS schemes may have tended to reinforce this dualism during the recent crisis by encouraging employers to preserve more regular jobs but not more temporary jobs, although this multi-country finding need not apply to Japan.⁷ There is stronger international evidence that excessive use of STW subsidies can lock workers into low-productivity job matches and hence become a barrier to economic growth. For example, a few European

countries have provided STW subsidies without a time limit, causing some workers to remain permanently attached to business that had not operated for many years (OECD, 2009).⁸ The EAS programme is much less vulnerable to generating lock-in costs of this nature, but Hijzen and Martin (2012) find tentative econometric evidence that the slower decline in EAS participation during the early recovery period in late 2009-10 in Japan, as compared to the more rapid decline in *Kurzarbeit* participation in Germany, may have reduced the net benefits from EAS in the wake of the crisis. However, a survey evaluation study done in 2011 suggests that displacement effects are relatively small in Japan. Ninety-four per cent of workers who had participated in the EAS programme were still employed by the same firm six months after the subsidy payments ended and only 0.7% of the firms receiving EAS subsidies closed within one year of when they enrolled in the programme (Hirashima, 2013).⁹ This somewhat contradictory evidence suggests that additional research to determine the extent of displacement effects and the desirability of taking additional steps to reduce these effects (e.g. by reducing the maximum period during which EAS subsidies can be received), should be a high priority, along with continuing to shift budgetary resources from job preservation towards measures to promote desirable forms of labour mobility (Cabinet Office, 2013 and 2014).

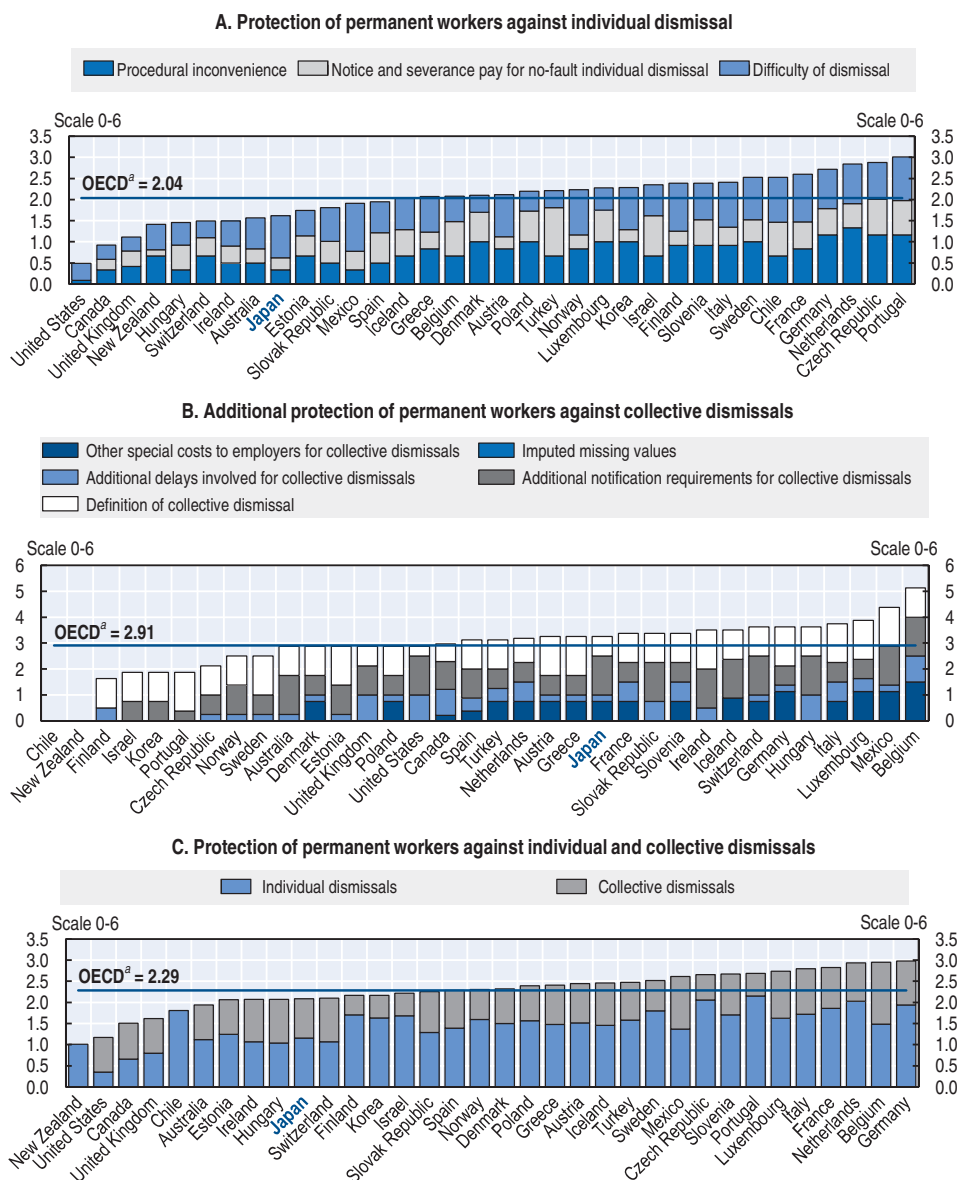
Employment protection legislation

Employment protection legislation (EPL) – that is the set of rules governing the hiring and firing of workers – typically has been designed to both protect workers from unfair dismissals and increase job stability for workers with the aim of shielding workers and society from the economic and non-economic costs associated with job displacement. While the costs of displacement are real (see Chapter 1), a large body of research has shown that excessively strict or poorly designed EPL can greatly hamper the economy by discouraging job creation, lowering productivity and strengthening labour market dualism (see Chapter 2 in OECD, 2013a).¹⁰ In this section, the much discussed issue whether employment protection rules are too stringent in Japan is assessed, and it is argued that this probably is not generally the case since existing regulations are not out of line with those observed in other OECD countries and largely ratify HRM practices that employers are inclined to adopt in any case. Another issue, which has been much less discussed is also examined, namely, how well the EPL regime promotes successful adjustment by displaced workers by providing them with faster access to public and private services such as counselling, job placement and retraining, especially when collective dismissals occur.

Employment protection for permanent workers

The OECD indicators of EPL stringency indicate that employment protection is perhaps surprisingly light in Japan given the importance that Japanese employers, workers and policy makers attribute to employment stability. Figure 2.1, Panel A compares the strictness of employment protection against individual dismissal for workers with permanent employment contracts (i.e. open-ended as opposed to temporary contracts) in Japan with that for their peers in other OECD countries in 2013.¹¹ This aspect of EPL is scored as being less stringent in Japan than for the average OECD country (1.62 versus 2.04 on a scale that runs from 0 to 6). Among the three sub-components of this type of regulation, Japanese regulations concerning advance notification and severance pay are considerably lighter than those in most other OECD countries, whereas the difficulty of dismissal component is above the OECD average, due to the relatively broad definition of unfair dismissal and the relatively generous compensation offered to workers who initiate a successful claim of wrongful dismissal (see also Box 2.1 below).¹²

Panel B of Figure 2.1 provides cross-country comparisons of the additional requirements that employers are required to meet when implementing collective dismissals involving a significant number of workers. This type of regulation is relatively strict in Japan and its indicator value of 3.25 is somewhat above the OECD average of 2.91. The main reasons Japan receives a relatively high score are that employers expecting to downsize the business causing 30 or more regular employees to be forced to separate from the firm within a month are required to consult with unions (or worker representatives) about both possible alternatives to economic dismissals and the content of an employer-sponsored Plan for Assisting Re-employment, which must then be submitted to the chief of the local Public Employment Security Office for approval at least 30 days in advance of the dismissals. One of the reasons that Japan scores relatively highly in terms of the *additional* requirements for collective dismissals is that its regulations for individual dismissals are relatively light.¹³ As discussed in detail below, these additional requirements for consultation, advance notification of labour market authorities and the drawing up of a re-employment plan can all contribute to lowering the adjustment costs associated with job displacement and should thus not be considered solely as costly constraints on the flexibility of businesses to adapt to their changing labour requirements.

Figure 2.1 **Employment protection of permanent workers in OECD countries, 2013**

Note: The figure presents the contribution of different sub-components to the indicators for employment protection. The height of the bar represents the value of the indicator.

a) Unweighted average of the respective indicator shown in each panel for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, <http://dx.doi.org/10.1787/lfs-cpl-data-en>.

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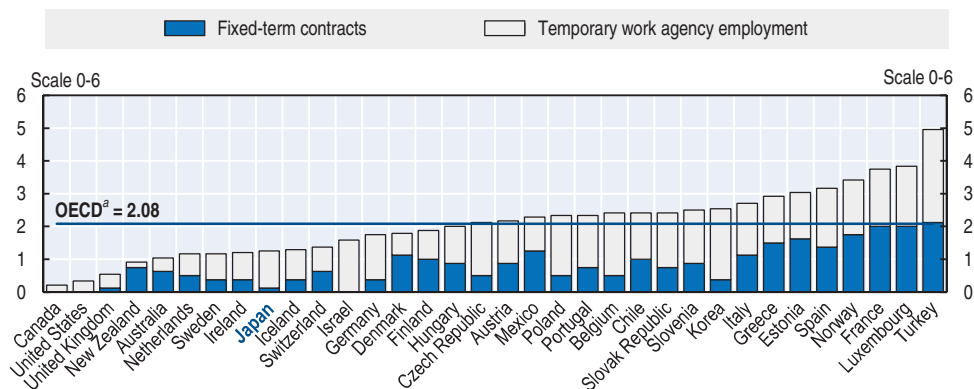
Overall EPL strictness for permanent workers against individual or collective dismissals is reported in Panel C of Figure 2.1. Japan is rated as being moderately below the OECD average (2.09 versus 2.29). At a more detailed level, Japan has relatively strict rules concerning wrongful dismissal and collective dismissals, combined with relatively light requirements for advance notice and consultations in cases of individual dismissals and no requirement for employers to provide severance pay. These international comparisons suggest that the overall strictness of EPL in Japan is not likely to be a problem, but there could still be concerns about the form some of these rules take (see the discussion of wrongful dismissal below).

Employment protection for temporary workers

The rules for employing workers on fixed-term contracts or those dispatched by a temporary work agency are very flexible in Japan. Figure 2.2 presents the OECD indicator for the strictness of the regulation of temporary workers. The overall indicator value in Japan is 1.25, well below the 2.08 OECD average. Restrictions on the use of fixed-term contracts are especially light, since the main constraint on employers is that fixed-term contracts generally cannot exceed three years in duration, although they typically can be renewed without limit.¹⁴ Only three countries with no restrictions whatsoever on the use of these contracts (Canada, Israel and the United States) rank lower than Japan, while the United Kingdom has the same low indicator value (0.13). The regulations affecting the use of workers from temporary agencies are somewhat more restrictive in Japan, but still leave a lot of scope for employers to make use of this type of employment relationship.

Despite the wide discretion available to Japanese employers to make use of temporary workers, they make only slightly greater use of these types of employment contracts than their counterparts in other OECD countries. According to OECD statistics, the share of temporary workers in total dependent employment in Japan was 13.7% in 2012, as compared with an employment-weighted average value of 11.8% across OECD countries.¹⁵ However, this share has grown slowly since 1990 in Japan, when it was 10.6%.

Figure 2.2. Regulation on temporary contracts in OECD countries, 2013



Note: Data refer to 2013 for OECD countries. The figure presents the contribution of the indicator of regulation for standard fixed-term contracts (EPFTC) and the indicator of regulation for temporary work agencies employment (EPTWA) to the overall indicator of regulation on temporary contracts (EPT). The height of the bar represents the value of the overall indicator of regulation on temporary contracts (EPT).

a) Unweighted average of the EPT indicator shown in the figure for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013 update, <http://dx.doi.org/10.1787/lfs-epl-data-en>.

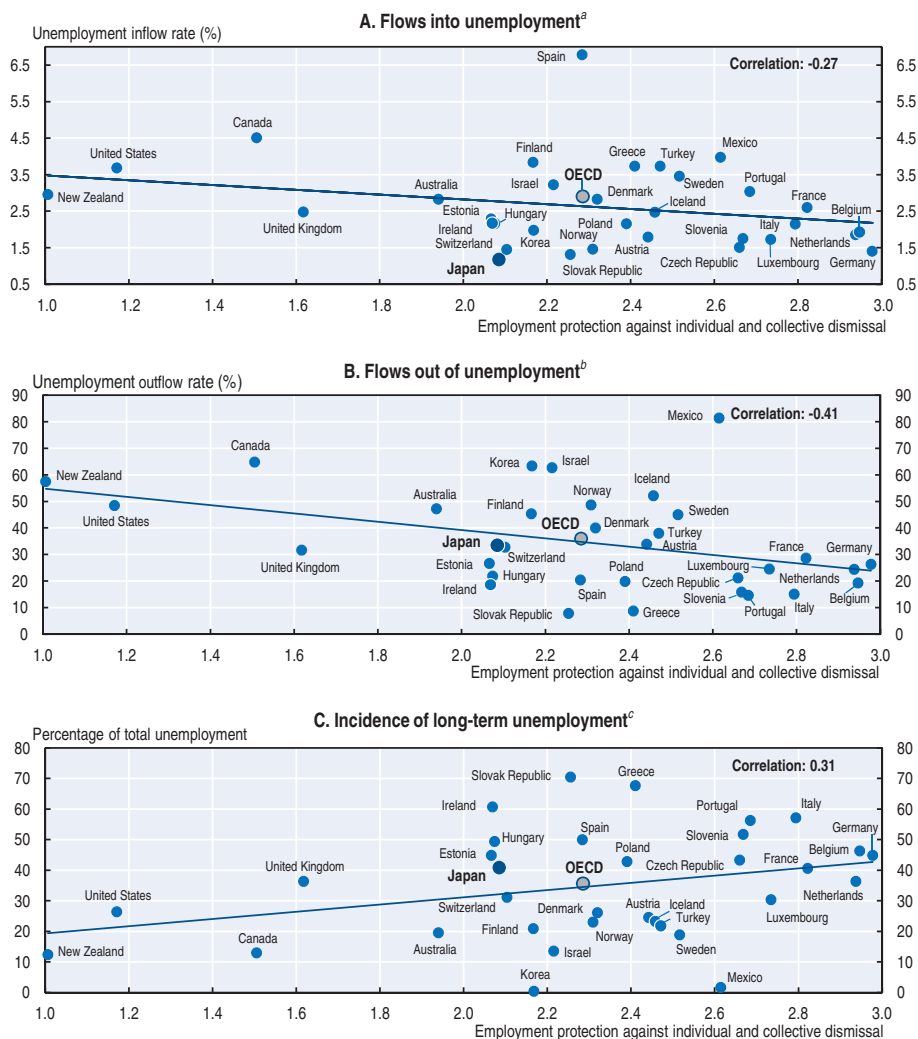
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Employment protection and employers' human resource management practices

It is difficult to ascertain the impact of EPL on the HRM practices of Japanese businesses. The relatively stringent restrictions on unfair and collective dismissals of permanent workers appear to be most likely to affect employers' decisions about how many and which workers to dismiss when they are no longer needed for production purposes. However, even these restrictions may have little effect if they largely codify practices that employers would follow in any case, as would be expected for firms implementing most or all of the principles of the lifetime employment model.

Figure 2.3 displays the cross-country association between EPL strictness for permanent workers and three measures of total labour turnover which plausibly could be affected by EPL: flows in and out of unemployment and the incidence of long-term unemployment. Both theoretical arguments and empirical research have shown that strict EPL is likely to reduce the propensity for permanent workers to be displaced into unemployment, but it also tends to dampen hiring rates so that unemployed persons take longer to move back into jobs (see the literature review in OECD, 2013a, Chapter 2). These figures are suggestive of such a tendency, since unemployment inflows and outflows both tend to be lower in countries with stricter EPL, whereas the incidence of long-term unemployment tends to be higher.¹⁶

Figure 2.3. Simple correlations between EPL for permanent workers, labour market dynamics and the incidence of long-term unemployment, OECD countries



Note: EPL: Employment protection legislation.

- The *unemployment inflow rate* is defined as the ratio of the number of unemployed who have been unemployed for less than one month to the number of employed one quarter earlier.
- The *unemployment outflow rate* is defined as 1 minus the ratio of the number of unemployed who have been unemployed for more than a month to the total number of unemployed one quarter earlier.
- Number of long-term unemployed (12 months or more) as a percentage of total unemployment.

Source: OECD calculations based on national labour force surveys; and *OECD Employment Protection Database*, 2013 update, <http://dx.doi.org/10.1787/lfs-epl-data-en>.

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Japan is somewhat of an outlier among the OECD countries included in this analysis. This is particularly striking in Panel A of Figure 2.3 where Japan is the country with the lowest flows into unemployment, despite a moderately below-average level of EPL strictness. This pattern is consistent with high levels of employment security in Japan being rooted in the commitment of many employers to the lifetime employment system – and hence to minimising dismissals of regular workers, even when business conditions are weak or labour requirements change – rather than being a consequence of strict EPL.¹⁷ While much less pronounced, there is also a tendency for unemployment to be more persistent in Japan than would be predicted based on EPL strictness, alone. Part of the job-search difficulties experienced by many unemployed workers in Japan may reflect the relatively less attractive employment opportunities available to mid-career regular workers who lose their jobs and fall into unemployment, due to many employers preferring to hire new graduates for the best jobs.

While the overall strength of employment protection in Japan does not appear to be a major problem, Jones and Urasawa (2011) have argued that its ambiguity increases the effective strictness of EPL for regular workers and may thus cause employers to employ too many non-regular workers and thus contribute to labour market dualism. Any such effect could lower the risk of displacement for regular workers who are already employed – albeit, at the expense of non-regular workers. However, it could also mean that workers who are displaced have more limited re-employment opportunities due to employers' being more cautious about recruiting mid-career workers for higher-quality jobs.

Concerns about excessive ambiguity in employment law relate to the manner in which labour law defines unfair dismissals (see Box 2.1). It should be noted, however, that other analysts have concluded that the law, as applied, manages to be protective for workers without imposing excessive rigidity on employers who wish to dismiss workers for poor performance or because certain jobs have become redundant (Sugeno and Yamakoshi, 2014). It is also notable that the current government has moved to provide foreign companies which set-up new establishments in the National Strategic Special Zones with clearer guidelines, consultation and other assistance to avoid disputes with their employees, such as those related to wrongful dismissals.¹⁸ While this is a helpful initiative, it may not be sufficient to resolve the uncertainty confronting employers in the absence of new legislation to clarify the criteria for lawful dismissals.

Box 2.1. Regulation of unfair dismissals: Ambiguous criteria may increase the effective level of employment protection for permanent workers

Article 16 of the Labor Contract Act of 2007 states that any dismissal of workers that “lacks objective, reasonable grounds and is not considered to be appropriate in general societal terms, [shall] be treated as an abuse of power and be invalid” (as quoted in Sugeno and Yamakoshi, 2014, p. 84). This very general formulation leaves the legal system considerable discretion in applying this standard. Judicial precedents have established four criteria to determine whether employment adjustment as a result of corporate downsizing can be deemed an abuse of power by the employer:

1. The employer must establish the economic necessity for reducing its workforce.
2. The employer must demonstrate that all reasonable efforts to avoid dismissals (i.e. reducing overtime hours, re-assigning or seconding staff, offering voluntary retirement packages) have been made.
3. The employer must establish reasonable and objective criteria for selecting which workers will be dismissed.
4. The employer must show that the overall dismissal procedure is acceptable, for example by showing that unions or worker representatives were adequately consulted.

If an employer is judged to have failed to meet these criteria – all of which leave considerable room for interpretation – when dismissing a worker, the dismissal may be rendered invalid. In such cases, the court may order reinstatement with back pay. There is no time limit on when former workers may make a claim of unfair dismissal, although courts have sometimes disallowed complaints filed long afterwards, based on the principle of good faith. All of these factors imply that firms displacing regular workers face considerable uncertainty and this could cause them to make heavier use of temporary workers than would otherwise be the case.

The labour market opportunities available to displaced workers may also be limited by employers’ concerns about whether the courts would allow them to dismiss newly-hired workers who turn out to be a poor match for the job. When hiring new employees, employers are entitled to establish a trial period (usually varying from two to six months and the most common period is three months) during which they have somewhat greater latitude to dismiss workers who fail to demonstrate the skills or aptitudes required to perform well. Nonetheless, considerable uncertainty may persist about whether workers dismissed for these reasons could successfully claim that they were wrongfully dismissed. In the most important court case on this issue, (Takano v. Mitsubishi Jushi K.K., 27 Minshu 1536, Supreme Court, Brand Bench, 12 December 1973), the Supreme Court ruled that the employer must establish “objectively reasonable” grounds for concluding that the worker is unsuited for the job, which appears to leave judges with considerable discretion when assessing whether a dismissal is justified. If firms are not confident that courts will accept their decisions about which workers performed poorly during their trial period, they are likely to be reluctant to hire mid-career displaced workers into more important and better paying jobs, fearing they could find themselves obligated to retain low performing workers.

Box 2.1. Regulation of unfair dismissals: Ambiguous criteria may increase the effective level of employment protection for permanent workers (*cont.*)

Employers' uncertainty about how much latitude they have to dismiss newly-hired workers who prove to be unsuited for the position may account for the support that the Japan Business Federation (KEIDANREN) has repeatedly voiced for Employment Placement Dispatching (EPD). EPD is a form of temporary agency work where the using firm can select the temporary workers who will be assigned to it and then has the option, but no obligation, to hire the workers at the end of the temporary assignment. This form of dispatching appears to provide a surer way to organise trial periods for mid-career workers. However, EPD is much less used by smaller firms (according to the 2012 General Survey on Dispatched Workers of the MHLW, 31% of firms with 1 000 or more workers were employing at least one EPD worker when surveyed, as opposed to 4% of firms with 5-29 workers). This suggests that new legislation to clarify employers' right to dismiss workers whose performance during the trial period is unsatisfactory would provide a more general solution.

Source: Sugeno, K. and K. Yamakoshi (2014), "Dismissals in Japan – Part One: How strict is Japanese law on employers?", *Japan Labor Review*, Vol. 11, No. 2, pp. 83-92.

Employer measures to promote mobility without unemployment

This section discusses HRM practices that many Japanese employers have adopted to assist the workers they no longer need to find another job, often without any intervening unemployment. Three types of practices are described: i) direct transfers of workers from a company, which is downsizing or restructuring, to affiliated firms; ii) the extension of the direct transfer model to encompass a wider range of potential receiving firms via the Industrial Employment Stabilization Center; and iii) employers contracting with private outplacement agencies to provide re-employment services for workers who are to be displaced. One important goal for labour market policy is to encourage employers to offer these types of private measures to as many displaced workers as possible, since that would reduce both the costs borne by the affected workers and the numbers of displaced workers needing to rely upon public income support and job-search assistance. Another goal is to take full advantage of the potential complementarities between public and private measures to assist displaced workers. The role of public early intervention measures and their co-ordination with private measures are taken up in greater detail in the next section.

Direct transfers between affiliated companies: shukkō and tenseki

Transfers of workers between related businesses are common in Japan. A survey of companies with more than 30 employees that was conducted by the Ministry of Health, Labour and Welfare found that 37% of firms had

transferred employees to another firm during 2001 (Kôsei Rôdô Shô Daijin Kanbô Tôkei Jôhôbu, 2001). This share rose with firm size and was 93% for firms with more than 1 000 employees.¹⁹ For example, a large manufacturer may transfer an experienced worker to a smaller component supplier. Inter-company transfers most often occur between affiliated companies, but can also occur between unaffiliated firms.²⁰ Among firms making transfers the share of regular employees on transfer in 1997 ranged from 5.1% for firms with less than a thousand employees to 16.5% for those with at least one thousand employees (Table 2.2). The share of regular employees on transfer also increases strongly with age, rising from 5.8% for workers under age 40 to 22.3% for workers 55 or older.

Table 2.2 **Inter-company transfers from the perspective of the sending company, 1997**

Levels and percentages					
Company size (sending company)	Sample size (sending companies)	Average number of receiving companies	Average number of employees involved (per sending firm)		Percentage share of workforce on temporary transfers ^a
			People on temporary transfer	People permanently transferred in 1997	
Total	184	92.6	1 006.5	49.6	10.1
Less than 999	33	10.7	39.4	3.9	5.1
1 000-4 999	88	39.1	250.4	11.6	9.4
5 000-9 999	28	100.1	753.8	14.1	10.1
10 000-19 999	17	152.5	2 399.6	150.0	16.5
More than 20 000	18	435.8	5 324.7	296.3	16.5

a) The number of workers on temporary transfers as a percentage of the total number of regular workers.

Source: Data from JIL (1999), “Shukkô * tenseki no jittai to tenbô” [Current situation and outlook on temporary and permanent inter-company transfers of personnel], *Chôsa kenkyû hokokusho*, No. 126, Tokyo (available only in Japanese).

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These transfers may be either temporary or permanent, and serve multiple purposes within the context of the lifetime employment system and the close co-operation that often exists between affiliated companies, such as firms that are in the same business group (*keiretsu*). These purposes include: i) supporting business partners and affiliates (e.g. a large firm temporarily loans a worker with specialised skills to a smaller supplier firm with a temporary need for that expertise); ii) developing employees' skills through experience working in other firms;²¹ iii) sharing information and technical knowhow between affiliated firms; and iv) securing continued employment for workers who need to leave the company due to downsizing,

restructuring or mandatory retirement (Futagami et al., 1998; and Lincoln and Ahmadjian, 2000). Only the last type of inter-company transfer is a form of job displacement. Not surprisingly, this type of transfer disproportionately involves older workers.²²

Inter-company transfers are organised between the sending and receiving firms and can take several distinct forms. *Shukko* corresponds to transfers where the employment contract of the worker with the sending firm remains in force. In the case of a *Tenseki* transfer, the original employment contract is ended and the worker becomes an employee of the receiving firm. Whereas *shukko* transfers are most often temporary, *tenseki* transfers are almost always permanent.²³ A survey of sending firms showed that permanent transfers during 1997 accounted for less than 5% of all transfers (see Table 2.2), but some initially temporary transfers were probably converted to permanent transfers at a later point. Indeed, there is a widespread perception among workers that permanent transfers for the purpose of downsizing have become increasingly common since the slow growth era began in the early 1990s (Meyer-Ohle, 2009).

The receiving company is typically smaller than the sending company and offers less advantageous terms of employment, implying that a *tenseki* transfer typically results in a substantial fall in wages. Not surprisingly, workers tend to view permanent transfers due to corporate downsizing negatively (Meyer-Ohle, 2009). Nonetheless, a *shukko* or *tenseki* transfer probably represents the least bad outcome for many regular workers who are displaced, since the worker moves directly to a new job without any intervening unemployment and the new employer is likely to particularly value that worker's vocational skills, as well as his personal contacts in the sending firm and knowledge of its working methods.

Industrial Employment Stabilization Center

Industrial Employment Stabilization Center (IESC) was originally established in 1987 with contributions from 13 business groups (primarily in manufacturing) and a subsidy from the national government, with the purpose to facilitate the mobility of labour between industries and companies. The IESC was intended to extend the practice of inter-company transfers among affiliated companies (i.e. *shukko* and *tenseki*) to cover a wider range of employers, by facilitating transfers between non-affiliated firms. The IESC does this by operating as an intermediary that facilitates good matches between sending and receiving firms; that is, between companies with regular workers they no longer need and companies wishing to recruit mid-career regular workers with appropriate skills and aptitudes. When an IESC agent has identified a potentially good match, the sending and receiving firms are informed. If both firms agree that a transfer would

be mutually advantageous, then they negotiate the terms of the transfer, which can be either temporary or permanent.²⁴ This model appears to be unique to Japan and it represents a valuable institutional innovation that helps to better reconcile the commitment of many Japanese employers to provide employment security to their regular workers with the efficiency gains that can be achieved via labour mobility.

There is one IESC office in each of the 47 prefectures and this network continues to be funded by a combination of government funds and industry contributions.²⁵ The majority of the staff in these offices consists of human resource specialists from large firms, who are temporally seconded to the IESC. To facilitate the transfer of workers from downsizing to recruiting firms, the IESC gathers information about firms that are planning to displace workers and those that are recruiting workers. Information on job vacancies and jobseekers are shared between the 47 prefectural offices in order to provide greater scope for job matching. Typically, agents at the IESC both collect information on vacancies to add to the vacancy database and provide job-search assistance to displaced workers, including by proposing them as a candidate for specific vacancies (Abe et al., 2014).

Unlike Hello Work (Japan's public employment service), the IESC never refers more than a single candidate for a vacancy. By limiting its referrals to matches that look particularly good, the IESC reinforces its credibility with the employers and achieves a high success rate. Table 2.3 shows that the IESC placed approximately 60% of the displaced workers that had been referred to it by sending companies into new jobs during 2010-13. By contrast, its success rate was only about 40% in 2008-09, due to the very difficult labour market conditions created by the global financial crisis.²⁶ While the IESC clearly are effective at organising direct transfers between participating companies, these transfers account for very small share of total labour turnover. For example, the 10 042 placements achieved in 2012 corresponded with 0.1% of the 6.8 million total new hires of regular workers as measured in the Survey on Employment Trends.²⁷

Table 2.3. IESC success rate in arranging transfers, 2008-13

	Levels and percentages					
	2008	2009	2010	2011	2012	2013
Cases referred	18 532	21 734	14 206	14 155	17 664	14 326
Cases accepted	7 409	9 377	8 591	8 582	10 042	9 424
Success rate (%)	40.0	43.1	60.5	60.6	56.9	65.8

Source: MHLW (2014), Data supplied directly to the OECD Secretariat, May.

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Table 2.4 compares the performance of IESC and Hello Work offices in 2012 in terms of the numbers and types of clients they serve, both companies and workers; their success rates in placing jobseekers into jobs; and the types of jobs that they place workers into. In order to make this comparison as meaningful as possible, the data presented here for jobseekers served by Hello Work is limited to recent job losers who are searching for a full-time regular job. This comparison suggests that there is a strong potential complementarity between IESC and Hello Work, because their capacities to assist displaced workers to find suitable new employment take somewhat different forms. More specifically:

- ***Number of clients served:*** Panel A of Table 2.4 shows that the IESC is a much smaller player in the labour market than Hello Work. For example, IESC provided job-search assistance to only 0.6% as many jobseekers as Hello Work in 2012. The IESC market share for regular displaced workers would be somewhat higher, since it serves exclusively this group whereas Hello Work also serves other groups of jobseekers, such as new market entrants and non-regular workers. Both organisations help employers meet their recruitment needs, while also assisting jobseekers to find appropriate jobs. In order to do so, both institutions invest significant staff time to collecting and updating a vacancies database. In 2012, the IESC had 2.7 times as many vacancies on file as jobseekers who had been referred to it by their employers, whereas the vacancies-to-jobseekers ratio was 1.7 for Hello Work.²⁸
- ***Types of clients served:*** Panel B of Table 2.4 shows that IESC and Hello Work differ significantly in terms of the types of employers and jobseekers they serve, despite some overlap. The IESC vacancies database is much more focussed on large establishments (one-third of all accepting offers in the IESC database are in establishments with one thousand or more employees, as compared to 1% in the Hello Work database). The IESC is also more specialised in the manufacturing sector (36% versus 10%), administrative and managerial occupations (7% versus less than 1%) and manufacturing process workers (22% versus 11%). Not surprisingly, these differences in the profiles of the recruiting employers that they work with are reflected in the types of jobs into to which the two organisations place jobseekers. In particular, almost two-thirds of Hello Work placements are into firms with fewer than 30 workers, while this is the case for only 13% of workers placed by the IESC. A final difference is that the IESC works exclusively with regular workers, most of whom are mid- to late-career workers (61% are 40 or older) and are still employed; whereas the majority of jobseekers that Hello Work places are below age 40 and are unemployed.

Table 2.4. **Comparison of job-brokering services provided by the IESC and Hello Work, FY 2012**

A. Overall performance				
	IESC	Hello Work ^a	Relative size of IESC (% of Hello Work scale)	
Size of database on vacancies	46 853	5 041 925	0.9	
Number of jobseekers served	17 664	3 042 348	0.6	
Number of workers placed in news jobs	10 042	1 260 043	0.8	
Share of vacancies filled (%)	21.4	25.0	–	
Share of workers placed (%)	56.9	27.8	–	
B. Placement activity by industry, occupation, establishment size and age (% of distribution)				
	Vacancies database		Successful placements	
	IESC	Hello Work	IESC	Hello Work ^a
Industry				
Construction	8.1	12.4	3.9	9.2
Manufacturing	35.9	9.8	57.3	16.6
Medical	2.3	20.2	2.8	20.9
Wholesale and retail	7.5	12.9	6.8	13.4
Occupation				
Administrative and managerial	6.6	0.5	8.2	0.4
Professional and engineering	27.6	25.3	15.0	15.1
Service workers	8.9	17.0	5.3	16.5
Manufacturing process workers	21.5	10.5	42.8	14.7
Establishment size				
Less than 30 employees	9.4	63.7	12.5	64.0
1 000 employees and over	32.5	1.1	35.1	0.9
Age				
Under 40	–	–	38.7	55.9
40-59	–	–	55.2	37.6
60+	–	–	6.0	6.5

Note: IESC: Industrial Employment Stabilization Center; FY: Fiscal year; –: Not applicable.

- a) The data for Hello Work refer to workers who have recently separated from a job and are looking for a full-time regular job. Workers who directly transfer from one job to the next without any unemployment are also excluded from the analysis sample and the shares of vacancies filled and workers placed refer to full-time regular employment only.

Source: MHLW (2014), Data supplied directly to the OECD Secretariat, May.

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- **Success rates in filling vacancies:** The IESC and Hello Work successfully filled approximately the same share of the vacancies

included in their respective databases in 2012 – the IESC placing workers in 21% of its vacancies and Hello Work placing workers in 25% of its vacancies (Table 2.4, Panel A).²⁹ The lower IESC success rate in filling vacancies may reflect their practice of only referring workers to employers with vacancies when they believe that they have identified a jobseeker who is very well matched for the job. It might also reflect the more specialised nature of the vacancies that are included in the IESC database, as well as the preference of the IESC to place workers in the same occupation that they were already exercising.³⁰

- **Success rates in placing jobseekers into new jobs:** The IESC places twice as high a share of the jobseekers that it assists as does Hello Work, 57% versus 28%. This difference almost certainly reflects the fact that the jobseekers assisted by the IESC are a much more selected and job-ready group, since they are all regular workers and most have acquired considerable work experience in large corporations where they are likely to have received extensive training. This group also has the advantage that they are still employed and hence not subject to the stigma that may be attached to being unemployed.³¹
- **Costs per placement:** Simple calculations for fiscal year (FY) 2012 suggest that the MHLW subsidy paid per placement achieved by the IESC was JPY 0.20 million. By comparison, MHLW spending per placement by Hello Work was JPY 0.12 million if only the costs of running the job brokerage function of Hello Work is considered, but JPY 0.42 million if spending on training for the unemployed and recruitment subsidies are also included.³² While unit spending on purely job placement activities appears to be somewhat higher for the IESC than for Hello Work, no clear conclusion can be drawn concerning relative cost-effectiveness since IESC places the displaced workers that it serves into higher quality jobs and the displaced workers (and other jobseekers) served by Hello Work may often receive additional services that increase unit costs, but which may be a prerequisite for them to find employment.

The impressive performance of the IESC in preventing some displaced workers from falling into unemployment while placing them in what appear to be relatively high quality jobs naturally raises the question whether this model could be expanded to assist larger numbers of displaced workers. The effectiveness of the IESC in assisting older displaced workers – a group that appears to be at risk of experiencing particularly large earnings losses (see Chapter 1) – provides an additional reason to consider whether its scope of operation could be expanded. It is thus encouraging that the IESC recently has experimented with serving larger numbers of displaced workers

– including displaced workers who have become unemployed, as will be discussed below in the context of the large number of workers displaced from Sharp in late 2012 (see the next section).³³

While it is too soon to draw any firm conclusions about how much IESC services should be scaled-up and how best to organise any such expansion, some of the complex issues that would need to be addressed can be identified:

- One potentially important limit on the expandability of the IESC model is that it could be difficult to maintain the close working relationship and apparently strong level of trust that exists between the IESC and the sending and receiving firms it currently works with, if it began to work with a larger and more diverse group of employers.
- The currently close relationship between IESC staff and participating firms means that they can rely on informal methods to learn about impending displacements and new job vacancies. More formal methods would probably need to be developed if a significantly wider range of employers and workers are to be assisted to transfer between companies.³⁴
- Similarly, an increase in the diversity of the displaced workers to be placed and the companies where they have accumulated their work experience will make it more difficult for IESC staff and potential receiving firms to assess whether many of the displaced workers seeking a new job would be a good match for any particular vacancy.
- Finally, displaced workers who are already unemployed need additional types of job-search assistance than those who are still employed (e.g. measures to keep up their moral and counselling to convince them to show greater flexibility about changing occupations), implying that the training of IESC staff would need to evolve should the mix of clients they are assisting change.

These types of concerns suggest that policies to extend IESC services to cover a larger share of displaced workers should proceed slowly, so as to minimise the risk that its current strengths are undermined. That is, any initiative to expand the scope of the IESC would need to be careful not to undermine its ability to serve its particular market niche, which is one that Hello Work is generally less able to serve, rather than pushing the IESC towards becoming a general provider of job-search assistance for all displaced workers. Along with incremental initiatives to scale-up the role of the IESC in assisting displaced workers, there may be scope to better realise the potential complementarities between the services offered by this organisation and those offered by Hello Work. For example, the IESC has a

particular strength in placing older displaced workers, such as those receiving early retirement packages, into regular jobs that are quite often in the same occupation and in relatively large firms. However, these efforts sometimes fail so that government assistance is also required. This suggests that there could be gains from improving the co-ordination between Hello Work and the IESC (Abe et al., 2014).

Outplacement services for displaced workers

Firm-provided outplacement services are available to some displaced workers

A considerable number of Japanese firms provide outplacement services to workers they displace, even though there is no legal requirement to do so.³⁵ This type of assistance appears to be particularly common for older workers who enrol in a voluntary early retirement plans that are set up by large firms, as a way to reduce their regular workforce. A 2011 survey of private firms with at least 50 ordinary employees found that 36.5% of the firms that recently had made use of a voluntary early retirement plan had offered workers who enrolled outplacement services (National Personnel Authority, 2011). Larger firms operating a voluntary early retirement plan were substantially more likely to engage outplacement firms to assist workers who enrolled: 71.2% of firms with 1 000 or more employees did so when operating a voluntary early retirement plan, as compared with 15.1% of firms with 50-99 employees.³⁶

Abe et al. (2014) provide a useful analysis of private outplacement services for displaced workers, based on their interviews with managers in the national headquarters of three large private outplacement agencies with recent experience in providing job-search assistance to workers displaced by mass dismissals. One useful insight from this study is that the role played by these private agencies evolves during three successive stages of a mass dismissal event:³⁷

- ***Stage 1 – Pre-notice period:*** Even before workers have been notified that they will be displaced, the sending firm typically engages a private outplacement agency to advise it about how best to manage the impending mass dismissal. For example, the agency may provide advice about the terms to be offered in a voluntary early retirement package (e.g. the level of the lump sum payment upon leaving the firm) and the steps the employer must take to comply with labour market regulations, such as providing advance notice and consulting with unions about the contents of the Plan for Assisting Re-employment to be offered to the workers who leave the firm.³⁸ The sending firm and agency would also agree on the

outplacement services to be offered to displaced workers, as well as the per-worker fee for these services, during the pre-notice period.

- **Stage 2 – Notification period:** Typically, the private agency begins to organise their outplacement services during the notice period, but little or no individualised job-search assistance is provided before workers actually have been dismissed. Workers on notice that they will be displaced often will be provided with general information about the types of assistance that will become available to them when they leave the firm, both from the private agency and from other sources, such as the local Hello Work office.³⁹
- **Stage 3 – Post-dismissal period:** Once a worker is dismissed, individualised outplacement services are offered. Typically, each displaced worker will be assisted by the same designated job-search specialist throughout the entire period of assisted job search. This continuity is intended to foster a good working relationship between the jobseeker and the counsellor, who gets to know well the worker's competencies and preferences concerning future employment. As is the case for the IESC, considerable emphasis is placed on finding suitable job openings for each worker and then attempting to persuade the recruiting employer that this jobseeker is well suited for their opening ("reverse marketing").⁴⁰ Other services, such as financial and psychological counselling, may also be offered. The range of services provided and the period of time for which displaced workers benefit from these services is specified in the sending firm's contract with the private agency.

It is difficult to assess the overall share of displaced workers whose employers arrange for them to receive outplacement services from a private agency. The limited official statistics that are available suggest that this share may be quite low. Data from the Survey on Employment Trends (ETS) indicate that only a little more than 10 000 out of the 236 000 workers who were displaced and then became re-employed in 2012 found their job via a private outplacement agency. This 4.3% share is far below the 34.6% share of recently displaced worker who found new jobs through either Hello Work offices or the MHLW internet service for locating job vacancies.⁴¹ Of course, not all displaced workers who receive outplacement services from a private agency become re-employed promptly and those taking longer to find a job would not be picked up in these figures. Box 2.2 juxtaposes the ETS data for rapidly re-employed displaced workers with data from industry sources and the Japan Labour Force Survey which provide somewhat different, but not fully comparable estimates of how many displaced workers receive this type of adjustment assistance. Box 2.2 also presents evidence from one large national firm, Tempstaff Career Consulting, on the effectiveness of private outplacement services for displaced workers.

Box 2.2. Tempstaff Career Consulting case study

This box presents three different estimates of the number of displaced workers receiving job-search help from private outplacement firms during 2003-12, as derived from in three different data sources: i) an industry source (Tempstaff Career Consulting, 2013a); ii) the Japan Labour Force Survey (LFS); and iii) the Survey on Employment Trends (ETS) data discussed in the main text. The two public surveys provide official data that is well documented, but neither provides a comprehensive measure of the overall share of displaced workers who have access to outplacement services from private agencies: The ETS data provide information about the share of displaced workers becoming re-employed within a year who find their new job via “private employment services”, while the LFS data is used here to estimate the share of recently displaced workers who still searching for a new job whose primary or secondary job-search method is “applying to private employment office and other organisation”. Comparing an unofficial estimate of the total number of displaced workers receiving private outplacement services from industry sources with the LFS-based estimate of the total number of displaced workers provides a comprehensive estimate of the overall access of displaced workers to such services, albeit subject to the caveat that pseudo-coverage rates calculated by combining data from separate sources are less reliable than coverage rates derived from a single data source.¹

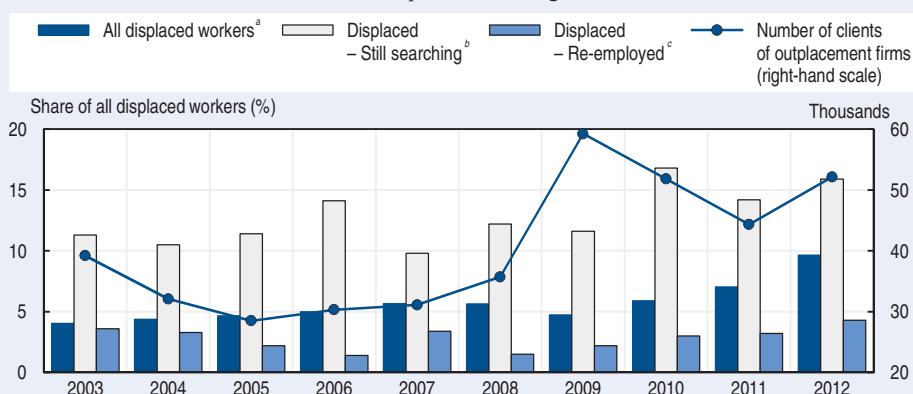
The figure below shows that 52 100 displaced workers received outplacement services in 2012. Comparing this value with those presented in Table 2.4, shows that private outplacement agencies served a little more than five times as many displaced workers as the IESC in that year, but only 4.1% of the number of jobseekers served by Hello Work. The number of workers receiving outplacement services is counter-cyclical; declining in the 2003-05 economic recovery period, rising sharply to a recessionary peak in 2009 and then declining as the economy began to recover in 2010-11. As was discussed in Chapter 1, the number of displaced workers is also counter-cyclical (see Figure 1.5, Panel B). As a result, the share of displaced workers who receive outplacement services does not appear to vary systematically with the business cycle (see three alternative coverage rates in the figure below). By contrast, the 11-year time series that is available suggests that there may have been an upward trend in the share of displaced workers receiving outplacement services since 2002. The number of displaced workers receiving outplacement services in 2003 was equivalent to 4.0% of workers displaced. By 2012, this pseudo-coverage rate had risen to 9.6%. The LFS data on the use of private outplacement services by displaced workers also suggests that there may be an upward trend in the share of displaced workers who receive private outplacement services, but the ETS data provides little evidence that the share of rapidly re-employed displaced workers who found their new jobs through outplacement firms rose over the same period. Whether or not the share of displaced workers being assisted by private outplacement firms is increasing, it is clear that a significant minority of workers displaced by economic change receive this potentially useful form of adjustment assistance.²

Box 2.2. Tempstaff Career Consulting case study (cont.)

Tempstaff Career Consulting (2013a) also provides information about the types of displaced workers they served in the five years up to March 2013. Although these data reflect the operations of only one of a number of large national agencies, they probably provide a reasonably accurate portrait of which types of workers tend to receive outplacement services. Consistent with the strong link to voluntary early retirement plans, 84% of the clients were between the ages of 40 and 59 years, and 86% were men. Among the sending firms entrusting workers they were displacing to Tempstaff Career Consulting, 48.5% were in the manufacturing sector. The next two most active industries were finance (18.5%) and wholesale and retail trade (14.1%). If these patterns generalise to the entire industry, it would suggest that the profile of displaced workers receiving job outplacement services from private firms differs from that of the displaced workers assisted by the IESC and Hello Work, but is more similar to the former than to the latter. In particular, outplacement agencies and the IESC both serve relatively high shares of older regular workers who are relatively skilled and have been displaced from large manufacturing firms.

Clients of private outplacement firms, 2002-12

Levels and pseudo-coverage rates



a) Clients served by private outplacement firms as a percentage share of the total number of displaced workers (combination of industry and LFS data).

b) Percentage share of workers displaced in the past year and still searching for a job who are using a private employment office and other organisations as their primary or secondary job-search method (LFS data).

c) Percentage share of workers displaced in the past year and re-employed who found their new job via private employment services (ETS data).

Source: OECD calculations using estimates of the number of clients of private outplacement agencies from Tempstaff Career Consulting (2013); and MHLW estimates of the number of displaced workers and the number of displaced workers who are still unemployed and making use of a private outplacement firm based on Japan Labour Force Survey (LFS) data, and the number of recently re-employed displaced workers who found their job via a private outplacement firm based on Survey on Employment Trends (ETS) data.

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Box 2.2. Tempstaff Career Consulting case study (*cont.*)

Information published by Tempstaff Career Consulting (2013b) suggests that this firm has been effective at placing displaced workers into jobs, as would seem plausible in light of the rich suite of counselling and job placement services that this firm offers to its clients. Tempstaff Career Consulting reports having placed 34% of their clients in jobs within three months; 59% within six months and 88% within 12 months. These are quite impressive placement rates, especially since older long-tenure displaced workers often face considerable labour market difficulties. It should be borne in mind, however, that the effectiveness of re-employment assistance should be assessed in terms of its *net* impact (i.e. how much higher the re-employment rate is than it would have been in the absence of outplacement services), rather than the *gross* re-employment rate of participants. Two other reasons for caution in interpreting these data are that they do not come from a neutral source and there is no way to know whether the results achieved by Tempstaff Career Consulting are representative of the results obtained by other outplacement agencies. Despite all of these caveats, it appears reasonable to conclude that the re-employment services offered by outplacement firms probably are quite effective, at least for certain types of displaced workers. As with the IESC, it also appears plausible that outplacement firms may be particularly useful for placing relatively experienced and skilled displaced workers into the types of jobs that do not tend to be listed in the Hello Work vacancies database.

1. We refer to these as “pseudo-coverage rate” because different data sources are used to estimate the numerator and denominator of these ratios and there is no way to verify that all of the workers receiving outplacement services, according to industry sources, fell into the definition of displaced workers, as implemented with labour force survey data in Chapter 1 of this report.
2. As is discussed later in this chapter, the government reformed the Labour Mobility Subsidy in 2014 so as to encourage more employers to offer outplacement services to displaced workers.

Source: Tempstaff Career Consulting (2013), “Outplacement summary”, mimeo, provided to the OECD Secretariat on 27 September, Tokyo.

How effective are private outplacement firms at helping displaced workers?

Unfortunately, very little evidence is available on the effectiveness of the re-employment assistance provided by private outplacement agencies and the information available is very tentative. The fact that the estimated share of displaced workers receiving outplacement services (see figure in Box 2.2) has been somewhat higher than the share of displaced workers who quickly found a new job who said that an outplacement agency found them their new job in the Survey on Employment Trends suggests that these services may be moderately less effective than other methods of job search. The increase from 2002 to 2012 in the difference between these two series (i.e. from 4.0% versus 3.6% to 9.6% versus 4.3%) also suggests that the relative effectiveness of private outplacement services may have declined. However, these are only conjectures since these two sets of estimates are based on such different data sources.

Tempstaff Career Consulting (2013a) provides information on the industries and occupations into which they have placed displaced workers in recent years and these data are consistent with this firm (and, possibly, outplacement agencies more generally) having developed a distinct market niche. An interesting commonality with the IESC data in Table 2.4 is that Tempstaff Career Consulting more often places its clients in higher skilled and potentially better paying jobs than Hello Work. In particular, 19.6% of their placements were into professional occupations, such as IT engineers and financial specialists. However, an interesting contrast with IESC also emerges: a higher share of workers placed by Tempstaff Career Consulting change industry and occupation (e.g. there is a large shift from manufacturing to various services). This suggests that outplacement agencies may have an advantage in helping relatively skilled displaced workers to move from declining industries and occupations to growing ones. Despite these encouraging outcomes, starting wages tend to be considerably lower on the new job than on the lost job. For example, the share of workers earning JPY 6 million or more a year falls from 46.2% prior to displacement to 21% after re-employment. However, it has to be kept in mind that this observation is based only on data provided by Tempstaff Career Consulting.

Public early intervention measures to assist workers displaced during mass dismissals

Along with employers and other private actors, Hello Work offices and other public labour market authorities play an important proactive role in helping displaced workers to begin the adjustment process during the notice period, rather than only after they have become unemployed. This section discusses three main types of public early intervention measures which typically only come into play for mass displacements.⁴² The first of these is the *Labour Mobility Subsidy* which is intended to encourage employers to offer outplacement services when displacing workers. Important reforms, which are intended to greatly extend the role played by this policy instrument came into effect in March 2014, are also described, although it is too soon to assess how well they are performing. The second policy area analysed are those parts of employment protection legislation (EPL) that facilitate the provision of adjustment assistance in advance of a mass dismissal. These include the obligations for employers to provide local labour market authorities with advance notification and to develop a *Plan for Assisting Re-employment* in consultation with unions and/or their workers. Finally, the public provision of adjustment assistance during the notice period is considered, particularly proactive services offered by Hello Work offices. These include beginning to provide orientation and job-search assistance directly to workers who have been notified that they will be displaced.⁴³

It also includes the strategic role played by the local Employment Security Office in co-ordinating the different public and private actors that will be providing adjustment assistance to displaced workers, both during the notice period and after the dismissals have occurred.

Labour Mobility Subsidy

Since 2001, the Japanese Government has encouraged employers to offer effective outplacement services to workers they are displacing through the Labour Mobility Subsidy.⁴⁴ Until recently, this has been a relatively small programme that was targeted on small- and medium-sized enterprises (SMEs). Reforms that took effect on 1 March 2014 aim to dramatically expand its role in fostering efficiency enhancing labour mobility, while also reducing the costs borne by displaced workers. This section first summarises the pre-reform design and operation of the Labour Mobility Subsidy and discusses its performance. The section concludes by describing the important changes that were introduced in early 2014 and how they are intended to improve the situation of displaced workers and, more generally, the allocative efficiency of the Japanese labour market.

As was discussed in the previous section, larger employers often contract with outplacement agencies to assist displaced workers to find new jobs, particularly older workers who enrol in voluntary early retirement plans. Although these types of services have not been rigorously evaluated, they appear to be well suited to help displaced workers to find suitable new jobs with as little unemployment as possible. Outplacement is mainly offered by large firms, perhaps because smaller firms that are encountering economic difficulties frequently are not able to afford to offer this service to the workers they are displacing. This suggests that a public subsidy to encourage downsizing SMEs to provide outplacement services could be useful and might even save the government money by reducing the number of displaced workers requiring unemployment benefits and public job-search assistance.

Consistent with this logic, the Subsidy to Support Labour Mobility operated as follows:

- SMEs which submitted a Plan for Assisting Re-employment with the Hello Work⁴⁵ and contracted with private outplacement agencies to assist the workers they were displacing became potentially eligible for a subsidy covering a part of the costs of the outplacement services.
- Eligibility for the subsidy was conditional on the workers becoming re-employed sufficiently rapidly, namely, within two months for workers ages 44 and younger and within five months for workers ages 45 and older.

- The subsidy rate was one-half of the costs of outplacement for the younger group of displaced workers and two-thirds of the costs for the older group.

The chief strengths of the Labour Mobility Subsidy, as it operated until recently, was the way its design targeted the subsidy on firms that were relatively unlikely offer outplacement in the absence of a subsidy (i.e. SMEs) and created an incentive for rapid re-employment.⁴⁶ Its chief weakness was low take-up. The highest number of workers for which a subsidy has been paid was 3 866 workers in FY 2010. That represented just 0.2%-0.4% of displaced workers in that year, depending on whether the broad or the narrow definition presented in Chapter 1 is used, and 7.5% of the total number of displaced workers receiving outplacement services as estimated by Tempstaff Career Consulting (2013a). Two possible reasons may account for the low take-up. First, the performance standards in terms of how quickly new jobs must be found were quite strict, suggesting that a SME engaging an outplacement firm could not be confident of receiving the subsidy for many of the workers being helped. A second potentially important barrier to take-up may have been that many SMEs displacing workers do so in relatively small numbers and, hence, would be unlikely to be required to submit a Plan to Assist Re-employment which was a precondition for eligibility. They could, nonetheless have done so on a voluntary basis, but that may have been rare. Even if it should be true that one or both of these eligibility rules significantly depressed take-up rates, that could still have been desirable because they probably also increased cost-effectiveness by reducing deadweight costs and creating an incentive for employers to seek out re-employment services capable of moving displaced workers into new jobs quickly.

Since March 2014, the Labour Mobility Subsidy has been extended in a number of ways that are intended to allow it to play a much larger role in fostering “mobility without unemployment,” a labour market reform priority that was identified in the *Japan Revitalization Strategy* (Cabinet Office, 2013 and 2014). There are several reasons to think that this is a propitious time for the Japanese Government to devote increased attention to promoting growth-enhancing forms of labour mobility, while also reducing the social costs that can result when workers change job. As was discussed above, job preservation measures played a large and useful role during the recent global economic crisis, particularly the large expansion of the Employment Adjustment Subsidy (EAS) in 2008-09. With the resumption of economic growth, potential displacements of workers became more likely to represent permanent declines in the demand for workers in particular firms and sectors, rather than temporary declines due to business cycle conditions. Preserving these jobs would thus require permanent subsidies. It would also lock workers into jobs that are no longer competitive, even as more dynamic sectors could face growing labour shortages. Using some of the budget

space freed up by the reduction in spending on EAP to promote labour mobility is thus a timely policy goal, especially if this can be done in a way that minimising the insecurity that results for workers.

One part of the new reforms consists of straight-forward extensions of the pre-existing Labour Mobility Subsidy. This was achieved by expanding the range of firms that are eligible to receive the subsidy and providing more generous subsidies when firms contract with outplacement agencies to assist workers they are displacing. Among the ways this has been done by: i) also offering the subsidy to large firms; ii) offering sending firms a new flat-rate subsidy for entrusting workings to an outplacement firm, which is additional to the pre-existing subsidy reimbursing a pre-specified share of the cost of outplacement, when re-employment is sufficiently fast; iii) lengthening the acceptable time period for finding a new job and increasing the share of outplacement costs that are reimbursed for SMEs when outplacement is achieved within those limits; and iv) adding a suite of additional subsidies for the sending firm, including subsidies for combining training with outplacement services and offering leave time to workers to search for new jobs. The FY 2014 budget for the expanded Labour Mobility Subsidy is JPY 8.5 billion, many times past spending (MHLW, 2014b).

A new subsidy also has been introduced, the Subsidy to Support Job Training for Re-employed Workers. This subsidy is paid to hiring firms who offer training to newly-hired mid-career workers. The FY 2014 budget for this new subsidy is JPY 21.6 billion, more than 2.5 times as large as the extended Labour Mobility Subsidy. A possible reason why this budget is significantly higher is that this subsidy may be paid for many more newly-hired mid-career workers. As was discussed above, outplacement firms only account for a small share of all hirings of mid-career workers.

These are potentially important reforms since fostering efficiency-enhancing labour mobility is an important policy goal for labour market authorities in Japan. However, it will be very important to monitor their implementation carefully and assess whether adjustments will be required. In particular, there is a risk that deadweight spending could be high under the new rules, since the subsidies probably now become available in many instances when the employer would have provided outplacement services or training, even in the absence of the subsidy. Displacement effects could also become a concern with the Subsidy to Support Job Training for Re-employed Workers, if it leads firms that are recruiting new workers to prefer more experienced jobseekers over other jobseekers, should it be the case that only the former qualify for the subsidy. As was discussed above in the context of the EAS, when designing labour market subsidies there is often a trade-off between encouraging take-up and minimising deadweight and displacement effects, and this trade-off needs to be carefully managed.

Legal requirements on employers implementing mass dismissals that facilitate early adjustment assistance

Employment protection legislation (EPL) is most often discussed in terms of how much it constrains the flexibility of employers to hire and fire, or how it affects the employment security of workers and the efficiency of the labour market (OECD, 2013b, Chapter 2). However, certain components of EPL can also play an important role in reducing the costs associated with displacements by facilitating early interventions to assist labour market adjustment, particularly in the case of mass displacements. Two such components of EPL are important in Japan, namely, the advanced notification of a mass dismissal that is provided to labour market authorities and the Plans for Assisting Re-employment that employers must develop and submit to labour market authorities:

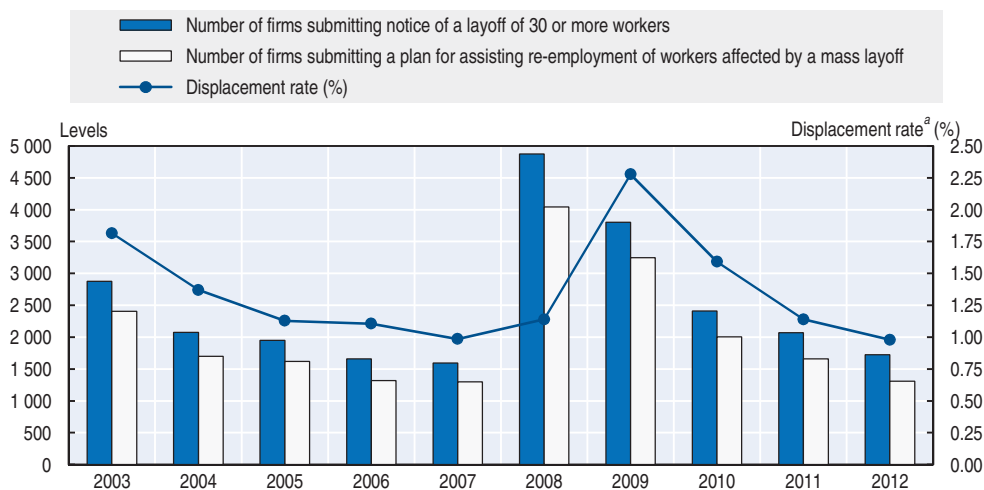
- Article 27 of the Employment Measures Act requires employers who will be dismissing 30 or more workers within a month – whether due to displacements, non-renewal of temporary contracts or mandatory retirement age – to provide the *notification of large fluctuations in employment* to the chief of the Public Employment Security Office at least one month in advance of the dismissals.⁴⁷ The primary purpose of this measure is to enable Employment Security organisations to take proactive measures to prepare to offer adjustment assistance to a large number of job losers at the same time, while also taking other steps, as needed, to prepare for possible adverse impacts on the broader regional labour market. However, advance notice also allows Hello Work and other labour market programmes to begin providing adjustment assistance to employers who will be dismissed during the notice period, rather than waiting until they have become unemployed.
- Article 24 of the Employment Measures Act requires employers who will be dismissing 30 or more workers within a month to prepare a *Plan for Assisting Re-employment* and submit it to the chief of the Public Employment Security Office one month prior to the first dismissal. This plan must be developed in consultation with the union and/or other worker representatives and should provide a general statement of the measures the employer will take to assist the affected workers, such as providing a voluntary early retirement package or engaging outplacement agencies to help the workers to find suitable new jobs, as quickly as possible. Public labour market authorities can refuse to accept a re-employment plan, if it is judged to be inadequate. While this appears to be very rare, the requirement to prepare and submit a plan is a useful way to encourage employers to be proactive about organising adjustment assistance for workers they are displacing and to consult with their workers and any union that is present in the firm. This consultation process can also identify options to avoid or reduce the number of dismissals, while assuring that the workers to be displaced are chosen in an equitable manner.

As can be seen in Figure 2.4, the number of businesses submitting notification of large fluctuations in employment, including advance notice of mass dismissal, and plans for assisting re-employment is strongly counter-cyclical. In particular, these numbers jumped to a recessionary peak in FY 2008, which was about three times the FY 2007 value. They have subsequently declined steadily, as economic growth resumed and gradually strengthened. Not surprisingly, years when the share of workers being displaced is higher are also years when more businesses submit notice of large fluctuations in employment and re-employment assistance plans. The number of businesses submitting notice is 20% to 30% higher than the number submitting plans for assisting re-employment. This is because some types of separations are subject to the notification requirement, but not to the requirement to draw up a plan (e.g. displacements related to the end of temporary contracts and retirement). Nonetheless, the two series move together very closely. Indeed, businesses submitting a Plan for Assisting Re-employment to the Employment Security Office are automatically considered to have provided notification of large fluctuations in employment.

Advance notice of a mass dismissal is clearly a precondition for labour market authorities to be able to take proactive measures to foster a smooth adjustment for the affected workers and the local labour market more generally. That observation raises the question whether notice should be required further in advance of mass dismissals. While several OECD countries require longer periods of notice than Japan, especially for long-tenure workers, there appears to be no reliable evidence about how much that additional notice reduces adjustment costs by giving workers and labour market authorities more time to prepare. Against the probable but uncertain benefits of additional forewarning, there are also likely to be costs that need to be factored into the choice of the length of the notice period. For example, a longer notice period is likely to increase the probability of false alerts; that is, employers will more often provide advance notice for mass dismissals that end up not happening (e.g. because business conditions unexpectedly improve). Longer notice periods may also create additional difficulties for firms that are already struggling, since their customers, bankers and suppliers, along with financial markets more generally, may view advanced notice of mass displacements as a signal that the firm could be at risk of closing and thus be an unreliable business partner. In sum, there seem to be no strong grounds to raise the legally required period of notice in Japan, although it clearly is a good idea for labour market authorities to anticipate as much as possible mass dismissals through other means (e.g. by monitoring labour market and business developments).⁴⁸

Figure 2.4. **Number of firms submitting notification of large fluctuations in employment and Plans for Assisting Re-employment to Public Employment Security offices, FY 2003 to FY 2012**

Number of firms juxtaposed with calendar year displacement rate^a



Note: FY: Fiscal year.

- a) Displacement rate corresponds to calendar years and is defined as the number of workers dismissed for economic reasons during the year as a percentage of total employment (see Chapter 1 for more details).

Source: MHLW (2013), Data supplied to the OECD Secretariat, August.

StatLink  <http://dx.doi.org/10.1787/888933175480>

Another way that greater or more effective adjustment assistance might be made available to displaced workers would be for the Prefectural Labour Bureau to require that the contents of the Plans for Assisting Re-employment be more specific and detailed, especially if they then more closely monitored the content of the plans in order to assure that they are adequate. It might also be useful to consider requirements that employers include additional services that currently are not being offered in many cases. One possibility would be to require employers – possibly in collaboration with experts from Hello Work or public vocational education institutions – to prepare detailed descriptions of the training that displaced workers received during the course of their employment and the types of work that they are able to perform.⁴⁹ This could help potential future employers to better assess the suitability of displaced workers for job openings in their firm. This increased transparency might reduce one of the barriers to the mobility of experienced workers who have been within the

lifetime employment model. Such workers typically have developed many skills on the job that are not easy for other employers to observe or evaluate. Even if skills inventories are not made mandatory, it could be useful to encourage this type of initiative on a voluntary basis.

A similar question is whether employers displacing one or a few workers should be required to develop a Plan for Assisting Re-employment or, at least, to provide re-employment services that are comparable to those required for workers who are part of a mass displacement. While there is no legal requirement that employers who are displacing one or a few workers need to draw up a *Plan for Assisting Re-employment* or provide re-employment assistance, the government encourages them to do so through Article 6 of the Employment Measures Act and that may be sufficient in many cases.⁵⁰ This article recommends that employers “... endeavour to ensure employment security of these workers through assisting the job-searching activities...or providing other re-employment assistance.” In particular, it is suggested that employers could assist displaced workers by:

- Recommending the worker to a firm which has a business connection or an interested concern.
- Providing the worker with information on job offers of business partners firms, Public Employment Security Office or Industrial Employment Stabilization Center.
- Providing the worker with paid job hunting leave.
- Entrusting the worker to an outplacement agency for re-employment support.

Public early intervention measures for displaced workers

How do Hello Work and other public labour market actors use the notice period to better manage mass dismissals? Two types of measures appear to be particularly important. First, the notice period allows labour market programmes to get an early start at delivering assistance to workers who will be displaced, while also preparing to be able to meet an upsurge in the demand for re-employment and income support services at the time the dismissals actually occur. A second focus of activity during the notice period is to organise and co-ordinate the different public and private actors, so that they will be able to work together smoothly in offering adjustment assistance to displaced workers. In the absence of effective co-ordination, some job losers may be confused or put off by the bewildering number of government offices and other groups offering them what sounds like similar types of assistance, while others may fail to receive the assistance that they need.

Adjustment assistance during the notice period

Compared with some other OECD countries, notably the Nordic countries, Hello Work and other labour market programmes in Japan provide somewhat less extensive assistance to workers who are going to be displaced during the notice period, particularly individualised services. However, Hello Work and other public actors may be more active in their outreach to employers and the support provided to their re-employment systems, consistent with the major role employers play in the outplacement of displaced workers, especially in the early stages of the adjustment process. The most frequent public service offered to workers during the notice period are group informational meetings, where workers are given an overview of the types of services that will become available to them once they are displaced, as well as guidance about how to access those services. This is undoubtedly valuable. It could be worthwhile experimenting with a more proactive stance that also provides more individual counselling and job-search assistance during the notice period.

It is often asserted that the lifetime employment system tends to condition workers to rely upon their employer to manage their career for them. The resulting passivity can become a handicap when a mid-career worker is displaced and needs to take an active role in searching for and obtaining a suitable new job, possibly including by seeking out retraining. Counselling during the notice period might be a way to accelerate the transition toward more active career management. Proactive counselling might be especially useful for workers who do not receive outplacement from their employers, including workers in individual and small scale displacements. Some OECD countries have experimented with providing early adjustment assistance to such workers. For example, Switzerland requires workers receiving notification they will be displaced to register immediately with the public employment service and begin to receive activation services during the notice period. Another example is that the Province of Quebec in Canada organises rapid response centres to provide adjustment assistance to groups of workers affected by the same mass dismissals. “Continuous enrolment” centres also exist where workers affected by small dismissals can register and receive similar forms of early adjustment assistance.

Co-ordination of overall adjustment assistance for a mass displacement

When notice is received of a mass displacement that requires a major co-ordinated effort by multiple labour market actors, Hello Work takes the lead in setting up a temporary headquarter for co-ordinating the public sector response. Key partners in the headquarter, along with the Employment Security Office are typically municipal and prefectural offices that provide employment services or closely related welfare, vocational training and business promotion activities, as well as the prefectural office

of the Industrial Employment Stabilization Center (IESC). The composition of the group and its mode of operation appear to be quite flexible and can be tailored to the needs of each specific mass dismissal event, as is illustrated by HQ Sharp which was set-up in Nara to manage a large displacement at Sharp in late 2012 (see Box 2.3). While this flexibility is useful and should be maintained, it would also be useful to assure that experiences with different organisational set-ups are shared across regions, so that a clearer picture can emerge concerning which types of approaches work best in different situations.

Box 2.3. HQ Sharp in the Nara Prefecture

After a rapid deterioration of business conditions, Sharp announced an early retirement plan on 20 November 2012 that was intended to enrol 2 000 workers, but actually attracted 2 960 enrollees ages 40 and above. A considerable number of those workers lived in Nara Prefecture. In response to this announcement, the Nara Labour Bureau and the Nara Prefectural Government jointly organised the Support for *Sharp-related Displaced Employees Headquarters* (HQ Sharp) in November 2012.

While the headquarter model has been used for other mass displacements, the composition of participating organisations and their mode of operation vary from case to case. Indeed, HQ Sharp was the first instance of a prefectural labour bureau and a prefectural government jointly establishing and managing a headquarter. This organisation was selected because it reflected the already close working relationship between the Labour Bureau and labour market programmes run by the prefectural government, such as its Job iCenter. The additional partners in HQ Sharp included the Industrial Employment Stabilization Center in Nara and four municipal governments.

HQ Sharp was a co-ordinating committee consisting of managers from the participating organisations. Its mission was to build an integrated support system to offer effective re-employment and livelihood aid for displaced workers. It was also intended to provide support measures for related businesses (e.g. suppliers for Sharp). Much of the work of the headquarter consisted of an extensive consultations process that was used to achieve agreement on the strategy to adopt and eventually the setting-up and implementation of actions plans. Another key focus was to set up a system for exchanging relevant information. Finally, a system to provide vocational counselling at the job centre was set up.

The ultimate aim of HQ Sharp was to facilitate smooth transition into re-employment and to support the living standards of workers who lost their job. As part of achieving this goal, informational meetings were organised for workers who had enrolled in the voluntary retirement programmes. At these meetings, information was provided about various services that were available to these workers, as well as instructions about how to access these services. At these informational meetings, workers were also provided with temporary registration cards that they could fill out, if they wished to register for outplacement assistance from the Nara IESC.

Source: Information presented to the OECD Secretariat when it visited the Nara Labour Bureau, the Nara Prefectural Government, and the Nara office of the IESC in October 2013.

Conclusions

This chapter has highlighted the contribution that well designed prevention and early intervention policies can make to lower the number of displaced workers and the costs that they bear. The key prevention policies in Japan are the Employment Adjustment Subsidy (EAS), which played an important role in preserving viable jobs during the 2008-09 recession, and employment protection legislation (EPL). Both the EAS and EPL must be used cautiously, however, because overuse of either can become a major impediment of growth-enhancing mobility and economic dynamism more generally. Accordingly, it is very welcome that the Japanese Government enacted a major reform in early 2014 that is intended to shift the policy mix away from job preservation and towards promoting labour mobility, but to do so in a way that minimises the resulting insecurity for workers.

Even when displacement cannot be prevented, EPL rules requiring employers to give advance notice to workers who will be displaced play a valuable role by allowing these workers to get an early start on adjusting for the loss of their jobs. The additional requirement that employers anticipating mass displacements must provide advance notice to the Prefectural Labour Bureau and develop a Plan for Assisting Re-employment also promote early intervention measures by making it possible for public labour market programmes to prepare for a geographically concentrated surge in the demand for adjustment assistance and, possibly, also to begin providing assistance to workers during the notice period. These requirements also encourage employers be proactive about organising adjustment assistance for workers who will be displaced.

One reason that prevention and early intervention policies are particularly well developed in Japan is that they complement a widespread predisposition of employers to treat the displacement of regular workers as a last resort. A considerable range of HRM practices have been developed that reduce the number of displacements, particularly in large firms. When displacements cannot be avoided, employers often make considerable efforts to transfer workers directly to other companies (e.g. through the *shukkō* system) or to provide them with the services of an outplacement agency. Of course, not all workers benefit from these types of protections, leaving gaps that can be filled, at least in part, by public measures.

These gaps can be filled in several ways. One possibility is that public measures can encourage more companies to implement preventative measures to avoid dismissals (e.g. the Employment Adjustment Subsidy is used to encourage the use of short-time work) or to assist adjustment by offering outplacement services (e.g. via the Labour Mobility Subsidy). This is a useful approach, but these types of subsidies need to be carefully

designed so as to encourage adequate take-up rates while avoiding large deadweight and displacement effects. A second approach is for public labour market programmes to fill gaps directly by providing adjustment assistance to displaced workers while they are still on their old job. As is discussed in the chapter, this happens to a limited extent during the notice period for mass displacements. For example, officials from Hello Work may visit a company that is planning a large displacement in order to provide the affected workers with information about the services that will become available to them. Hello Work also provides services, such as career consulting, outplacement services and public job training, before the separation takes place when workers on notice request such services. However, most of the initiative for early intervention is left with employers during the pre-dismissal period, whereas the role of public labour market measures comes to the fore once workers become re-employed, as will be discussed in Chapters 3 and 4.

The active role of many employers play in providing adjustment assistance for displaced workers is very welcome. However, it can complicate the design and operation of public measures to assist displaced workers. For example, the type and intensity of public assistance required by displaced workers who benefit from these HRM practices is likely to be quite different from the income support and job-search assistance needs of displaced workers whose employers do not provide these types of assistance. Another co-ordination challenge is to achieve an efficient division of labour between public and private actors, when both are providing similar forms of adjustment assistance (e.g. career counselling and job brokering). This chapter presents suggestive evidence that potentially important complementarities may exist, as is illustrated by the differences in the types of jobs that Hello Work typically places jobseekers into and the types of placements achieved by the IESC and private outplacement agencies. Unfortunately, evidence is lacking about how effectively these different actors co-ordinate their activities to create synergies. Labour market authorities should explore whether potential complementarities between these different actors could be further developed, especially if the current policy push to expand private outplacement services for displaced workers is pursued.⁵¹

Notes

1. While transfers within the company serve many purposes, including training workers to be flexible by providing them with broad and varied experience, they also can be used to avoid displacing workers when the demand for different types of work shifts. According to the *Employment Management Survey of 2002*, of the companies which transferred their workers in 2001, between 32% and 34% reported transferring workers due to the expansion/downsizing of existing divisions (JILPT, 2014a).

2. As is described in detail later in the chapter, *shukkō* refers to temporary transfers of workers to related firms and *tenseki* to permanent transfers.
3. Even when temporary, providing a STW subsidy for jobs that are no longer economically viable is costly, because it delays adjustment.
4. Providing a higher subsidy rate for small- and medium-sized enterprises (SMEs) also appears to be appropriate, since smaller firms are more likely to find it financially difficult to retain workers during a period of low sales.
5. Should evidence of excessive displacement emerge, Japanese authorities could consider programme design ideas used by other OECD countries to limit how many nonviable jobs are subsidised. For example, the Dutch STW scheme includes a provision stipulating that employers must reimburse part of the subsidy if any of the workers covered by the scheme are laid-off in the six months following the end of the subsidy. Another eligibility condition imposed by a few countries is to require firms to submit a credible business recovery plan documenting the long-run viability of the jobs to be preserved.
6. In October 2009, almost 84 000 establishments and about 1.97 million employees were participating in the EAS (MHLW, 2013). By July 2013, the number of participating establishments had fallen to 18 000 and the number of participating employees to 340 000.
7. OECD (2010) finds that employers used EAS so as to protect the jobs of permanent workers, but that this does not appear to have come at the cost of increased job losses for non-regular workers. While there is clear evidence that STW schemes increased employment security for permanent workers during the recent recession, there is only weak evidence that they increased the risk of job loss for temporary workers.
8. Only Finland continues to provide STW subsidies of unlimited duration. However, workers covered by the STW subsidy are required to actively search for new jobs.
9. Similarly, a 2013 survey analysing firms' use of EAS during the recent crisis suggests that it was quite effective in preserving jobs (JILPT, 2014b).
10. These concerns almost certainly explain the clear tendency towards reducing the strictness of employment protection that has been seen in a number of the OECD countries, particularly in Europe.
11. This overall stringency indicator of the regulation of individual dismissals for workers on permanent contracts is obtained as the simple average of the three sub-component indicators for: i) procedural inconveniences related to the provision of advance notice; ii) duration of notice and amount of severance pay; and iii) difficulty of dismissal. For further details about the construction of the OECD indicators see OECD (2013a, Chapter 2).

12. All three components are positively correlated across OECD countries, suggesting that countries with more stringent regulation tend to offer their workers greater protection in all three areas. However, Japan is an exception to this pattern, combining relatively streamlined advance notice requirements and no requirement for severance with quite stringent rules regarding wrongful dismissals.
13. Article 6 of the Employment Measure Act recommends that employers dismissing one or few workers for economic reasons also provide these displaced workers with re-employment assistance, but this is not a legally enforceable obligation and hence is not included in the EPL indicators shown in Panel A of Figure 2.1.
14. Some court rulings have held that repeated renewals eventually create an entitlement for the worker to expect that the contract will continue to be renewed, so that the employer must demonstrate just cause to refuse renewal. This principle was reinforced by legislation requiring, from April 2013, that a worker whose fixed-term contracts have been renewed over a five year period is automatically converted to a permanent worker, if the worker officially demands to be converted. However, concern that this change went too far has led the current government to propose that the threshold for automatic conversion be raised to ten years for certain types of workers. This change was enacted, effective 1 April 2014, for researchers and engineers working on R&D projects at universities and incorporated administrative agencies and is being considered also for other groups of workers (e.g. highly paid professionals more generally).
15. In Japan, temporary worker are defined as workers whose employment contract period is less than one year (i.e. workers employed on fixed-term contract for more than one year are not counted). Since this is not the case in most other OECD countries, these statistics are not fully comparable.
16. The correlation of EPL strictness with unemployment inflows and outflows are -0.27 and -0.41 respectively, while the correlation with the incidence of long-term unemployment rate is 0.31. All three correlations are significant at a 5% level.
17. HRM practices as regards severance pay (i.e. lump-sum payments to workers separating from a firm before reaching mandatory retirement age) also illustrate how EPL may not be a major factor in raising the costs that Japanese employers bear when laying off workers. There is no legal requirement for employers to award severance pay, but it is common to do so and these payments tend to be quite generous in the context of voluntary early retirement packages (see Chapter 3).
18. See Article 37 of the National Strategic Special Economic Zone Act (Act No. 107 of 2013). As part of the implementation of this new legislation, the government published the Employment Guideline on 1 April 2014.

19. Larger firms also make more intensive use of intra-company transfers.
20. The Industrial Employment Stabilization Center, which is discussed below, helps to organise such transfers and thus expands the scope for this form of labour mobility without unemployment.
21. In such cases, inter-company transfers represent an extension of the widespread use job rotation and intra-company transfers to develop a flexible and multi-skilled workforce.
22. Whereas the majority of temporary inter-company transfers of workers below the age of 50 were based on the needs of the receiving company in 1997, this share fell to 43% for workers aged 50-54 (JIL, 1999). Looking at all ages, less than one-in-three permanent transfers were based on the needs of the receiving company. This suggests that many permanent transfers reflected workforce downsizing by the sending company.
23. There are other possibilities. For example, a worker may be transferred under a *shukkō* arrangement initially, which is later converted to a permanent *tenseki* transfer. This may happen even when the transfer is always intended to be permanent, since delaying the transfer of the employer contract from the sending to the receiving firm provides the receiving firm with financial support for having accepted the transferred worker (e.g. the sending firm pays that worker's wages for the first two years). The transferred worker may also benefit due to the delay in the often large reductions in pay and other working conditions, which may be associated with becoming an employee of the typically smaller receiving company.
24. In addition to their primary job-brokerage function, the IESC also provides consultation and assistance to HRM personnel in participating companies and job-search counselling to workers changing employers.
25. The MHLW grant budget devoted to these centres has been quite stable at around JPY 2 000 million since 2010. According to FY 2012 data on the IESC web site (www.sangyokoyo.or.jp/disc/index.html), this public subsidy accounted for 60% of total IESC spending (net of the security deposit from member organisations which was refunded in full at the end of the year).
26. Interestingly, the number of workers placed into new jobs was approximately as high during the two recession years as in the four following years. The lower placement success rate in 2008-09 reflected an inability to scale-up placements as the number of displaced workers referred by sending firms increased.

27. The category “new hires of regular workers” in the ETS includes some hirings into non-regular jobs such as fixed-term contracts of more than one month.
28. This 1.7 figure is calculated by dividing the number of new job openings (regular, except part time) in the Hello Work vacancy register by the number of newly registered job separators (except part time). By comparison, the active job openings to job applicants ratio for the entire economy averaged a little less than 0.8 during 2012.
29. The success rate in filling vacancies is calculated as the ratio between the number of workers placed in new jobs and the number of vacancies in the database.
30. “From Career to Career” is the IESC’s motto.
31. Historically, the IESC has specialised in organising direct transfers of regular workers between sending and receiving firms, thereby avoiding any unemployment for the workers changing employers.
32. In terms of the spending categories of the *OECD/Eurostat Labour Market Programme Database*, <http://dx.doi.org/10.1787/data-00312-en>, the narrow definition of job placement costs for MHLW includes Category 1 net of Category 1.2, while the broad definition adds Categories 2 and 4.1 (www.oecd.org/els/emp/42116566.pdf).
33. Not all observers have concluded that the IESC provides good value for the tax revenues that are devoted to it. On 27 October 2010 the budget screening process (*Jigyo Shiwake*) of the Government Revitalization Unit concluded that the job-brokering function performed by IESC was of little value and, to the extent that it was useful, could be supplied by the private economy. Accordingly, it recommended that the IESC no longer be subsidised by MHLW (see www.cao.go.jp/sasshin/shiwake3/details/2010-10-27.html). A parallel screening process organised by MHLW had reached the same conclusion eight days earlier (see www.mhlw.go.jp/&jigyo_shiwake/past_index.html). These assessments appear to underestimate the barriers confronting displaced workers in searching for new jobs that allow them to make full use of their productive potential and limit the size of their earnings losses. Furthermore, many of the economic and social costs that are avoided by a successful IESC placement – including the budget savings that result when a displaced worker moves directly into a new job, rather than becoming unemployed and hence eligible for EI benefits and re-employment assistance from Hello Work – are an externality from the perspective of the pre-displacement employer. As a consequence the private market will tend to undersupply this type of outplacement service, although perhaps less so in Japan than in other OECD countries, where employers take less responsibility for the well-being of workers that they displace.

34. IESC staff believe that it already is difficult for them to obtain sufficient advance notice of mass dismissals, because employers' hesitate to release such information due to the possible adverse impact on the perceptions of financial markets, potential business partners and customers (Abe, et al., 2014).
35. While there is no specific requirement for employers to offer outplacement services to workers they displace, the courts have interpreted Article 16 of the Labor Contract Act as requiring them to make all reasonable efforts to avoid economic dismissals. Several court cases have cited outplacement services offered in combination with voluntary early retirement plans as providing evidence that a sufficient effort had been made.
36. Larger employers also make greater use of voluntary early retirement plans than their smaller counterparts: 16.1% of firms with 1 000 or more employees reported that they had made use of one or more voluntary early retirement plans between 2006 and 2011, as compared with 6% of employers with 50-99 employees (National Personnel Authority, 2011). These data are taken from the "Survey of severance payment of private companies" conducted by the National Personnel Authority and include companies which have severance payment schemes.
37. Whereas the sending firm works with a single outplacement agency in Stage 1, sending firms sometimes offer displaced workers the choice between two or more outplacement firms for Stages 2 and 3. For simplicity, the description that follows speaks only of a single agency being involved at all three stages.
38. These requirements are discussed in more detail in the third section of the present chapter.
39. As will be discussed in the next section of this chapter, this information is often conveyed in a single group meeting where both the private outplacement agency and public labour market officials inform workers about the mix of private and public services that will become available to them once dismissed. Workers may also be provided information about overall labour market conditions and the types of jobs they can reasonably hope to find.
40. Private outplacement agencies differ in whether the staff members providing individualised counselling to jobseekers are also involved in finding vacancies and reverse marketing, as is typical at the IESC, or if staff members specialise in one function or the other, as is typical at Hello Work.
41. Private agencies accounted for 1.7% of all hirings of recently displaced workers in the 55-59 age group in 2012, while the Hello Work share was 15.3%.

42. Early intervention measures are used to a limited degree for individual and small group displacements. As is discussed below, it is worthwhile considering whether the scope for such interventions could be expanded.
43. That is, getting an early start on providing the passive and active labour market programmes that come to the centre stage once displaced workers have become unemployed, as will be discussed in detail in Chapters 3 and 4, respectively.
44. This subsidy is also sometimes translated as the Subsidy to Support Labour Mobility or the Subsidy to Support Transfer of Labour.
45. As will be discussed below, these plans must be filed by firms displacing 30 or more workers within a month. Plans may also be filed, on a voluntary basis, by firms displacing smaller numbers of workers.
46. It is not clear, however, whether conditioning the subsidy on rapid re-employment created an effective performance incentive for outplacement agencies. Abe et al. (2014) report that these agencies are typically paid a pre-negotiated fee per worker served, regardless of re-employment outcomes. The subsidy design would, however, have created an incentive for small- and medium-sized enterprises SMEs to select outplacement agencies that had a reputation for achieving rapid re-employment.
47. Following standard international terminology, this report sometimes uses the term “advance notice” to refer to notifications of large fluctuations in employment when those fluctuations take the form of mass dismissals.
48. The Japanese government conducts monitoring exercises of this type, but this report does not assess their effectiveness.
49. This approach has been used for some plant closings in recent years in Australia, where “skills audits” were performed during the notice period. The participation of the employer in such initiatives is voluntary in Australia.
50. Recall that workers involved in individual or small scale displacements are legally entitled to 30 days of individual notice and are covered by the protections against wrongful dismissal contained in Article 16 of the Labour Contract Act.
51. Abe et al. (2014) conclude that there appears to be relatively little co-ordination and information sharing between the IESC, private outplacement agencies and Hello Work, even when they are all providing job-search assistance to the some of the same displaced workers.

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Chapter 3

Income support for displaced workers in Japan

A well-designed system of income support can minimise the hardship resulting from displacement without unduly dulling the incentive for job losers to move quickly back into jobs. This chapter examines the availability and the adequacy of income support for the displaced workers in Japan. The main source of public income support for displaced workers in Japan is Employment Insurance (EI) and this chapter assesses EI coverage and adequacy for different groups of displaced workers in detail. Other potential sources of public income support for displaced workers are shown to be relatively unimportant for this group. By contrast, private sources of income support are shown to play an important role in Japan for some displaced workers, particularly long-tenure employees in large firms who enrol involuntary early retirement plans.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The well-being of many workers and their families is heavily dependent on their earnings from employment and job displacement can sharply reduce that income flow. This is most obviously the case during the period of unemployment that typically follows displacement. However, earnings losses can persist even after a new job is found, because pay on the post-displacement job is often lower than it was on the lost job and some of these workers never manage to get back to their previous earnings level.¹ One of the main public policy goals regarding displaced workers is thus to minimise the adverse impact that displacement has on family incomes. As is discussed in Chapter 4, active labour market programmes make an essential contribution to meeting this goal by minimising the time spent out of work and improving the quality of the new jobs that displaced workers move into. Even when displaced workers have access to appropriate re-employment services, however, many still experience significant short and long-run earnings losses that may be considered to be excessive and, hence, indicate a need for income support.

This chapter analyses the income support available to displaced workers in Japan. The main focus is on the unemployment benefits that are available to many displaced workers via the *Employment Insurance System*. This benefit is intended to support jobseekers' livelihood stability while they search for a suitable new job – in particular, the benefit compensates displaced workers for a significant share of the earnings lost during the period of joblessness that typically follows economic dismissals. A number of other public income support measures are also discussed, since they may also help to cushion the impact of displacement on family incomes, although that is not their primary purpose.² The chapter closes with a discussion of private sources of income support for displaced workers, particularly that provided to long-tenure displaced workers who enrol in voluntary early retirement plans that are associated with mass dismissals.³

Overview of public income support benefits potentially available to displaced workers

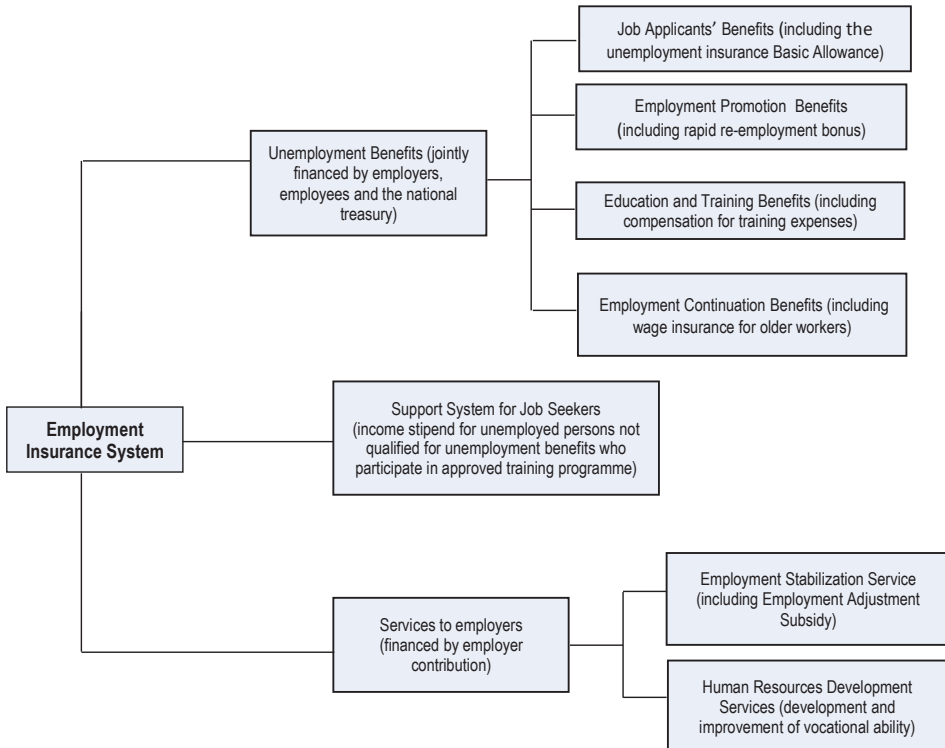
The potential sources of public income support for displaced workers will now be described, beginning with unemployment insurance benefits and other forms of support that are provided by the *Employment Insurance System*. Other public schemes, such as the public assistance provided by the *Basic Livelihood Protection Programme*, are then discussed because they may also provide income support to some displaced workers. The following section of the chapter then uses a variety of datasets to analyse the effective level of the income support that displaced workers have received in recent years in the form of the *Employment Insurance Basic Allowance*, the main source of public income support for this group.

Employment Insurance System

An overview of EI services

The main public income support programme for displaced workers is the unemployment insurance scheme which is a key component of the *Employment Insurance System*.⁴ In addition to unemployment insurance, the EI system encompasses a considerable number of other measures that are intended to promote employment security. The EI System also includes measures to improve workers' skills, thereby allowing them to access better jobs and achieve a higher level of well-being, while also providing employers with the workforce skills they require. Figure 3.1 presents a simplified overview of the different services provided by the EI System.

Figure 3.1. **Simplified overview of the Employment Insurance System**



Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

The upper branch in Figure 3.1 (*Unemployment Benefits*) represents a suite of different unemployment insurance benefits for workers who become unemployed after having made sufficient contributions to the system. The most important unemployment benefit for displaced workers is the *EI Basic Allowance* for general insured persons, which is the main unemployment insurance benefit and is discussed in more detail below. In fiscal year (FY) 2012, the inflow of new EI Basic Allowance beneficiaries equalled a little more than 1.5 million job separators.⁵ Job Applicants' Benefits also include a number of smaller unemployment insurance programmes for particular groups of unemployed, such as seasonal and daily workers or workers over age 65.⁶ Most of the financing for the Job Applicants' benefits comes from equal employer and employee contributions, but general tax revenues from the National Treasury also cover some of the costs.

Three other types of benefits also fall under the broad category of unemployment benefits. *Employment Promotion Benefits* include the *Re-employment Allowance*, a re-employment bonus scheme that allows Basic Allowance beneficiaries who become re-employed sufficiently quickly to receive part of their unused benefit entitlement as a lump-sum payment, thereby encouraging intensive and effective job search. Under the *Educational Training Benefit*, workers receiving EI or within one year after they lost qualification for EI can also receive a subsidy covering 20% of the costs of enrolling in private training courses that have been accredited by MHLW (up to a ceiling of JPY 100 000).⁷ Employment Continuation Benefits include *Employment Continuation Benefits for Older Workers*, which is a form of wage insurance for workers between the ages of 60 and 65.⁸ Workers whose earnings fall below 75% of their earnings after age 60 receive an earnings top-up of up to 15% of their monthly earnings until they reach age 65.⁹ Since research has shown that some displaced workers experience large and persistent losses in earnings, even once re-employed, a number of economists have argued that the social insurance system should provide workers with partial compensation for such losses of long-run earnings potential. This idea has received particular attention in Canada and the United States, but experience with operating such schemes is limited (OECD, 2005; and Riddell, 2011).

The *Support System for Job Seekers* was created in October 2011 so as to provide a “second safety net” for unemployed persons (see middle branch in Figure 3.1). This programme provides financial support to jobseekers who are *not* eligible for an EI unemployment insurance benefit but have been approved to participate in public vocational training by MHLW. A training stipend of JPY 100 000 per month is provided for three to six months (up to two years in total), under the condition that recipient's income and assets are below the

specified limits and they follow the training course successfully. An allowance for transportation costs may also be provided (see Chapter 4 for further details). This subsidy is seen as a supplementary service provided by the EI system, although it deviates somewhat from social insurance principles in that it is financed equally by National Treasury and by the Labour Insurance Special Account.¹⁰ In FY 2012, 58 439 jobseekers were first time beneficiaries, equivalent to 3.8% of the inflow to the EI Basic Allowance.

The EI System also includes two types of services for employers that are funded exclusively by employers' contributions (see bottom branch in Figure 3.1). These include the *Employment Adjustment Subsidy*, the short time work scheme that played an important role in limiting job losses following the global financial crisis and was discussed in detail in Chapter 2. The EI System also encompasses *Human Resources Development Services* that assist employers to provide their workers with access to continuing vocational education and training.

A closer look at the EI Basic Allowance

The Basic Allowance consists of a daily allowance paid every four weeks once the relevant Public Employment Security Office has certified that an unemployed person fulfils all of the eligibility requirements. One illustration of the potential importance of these benefits for displaced workers is that the number of beneficiaries increased by over 50% between 2007 and 2009 (from an average monthly level of 566 666 to 854 617), when dismissals increased due to the labour market impact of the global financial crisis. By 2012, the number of recipients had fallen back very close to the 2007 level.¹¹

The income support that is available to a displaced worker while unemployed via the EI Basic Allowance depends on the eligibility criteria for this benefit, the level of the daily benefit that they are entitled to and the maximum period during which they can receive that benefit, should they remain unemployed.

Eligibility

The unemployment insurance scheme for *generally insured* workers covers the many employees, including essentially all displaced workers in the sense of this report. However, some groups of workers are excluded from coverage, including: short-hours workers (fewer than 20 regular weekly hours of work); workers whose jobs are not expected to last more than 31 days; workers over age 65; working students and government workers.¹² While employed, generally insured workers and their employers make contributions to the EI System. These workers can then collect the EI Basic Allowance benefit should they separate from their job and satisfy the following criteria:

- **Minimum contribution:** Workers dismissed due to bankruptcies, mass dismissals and smaller scale economic dismissals (“specific qualified recipients”¹³) must have made at least six months of contributions during the year prior to leaving their job, whereas workers voluntarily quitting their previous job or other separators who could otherwise have anticipated that their job would end (“ordinary unemployed”) must have made at least 12 months of contributions during the two years prior to leaving their job.
- **Active job search:** The worker must be able to work and actively searching for a new job.
- **Waiting period:** Specific qualified recipients, who consist largely of displaced workers, are subject to a seven day waiting period, whereas the Basic Allowance shall not be paid for three months following the one-week waiting period for ordinary unemployed workers.

Benefit level

As a general rule, the daily Basic Allowance is set as a fixed proportion, ranging between 50% and 80%, of the daily wage on the previous job.¹⁴ The proportion used to calculate the daily benefit (i.e. the gross earnings replacement rate) is 80% for low wage job losers and then decreases with the wage level. Benefit levels are also subject to upper limits that vary with age, rising to a peak for workers between the ages of 45 and 59, and then declining thereafter. This progressive structure of the daily benefit reduces the risk that job loss results in poverty, but it also means that relatively high-wage displaced workers are more exposed to substantial drops in family income when they are displaced.

Maximum duration of benefit payments

Of particular importance for displaced workers, the duration of the EI benefit entitlement depends on the worker’s age, the insured period (i.e. how long the worker had been making EI contributions before becoming unemployed) and the cause of the separation (see Table 3.1). As is the case in a number of other OECD countries, maximum benefit duration increases with age (up to age 59 in the case of displaced workers) and the insured period (up to 20 years). A more novel feature is the way that the maximum duration of benefit receipt differs between three categories of unemployed persons, defined in terms of how they become unemployed and whether they face certain barriers to becoming re-employed.¹⁵

Table 3.1. **Maximum duration of EI Basic Allowance payments in days^a****A. Specific qualified recipients – Workers displaced due to bankruptcies, mass dismissals and smaller-scale economic dismissals, involuntary non-renewal of temporary contracts and resignations with just cause^b**

Insured period/ Age	Less than 1 year	1≤years<5	5≤years<10	10≤years<20	20 years and over
Less than 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

B. Ordinary unemployed – Resignations without just cause, the ending of most temporary jobs and mandatory retirement^c

Insured period/ Age	Less than 1 year	1≤years<5	5≤years<10	10≤years<20	20 years and over
All ages	–	90	90	120	150

C: Persons facing re-employment difficulties – People with disabilities or other barriers to re-employment^d

Insured period/ Age	Less than 1 year	1≤years<5	5≤years<10	10≤years<20	20 years and over
< 45	150	300	300	300	300
45-64	150	360	360	360	360

Note: EI: Employment Insurance; –: Not applicable.

- Days of entitlement refer to 7-day weeks. Thus, a 90-day entitlement corresponds to approximately 3 months.
- The specific qualified recipient category was created in 2000 and is intended to encompass involuntary job losers who did not have sufficient time to prepare for unemployment. Until 2009, it was limited to workers losing their jobs due to bankruptcies, mass dismissals and smaller scale economic dismissals (including those organised as voluntary early retirement plans), which corresponds almost exactly to displaced workers as defined in Chapter 1 of this report. Currently – and until fiscal year (FY) 2017 –, this category also includes temporary workers whose employment contract was not renewed, even though they requested a renewal, and some workers who resigned with just cause.
- Workers enrolling in voluntary early retirement plans that their employer set up on a temporary bases in order to achieve a rapid reduction in the size of its regular workforce are included among specific qualified recipients in Panel A.
- Local Public Employment Security Offices assign EI applicants to this category following MHLW guidelines.

Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

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- **Specific qualified recipients (Table 3.1, Panel A):** This category is intended to include involuntary job losers who did not have sufficient time to prepare for unemployment. The EI System

provides this group with additional income support, above that available to ordinary unemployed persons (see next bullet), because they are thought likely to require more time to find a suitable new job. Workers who lost their job due to bankruptcies, mass dismissals and smaller scale economic dismissals are classified as specific qualified recipients, as are workers enrolling in voluntary early retirement plans. As a temporary measure following the global financial crisis, some workers quitting their jobs with just cause and non-regular workers whose employer denied their request to renew their temporary contract are also included in this group.¹⁶ Specific qualified recipients can be eligible for up to 330 days of benefits if they have a long history of stable employment and are approaching retirement age.

- **Ordinary unemployed** (Table 3.1, Panel B): This category is intended to include workers who had time to prepare for leaving their prior job and, in many cases, voluntarily resigned. The maximum benefit period for ordinary unemployed is much lower than for specific qualified recipients, ranging from 90 to 150 days for workers with an insured period of at least one year.
- **Persons with re-employment difficulties** (Table 3.1, Panel C): Unemployed persons who are designated by the public employment security office as facing particular re-employment difficulties have the longest benefit entitlements. Even those with an insured period of just one year are entitled for at least 300 days of benefits.

Annex Figure 3.A1.1 presents FY 2012 data on the relative sizes of the different categories of benefit recipients. In that year, 34.6% of new claimants were classified as specific qualified recipients, 62.8% as ordinary unemployed and 2.5% as facing re-employment difficulties. Among the specific unemployed, 80.4% were workers displaced for economic reasons while the rest are non-regular workers whose employer had denied their request to renew their temporary contract and a subset of workers who had quit their job with just cause (jointly referred to as “specific reason” in the figure). Since the specific qualified and re-employment difficulties groups benefit from longer maximum benefit durations, their shares of the average monthly stock of recipients and, especially, of total payments are somewhat higher than their shares of inflows.

In some cases, unemployed workers may receive the EI Basic Allowance longer than is indicated in Table 3.1. For example, the Basic Allowance benefit period can be extended when the public employment service instructs a recipient to take a public vocational training course. In such cases, the benefit is extended until the end of the training course. There are also

provisions to extend the maximum duration by 90 days when there is a significant nationwide increase in unemployment or in designated regions for individuals identified as apt to receive wide-area job placement services (i.e. assistance to find and accept jobs in other regions). As a temporary measure, 60 days of additional benefit entitlement were made available to many of the workers displaced by the recession that followed the global financial crisis and the 2011 earthquake/tsunami, so-called individually extended benefits. In FY 2012, the number of recipients of individually extended benefits was highest among all types of extended benefits at 222 030, followed by 76 478 new recipients of the extended training benefit and 15 878 new recipients of the wide-area extended benefit. No national extended benefits were provided in that year.

Issues for displaced workers

Overall, the design of the EI benefit system appear to be well designed to provide relatively extensive income support to displaced workers who require a considerable amount of time to find an appropriate new job. Employees with a relatively stable work history who experience a displacement generally should qualify for the EI Basic Allowance as specific qualification recipients and, hence, be entitled to substantially longer periods of benefit receipt than ordinary unemployed recipients. The fact that benefit entitlements are generally higher for older and longer tenure workers, within the category of specific qualified recipients, is consistent with research evidence about which displaced workers experience the greatest adjustment costs. However, the extra income protection provided to long-tenure displaced workers also creates the danger that incentives to seek work will be undermined. This means that it is very important that they are effectively activated by the public employment services, as will be discussed at length in Chapter 4.¹⁷

Other public income benefits

While the unemployment insurance benefits provided through the EI System are the most important source of public income support for displaced workers, other income replacement programmes may serve as a supplemental source of income support or provide a last resort safety net for displaced workers who are unable to qualify for EI benefits or exhaust their entitlement, even though displaced workers are not the primary target group of these programmes. This section briefly considers the social assistance programmes, the *Housing Support Benefit*, *Public Pensions* and *Disability Insurance*.

Public assistance

The *Basic Livelihood Protection Programme* (BLPP) is a last-resort income benefit intended to assure that all Japanese families achieve a decent minimum living standard.¹⁸ The level of this public assistance benefit is based on the minimum cost of living according to government's standards, which vary by location, age and family composition. In addition to *Livelihood Assistance*, mainly provided as a cash benefit, a number of additional benefits may be provided, such as housing assistance and medical assistance. Only 3% of households received BLPP benefits in 2012, due to strict eligibility requirements (OECD, 2013a). Even after a protracted period of unemployment, few displaced workers are likely to qualify for these public assistance benefits due to the strict asset test and the discretionary but frequent decision to exclude persons considered able to work or who could be supported by other family members. This contrasts with a considerable number of OECD countries where social assistance benefits (or a special unemployment assistance benefit) play a larger role in backstopping unemployment benefits (OECD, 2011).

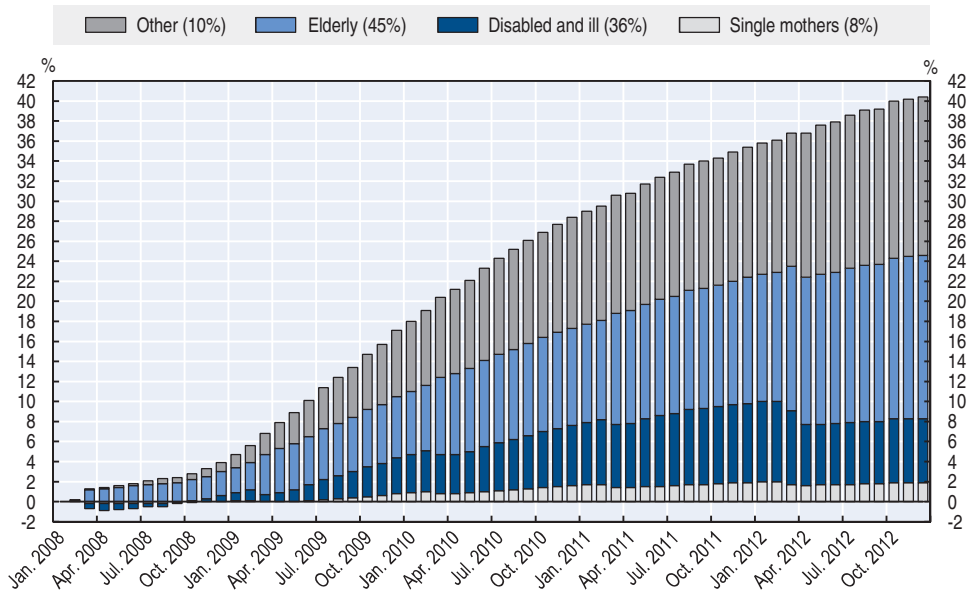
It is possible that BLPP benefits are becoming somewhat more widely available to persons who could work, potentially including displaced workers who experience long-term unemployment.¹⁹ The number of public assistance recipients has increased by 34% since 2008 (Figure 3.2).²⁰ In addition, there has been a marked shift in the composition of recipients. Single mothers, handicapped or ill persons and the elderly accounted for 90% of recipients in 2008, whereas the “other” category – which presumably includes a higher share of persons who are capable of working – represented just 10% of total recipients. The other share had risen to 18% by 2012. The rising share of BLPP recipients who are able to work underlies the need to assure they are effectively activated. It also suggests that it could be useful to more closely co-ordinate public assistance with the Support System for Job Seekers (see above) and the Housing Support Benefit (see below).

Housing Support Benefit

The Housing Support Benefit was implemented in October 2009 in response to concerns that workers displaced by the recession were also becoming homeless due either to the loss of company housing or their inability to continue paying rent.²¹ It consists of a monthly payment approximately equivalent to the family's rent (up to a ceiling based on the housing assistance component of public assistance) that is targeted on displaced workers who used to be the main breadwinner of their family. The family must be at risk of losing its home (or have already lost it) and have an income that is sufficiently low (e.g. not greater than JPY 172 000 for a two-person family). The entitlement is initially for three months, but can be

extended up to nine months under certain conditions. Finally, the beneficiary is required to engage in active job search during benefit period (e.g. by attending vocational counselling at a Public Employment Security Office).

Figure 3.2. **Upward trend in the number of public assistance recipients since the global financial crisis^a**



a) The numbers in parentheses in the legend show the share of each category in the total number of public assistance recipients in January 2008.

Source: OECD (2013), *Economic Surveys: Japan 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-jpn-2013-en.

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Table 3.2 shows that the inflow of new Housing Support Benefit recipients rose rapidly to 37 151 in 2010 and then eased to 19 382 in 2012.²² Unfortunately, no information is available to assess whether this programme was successful in permanently avoiding these families becoming homeless. One indication that it may have been successful in many cases is that a significant share of the recipients left the programme because they had found a new job lasting at least six months. For example, 58.1% of the new beneficiaries in 2012 left the benefit when they found such a job.

Table 3.2. **Reciprocity patterns for the Housing Support Benefit, 2009-12**

Fiscal year	Number of new beneficiaries	Exit to regular employment (%)
2009 (from October)	19 741	7.8
2010	37 151	41.8
2011	24 161	54.5
2012	19 382	58.1

Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

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Public pension system

Public pensions can be an important source of income for older displaced workers. However, it is important that pension income not become a barrier to re-employment for displaced workers who have the desire and ability to continue to work, as has been the case in the past in a number of OECD countries in Europe.²³ This is particularly important in the context of population ageing, when a gradual adjustment towards longer working lives is desirable. Indeed, the Japanese Government has been gradually raising of the entitlement age for public pensions from 60 to 65 and, as was discussed in Chapter 2, has enacted policies that require employers to raise company mandatory retirement ages and/or to develop continuous employment systems for workers preferring to work beyond the mandatory retirement age. This desirable trend toward encouraging later retirement needs to go hand-in-hand with measures to assure that older displaced workers are able to find appropriate jobs before exhausting non-retirement sources of income, such as EI benefits and severance payments.

Even with recent reforms to encourage later retirement, some displaced workers are eligible to begin receiving the specially provided Employees' Pension before age 65, as well as company pension benefits. Receipt of the Employees' Pension can provide additional income support for displaced workers between the ages of 60 and 64, but can also create labour supply disincentives due to the way that these pension benefits are "clawed back" as with earnings or the receipt of other benefits (e.g. the EI Basic Allowance). For example, an older displaced worker who accepts a new job paying less than 75% of earnings at age 60 may qualify for a wage top-up under the Employment Continuation Benefit for Older Workers. But this benefit can trigger a reduction in the pension benefit amount, thereby creating a disincentive to take-up the job in the first place. While direct evidence appears to be lacking, none of these interactions appear likely to generate serious labour supply distortions. Nonetheless, it will be important to monitor the co-ordination of public pensions with the EI System as pension entitlement ages increase and employment patterns for older workers evolve, to make sure that larger distortions and inequities do not emerge.

Public disability benefits

Considerable numbers of displaced workers with chronic health problems have moved onto disability benefits in some OECD countries, particularly during recessions when new jobs are more difficult to find. For example, the recent recession in the United States has led to a sharp increase in applications for public Disability Insurance and, with a lag, new enrolments (OECD, 2014c). This appears to have been much less a problem in Japan since access to disability benefits has been tightly controlled and only approximately 2% of the population aged 20-64 receive benefits, as compared to an OECD average of over 5% and rates near 10% in Estonia, Hungary and Norway (OECD Questionnaire on Disability as reported in OECD, 2014d).²⁴

How well does the EI System meet the income support needs of displaced workers?

The EI Basic Allowance for ordinary insured workers is the main source of public income support for displaced workers in Japan and it is important to know how many displaced workers access this benefit and how much income support they receive. In particular, is it important to verify whether some displaced workers: i) fail to qualify for the benefit (incomplete coverage); ii) are eligible for the benefit but fail to collect it (incomplete take-up); or iii) receive EI benefits but the level and duration of those benefits fail to meet the worker's income support needs (gaps in benefit adequacy). It is also important to know whether certain groups of displaced workers are at an elevated risk of receiving inadequate income support.

Several different data sources are used here to shed light on the effective degree of income support that displaced workers receive from the EI System. While none of these data sources provides a complete picture of the economic status of displaced workers and how it is affected by the receipt of EI benefits, a number of useful insights can be gleaned from them.²⁵ When possible, the coverage, take-up and adequacy of the EI Basic Allowance for displaced workers in Japan are compared with the public income support available to their counterparts in other OECD countries.

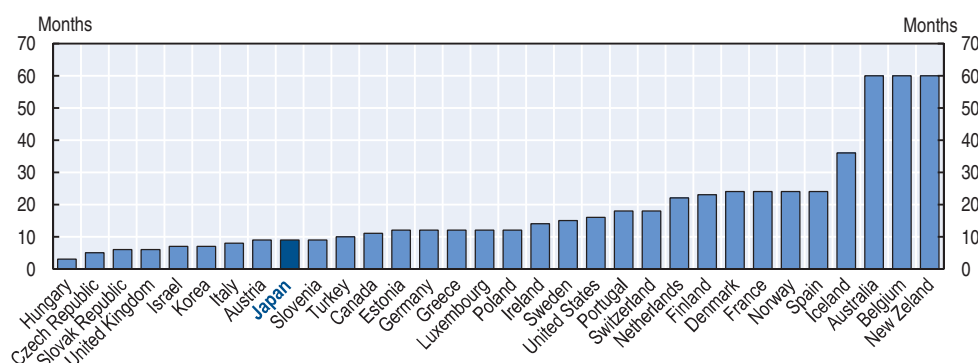
Unemployment benefit entitlements of displaced workers – Japan compared with other OECD countries

The *OECD Wages and Benefits Database* (OECD, 2014b) provides internationally harmonised comparisons of the generosity of unemployment benefits which provide a useful benchmark for assessing the adequacy of the income support that displaced workers receive from the EI Basic Allowance.

Benefit generosity reflects both how long benefits can be collected, should the worker experience a long spell of unemployment, and the amount of the weekly benefit relative to earnings on the prior job. This section compares the national systems that were in effect in July 2012 for a prime-age (40 years) displaced worker aged 40 and with 22 years of continuous, covered employment (reflecting continuous employment since age 18) when the dismissal occurred.

Figure 3.3 compares the maximum benefit duration for displaced workers in Japan, under the rules for specific qualified recipients in Table 3.1, with the maximum benefit durations of the main unemployment benefits in 31 other OECD countries. In Japan, a 40-year-old displaced worker with an insured period of at least 20 years is entitled to up to 270 days of benefits, which is converted into 8.8 months in Figure 3.3. This places Japan in the lower middle range of benefit durations, which range from three months in Hungary to unlimited in Australia, Belgium and New Zealand.²⁶ These comparisons would differ for different worker profiles, but are indicative of international differences in maximum benefit duration.²⁷ These comparisons also do not fully reflect the temporary extensions to the maximum duration of benefits that were introduced in response to the global financial crisis in some of these OECD countries and were still in effect in 2012. In particular, the 60-day individually extended benefits in Japan are not taken into account, even though they were awarded to a considerable number of displaced workers (see above).²⁸

Figure 3.3. **Maximum duration of unemployment benefits in OECD countries, 2012^{a, b}**



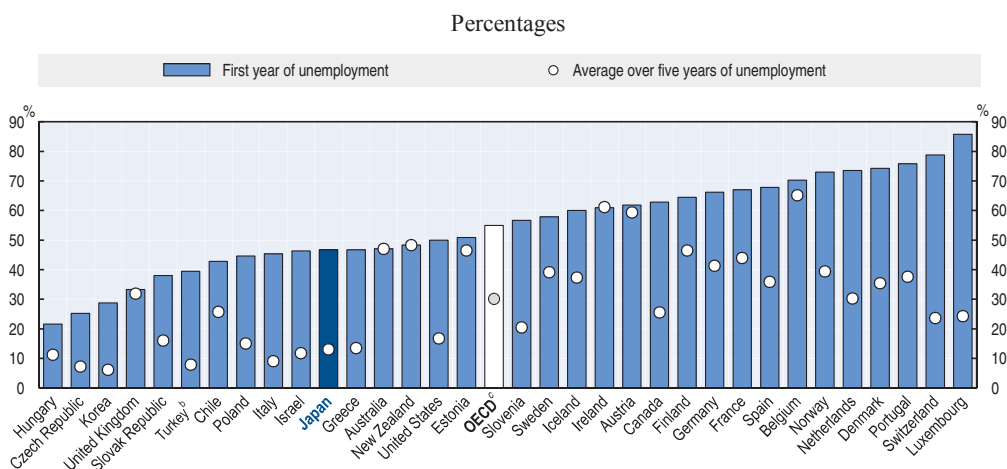
- a) Maximum benefit durations for a 40-year-old displaced worker with 22 years of contributions (continuous employment since age 18).
 b) No duration limit, for Australia, Belgium and New Zealand (shown as 60 months).

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

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Figure 3.4 compares the *net replacement rate* offered by the unemployment benefit schemes in Japan and 32 other OECD countries, both for the first year of unemployment and for a worker who remains unemployed for five years. The net replacement rate (NRR) provides a comprehensive measure of benefit generosity that reflects the combined impact on the disposable income of the worker's family of how high the unemployment benefit is relative to the earnings on the prior job (the gross replacement rate), the maximum duration of benefit receipt and the tax treatment of unemployment benefits.²⁹ As in the previous figure, the net replacement rates are calculated for a 40-year-old displaced worker with a 22-year continuous contribution period. The first-year NRR is an average of the rates for each of the first 12 months of unemployment and the five-year rate an average over 60 months of unemployment. In both cases, NRRs are averaged for four different family types (single and two-earner couples, with and without children) and two earnings levels (relatively low and average wage earners). Due to benefit ceilings and, in some countries, a progressive structure of gross replacement rates, the net replacement rates for high-earning displaced workers would be lower than those shown in Figure 3.4.

The 46.7% NRR in Japan for one-year unemployment spells ranks 11th among the 33 countries shown and is somewhat below the (unweighted) OECD average NRR of 54.9%.³⁰ The degree of income support is considerably lower for the long-term unemployed in Japan due to the relatively short duration of EI benefit entitlements, as is indicated by the five-year NRRs. After tax incomes averaged over a five-year unemployment spell in Japan are 13.1% of disposable income before being displaced, considerably below the (unweighted) OECD average NRR of 30.1%. However, Japan is far from alone in strongly curtailing the amount of income support as an unemployment spell progresses. For example the five-year NRR is 16.7% in the United States and just 6.2% in Korea. In marked contrast, the five-year NRRs are approximately as high as the one-year NRRs in some OECD countries, such as Australia, Austria, Belgium, Ireland and the United Kingdom, where the maximum duration of unemployment benefits is particularly long (or unlimited) or jobseekers exhausting their primary unemployment benefit entitlement can switch to nearly equivalent social assistance benefits.³¹

Figure 3.4. Net replacement rates of unemployment benefits, OECD countries, 2012^a

- a) Net replacement rate is the ratio of net income while out of work to net income while in work. Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families. Family benefits are included in the calculation. Any entitlement to severance payments is also not accounted for. Net replacement rates are calculated for a prime-age worker (aged 40) with a “long” and uninterrupted employment record. The first-year and five-year net replacement rates are averages over 12 months and 60 months, respectively; as well as over four different stylised family types (single- and two-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wages). Due to benefit ceilings, net replacement rates are lower for individuals with above-average earnings.
- b) AW value is not available. Calculations are based on APW.
- c) Unweighted averages of the 33 OECD countries shown in the chart above.

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

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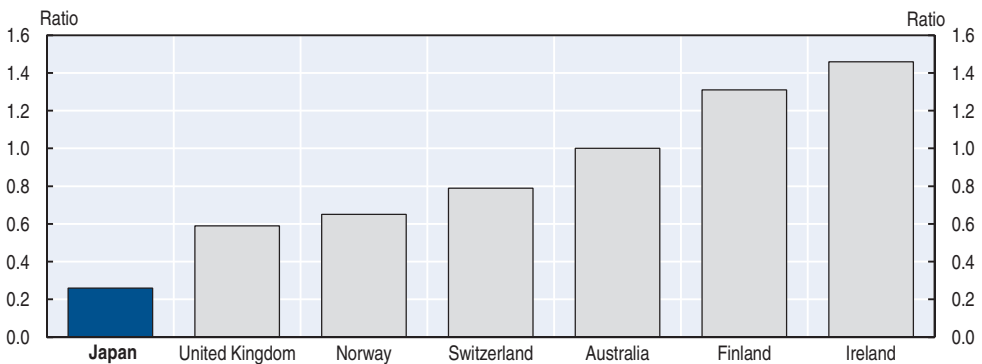
The relatively low long-term replacement rates in Japan can be viewed as an effective way to minimise labour supply disincentives, particularly in combination with the *Re-employment Allowance* and other employment prevention measures. However, this benefit structure does place a premium on making sure that displaced workers do not delay job search after becoming unemployed and receive the jobs search assistance and other services they need to become re-employed before exhausting their EI benefits. Otherwise, there is a risk that job displacement will result in some fraction of workers falling into poverty and social exclusion, with these risks probably being highest for long-tenure, prime-age workers who are still many years distant from qualifying for pension benefits and are also unlikely to receive severance and other types of support from their employers that is as generous as that received by older displaced workers who are offered voluntary early retirement packages (see below).

EI benefit coverage and take-up rates

The share of all unemployed persons receiving EI benefits is relatively low

In Japan, the ratio of the number of persons receiving the EI Basic Allowance to the number of workers classified as unemployed by the Japan Labour Force Survey (LFS), the so-called “pseudo-coverage rate”, averaged 0.26 during 2000-11.³² Figure 3.5 shows that the corresponding ratios are higher in the six other OECD countries whose activation policies were recently reviewed by the OECD Secretariat.

Figure 3.5. **Ratio of the number of unemployment benefit recipients to the number of unemployed persons, Japan compared with six other countries^a**



a) Average values over the period 2000-11.

Source: OECD (2013), “Activating jobseekers: Lessons from seven OECD countries”, Chapter 3 in OECD, *OECD Employment Outlook 2013*, Table 3.1, p. 141, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-7-en.

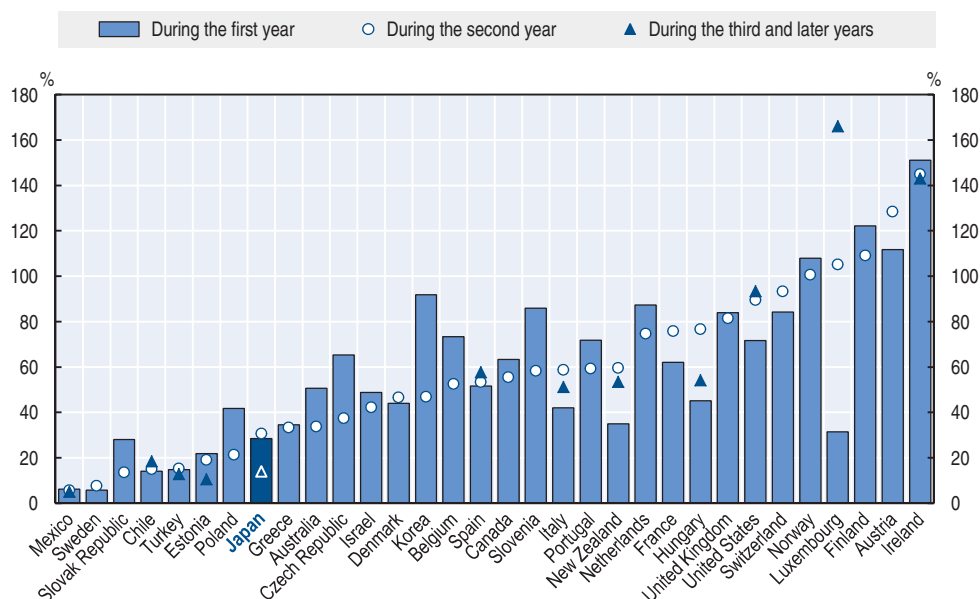
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Indeed the pseudo-coverage rates exceed 1.0 in Finland and Ireland. There are many reasons why these rates vary so strikingly across advanced economies. For example, the high rates for Finland and Ireland reflect the fact that some unemployment benefit recipients are classified by the LFS as being either inactive (e.g. due to not actively searching for a new job while in a training programme) or employed (due to combining part-time work with a partial benefit), rather than unemployed. Nonetheless, these comparisons usefully highlight the fact that many unemployed persons in Japan, at any point in time, are not receiving EI benefits. Among the factors accounting for a low pseudo-coverage rate can be cited the non-coverage of

some non-regular workers by the EI System (although coverage of temporary workers has expanded recently), non-subscribers of employment insurance among regular workers, the delay of three months plus one week delay in receiving benefits that applies to ordinary unemployed recipients (many of whom appear to become re-employed within that time frame) and benefit exhaustion.³³

Another indication that many unemployed workers do not receive unemployment benefits in Japan is that the increase in the number of EI Basic Allowance recipients following the global financial crisis was relatively small compared with the increase in the number of unemployed persons. As can be seen in Figure 3.6, the increase, relative to pre-crisis levels, in the number of EI recipients was approximately 30% of the increase in the number of unemployed persons in the first two years of the economic crisis.³⁴

Figure 3.6. **Post-crisis change in the number of unemployment benefit recipients^a as a percentage of the change in the number of unemployed, OECD countries**



a) Including extended benefits and unemployment assistance.

Source: OECD (2011), *OECD Employment Outlook 2011*, http://dx.doi.org/10.1787/empl_outlook-2011-en.

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However, this *marginal* coverage rate is approximately 50% higher than the overall pseudo coverage rate shown in Figure 3.5. Presumably, this is because displaced workers represented a substantial share of the increase in unemployment during the recession and stable workers who are dismissed by their employers for economic reasons are more likely to receive EI benefits than most other groups of unemployed persons, such as workers who resigned from their previous job or new labour market entrants.³⁵ Since the public assistance caseload also expanded during this period, it is possible that some additional unemployed persons not receiving EI benefits nonetheless received significant public income support (see above and OECD, 2011).

Unemployment benefit reciprocity was more responsive to the recessionary increase in unemployment in three-fourths of the OECD countries included in Figure 3.6, than it was in Japan. Indeed, the marginal coverage rate exceeded 80% in one-fourth of the countries, including seven European countries and, perhaps more surprisingly, the United States.³⁶

EI coverage rates are much higher for stable workers who are displaced

The design of EI Basic Allowance suggests that the share of displaced workers qualifying for the Basic Allowance should be considerably higher than the share for unemployed workers generally and that this difference should be especially pronounced for displaced workers with stable employment histories. EI administrative data can be used to check this.

Table 3.3 presents coverage rate estimates for workers separating from their jobs during a recent six-month period (October 2011 to March 2012). These coverage rates indicate the percentage share of job separators who were certified as being eligible to receive EI benefits after their employer reported their separation to Hello Work (Japan's public employment service). This provides a much more precise indication of the effective coverage rates of displaced workers and other job separators, than the pseudo-coverage rates discussed above. However, it should be borne in mind that these estimates somewhat overstates overall coverage rates for separators, because only employers paying EI contributions on a worker will report a separation to the EI System when that worker leaves the firm.³⁷

In Table 3.3, coverage rates are calculated separately for three categories of job separations: i) workers displaced due to mass dismissals involving 30 or more workers; ii) other displaced workers; and iii) all other separations (e.g. voluntary quits, but also dismissals for employee's responsibility (e.g. poor performance), reaching mandatory retirement age or non-renewal of a temporary contract). The first of these groups should correspond closely

to displaced workers whose employers filed a Plan for Assisting Re-employment with local labour market authorities, as was discussed in Chapter 2. Workers displaced due to other displacements (largely smaller-scale economic dismissals) are included in the second column. The third group should contain no displaced workers, but is otherwise very heterogeneous.

Table 3.3. **EI coverage rates for job separations between October 2011 and March 2012, by reason for leaving firm^a**

	Displaced workers ^b		Other separations ^c
	Mass dismissals	Other displacements	
Gender			
Men	74.1	62.4	26.2
Women	72.4	60.8	28.4
Age			
20-24	62.6	47.6	18.1
25-34	67.7	57.6	25.3
35-44	72.5	60.9	25.0
45-54	79.0	64.7	28.4
55-64	73.4	65.9	38.7
Total	73.5	61.8	27.4
<i>Total number of separations</i>	32 370	297 089	3 071 775

Note: EI: Employment Insurance.

- a) Coverage rates estimated as the share of total separations that employers reported to the EI System for which the worker is certified as being eligible to receive EI Basic Allowance benefits. Some qualified workers may not have actually received benefits (e.g. if they found a new job very rapidly or withdrew from the labour force).
- b) The first two columns are referred to as *employer-initiated separations* in the terminology of the EI administrative system. They are, however, limited to dismissals for economic reasons and thus correspond to the definition of displaced workers used in this report. All of these job losers should be classified as specific qualified recipients if they are found to be eligible for EI benefits.
- c) The third column is referred to as *separations other than employer-initiated separations* in the terminology of the EI administrative system. However, they include some categories of job separations that would typically be classified as employer-initiated separations in other contexts (e.g. workers dismissed for poor performance, because they reach their firm's mandatory retirement age or because their employer did not renew their temporary contract).

Source: Special MHLW tabulations of EI administrative data as elaborated by MHLW and provided to the OECD Secretariat in January 2014.

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The first column of Table 3.3 indicates that the coverage rate for workers displaced by mass dismissals is 73.5%, much higher than the

pseudo-coverage rates discussed above. The coverage rate for other displaced workers shown in column 2 is somewhat lower, but still quite high at 61.8%. It is perhaps surprising that these rates are not even higher given that it appears that all such displaced workers should qualify for EI as a specific qualified recipient, provided they have contributed to the EI System for at least six months.³⁸ Finally, the coverage rate for separations other than displacement in column 3 is much lower at 27.4%, suggesting that many of these workers are not interested in searching for a new job or do not have an adequate contribution record to qualify for benefits.³⁹ Since this is the largest group, the overall coverage rate for all separators is 34.1%, substantially higher than the pseudo-coverage rate presented in Figure 3.5, but fully consistent with the finding that the majority of unemployed persons are not receiving EI benefits at any given time.

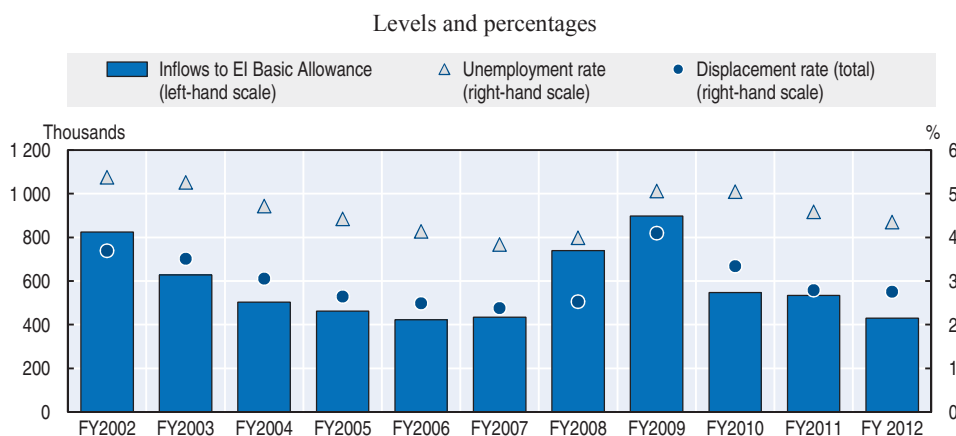
Table 3.3 also compares coverage rates between men and women and across five-age groupings. Within each of the three types of separations, the coverage rate for men and women is similar (e.g. 74.1% versus 72.4% in column 1). However, women are under-represented among displaced workers (a high coverage category) and over-represented among other separators (a low coverage category). At least in part, this is likely to reflect the higher tendency of women to voluntarily leave jobs.

EI coverage rates tend to rise with age. This can probably be explained by the fact that job tenure and thus the insured period tend to rise with age. One partial exception to this pattern is that the coverage rate for workers displaced as part of a mass dismissal (column 1) peaks for the 45-54 age group and then is somewhat lower for ages 55-64. This may be because some of the displaced workers in the oldest group were displaced from jobs they obtained after retiring from their career jobs. Many of these workers may have received EI benefits at the time when they left their career job. If so, that would tend to limit their eligibility for another period of EI reciprocity should they become unemployed again at a later date. Nonetheless, older workers are over-represented among displaced workers overall (i.e. in the first two columns of Table 3.3), where coverage rates are highest. Nearly one-half of workers separated as part of mass dismissals are between the ages of 45 and 59 years (47.9%), consistent with mass dismissals often being organised around voluntary early retirement plans. This age group accounts for one-third of other displaced group (33.9%) and only one-fifth of separations other than displacements (21.3%).

Another indication that a large majority of displaced workers qualify for the EI Basic Allowance is that administrative data on the annual inflow of specific qualified recipients since 2002 has evolved in a manner that closely parallels the contemporaneous evolutions of both the LFS unemployment rate and the displacement rate estimates presented in Chapter 1. Figure 3.7

shows that the inflow of new beneficiaries fell from a recessionary high of 824 000 in 2002 to 423 000 in 2006, then surged upward beginning in 2008 to reach a new recessionary peak of 897 000 in 2009, before declining again to 431 000 in 2012. The business cycle swings in the unemployment and displaced worker rates show a similar time profile, but are somewhat less dramatic. These data suggest that many of the stable workers displaced during a recession probably do receive EI benefits under the relatively generous terms available to specific qualified recipients.

Figure 3.7. **EI inflows for specific qualified recipients have tracked changes in the displacement and unemployment rates quite closely, 2002-12**



Note: EI: Employment Insurance. FY: Fiscal year.

Source: Data on inflows to EI Basic Allowance provided to the OECD Secretariat by MHLW. The unemployment and displacement rates are calculated using LFS data (see Chapter 1). The total displacement rate includes workers displaced due to economic reasons, end of contract and early retirement.

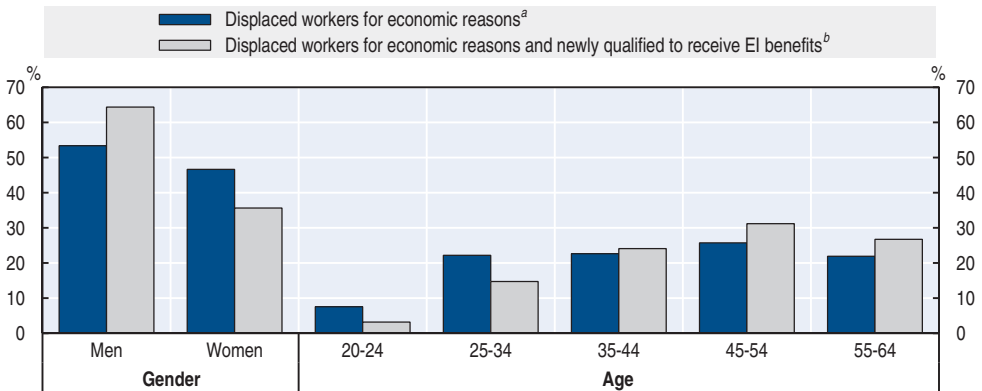
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Which groups of displaced workers most easily access specific qualified benefits?

Although EI coverage rates appear to be quite high for displaced workers, they are not 100% and it is important to know whether certain workforce groups are at an elevated risk of not receiving benefits when displaced or only receiving the benefits accorded to ordinary unemployed recipients. Figure 3.8 compares the gender and age profile of all workers displaced for economic reasons from Chapter 1 with those who are qualified as specific qualified recipients among those who left their job due to a mass dismissal. The shares of women and relatively young persons (ages 20-24

and 25-34) among all workers who are displaced for economic reasons are significantly higher than their shares among all new recipients. Put differently, EI coverage rates, at least into the more generous benefit structure intended for displaced workers, appear to be higher for men and older workers than they are for women and younger workers. The analysis in Chapter 1 suggests that higher effective coverage for older displaced workers may be justified because they tend to experience larger earnings losses when re-employed, but it is less clear that lower coverage rates for women can be justified in terms of lower adjustment costs.

Figure 3.8. **Demographic profiles of displaced workers and new EI recipients, 2012**



Note: EI: Employment Insurance.

- a) Data on displaced workers for economic reasons are average over the period 2002-13, as discussed in Chapter 1.
- b) Workers newly qualified to receive EI benefits as specific qualified recipients (economic reasons) refer to the period between October 2011 and March 2012.

Source: MHLW calculations using microdata from the Japan Labour Force Survey (LFS) and special MHLW tabulations of EI administrative data as provided to the OECD Secretariat in January 2014.

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Table 3.4 provides additional information on the EI benefits received by men and women and different age groups. Among new benefit recipients, women are particularly concentrated in two benefit recipient categories: specific qualified (specific reason) and ordinary unemployed. While the first of these groups – corresponding to workers whose employers denied their request to renew their temporary contract, as well as some who quit for just cause – receives the longer-lasting benefits intended for workers unable to anticipate job loss, they do so as a temporary crisis measures that is set to expire in 2018. This suggests that female beneficiaries risk becoming even

more strongly concentrated in the ordinary unemployed recipient category at that time and, hence, experiencing a reduction in the level of income support. This prospect underlies the need to evaluate the income support needs of these groups, as to ascertain whether significant numbers of workers displaced for economic reasons are being reported to the EI System as having separated for other reasons.

Table 3.4. **Gender and age composition of different beneficiary groups, FY 2012**

Percentage share of the indicated demographic groups among all recipients

Benefit recipient categories	Women	Under age 30	30-44	45-59	60-64
Total	47.45	14.66	30.79	35.08	19.47
Specific qualified (economic reasons)	37.94	6.09	29.24	50.23	14.44
Specific qualified (specific reason)	55.36	16.04	40.11	29.16	14.70
Difficulties to become re-employed (disabled)	31.73	9.43	27.16	40.41	23.00
Ordinary unemployed	56.30	22.28	31.36	22.53	23.84

Note: FY: Fiscal year.

Source: MHLW (2012), *Annual Report on Employment Insurance Services*, www.mhlw.go.jp/bunya/koyou/koyouhoken02/annual01.html.

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Workers under age 30 are over-represented among the ordinary unemployed and under-represented under specific qualified recipients. Workers ages 45-59 are strongly over-represented among the specific qualified recipients, the core category for displaced workers, while workers ages 60-64 are over-represented in both the re-employment difficulties group and the ordinary unemployed group. This is probably due to the fact that much of the unemployment for this group results from mandatory retirement or separations from temporary jobs that were taken up after retiring from the career job and only held for a short period of time. These types of separations generally would fall into the ordinary unemployed recipient category.

Is public income support for displaced workers adequate?

The information discussed above makes it clear that the EI System singles out stable workers who are displaced for economic reasons for more generous income support than is generally available to unemployed persons in Japan. Even so, the net replacement rate is somewhat below the OECD average level, especially for job losers experiencing long spells of unemployment. Among displaced workers, women and relatively young workers are less likely to be accorded the specific qualified recipient status

that provides more added income support above that offered to ordinary unemployed recipients. Displaced workers may also benefit from other forms of private income support, most notably severance payments and voluntary early retirement packages. The next section analyses these sources of income support and their implications for the design of public income support.

Income support from firms

Displaced workers may receive severance payments from their employer that supplement the income support provided by the EI System and other public programmes discussed above. Indeed, a 2011 survey of private firms in Japan that employed at least 50 ordinary employees showed that 86.9% of these companies offer severance awards to separating workers (National Personnel Authority, 2011). Company pension plan can also be a source of income for displaced workers, although workers typically need to be at least age 60 before they can begin to receive these benefits. When implementing mass dismissals, Japanese employers often set up voluntary early retirement packages that temporarily increase the financial benefits available to workers agreeing to retire early from the firm, particularly by increasing the size of the lump-sum severance payment. Thus, company-based income support appears to be particularly important for displaced workers in Japan.

Company retirement benefits as a source of income support for displaced workers

Many Japanese employers provide retirement benefits to their workers that are structured so as to reward high job tenure and thus help to support the lifetime employment model by discouraging early and mid-career workers from changing jobs. The term “company retirement benefits” covers both retirement lump-sum allowances and corporate pensions. Historically, the lump-sum retirement allowances were quite large and no pension benefits were offered. Since 2001, government policy has been encouraging employers to convert lump-sum retirement payments into company pensions or, at least, to shift towards providing more of the total retirement benefit package in the form of company pensions.⁴⁰ As of 2011, 56.0% of private companies with 50 or more ordinary employees had set up a company pension and this share was to 87.0% for companies with more than 1 000 employees (National Personnel Authority, 2011).

Encouraging firms to redesign their retirement benefits packages towards placing greater emphasis on pension benefits contributes to income security for retirees and is especially useful in the context of population

ageing. However, this shift will also reduce the immediate income support available to mid-career workers who are displaced to the extent that corporate pensions are funded by reducing lump-sum retirement allowances. Whereas the lump-sum payments are immediately available when a worker leaves the firm and thus function as severance payments, company pension benefits do not offer immediate income support for displaced workers who have not yet reached the age at which those benefits are paid; most often, the company's mandatory retirement age. There may thus be a trade-off between maximising the effectiveness of company retirement benefits as a vehicle for retirement savings and maximising their effectiveness as a source of short-run income support for displaced workers.⁴¹

A second concern is whether workers who are displaced mid-career will be able to accumulate an adequate pension entitlement based on having worked for two or more employers. Company pensions are primarily designed to meet the needs of the lifetime workforce, rather than workers who change employers one or more times before reaching the company retirement age. In order to address this problem, the government is encouraging employers to allow mid-career workers leaving a firm to transfer their reserved funds in the company pension plan to the pension plan in the new firm that hires them. Increased portability of company pension entitlements could be valuable for displaced workers. Unfortunately, information about the effective portability of pension entitlements for this group could not be found.

Statistical evidence about how many displaced workers receive lump-sum severance payments and how much they receive does not appear to be available. In the absence of direct evidence, Box 3.1 provides a summary of a model retirement benefits package which is typical of those offered by many large corporations, at least to their regular workers.⁴² This provides a useful indication of the baseline level of employer-provided income support that workers displaced from large companies would receive, in the absence of the additional income support that is often provided through voluntary early retirement plans. These data indicate that a 42-year-old worker with 20 years of tenure would receive a lump-sum severance payment equivalent to 9.6 months of base salary, which is moderately greater than the EI entitlement of such a worker: a maximum of 270 days (equivalent to 8.8 months) of EI benefits set at a daily allowance that typically ranges between 50% and 80% of the base salary on the lost job. Severance payments potentially represent a significant proportion of the total income support available to workers in companies offering a retirement benefits package typical of large private companies.

Box 3.1. Lump-sum and pension benefits available to long-tenure displaced workers from a model corporate retirement scheme

The table below presents illustrative retirement benefit amounts for employees displaced from large companies, both the overall total package and its decomposition into: i) a monthly pension that typically becomes payable at the firm's mandatory retirement age (most often age 60); and ii) a lump-sum retirement allowance that is paid at the time that the worker leaves the firm. Since these benefit levels depend on the worker's age and tenure, several examples are given that are intended to be illustrative of the situation facing mid- and late-career displaced workers. These data are based on the responses of 228 large companies that participated in the *General Survey on Wages and Other Terms of Employment* that was conducted by the Central Labour Relations Commission in 2013.¹ The model retirement plan described by the table data are based on an averaging of the responses of the firms that indicated they offered both a lump-sum retirement allowance and company pension benefits (87.8% of the sample). These data thus provide an indication of the base level of company-provided income support available to one group of displaced workers, prior to any extra support offered by early retirement packages.

Under the model corporate pension plan, a 42-year-old worker displaced after having worked for that firm for 20 years would receive a total retirement allowance equivalent to 20.1 months of salary. About one-half of this allowance would be available immediately as a lump-sum severance payment (9.6-month salary equivalent), while pension payments (annuity value equivalent to 10.5-month salary) would only become available with a considerable delay. The total size of the retirement package rises strongly with age and accumulated job tenure. For example, the monthly salary equivalent of the package for a 57-year-old displaced worker with 35 years of tenure is a little more than twice as high at 42.6 months, with the severance payment continuing to account for approximately one-half of the total package.

Model retirement payment plan for workers displaced due to economic reasons

Years of service (tenure)	20 years	25 years	30 years	35 years
Age at the time of the retirement	42-year-old	47-year-old	52-year-old	57-year-old
Total retirement allowance (JPY 10 000)	991.9	1 550.2	2 154.6	2 613.5
Months of salary equivalent	20.1	27.5	35.3	42.6
Lump-sum retirement allowance/severance payment (JPY 10 000)	473.1	775.9	1 086.4	1 356.1
Months of salary equivalent	9.6	13.4	17.8	22.1
Pension payment – Annuity value (JPY 10 000)	518.8	797.3	1 068.1	1 257.4
Months of salary equivalent	10.5	14.1	17.5	20.5
Number of companies	36	35	32	26

Note: The numbers shown in the table represent model retirement allowance offered to workers leaving for employer-initiated reasons who are college graduates, engaged in white-collar job or research and development, and in the main career track grade (i.e. who are not in a secretarial job or general-duties grade).

Source: General Survey on Wages and Other Terms of Employment (2013), conducted by Central Labour Relations Commission.

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1. The survey was conducted during August-September 2013 on 379 enterprises selected among those with annual revenues of more than JPY 500 million and with 1 000 or more employees. The response rate was 60.2% yielding 228 valid responses.

The severance payments received by workers displaced from small- and medium-sized enterprises (SMEs) are probably more varied than those received by workers displaced from large companies, but may not be lower on average. Indeed, 84.3% of firms with 50-90 ordinary employees offer lump-sum retirement allowances, as compared with 76.1% of firms with more than 1 000 ordinary employees (National Personnel Authority, 2011). The data presented in Table 3.5 also suggest that average severance awards are considerably higher averaged across all workers in firms with at least 50 employees that offer severance allowances, than in the model retirement plans of large companies offering both a lump-sum retirement award and a company pension that is discussed in Box 3.1.⁴³ For example, Table 3.5 indicates that the average severance payment for workers with 20 years of tenure, who are displaced from a firm that operates its own lump-sum severance scheme and bases the size of the severance payment on total base pay,⁴⁴ is the equivalent of 19.6 months of their base salary. This is substantially greater than the 9.6-month value shown in Box 3.1 for a worker with the same amount of tenure who has been displaced from a large firm. One possible explanation for this finding is that fewer small- and medium-sized firms have set up a company pension. Firms setting up pension plans often fund them, at least in part, by reducing the lump-sum retirement awards that they offer to separating workers. Workers displaced from SMEs are likely to receive lower company pension benefits than is indicated in the model plan described in Box 3.1, or no pension benefits at all, but may frequently benefit from greater immediate income support in the form of larger severance payments.

Table 3.5. **Typical severance payments by tenure and reason for separation, 2011^a**

Payment amount equivalent in months of base salary

Tenure with company	5 years	10 years	20 years	30 years	40 years
Reason for separation					
Retirement age	3.6	8.1	19.8	32.3	39.4
Employer-initiated	3.7	8.2	19.6	31.6	38.8
Employee-initiated	2.1	5.5	15.9	27.6	34.6

a) Average values for firms offering lump-sum severance payments (with or without a company pension) that administer their severance payment scheme in-house and calculate the lump-sum payment based on total base pay.

Source: National Personnel Authority (2011), “Minkankigyô taishokukyûfu chôsa” [Survey on Retirement Benefits of Private Companies] (available only in Japanese), www.e-stat.go.jp/SG1/estat/GL08020103.do?_toGL08020103_&tclassID=000001038484&cycleCode=0&requestSe=nder=search.

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Comparing EI entitlements in Table 3.1 with the typical severance payments in Table 3.5 suggests that severance payments rise even more strongly with job tenure than EI entitlements rise with the insured period. Displaced workers with an insured period of five years qualify for between 3.9 and 7.8 months of EI benefits (i.e. between 120 and 240 days), depending on their age, which compares favourably with an average severance payment equivalent to 3.7 months of base pay. By contrast, displaced workers with 30 years of tenure qualify for between 8.8 and 10.8 months of EI benefits, far below the 31.6 months of severance pay. Both EI and severance entitlements are reduced in the case of employee-initiated separations, with the proportionate reduction being particularly strong for short-tenure workers.

Voluntary early retirement plans

When Japanese companies decide to displace regular workers, particularly those who are covered by the HRM practices associated with lifetime employment, it is common practice to set up a temporary *voluntary early retirement plan* and encourage mid- and late-career workers to enrol in it. This practice accounts, at least in part, for the relatively high incidence of displacement among older workers which was documented in Chapter 1. It also means that public labour market programmes assisting displaced workers need to take account of the extensive private support some of these workers receive from their employers, particularly lump-sum severance payments and outplacement services.

In context of the lifetime employment system, there are several advantages to using early retirement schemes to downsize employment. From the prospective of worker well-being, early retirement has the potential to concentrate the adjustment costs associated with corporate downsizing on the group of workers for whom the cost of displacement is smallest. In effect, many of the workers choosing to enrol in a plan anticipate their mandatory retirement by a relatively short period of time and the economic losses that result may be largely compensated by the increased severance payments these plans typically offer to participating workers.⁴⁵ Concentrating economic dismissals on older workers also makes sense from a management perspective, since the cost savings per worker displaced are particularly large for this group under the seniority wage system.⁴⁶ It should be noted, however, that population ageing may make this practice increasingly problematic in the future. In particular, the heavy use that employers make of early retirement to achieve downward employment flexibility is potentially at odds, at least in the long run, with government policies intended to prolong careers by phasing out mandatory early retirement prior to age 65 (see Annex 3.A2 to this chapter). Voluntary early retirement might thus be considered a “second best” solution for managing job displacement, whereas the first best solution would be to improve labour market mobility options for mid-career workers.

Panel A of Table 3.6 presents data on the use of voluntary early retirement plans which comes from the Survey on Retirement Benefits of Private Companies that was conducted by National Personnel Authority in 2011.⁴⁷ Among private companies that have 50 or more ordinary employees and a lump-sum retirement allowance payment scheme, 9.9% had encouraged use of a voluntary early retirement between January 2006 and 2011. This share rose to 16.1% for companies with more than 1 000 employees, but was only 6.0% for companies with 50-99 employees. An additional 0.9% of the companies indicated they had documents stipulating a voluntary retirement plan, but had not encouraged enrolment in that plan since 2006.

Table 3.6. **Share of companies with severance pay that make use of different types of early retirement plans, 2011**

A. Share of companies with voluntary early retirement plans

Voluntary early retirement plan	Company size				
	Total	1 000 or more employees	500-999 employees	100-499 employees	50-99 employees
Ever called for voluntary retirement since January 2006	9.9	16.1	13.5	11.3	6.0
Never called for voluntary retirement since January 2006, but have documents stipulating voluntary retirement plan	0.9	1.4	1.0	1.0	0.7
Never called for voluntary retirement since January 2006, and have no documents stipulating voluntary retirement plan	88.3	82.0	84.2	87.1	92.1
Unknown	0.8	0.5	1.2	0.6	1.2

B. Share of companies with voluntary early retirement and early retirement incentive plans

Early retirement incentive plan	Voluntary early retirement plan			
	Total	With voluntary early retirement plan	Without voluntary early retirement plan	Unknown
Total	100.0	10.9	88.3	0.8
With early retirement incentive plan	11.6	2.2	9.3	0.1
Without early retirement incentive plan	87.3	8.6	78.5	0.3
Unknown	1.1	0.1	0.5	0.4

Source: National Personnel Authority (2011), “Minkankigyô taishokukyûfu chôsa” [Survey on Retirement Benefits of Private Companies] (available only in Japanese), www.e-stat.go.jp/SG1/estat/GL08020103.do?_toGL08020103_&tclassID=000001038484&cycleCode=0&requestSender=search.

StatLink  <http://dx.doi.org/10.1787/888933175779>

Voluntary early retirement plans are typically designed to achieve a substantial and rapid reduction in regular employment, that is, to effectuate a

mass dismissal. Companies seeking to encourage more gradual reductions in the size of their regular workforce and/or to provide their employees with more flexible retirement options can set-up a permanent *early retirement incentive plan*. As in the case of the temporary voluntary plans, the permanent plans top up the company's retirement benefits scheme, most often by increasing the size of the lump-sum retirement allowance that is paid when a worker resigns. Once again, large companies make greater use of these schemes than SMEs. Panel B of Table 3.6 shows that the shares of firms operating these two types of early retirement plans are quite similar: 10.9% have operated a voluntary plan recently while 11.6% have a permanent retirement incentive plan in place. However, these are largely distinct firms and only 2.2% of the companies operate both types of early retirement plans.⁴⁸ The rest of this section focusses on the operation of voluntary early retirement plans, because these are clearly a form of job displacement. Workers can come under strong pressure to enrol in these plans, potentially disrupting their plan to remain at the firm until the mandatory retirement age (or even beyond, via the continuous employment system).⁴⁹ By contrast, workers enrolling in an early retirement incentive plan typically are able to anticipate and control the timing of their retirement.

Voluntary early retirement plans tend to be quite generous from a financial perspective since they typically offer significantly higher lump-sum severance payments than is specified in the company's standard retirement benefits package. Table 3.7 shows that the severance premia in voluntary early retirement plans, expressed as the average percentage increase in the lump-sum payments, differ by age and size of firm, but are always substantial. For example, a typical 45-year-old worker enrolling in one of these plans would receive an 89.2% premium, while the premia for a 50-year-old and a 55-year-old worker would be 68.1% and 59.5%, respectively. The percentage increases in severance amounts are larger for larger firms and workers who are further from reaching the mandatory retirement age and, hence, have more to lose from leaving the firm. Voluntary early retirement plans also frequently offer other services to workers who enrol (National Personnel Authority, 2011). Thirty-six and a half per cent of the plans offer outplacement services from a private agency and this rate rises to 71.2% for the largest firms, as was discussed in Chapter 2. Some of these plans also offer additional leave to workers for the purpose of job search.

Table 3.7. **Average percentage increases in lump-sum severance payments in voluntary early retirement plans,^a 2011**

Company size	Total	1 000 or more employees	500-999 employees	100-499 employees	50-99 employees
Age					
45-year-old	89.2	167.3	107.7	86.1	39.9
50-year-old	68.1	89.4	94.8	66.3	41.2
55-year-old	59.5	61.2	76.7	58.0	52.8

a) These inflation factors apply to the lump-sum payments due in workers separating for personal reasons.

Source: National Personnel Authority (2011), “Minkankigyô taishokukyûfu chôsa” [Survey on Retirement Benefits of Private Companies] (available only in Japanese), www.e-stat.go.jp/SG1/estat/GL08020103.do?_toGL08020103_&tclassID=000001038484&cycleCode=0&requestSe-nder=search.

StatLink  <http://dx.doi.org/10.1787/888933175786>

Direct evidence about the size of the severance entitlements of workers enrolled in voluntary early retirement plans is lacking, but a rough calculation based on disparate data sources suggests that they can be quite high. As was shown above, the basic severance payments stipulated in company retirement benefit packages already tend to be of the same order of magnitude as the EI benefit entitlements of long-tenure displaced workers. Since the severance entitlements of workers participating in voluntary early retirement plans tend to be substantially larger than the baseline values shown in Table 3.5, it follows that many of these workers benefit from very generous income support when both public and private sources are considered. Combining information from Box 3.1 below, and Tables 3.5 and 3.7, a 50-year-old long-tenure displaced worker participating in a more or less representative voluntary early retirement plan would likely qualify for approximately 29 months of severance pay (17.8 months in the basic plan for a dismissal, adjusted downwards by a factor of 0.873 to apply to separations for personal reasons and then increased by the 89.4% premium). Adding the 10.8-month EI benefit entitlement suggests a total of around three years of base salary.

The voluntary early retirement plan that the Sharp Corporation implemented in 2012 provides an example of a particularly generous plan that proved to be attractive to a significant number of its employees. It also illustrates some of the complexities involved in successfully designing and implementing such a plan, such as the need to consult effectively with the union and to provide workers with the information and counselling they require to understand whether it would be beneficial for them to enrol. Box 3.2 provides an overview of this case.

Box 3.2. The 2012 voluntary early retirement plan at the Sharp Corporation

The Sharp Corporation experienced a steep fall in sales in the aftermath of the Lehman Brothers bankruptcy in September 2008, but chose not to displace any regular workers since it believed that these difficulties were only temporary. Instead, it relied on other cost saving measures, such as postponing salary increase, suspending services of welfare facilities and ceasing the renewal of contract works. Several years later, it became clear that intensified low-cost competition from China and Korea, as well as the appreciation of the Japanese yen (JPY) and over-capacity in some product areas required the company to reduce its regular workforce in Japan if it was to remain a viable business. When announcing its first quarter financial returns in 2012 on 2 August, Sharp announced that it intended to reduce employment, including consolidated companies, by around 5 000 by the end of March 2013 through a combination of natural attrition, off-balance-sheet transactions and voluntary early retirement. When the first-half financial results confirmed the urgency to downsize employment, Sharp made a public announcement on 28 August that it would initiate negotiations with its labour union over a voluntary early retirement plan that was intended to enrol approximately 2 000 workers who would leave the firm on 15 December 2012. Since union officials were already well aware of the difficult financial situation of the firm, those negotiations focused on the additional severance payments and re-employment assistance that would be offered to workers who enrolled, rather than the need for a voluntary retirement plan. The negotiations concluded successfully on 26 September and the voluntary early retirement plan was put into operation.

In September 2012 HR Sharp offices sent a notification to all managers with instructions to offer voluntary retirement packages to employees. The twin goals of the plan were to attract 2 000 employees to take voluntary retirement and search for new jobs outside the Sharp Group, and to provide them with adequate support. The voluntary early retirement plan was open to regular employees in domestic affiliates of the Sharp Corporation who were between 40 and 59 years of age (and would reach age 60 after 15 January 2013). Workers between the ages of 40 and 59 were required to have at least three years of tenure. Eligibility was also limited to full-time, permanent workers.

The main financial support offered by the voluntary retirement plan was severance payments significantly higher than the lump-sum retirement award offered to workers resigning for personal reasons under the corporate pension plan. Two separate factors were used to calculate the increase to severance payments above the standard amount for each worker:

- **Adjustment factor:** A percentage premium was applied to the lump-sum severance entitlement under the corporate pension plan. This adjustment factor was 100% for workers aged 50 and older. For workers between the ages of 40 and 49, the adjustment factor was increasing with age, ranging from 35% for workers with less than five years of tenure up to 100% for those with 30 years or more of tenure. The payment rate for the severance payment varies according to the age and the tenure when the worker is retiring for personal reasons, however full rate of severance payment was provided at this time to all employees regardless of the age and tenure.

Box 3.2. The 2012 voluntary early retirement plan at the Sharp Corporation (*cont.*)

- **Incremental benefit by age:** This increment ranged from seven months for workers at age 40 up to a maximum of 30 months at age 50, before tapering down to ten months for workers at age 58 and 1-4 months at age 59 (depending on how close they were to reaching age 60). For example, a worker at age 50 would receive both double the usual severance amount *plus* 30 additional months.

The total severance payment amount was then calculated by multiplying the months of severance by a reference monthly pay level. For most employees, the monthly amount was the sum of the base salary, the qualification allowance and the family allowance. The result of these adjustments could be very generous. For example, a worker at age 50 would receive both double the usual severance amount *plus* 30 additional months. The plan specified that severance payment would be made within one month of the date the worker resigned from Sharp (i.e. by 15 January 2013).

The economic package offered to voluntary retired employees also included the Corporate Pension benefit that could be given to workers when leaving the firm either as a lump-sum payment (the option chosen by the majority of workers) or by turning it into an annuity at the time of retirement, if the employee's tenure was not less than ten years. Additional forms of financial support included up to a maximum of JPY 150 000 for travel expenses, freight costs, transportation insurance premiums, etc. for employees who had been living away from their families and now needed to move. There was also a provision for workers living in company housing to be able to remain until 31 January 2013. Participating workers were also eligible for outplacement services under the plan and EI benefits as specific qualified recipients.

A key aspect of implementing this complex plan was to assure that workers were aware of it and could access reliable information about their individual entitlements should they choose to enrol. In addition to general announcements of the voluntary retirement plan, Sharp organised individual interviews for all eligible workers where the plan and its implications for their specific situation were explained.

According to the original plan, workers would be able to apply between the 1st and the 14th of November 2012. Take-up was so high that the application period was closed early on 9 November, by which time nearly 3 000 workers had submitted applications. All applicants received notification whether or not their application had been approved on 19 November, when 2 960 workers were officially enrolled in the plan. All of those workers resigned from Sharp on 15 December 2012.

Conclusions

This chapter has provided an overview of the income support that displaced workers receive from public programmes and their employer. The unemployment benefits provided by the EI System and severance payments emerge as the two primary sources of income support following

displacement. Since these two sources of income can be combined, it is clear the support available to some displaced workers is quite generous, particularly in the case of long-tenure workers who participate in a voluntary early retirement plan and also become specific qualified recipients of EI benefits. However, it is also clear that many displaced workers receive much less generous (or no) income support from either the public EI System or their employer. In such cases, last resort income transfers such as public assistance, appear to be relatively inaccessible for displaced workers. The OECD net replacement rates indicate that the overall generosity of the public unemployment benefits system for displaced workers is somewhat below the OECD average in Japan, even though the EI benefit structure is relatively more favourable to displaced workers as compared with other groups of unemployed persons. On the other hand, displaced workers in Japan probably receive relatively generous severance pay in comparison with their counterparts in other OECD countries, especially long-tenure workers displaced from large firms.

The data sources draw upon here provide considerable information about the public and employer-provided income support that displaced workers receive in Japan, but they also have several important limitations. A first limitation is that they do not provide sufficient information about the income replacement needs of these workers to reach firm conclusions about benefit adequacy. For example, the shorter EI income support durations of female and younger displaced workers, which was documented above, might accurately reflect their lower income support needs (e.g. due to their greater capacity to rely upon the earnings of their husband or parents), but that has not been verified here. A second limitation is that it is not possible to analyse the extent to which displaced workers cumulate different types of income support, such as EI benefits and severance payments, although it seems likely that long-tenure workers displaced from large companies frequently cumulate 270-330 days of EI entitlement with very large severance payments, while young, female and temporary workers typically receive much less when displaced. However, direct evidence is lacking.⁵⁰

Several policy conclusions can be drawn from the evidence assembled in this chapter. *First*, the EI System is relatively generous with displaced workers as compared to other groups of unemployed workers, since they benefit from much higher effective coverage rates and also qualify for longer periods of benefit receipt than many other EI recipients. *Second*, overall income support, combining public and private support, appears to be particularly generous for long-tenure workers displaced from large companies and this may well make sense in the Japanese context where mid-career mobility is difficult. However, it also raises the question whether other groups of displaced workers are receiving adequate income

support and a policy priority is to identify and address any such gaps. A *third* conclusion is that the crisis measures that were taken to plug gaps in EI coverage for job losers (e.g. workers losing temporary jobs) and increase benefit generosity appear to have been sensible and many probably should be made permanent, but it has not been possible to rigorously evaluate their impacts. A *final* conclusion is that workers receiving generous severance pay may represent a particular challenge for the public employment service, because these workers can afford to remain unemployed for a long period of time and may thus be difficult to motivate to search intensively for a new job. Chapter 4 analyses how effectively Hello Work offices and other providers of active labour market programmes assist displaced workers to move quickly back into work, including those with receiving large severance awards.

Notes

1. See Chapter 1, particularly the discussion of Fujii and Kambayahsi (2014).
2. Along with most OECD countries, Japan has a social safety-net system for displaced workers and other unemployed and low-income persons that is organised, more or less, into two tiers. The first or top tier is the unemployment insurance benefit provided by the *Employment Insurance System*, which is organised largely along social insurance principles and is intended to reduce the downward earnings volatility associated with involuntary unemployment. The second or social assistance tier is centred on the *Basic Livelihood Protection Programme* and is intended to assure that everyone is assured of a minimum living standard.
3. Some of the income losses resulting from job displacement can be offset by the workers and their families. For example, families can “self-insure” by building up precautionary savings when employed that can be drawn down to maintain family living standards should an employed member of the family be displaced and remain unemployed for a period of time. Similarly, if one member of a family is displaced and has difficulty finding another job quickly, it may be possible for another family member to make up some of the resulting income gap by entering the labour market or switching from part- to full-time employment. These types of income support are not analysed in this report, but should be borne in mind when assessing the adequacy of the income support provided by employers and government programmes.
4. Unemployment insurance was originally established in 1947 and then significantly revised in 1974, when it was renamed as the *Employment Insurance System*.

5. This inflow corresponds to new beneficiaries of the EI Basic Allowance for ordinary insured workers, as recorded in the *Annual Report on Employment Insurance Services* (www.mhlw.go.jp/bunya/koyou/koyouhoken02/annual01.html).
6. Generally, coverage under unemployment insurance ends at age 65. However, workers who remained employed continuously with the same employer beyond age 65 may qualify for lump-sum benefits equivalent to 30-50 days earnings should they become unemployed, under the *Job Applicant Benefits for Continuously Insured Elderly Persons*.
7. In FY 2012, recipients in the Education Training Benefit totalled 130 218, equivalent to 8.4% of the number of ordinary insured workers who became new recipients of the EI Basic Allowance. As is discussed in Chapter 4, Public Employment Security Offices also referred 149 795 unemployed workers to public vocational training programmes operated by either the National or Prefectural governments, corresponding to 9.7% of the inflow of new recipients of the EI Basic Allowance. The expansion of Education and Training Benefits, which was a part of amendments of the Employment Insurance Act in 2014, offers persons who participate in technical or practical education and training, which are certified by the MHLW, an additional payment of up to 60% of training costs. This provision was implemented in October 2014.
8. There are also continuation benefits to assist workers to remain in employment when faced with childcare and other family care responsibilities.
9. There were 188 726 new enrolments in the Continuous Employment Benefit for Older Workers in FY 2012, equivalent to 12.2% of the number of initial beneficiaries.
10. Japan uses the term *Labour Insurance* to cover both EI and Workers' Compensation Insurance, although the two insurances are operated independently. The national government is the insurer for both insurance schemes, but the Prefectural Labour Bureaus collect the insurance premiums.
11. These figures refer to fiscal years and are taken from MHLW (2013a). Part of the 2007-09 increase in the number of EI beneficiaries reflected government initiatives to temporarily relax eligibility requirements and increase benefit duration.
12. Some temporary measures taken to expand coverage during the global financial crisis are still in effect. Most notably, temporary workers were excluded unless their jobs were expected to last at least one year until 2009, when the minimum threshold was lowered to six months. It was lowered further to 31 days in 2010.

13. This group is also sometimes referred to as “special eligibility qualification” recipients.
14. This proportion can decline to 45% for high-wage workers between the ages of 60 and 64.
15. In the past, France set higher maximum benefit durations for victims of economic layoffs and Italy for victims of collective layoffs (Duell et al., 2010).
16. These two groups of job separators were previously classified as ordinary unemployed and will revert to that status in 2018 under current law.
17. One useful design feature of the EI rules should encourage EI benefit recipients who still have many months of benefit entitlement remaining to accept a new job, even if they have some doubt it will turn out to suit them. If such a worker tries a new job and finds it is not suitable, it is possible to resume the prior EI benefit entitlement, rather than needing to re-qualify for benefits based on the contributions paid since having previously been unemployed. This “grace period” remains in effect until one year has passed since the initial job separation that triggered the receipt of EI benefits.
18. Public assistance system in Japan is a transfer payment that it is exclusively financed from general tax revenues. The central government shoulders three-quarters of the burden, while local governments contribute the rest.
19. In the early 2000, MHLW advised local welfare offices that work capacity should not in itself preclude applicants from eligibility for public assistance (Duell et al., 2010). Currently, 11.6% of recipients are employed.
20. As of February 2013, public assistance was provided to 1 574 724 households and 2 155 227 individual beneficiaries (MHLW, 2013a).
21. The Housing Support Benefit is one of the measures funded by the *Temporary Special Fund for the Emergency Job Creation Programme* which was set up by the second supplementary budget for FY 2009. It is currently scheduled to lapse at the end of FY 2014, but the 2013 Supports for Poor Persons Act which comes into effect at the beginning of FY 2015 contains a similar permanent benefit.
22. The FY 2012 inflow for the *Housing Support Benefit* is equivalent to 1.3% of the inflow to the *EI Basic Allowance* that year.
23. In a number of OECD countries in Europe, displaced workers approaching the conventional retirement age have often responded to job loss by retiring early, permanently withdrawing from the labour force. This can be an attractive option for older displaced workers, who typically have relatively poor re-employment prospects, should they be able to

access generous income replacement benefits, such as early access to pension benefits or access to bridges to retirement such as unemployment benefits that extend until the age of entitlement to public and private pensions. This practice proved to be extremely costly due to both the premature loss of productive members of the national workforce and the high cost of financing these income benefits. As a result of this experience, it is now generally accepted that governments should help older displaced workers to re-integrate into appropriate jobs and many countries have closed down early retirement programmes. The impact of these reforms can be seen in the way that the employment rates of older workers (ages 55-64) held up better following the global financial crisis than those for younger age groups (OECD, 2014a).

24. Every effort should be made to help workers with partial disabilities or other chronic health problems to continue to participate as fully as possible in paid employment, rather than moving onto disability benefits (OECD, 2010). This is all the more the case for displaced workers who have demonstrated a continued capacity to work.
25. An ideal dataset for assessing income support issues would consist of a panel dataset that follows the labour market and income status of a large sample of displaced workers and their families over an extended period of time, including any public income replacement benefits they receive.
26. Unlimited duration benefits are arbitrarily scored at 60 months in Figure 3.3. Unemployment benefits in Belgium follow the social insurance model with benefit eligibility being conditional on meeting a minimum contribution standard and the benefit level being tied to past earnings. By contrast, Australia and New Zealand use more of a social assistance approach where the benefit level is not tied to past earnings and benefits are means tested.
27. For example, the benefit durations available to ordinary unemployed recipients in Japan rank considerably lower in international comparison, especially when their insured period is relatively short. For example, an ordinary unemployed worker (involuntary unemployment) who has contributed for five years is entitled to 90 days of benefits, equivalent to that in Hungary, the country with the lowest benefit duration shown in Figure 3.3. Note, however, that there are countries, such as the United States, where unemployment benefits are not usually provided to those who quit the job voluntarily.
28. By contrast, the maximum durations shown for Canada and, especially, the United States reflect crisis related extensions since they are automatically extended to all new claimants. In most US states, the standard benefit duration ceiling is six months, rather than the 16-month figure shown in Figure 3.3.

29. In order to focus on the role of unemployment benefits, the NRR calculation assumes that no social assistance or housing-related benefits are available as top-ups for low-income families. Family benefits (e.g. the *Jido teate* in Japan) are included in the calculation. While the OECD replacement rates look at the income situation of the worker's family, it should be borne in mind that the aim of the unemployment benefit system in Japan is primarily to stabilise the life of the individual worker and not that of the entire family unit.
30. Workers classified as ordinary unemployed would experience a significantly lower NRR, since they would receive EI benefits for 150, rather than 270 days.
31. The five-year NRR can be quite high for a low to medium wage worker in Japan who receives social assistance benefits through the BLPP in addition to EI benefits (e.g. 86% for a one-earner married couple with two dependent children). However, this appears to be a rare scenario for stable workers who experience displacement.
32. It is no surprise that the pseudo coverage rates are substantially below 100%, because unemployed workers include those who have newly started seeking a job, are newly graduated and have not yet been employed, or workers who had been self-employed but closed their business; while EI entitlement is intentionally restricted to job seekers who had been employed with a sufficient contribution period and receiving EI benefits after losing their jobs, it might not be adequate to compare those two numbers.
33. It is also noteworthy that the relatively low share of unemployed persons receiving EI benefits in Japan is not compensated by relatively high receipt of other income replacement benefits, such as social assistance and incapacity benefits (Duell et al., 2010).
34. This marginal coverage rate fell to 14% in the third year, as more of the unemployed who initially qualified for EI exhausted their entitlements before finding a job.
35. As was discussed above, displaced workers are likely to qualify for EI benefits as specific qualified recipients and also to have a higher take-up rate than ordinary unemployed recipients, due to both a shorter waiting period and more generous benefits.
36. The large increase in the number of unemployment insurance beneficiaries in the United States reflected, in part, the large temporary increase in the minimum benefit duration (from 26 to 99 weeks in many states).
37. In other words, these coverage rates take no account of the fact that workers in uncovered jobs do not receive EI benefits no matter the reason they left their job. While they overestimate coverage rates for all job separators, these estimates should provide a good idea of the share of workers in covered jobs who qualify for benefits when separating from those jobs.

38. It seems unlikely that more than one-fourth of this group could have failed to achieve a six-month insured period.
39. As mentioned above, workers in covered jobs who voluntarily resign qualify for EI as ordinary unemployed provided they had accumulated an insured period of at least 12 months in the previous two years.
40. For example, companies that convert their retirement allowances into a pension system receive tax benefits (JILPT, 2014).
41. While severance payments accompanying the voluntary early retirement plans are primarily considered as a source of income replacement for displaced workers, lump-sum retirement allowances in general are not intended to provide income support for displaced workers, even if they can serve that purpose to some degree.
42. According to the General Survey on Diversified Types of Employment, an establishment survey carried out in 2010 by the MHLW, 58.4% of companies had introduced retirement benefit system for “regular workers”, while only 11.8% for “contract workers” and 8.0% for part-time workers.
43. The surveys on pension plans conducted by the National Personnel Authority, which is the source of the data in Table 3.5, and that conducted by the Central Labour Relations Commission, which is the source of the data presented in Box 3.1, are not completely comparable due to somewhat different methodologies that were employed. For example, the benefit amounts reported in the survey conducted by the National Personnel Authority are average amounts paid to different groups of workers within a fairly large sample of firms, whereas the benefit amounts reported in the survey conducted by the Central Labour Relations Commission are the amounts indicated by programme rules for illustrative types of separating workers. Unfortunately, no single data source could be found that provided evidence about the size of lump-sum severance payments received by displaced workers who are covered by company retirement benefit schemes. Another important difference is that the average severance amounts for employer-initiated separations in Table 3.5 includes some workers who participated in voluntary early retirement plans that increased the lump-sum severance payments above their normal level (see discussion later in this chapter). This imparts an upward bias to the data in Table 3.5, but the bias should be small because only 9.7% of the firms included in the survey had implemented a voluntary early retirement scheme in the previous five years.
44. This is the most common and the least generous of the three methods that firms use to calculate lump-sum severance benefits that are differentiated in the survey conducted by the National Personnel Authority. It should be noted, however, that lump-sum benefits may be less at firms that do not manage their lump-sum severance benefit scheme in-house or which employ fewer than 50 employees.

45. This is much less the case for younger workers who participate in voluntary early retirement plans and are likely to experience large net losses, even after accounting for the compensation provided by the voluntary early retirement package.
46. Targeting older workers for displacement also can help to re-equilibrate the age structure of a firm's workforce. Before deciding that they need to resort to a mass dismissal, many struggling companies have experienced a period of low hiring due to slow growth and/or implemented a hiring freeze. As a result, the share of older workers may be excessively high compared with the number of younger workers.
47. A survey sample of 6 314 companies was drawn from the population of private enterprises with 50 or more ordinary employees in 16 principle industries. A total of 3 614 companies replied to the questionnaire for a response rate of 57.2%.
48. The limited overlap of the two types of early retirement schemes suggests that the two programmes largely address different management goals. Nonetheless, there is no indication that the two types of schemes are incompatible: approximately one in five of companies making use of one of these types of early retirement plans also made use of the other, approximately double the incidence rate for all companies.
49. Recently, a number of legal disputes have arisen relating to measures employers have taken to encourage workers to resign during business restructuring or shrinkage and the preferential measures used to solicit volunteers for early retirement (JILPT, 2014).
50. In some other OECD countries, large household panel datasets have provided useful insights into these questions. For example, OECD (2013c) uses data from the Korean Labor and Income Panel Study to analyse the impact of displacement on family living standards and finds a modest increase in the poverty risk (15% to 18%), that is substantially greater for families not receiving public income support (25%) than for families receiving at least one type of income support (11%). Analogous information does not appear to be available for Japan, but would be very useful for assessing whether public income support is excessively high or low for certain groups.

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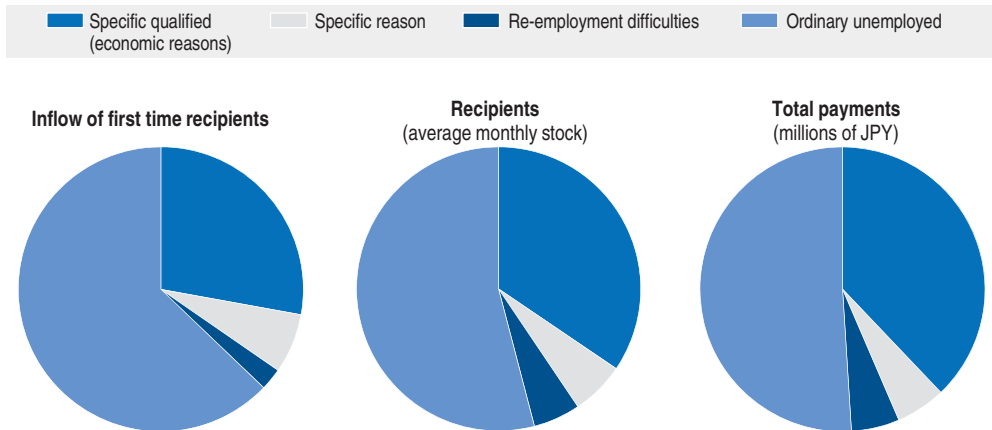
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Annex 3.A1

Additional figure

Figure 3.A1.1. **Shares of EI inflows, recipient stocks and total payments across different benefit types, FY 2012**



Note: FY: Fiscal year.

Source: Authors' calculations based on MHLW (2012), *Annual Report on Employment Insurance Services*, www.mhlw.go.jp/bunya/koyou/koyouhoken02/annual01.html.

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Annex 3.A2

Recent reforms to mandatory retirement and their potential implications for the operation of voluntary early retirement plans

Many Japanese employers have imposed relatively young ages of mandatory retirement, as one component of the lifetime employment model. Within this HRM model, voluntary early retirement plans provide an attractive way to organise mass dismissals of regular workers, as was already noted. However, this way of organising displacements may become less attractive to mid- and late-career workers if employers move away from the use of relatively young ages of mandatory retirement. This annex describes important new policy reforms that appear to be having exactly that effect, albeit in a gradual manner. While the trend away from mandatory retirement before age 65 is very welcome in light of population ageing, it could indicate a need for employers and labour market authorities to rethink some of their approaches to managing economic dismissals.

In 2004, the government amended the *Act on Stabilization of Employment of Older Persons* so as to discourage employers from setting a mandatory retirement age below age 65, while also providing older workers with the option to remain with their employer until age 65, even when a younger mandatory retirement age is maintained.¹ In such cases, employers are required to establish a “continued employment system” through at least age 65, but have considerable discretion concerning the form taken by continued employment.²

Compliance with these new requirements reached 92% of firms with more than 30 employees by 2013.³ The large majority of firms chose to introduce a continued employment system for workers reaching the mandatory retirement age (81%), rather than raising the mandatory retirement age to 65 (16%) or abolishing it (3%). Even though a large majority of employers have retained 60 as their age of mandatory retirement, many workers reaching this age are now staying on with their employer under continued employment. In 2013, 76% of workers reaching age 60 in firms where that is the retirement age stayed on under the company’s continued employment system (MHLW, 2013c). Of the workers staying on

with their employer past the age of mandatory retirement, one-quarter had their existing employment contract extended, whereas the other three-quarters were “re-employed” under a new contract that typically was temporary and specified a significantly lower wage (Kondo and Shigeoka, 2013).⁴ Interestingly, large firms more frequently set 60 as the mandatory retirement age than smaller firms and also more often offer continued employment only in the form of re-employment on a non-regular employment contract.⁵

Has the impressive expansion of continued employment systems raised the overall level and quality of employment for older persons? Kondo and Shigeoka (2013) estimate the early impact of the 2004 amendment and conclude that it resulted in a 4-5 percentage point increase in the share of men in their early 1960s who were employed, while more than one in six men were induced to stay on in employment for at least one additional year.⁶ These increases are more pronounced for workers employed by larger firms and are attributable to workers who opt to continue working in the same firm after reaching the mandatory retirement age (i.e. choose the continued employment option). Interestingly, there appeared to have been almost no change in the number of workers who move to a different firm after reaching the mandatory retirement age. Unfortunately, there is not yet much evidence on how the impact of continued employment systems has grown since they became mandatory in 2006, nor of whether the increased use of these systems by older workers has reduced the sharp reduction in earnings and rise in non-regular status at the age of mandatory retirement. Nonetheless, it appears reasonable to conjecture that the important and probably growing gains achieved in terms of higher employment rates after age 60 have not been accompanied by comparable progress in improving the quality of employment available to workers who have reached their employer’s mandatory retirement age. Accordingly, it is encouraging that the Japanese “Revitalization Strategy” launched in June 2013 reaffirms the government’s resolve to take further measures to better use the knowledge and experience of older people in the economy and society (Cabinet Office, 2013).

Experience to date with the 2004 reforms to the *Act on Stabilization of Employment of Older Persons* suggests several conclusions regarding the displacement risks faced by older workers in Japan. A first observation is that the reform has produced important changes in the labour market situation of older workers, despite the strong attachment of employers to mandatory retirement practices.⁸ Most workers now have the right to remain with their long-time employer until age 65 and many are choosing to enter continued employment when they reach their employer’s mandatory retirement age, rather than moving to a different firm or leaving the labour

force. That means that older workers are less likely to fall into unemployment when they reach the mandatory retirement age, but it does not mean that the decline in job quality – notably, the large fall in pay and switch to non-regular forms of employment that typically accompany this transition – has become less marked as more older workers enter continued employment with their pre-existing employer, rather than taking up employment with another company.⁹ It is also difficult to assess the impact that the enhancement of job security for older workers has had on employers' ability to reduce the size of their workforce. Downward staffing flexibility could have been reduced since fewer workers now leave when they attain the company retirement age. However, any loss in external flexibility may be compensated by the great internal flexibility to reassign workers entering continued employment to very different types of work, as well as employers' continued ability to induce workers to leave early through voluntary early retirement packages.

Notes

1. The 2004 amendments to the *Act on Stabilization of Employment of Older Persons* required employers to either: i) raise their mandatory retirement age to at least 65; ii) abolish mandatory retirement; or iii) take measures to secure employment up to age 65 by introducing a continued employment system. These requirements took effect in 2006. The main rationale for implementing these requirements was to better harmonise employer HRM policies with the increasing age of full benefit entitlement in the public pension system. Both measures were ultimately motivated by concerns about the implications of population ageing and increasing longevity for the financial sustainability of social protections systems and future living standards (Kondo and Shigeoka, 2013; and JILPT, 2014).
2. Initially, employers were able to exclude certain workers from their continued employment system. A 2004 amendment to the *Law Concerning Stabilization of Employment of Older Persons* required employers to secure the employment of older people until at the age of 65, with the exception which allowed employers not to include all the employees when rules of the continued employment system is established through collective agreement. The 2012 amendment abolished this exception.
3. Article 52-1 of the *Law Concerning Stabilization of Employment of Older Persons* mandates employers with more than 30 employees to submit annual report to the MHLW providing information on their practices as regards mandatory retirement ages and continuous employment systems. MHLW (2014) provides tabulations based on the reports filed by

145 902 firms with more than 30 employees. These tabulations show that 81.3% of the firms were in full compliance in 2014. One reason such high compliance rates have been achieved is that Public Employment Security Offices, in collaboration with the JEED, have provided guidance and technical assistance to employers on implementing continued employment systems and promoting elderly employment more generally.

4. Even when the pre-existing employment contract is extended beyond the mandatory retirement age, the terms of employment can be modified. Indeed, there is no provision in the law concerning wage and other working conditions for workers moving into the continued employment system. Firms may even attempt to induce “voluntary” retirement at age 60 by offering very low wages for workers older than 60 (Kondo and Shigeoka, 2013).
5. In 2008, 91% of workplaces with 1 000 or more employees and a uniform early retirement age (almost always 60) offered continued employment only in the form of re-employment, as compared with 68% of workplaces with 5-29 employees (MHLW, 2008).
6. Most of the empirical analysis conducted by Kondo and Shigeoka (2013) reflects the experience of workers who turned 60 in 2006 and 2007. It is likely that the availability and use of continued employment options has been greater for later age cohorts who have reached age 60 more recently.
7. The “peak-wage” system that the Korean government has been promoting with a subsidy since 2006 could be useful in this context. Within the context of continued employment with the same employer beyond the mandatory retirement age, this system provides for the wage to decline gradually beyond the mandatory retirement age, rather than immediately in a single discrete step, as appears to be common in Japan (OECD, 2013d).
8. This attachment is particularly strong for large companies and probable reflects how mandatory retirement has been an integral element of the lifetime employment system, rather than an isolated HRM practice that easily can be adapted to changing conditions. Nonetheless, policies have gradually changed as employers have slowly adapted in response to workforce ageing and a series of government initiatives to improve employment opportunities for older persons (Duell et al., 2010). Indeed, the *Law Concerning Stabilization of Employment of Older Persons* was already introduced in 1971.
9. The Survey on Employment Trends classifies workers who reach the mandatory retirement age and enter continued employment via re-employment (the most common pathway to continued employment) as resigning from their employer due to mandatory retirement, the same as if they had left the firm and moved to a job in another firm.

Chapter 4

Helping Japanese displaced workers back into jobs

This chapter examines the active labour market programmes that are available to help displaced workers, once they are unemployed, to find new jobs and to retrain, when that is appropriate. Japan relies primarily on general job-search assistance and retraining programmes to assist this group, but also operates several targeted programmes for displaced workers that are tailored to their specific difficulties and strengths. The types of services offered by the Hello Work offices and polytechnic schools appear to be well suited in most respects to assist displaced workers to get back into jobs as quickly as possible, although often not into jobs that are as good as those they lost. The government has also shown that it can react very swiftly and flexibly when large numbers of workers are displaced, for example, when there is a mass dismissal or a natural disaster that greatly disrupts a regional labour market, or when job losses surge in a recession. The growing roles of prefectural governments and private placement agencies in assisting displaced workers is a welcome development, but there appears to be scope to better co-ordinate the different services offered to displaced workers.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Assuring that displaced workers can move quickly into suitable new jobs is a policy priority. This chapter analyses the re-employment assistance that is available to displaced workers in Japan, once they have become unemployed. The most important source of re-employment assistance is the public employment service operated by the Ministry for Health Labour and Welfare (MHLW) through its Hello Work (Japan's public employment service) offices, while the vocational schools operated by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers (JEED) or prefectures, and private educational training institutions which are sub-contractors of JEED or prefectures are the source of training. Accordingly, most of the chapter is devoted to describing these services and assessing how well they meet the needs of displaced workers. However, some attention is also devoted to the re-employment services provided by prefectural governments and private placement agencies.

The chapter begins by describing the key providers of re-employment and training services to displaced workers in Japan. Attention then turns to the types of services that are offered. Most active labour market programmes do not specifically target displaced workers, although there are several important exceptions. Accordingly, the chapter devotes considerable attention to general re-employment and training programmes, describing them and assessing their suitability for assisting displaced workers. Finally, the chapter describes the more ad hoc and temporary labour market measures that have been used recently when there has been an upsurge in displacements that threatened to overwhelm the general labour market programmes.¹

Key providers of re-employment and training services in Japan

Lead role of the national government

The main national actor in the labour market policy is the Ministry of Health, Labour and Welfare (MHLW). In particular, the Employment Security Bureau (ESB) oversees and operates the public employment service (PES) which is the main source of re-employment assistance to jobseekers, as well as the main gateway for accessing EI benefits and public training programmes. The local PES offices, commonly known as “Hello Work” offices, are managed by the ESB through its Prefectural Employment Security Bureaus. The ESB also oversees and operates active labour market programmes (ALMPs) for the unemployed, including a number of employment measures targeting specific groups, but most often disadvantaged groups² rather than stable workers who have been displaced.³ The PES activities can be classified into three main pillars, in line with ILO guidelines, namely: job placement activities; employment measures and unemployment insurance. Active labour market policies in Japan rely on

earmarked employer and employee EI contributions, supplemented to some extent by general public revenues (Duell et al., 2010).

Hello Work offices are the main access point to employment services for displaced workers. There are 545 Hello Work offices distributed throughout Japan and these are one of the most familiar public facilities for people. PES offices employ 32 765 persons (as in October 2013) serving about 6.6 million people. These offices are responsible for implementing job placements, employment insurance and employment measures in an integrated manner and providing support and guidance to both jobseekers and enterprises.⁴ Jobseekers can walk in and ask for career counselling and advice about specific programmes. Hello Work offices invest considerable resources in maintaining an extensive database of recent job offers, making these data accessible to jobseekers via an in-house intranet system and over the internet.

Several separate and semi-independent agencies have the lead in providing publically funded training, among them the Human Resources Development Bureau (HRDB) of MHLW, and the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers (JEED). HRDB is responsible for human resource development policies, including training for displaced workers. JEED replaced the Employment and Human Resources Development Organization (EHDO) in 2011 and its job training facilities are intended to improve the vocational skills of jobseekers and other workers through the delivery of training services. JEED also provides comprehensive employment support to the elderly, persons with disabilities, jobseekers and employers. MHLW controls JEED through setting medium-term (five years) objectives and receiving annual reports on the operations.

The expanding role of prefectural and local governments

The Package Promoting Decentralization Act of 1999 and subsequent revisions at the Employment Measures and Employment Security Acts have encouraged prefectural and local governments to expand their role in providing employment services to the unemployed. While MHLW retains responsibility for national employment policies, its 47 Prefectural Labour Bureaus have considerable flexibility in implementing those policies and the prefectural governments have also implemented their own employment measures, taking into account regional characteristics. Increasingly, the Prefectural Labour Bureaus of the MHLW and prefectural governments are co-ordinating to provide a range of ALMPs. A notable example is provided by *Job Cafés* intended to provide tailored job-search assistance to young jobseekers (see Box 4.1). Other examples include work preparation centres for single mothers and co-operative projects to set up one-stop centres that offer free employment placement services provided by Hello Work as well as services provided by local governments (e.g. welfare services).

Box 4.1. Job Cafés

The Prefectures, in co-operation with local firms and educational institutions, also manage Job Cafés. These are one-stop-service centres that are dedicated to serving young jobseekers (*Freeters*, recent graduates and unemployed youth more generally). As of April 2014, 110 centres were operating in 46 prefectures.

Job Cafés were established under the Youth Independence and Challenge Plan in 2004. The MHLW supports “locally co-ordinated programmes for young people” which provide various employment support services for young people. In particular, it has set up a number of Hello Work branches within Job Café sites to offer placement services (39 branches as of October 2014). Almost 1.68 million young people visit Job Cafés annually. Since Job Cafés are managed by prefectures, their services may be different from place to place.

Services offered by Job Cafés may include matching services, collective information seminars, individual counselling, résumé preparation, training in interview techniques, aptitude tests, as well as opportunities for workplace experience. The staff in these cafes analyse the technical skills sought by local industry and develop curricula and educational materials accordingly, thus providing guidance and training that links directly to finding a job.

Job Cafés promote their services in various ways in order to draw the attention of potential users; for example, they use leaflets, television advertisements, social networks, etc.

Japan has a longstanding strategy of minimising dependence on official assistance while encouraging communities and firms to provide social welfare. From this perspective, the local provision of employment-related services is to be encouraged, but at the same time potential drawbacks of decentralisation need to be kept in mind. In particular the fact that, adopting different ideas and policies, can lead to uneven service provision across regions must not be forgotten; or that, as well, decentralising programmes and objectives means that data on outcomes are no longer compatible (Duell et al., 2010).

The expanding role of private outplacement agencies

Until the late 1990s, the government had imposed strict restrictions on the types of industries in which private human resources businesses (e.g. outplacement and temporary work agencies) could operate through legislation, including the Employment Security Law. The prolonged recession in the 1990s and the cuts to the workforce in a number of companies made it evident that PES offices were not sufficient, alone, to cope with the increasing numbers of displaced workers. In order to address the harsh employment conditions, the government substantially revised relevant laws in the late 1990s – such as the Employment Security Law – removing restrictions, as a general rule, concerning the types of occupations

that private human resource businesses can deal with. These legal changes expanded the role played by private human resource businesses, including private outplacement agencies, in adjusting labour supply and demand.

These private agencies have affected the operation of public employment programmes in several ways. One of the most direct is that the PES has outsourced the organisation of certain services, such as training courses, Job Clubs (to teach job-search strategies, resume writing, etc.) and some job-support activities to the private sector. Between 2007 and 2010, the Act on Reform of Public Services by Introduction of Competitive Bidding allowed some parts of the operation of Hello Work offices to be outsourced to private firms. However, the services provided directly by Hello Work were found to be more efficient in most case than those provided by private firms. Consequently, tighter limits were placed on the uses of outsourcing.

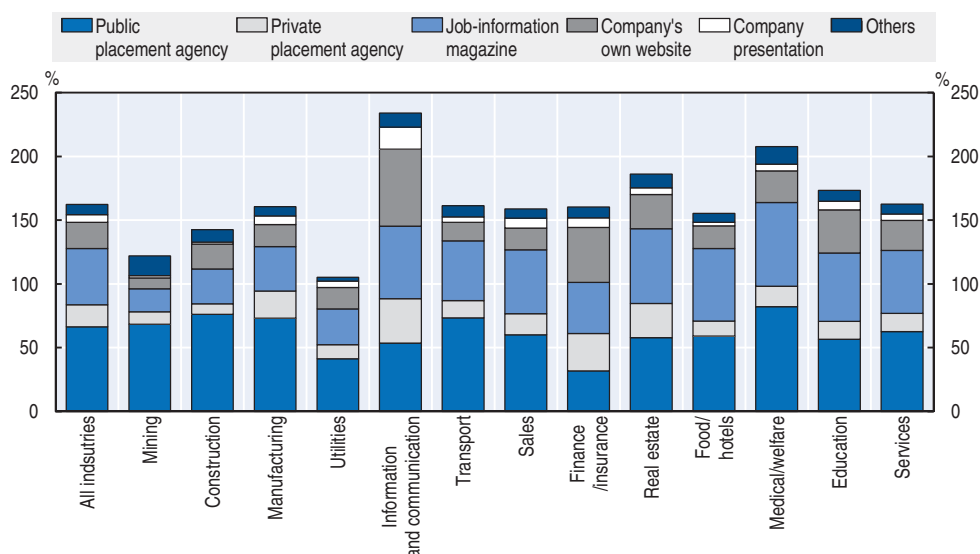
A second way that private personnel firms have affected the operation of public labour market programmes directly concerns displaced workers. As was discussed in Chapter 2, an increasing number of firms – particularly large firms – contract with private outplacement agencies to provide re-employment assistance to employees who being dismissed for economic reasons. Employer provided outplacement services are commonly associated with mass dismissals that take the form of a voluntary early retirement plan. The relatively small share of displaced workers that receives these services consists largely of men over the age of 40 who are long-tenure employees in large companies.

As with the growing importance of regional and local governments in providing employment services, the growing importance of private human resources companies has the potential to improve the efficiency of labour market matching, reducing unemployment and potentially reducing some of the load on Hello Work offices. Realising this potential will require further clarification of how best to develop complementarities between these labour market actors and how best to co-ordinate their activities. The national government has taken steps to encourage strengthened co-operation between Hello Work and private placement businesses. In particular, it encourages Hello Work offices to share job-opening information to private placement businesses and municipalities. A good example of a successful and potentially efficient co-ordination between different institutions is given by the HQ Sharp in Nara Prefecture that was discussed in Chapter 2 (see Box 2.2). However, there appears to be scope to improve co-ordination (Abe, et al., 2014).

Hello Work remains a key actor in overall job matching

In a dynamic economy, it is essential that the labour market be efficient at matching jobseekers with appropriate job openings. In Japan, both employers and jobseekers make use of a considerably range of matching channels and the job-brokerage services provided by Hello Work are one of the most important. The differences between displaced workers and other unemployed emerge also in the methods used to look for a job. Figure 4.A1.1 in the annex shows the primary method used by jobseekers to find new employment. The main channel used by unemployed workers is Hello Work, however it is used more by displaced workers than by the total of unemployed (66.7% versus 56.7%). Displaced workers use more often outplacement agency than the total of unemployed workers (4.2% versus 2.6%), but rely less on personal channels – i.e. advertisement or magazines, schools or acquaintances and direct application to prospective employer. Figure 4.1 shows results from a survey that asked employers about the methods they used to recruit mid-career hires (multiple answers allowed). In 2007, the most frequently cited recruitment channel was the public placement agency, that is, Hello Work, followed by job-information magazines, company website and private employment agencies.

Figure 4.1. **Methods used by employers
for recruiting full-time mid-career employees, by industry,^a 2007**
Percentages



a) Data based on multiple responses, so that the sum of responses exceeds 100%.

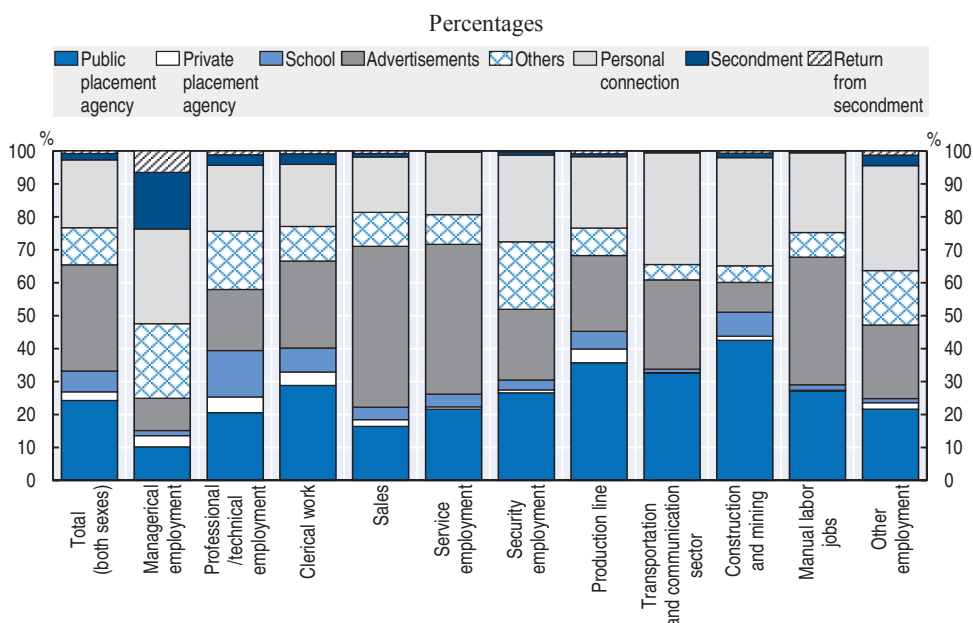
Source: Data from the Survey on Hiring at Enterprises 2007, as reported in MHLW (2008), *Year Book of Labour Statistics 2007*, December.

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The job-brokerage services offered by Hello Work are particularly important for small- and medium-sized enterprises, whereas large firms (with more than 5 000 employees) tended to rely much more on private placement agencies: 46.8% of firms with 5 000 or more employees used private placement agencies as compared with 17.2% of all firms. Employers' recruitment methods also vary quite a lot by industry.⁵

Figure 4.2 presents similar data from a 2012 survey of newly-hired employees who were asked how they found their jobs. Hello Work was the second most widely used channel overall, behind newspaper and magazine advertisements. Again, job-search methods varied across occupations and Hello Work was the most widely used search channel for employees recently hired in transportation and communication, construction and mining and production line (32.5%, 35.8% and 42.5%, respectively). By contrast, newspaper and magazine advertisements were the single most widely used channel for employees hired in sales and the service sector and manual labour jobs (48.8%, 45.4% and 38.8%, respectively). The share of private placement agencies was relatively small: 4.2% for professional/technical posts and 4.0% for clerical workers, but 2.6% on average for all occupational categories.

Figure 4.2. **Recruitment channels used by newly-hired employees,^a 2012**



- a) Data based on a survey on a sample of randomly chosen full-time employees who were newly employed during 2012 (January) and 2012 (December) by randomly chosen firms with 5 full-time employees or more. The questionnaire was sent to 14 410 firms with 5 full-time employees or more, average effective answer rate was 67.5%, effective answer from 88 239 employees.

Source: Data from the Survey on Employment Trends 2012 conducted by MHLW.

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Overall, these data strongly confirm that Hello Work remains a very important labour market intermediary. More tentatively, they also suggest that public and private outplacement services are more complements than substitutes, serving different types of jobseekers and establishments within different industries.

Re-employment and training services

This section surveys the two main types of public employment services offered to displaced workers: job-search assistance (including job counselling and job placement) and training programmes. Much of this discussion will focus on the services generally available to jobseekers, since these services are the source of much of the re-employment services that displaced workers receive after becoming unemployed. The PES in Japan also has a relatively large range of specialised units to respond to the particular needs of priority groups by providing services tailored to their needs, including displaced workers.⁶

Overall spending on ALMPs

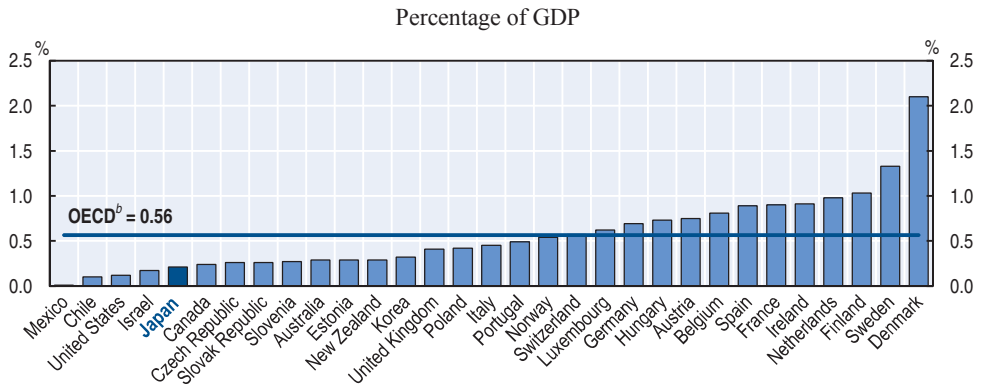
Japan's spending on active labour market programmes is significantly below OECD average (Figure 4.3), in 2012 ALMPs expenditures was 0.2% of GDP, just one-third of the 0.6% OECD average. The limited scale of interventions by central government reflects, in part, a consensus to encourage self-reliance by individuals, families and local communities for tackling issues of social welfare, and by firms for providing training and stable jobs for a large proportion of the workforce.

A detailed OECD review of activation policies in Japan concluded that it achieves strong overall results despite relatively low spending (OECD, 2013, Chapter 3). The core elements of the Japanese approach are identified as being:

- Short potential benefit durations (except for some long-tenure, older workers), such that Employment Insurance benefits cover only about 25% of the unemployed as measured in labour force surveys.⁷
- A strong PES with mandatory attendance at a briefing session for new claimants and in-person reporting to the PES every four weeks, with relatively low participation in other ALMPs. There are training options and some hiring subsidies for people with disabilities or other barriers.
- Very strict conditions for public assistance, such that relatively few unemployed people qualify.
- It is argued that these arrangements limit the disincentive effect of benefit entitlements, while also ensuring that job losers receive basic job-search advice and have access to more intensive PES services

when desired and appropriated. This overall very positive assessment leaves open the possibility that a significant number of displaced workers may nonetheless become long-term unemployed or become re-employed in a much lower quality job than the one that they lost, as is indicated by the empirical evidence presented in Chapter 1.

Figure 4.3. **Expenditure on active labour market programmes, OECD countries, 2012^a**



Note: Data refer to fiscal years for Australia, Canada, Japan, New Zealand, the United Kingdom and the United States. GDP: Gross domestic product.

a) Data refer to 2011 for Ireland, Israel, Luxembourg, Poland and Spain. Data refer to fiscal years 2010/11 for Australia and 2009/10 for the United Kingdom.

b) Unweighted average of countries shown in the figure.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

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Job-search assistance

As practiced by Hello Work offices, job-search assistance consists of job counselling and job placement. All new recipients of EI benefits have an intensive interview with a counsellor when they first register. This provides them with a basic orientation concerning their obligations to actively search for a job, as well as instruction in the resources available to them in that search. In particular, they are encouraged to make use of Hello Work's extensive database on job vacancies to locate suitable employment opportunities.

Different observations have come to rather different assessments of the extent and effectiveness of the job counselling that is offered. A recent OECD study concluded that there is a strong emphasis on information and counselling (Duell et al., 2010), whereas Sano (2004) concluded that

Hello Work offices tend to prioritise placement services for jobseekers, rather than spending time on individual counselling, due to the large number of people seeking their assistance. These two observations may be less contradictory than it seems, since both may be alluding to the fact that Hello Work relies heavily on the motivation of jobseekers to make use of the job-search resources that are made available to them in quite an autonomous manner, leaving it optional in most cases whether a jobseeker decides to complement self-service activities by participating in more specialised services, such as counselling.

Some researchers have argued that more intensive counselling would be useful, particularly for long-tenure displaced workers. Kobayashi (2004) argues that many displaced workers are white collars workers with long tenure for whom the psychological cost induced by the dismissal can be enormous. The loss of identity due to leaving a firm that was seen as a family can be tremendous and can generate different reactions including an excessive aversion to unemployment that can lead to acceptance of inefficient job matches. Despite the trend increase in labour mobility attributable to structural changes and the wider acceptance of jobs switching and re-employment as normal, many workers still have difficulties in searching effectively for jobs. In a similar vein, Fujimura (2004) argues that career counselling should ideally begin during the notice period for a displacement and be structured in three stages: i) beginning with self-assessments of skills and self-understanding; ii) in the second stage the displaced workers should identify the kind of job they are looking for – in terms of values and interests; and iii) then turn to the practicalities of how to identify and successfully apply for an appropriate job.

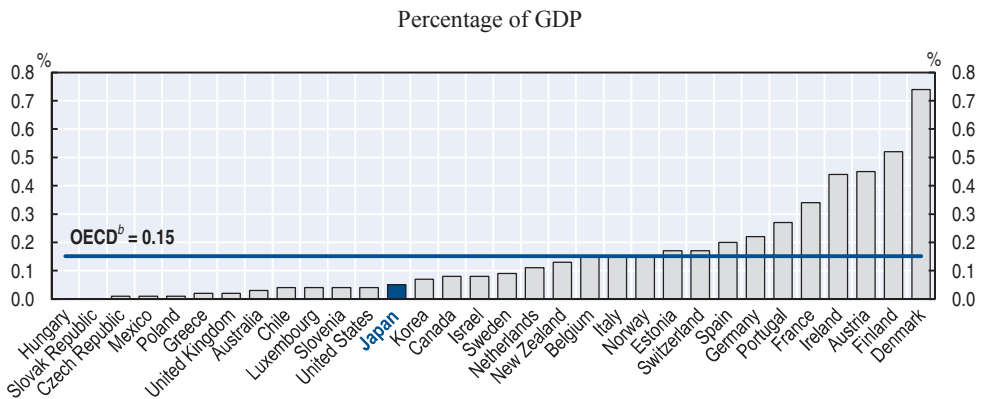
Abe et al. (2014) studied four mass dismissals and concluded that the Hello Work job counsellors did not systematically adapt the job-search assistance that they provide to displaced workers to reflect the specific needs of this group. This could reflect a correct perception that having been displaced is not a good indicator of the types of services required (i.e. that it is not useful to use displacement status as a profiling variable) or that the best way to detect displaced workers needing extra help is through the individualised counselling offered to job seekers generally. However, it seems worthwhile to investigate whether that is true, particularly in the case of long-tenure displaced workers. This group may have been recruited straight out of school and never previously changed employers nor taken an active role in managing their career, since that was largely structured by their employer. They may thus, require more orientation about how to search for a job than jobseekers who have more experience with job search. Displaced workers who have received a large severance payment may also be inclined to postpone intensive job search or maintain unrealistic

aspirations about the type of job to look for. It is possible that more intensive counselling could mitigate those problems, at least to some extent. A related question is whether Hello Work should adapt the job-search assistance it provides to displaced workers who are also receiving outplacement assistance for private agencies.

Training programmes

In Japan, vocational training has been regarded mainly as the responsibility of the enterprise within the context of life-long employment system, although this is gradually changing.⁸ This assumption helps to explain why public expenditure on training is low in international comparison: 0.05% of GDP as compared with an OECD average or 0.15% (Figure 4.4). Unemployed participants in public-funded training are referred directly from local PES offices, normally after having been screened for suitability to undergo specific training programmes. In 2013, provision for about 80% of all unemployed persons undergoing training was outsourced to specialised technical institutes, universities, employers and non-profit organisations.⁹

Figure 4.4. **Active labour market policies: Expenditure on training, OECD countries, 2012^a**



Note: Data refer to fiscal years for Australia, Canada, Japan, New Zealand, the United Kingdom and the United States. GDP: Gross domestic product.

- a) Data refer to 2010 for Greece, and 2011 for Ireland, Israel, Luxembourg, Poland and Spain. Data refer to fiscal years 2010/11 for Australia and 2009/10 for the United Kingdom.
- b) Unweighted average of countries shown in the figure.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

StatLink  <http://dx.doi.org/10.1787/888933175618>

Public vocational training

Vocational training for displaced workers recipients may be operated in house or sub-contracted. In-house training is mainly delivered by the national government or by prefectures. State training is organised by the JEED (see Box 4.2). The goal of this training is to act as a safety-net of employment providing unemployed workers with the necessary skills and knowledge to get re-employed. Unemployed workers, mainly jobseekers at Hello Work, are the main target. Generally, the government provides training to unemployed workers to help them getting new jobs through delivering a six-month training in the field manufacturing, particularly of control technology, technical operation, metalworking etc. Although in a more limited measure, prefectures also implement vocational training. In this case, training is more turned to meet local labour market needs, consequently courses are shaped according to regional circumstances and last between six months and one year.¹⁰ As can be seen in Table 4.1, in-house training programmes have proven to be quite effective. In 2012, the overall employment rate of trainees was 80.8%, respectively 84.9% for JEED and 71.9% for prefectures (MHLW, 2013).

Box 4.2. The Polytechnic Center in Chiba – JEED

An important organisation in supporting employment is the Chiba Vocational Training Support Center – Polytechnic Center Chiba (PCC). This is the one of the public vocational training institutions operated by an independent administrative agency also known as Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers (JEED) which was originally established in 1966 as the Central Skill Center of Employment Promotion Corporation and subsequently EHDO.

In addition to the protection of elderly employment and the promotion of vocational independence of persons with disabilities, this agency delivers consultation and assistance services and training courses to both displaced workers and employees to improve their skill level.

In the case of human resources development for jobseekers and other workers, PCC conducts vocational training for jobseekers to serve as a safety net for their employment. In providing vocational training every effort is made to implement effective training in accordance with the guidelines based on the PDCA (plan-do-check-act) cycle.¹ PCC fosters human resources to support the industrial base by training people who will underpin the advanced manufacturing operations, implementing vocational training for employed people, and providing advice and support to employers. It operates mainly in four areas:

- **Training courses for jobseekers:** PCC mainly offers six-month training courses to support re-employment. These courses consist in practical training for jobseekers in general – ability course (i.e. technical operation course) –; or in practical vocational training course including practice in workplace for jobseekers under the age of 40 – short-term Dual Training, or bridging course –; and easy skill training for people with difficulties, in order to facilitate other vocational training. In fiscal year (FY) 2012, the number of trainees was 715 and the employment rate of trainees was 90.3%.

Box 4.2. The Polytechnic Center in Chiba – JEED (*cont.*)

- **Training courses for current workers:** PCC offers vocational training aimed at acquiring advanced technology and knowledge required for job changes to industrial factors. Examples of the most common courses are: Practical Lathe Technology (high accuracy machining) and/or Relay Sequence Control Practical Technology. Final enrolment on those courses was almost 1 003 in FY 2012.
- **Consultation and assistance for employers:** PCC provides employers with consultation and assistance on human resources development by such means as sending its vocational training instructors to companies, developing training curriculum and plan, also in the context of EAS.
- **Job-seekers support training:** Intended for non-EI recipients, PCC offers a service of assisting private educational training institutions to make training plan and screening/approving applications for implementation of training. In FY 2012, Job-seekers support training approved by PCC amounted to a total of 343 courses (basic and practical) for a total of 7 902 trainees.

JEED training is organised at prefectural level, and its training curricula are more closely designed to local needs. Training curricula are shaped according to companies' needs. Generally trainees get into SMEs, and the 75% find a permanent job.

1. PDCA guidelines for maintaining and improving the quality of training consist on trying to plan the training courses to meet the needs of employers, to perform the training, to evaluate results, and to improve courses.

Table 4.1. State and prefectural training, 2012

Absolute values and employment rate

Training for unemployed	Total		State		Prefectures	
	Number of trainees	Employment rate (%)	Number of trainees	Employment rate (%)	Number of trainees	Employment rate (%)
In-house	41 228	80.8	30 322	84.9	11 906	71.9
Sub-contracted	19 695	69.4	41	68.3	19 654	69.4

Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

StatLink  <http://dx.doi.org/10.1787/888933175790>

The prefectures sub-contract a considerable amount of vocational training to private training institutions.¹¹ Private educational training institutions such as the advanced vocational schools, provide flexible training based on personnel needs.¹² In this case the standard length of courses is three months (maximum two years) and main courses provide training on

long term care, information processing, etc. This is the most common type of training for unemployed workers. Indeed, 90% of training for displaced workers is sub-contracted training (MHLW, 2013). The employment rate of sub-contracted trainees is slightly lower: 69.4% in 2012.

Support training – specific training for people not covered by EI

The Japanese Government created a new training programme in 2009 targeted on jobseekers who are not covered by Employment Insurance, largely non-regular workers and people with no experience. This training is free for a period from three to six months. The “Support System for Job-Seekers” (see Chapter 3) was then established in 2011 to provide jobseekers not covered by Employment Insurance with vocational training, livelihood support during the training period combined with employment supports to facilitate employment upon completion of the training. The programme has called for the creation of regional vocational training plans based on growing fields and employment needs in the region. Vocational training generally concerns the acquisition of both basic and practical vocational abilities.¹³ The government is paying private training institutions to run programmes for eligible participants, as well as paying benefits to participants.¹⁴ Support training benefits are distributed for three to six months (up to two years in total) to jobseekers who meet the requirements, and consist of JPY 100 000 (USD 1 000) per month during the training period, travelling costs to attend the training institution and a JPY 50 000 (USD 500) loan for applicants per month, that doubles if individuals have spouse (MHLW, 2013). Training institutions offer career advice based on Job Cards as well as employment support in collaboration with Hello Work. Additionally, Hello Work offices create individual support plans for each trainee and schedule periodical visits to the offices for vocational counselling.

Table 4.2 shows recent enrolment levels and post-training employment rates for public vocational training and support training.¹⁵ Total enrolment in public vocational training reach a recent peak in 2009-10 and has since declined as the recovery has progressed. Employment rates have also improved since 2009-10. Enrolment in support training peaked a year later in 2010-11. As of May 2013, 164 000 persons had undergone training since the system was introduced. Post-programme employment rates passed from 60.3% in 2009 to 77.5% in 2011 (MHLW, 2013).

The public vocational training system for unemployed workers achieves impressively high employment rates after the completion of the course. This suggests that the training institutions generally do an excellent job in developing courses that meet local employers’ job requirements. Since enrolments are quite low relative to the total number of unemployed person, the returns to expanding the system could be high, provided performance did not deteriorate. It is difficult to assess, however, whether

employers have unmet skill needs that could be met by expanding the public vocational training system or if such an expansion would result in significantly lower employment rates for graduates.

Table 4.2. **Vocational training for jobseekers after the economic crisis**

	2008-09	2009-10	2010-11	2011-12	2012-13 (end February)
Public vocational training (mainly for unemployment insurance recipients)					
Number of trainees	131 800	191 228	166 681	149 112	114 178
Employment rate after training (%) ^a	68.3-74.5	62.4-73.9	63.7-77.6	66.8-80.3	..
Support training (for jobseekers not covered by the unemployment insurance) ^b					
Number of trainees	–	48 528	292 252	265 250	98 555
Employment rate after training (%) ^a	–	60.3	69.2	73.4-77.5	..

Note: Fiscal years starting on 1 April; ..: Not available; –: Not applicable.

- a) Employment rates on public vocational training refer to employment rate three months after training ended.
- b) Output of support training in fiscal year from 2008 to 2011 includes the number of support training programmes before the law was in force.

Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

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Crisis measures for large numbers of displaced workers

Once they have become unemployed, displaced workers in Japan obtain much their re-employment and training support through the general programmes for jobseekers that Hello Work, JEED and other government agencies operate. There are certain active measures, however, that intentionally target displaced workers, such as the Labour Mobility Subsidy, and the relative role played by targeted measures rises in crisis situations when a temporary upsurge in the number of displaced workers is thought likely to overwhelm the general labour market programmes. In such cases, temporary and somewhat ad hoc measures are taken to either reinforce existing ALMPs or to set up specific services for displaced workers. The following pages discuss three such cases: i) mass dismissals, such as a plant closing; ii) recessions; and iii) natural disasters. These types of situations will be largely considered in light of one recent example of each, namely, the 2012 voluntary early retirement plan at Sharp, the recession following the global financial crisis of 2008 and the Great East Japan Earthquake and Tsunami.

Mass dismissals

When a large company implements a mass dismissal, such as closing a large factory, there is a risk that the local public employment service could be overwhelmed by the upsurge in the number of jobseekers. This may be particularly the case should the overall impact on the regional economy be large, so that new employment opportunities are very limited for the workers who have been displaced. Since the workers affected by a mass dismissal are likely to have similar skills that were acquired in a sector that is shrinking, there is also likely to be considerable mismatch between the skills that this new pool of jobseekers possesses and those in demand in the local labour market.

The 2012 voluntary early retirement plan at the Sharp Corporation, which was already discussed in Chapters 2 and 3, provides a very useful case study of how it is possible for public employment programmes to provide effective re-employment and training services in such cases. As is discussed in Box 4.3, the Hello Work offices in Nara Prefecture teamed up effectively with the prefectural government, along with other partners such as the Industrial Employment Stabilization Center and the Sharp Corporation, to provide co-ordinated and effective adjustment assistance to this group of displaced workers. It may not always be possible to handle mass dismissals so successfully, but this sort of co-ordinated approach provides a model for how to respond in such cases.

Box 4.3. A success story – re-employment and training services in Nara Prefecture for workers participating in the 2012 voluntary early retirement plan at the Sharp Corporation

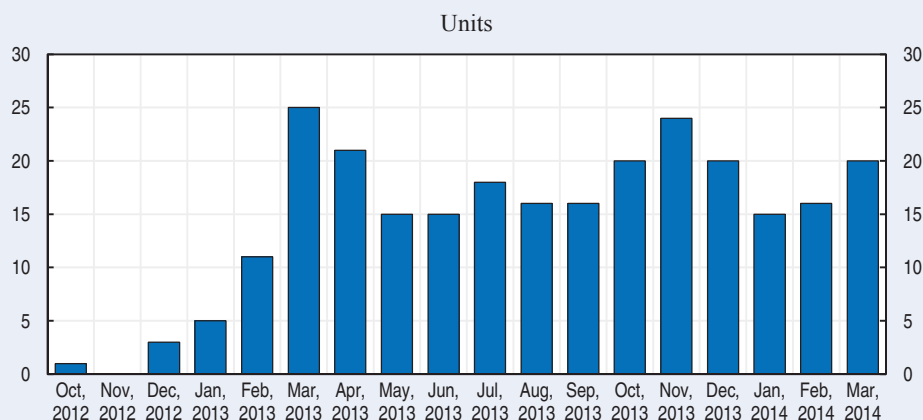
When the Sharp Corporation announced its voluntary early retirement plan, the Nara Labour Bureau and the Nara Prefectural Government began preparing to provide effective re-employment and training services for this large group of displaced workers. The intent was to build an integrated support system for these workers. Considerable effort also went into informing these workers about the range of services available to them, assuring that it was easy for them to access those services and that they would be promptly served when they needed a service. For example, the five Hello Work offices in Nara Prefecture each created a counter dedicated to register and counsel this group. Similarly, the Nara Prefectural Government prepared to provide vocational counselling at its *i centre*. These services were also designed so as to benefit from complementarities. For example, job counselling services were offered by both the Nara Prefectural Government and Hello Work, with the prefectural government emphasizing more basic issues about life and career goals, as well as offering supplementary counselling for how to deal with financial and housing difficulties, while Hello Work emphasised more direct job-search activities, including job placement.

Box 4.3. A success story – re-employment and training services in Nara Prefecture for workers participating in the 2012 voluntary early retirement plan at the Sharp Corporation (cont.)

As of May 2013, about 4 360 vocational consultations had taken place at the 5 Hello Work offices in Nara Prefecture and about 300 vocational training consultations, while about 80 vocational and financial consultations were provided by Nara Prefectural Government. The table below, based on data that was provided by MHLW, shows the number of Sharp displaced workers who found new jobs via Hello Work between leaving Sharp on 15 December 2012 and March 2014. A total of 261 were placed into jobs by Hello Work. This is almost only one-third of the total number of workers displaced, but it needs to be remembered that these workers also received extensive job-search assistance from private outplacement agencies and the IESC. One interesting aspect of the data in the figure is that the monthly numbers of displaced workers finding a job through Hello Work shows no clear trend between March 2013 and March 2014. This pattern is somewhat at odds with the widespread belief that re-employment prospects deteriorate strongly after a worker has been out of work for six months, due to a stigma effect. At least for this group, that does not appear to have been the case. It should be borne in mind, however, that this is an advantaged group of displaced workers who benefit from extensive income and outplacement support, as well as the excellent reputation of Sharp employees in the labour market.

Of the 261 workers finding a job through Hello Work, more than 60% were over age 50 and 45% found a regular job. The most common occupations in the new jobs were in carrying/cleaning/packaging related jobs or in manufacturing process workers (19% each), while 17% found clerical jobs and 15% professional and engineer jobs. Fully a third was re-employed in the manufacturing sector. These numbers seem encouraging, however it should be kept in mind that these are just gross re-employment rates, thus difficult to interpret without knowing the counterfactual.

Hello Work placements by month in Nara Prefecture, October 2012 to March 2014



Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

StatLink  <http://dx.doi.org/10.1787/888933175621>

Special measures taken in response to the global financial crisis

The economic impact of the global crisis in Japan was fast and large, with a collapse in export demand translating into a GDP decline of more than 8% in a short period of time. In this context, the government recognised the risk of significant job losses and high social costs. It moved quickly to contain the labour market impact of the crisis, beginning by encouraging a tripartite dialogue to achieve a broad consensus about the nature of the risk and how best to confront it (see Box 4.4). Based on these discussions the government then moved decisively to preserve as many jobs as possible and assisted workers whose jobs could not be saved with additional income and re-employment support.

Spending figures for labour market programmes confirm the vigour of the government's response to the crisis. Between FY 2007 and FY 2009, spending on ALMPs increased from 0.18% of GDP to 0.43% of GDP (Figure 4.5). This was mainly due to the increase in employment incentive programmes such as the Employment Adjustment Subsidy,¹⁶ direct employment creation and trainings. Over the same period, the number of unemployed persons increased by 30.8%, much below the 139% increase in ALMP spending, indicating a substantial increase in spending per unemployed person. In the majority of OECD countries, ALMP spending did not rise as rapidly as the number of unemployed persons, leading to declining spending per unemployed person. Between FY 2009 and FY 2012, spending fell most of the way back to its pre-crisis level, as labour market conditions improved and some crisis measures were phased out. Spending on unemployment benefits also rose sharply between FY 2007 and FY 2009, from 0.28% of GDP to 0.42% of GDP, and then retreated.

Box 4.4. Tripartite consultations for the Realization of Employment Stability and Job Creation

In this context of the global financial crisis and the rapid on-set of a deep recession, the social partners – Japanese Trade Union Confederation (RENGO) and Japan Business Federation (KEIDANREN) – and the national government engaged in tripartite consultations aiming to achieve a consensus about how best to promote employment stability and job creation in a very difficult international economic environment. This initiative was consistent with the strong tradition of social dialogue in Japan, which is also reflected in the laws requiring management to consult the firms' employees or unions before taking major decisions, and a strong commitment to employment stability. The tripartite consultations also reflected a common understanding that it was essential for the government, labour and management to be united in confronting the crisis.

After discussion, the tripartite partners signed the Agreement on Job Stability and Employment Creation on 23 March 2009. According to this agreement “the government, labour and management will work together for achievement of stabilization and creation of employment in order to sweep away current employment uncertainty under a situation of employment and unemployment which gets more serious in global recession triggered by financial crisis in the US.”

Box 4.4. **Tripartite consultations for the Realization of Employment Stability and Job Creation** (*cont.*)

The agreement contained five areas for efforts to realise employment stability and job creation:

1. **Further promotion of employment maintenance;** with measures aimed at maintaining employment through work-sharing arrangements subsidised by the government, to be implemented at the enterprise level based on consultation between labour and management. Such measures include: a) temporary unemployment in lieu of dismissals, b) reduction in working hours, and c) temporary transfers of workers between companies. The government has supported such work-sharing initiatives through a wide range of measures, including raising subsidies for employers who avoid dismissals, as well as financial support for small- and medium-sized enterprises.
2. **Enhancement and strengthening of employment safety nets;** by a number of measures, such as promoting vocational training to improve job capabilities and increasing the role played by Hello Work job placement services.
3. **Securing of stability of livelihood for those with employment difficulties during the period when they are receiving vocational training, and realization of employment for the long-term unemployed;** supporting jobseekers through the provision of living and housing assistance and job counselling, and calling for support for those unable to receive unemployment benefits.
4. **Realization of Job Creation,** creating jobs, particularly creating employment in the fields where growth is expected such as medical care, nursing, day care, environment, agriculture and forestry.
5. **Thorough propagation of the tripartite agreement:** “The Government, the Japan Business Federation (Nippon Keidanren), the Japan Chamber of Commerce and Industry, the National Federation of Small Business Associations, and RENGO shall make the utmost efforts to fully play their individual roles incorporated in this agreement, publicise this Tripartite Agreement for the Realization of Employment Stability and Job Creation to the labour and management of each company, and give necessary encouragement so that the efforts of labour and management will be secured in its proper implementation.”

Due to the continuing difficult labour market situation, RENGO requested several meetings with the Prime Minister, which were held between September 2009 and October 2012. At those meetings, RENGO made requests on a wide range of employment policies, including requests to enhance existing measures for employment maintenance and security, the establishment of Support System for Job-Seekers, and the improvement of measures to support employment creation.

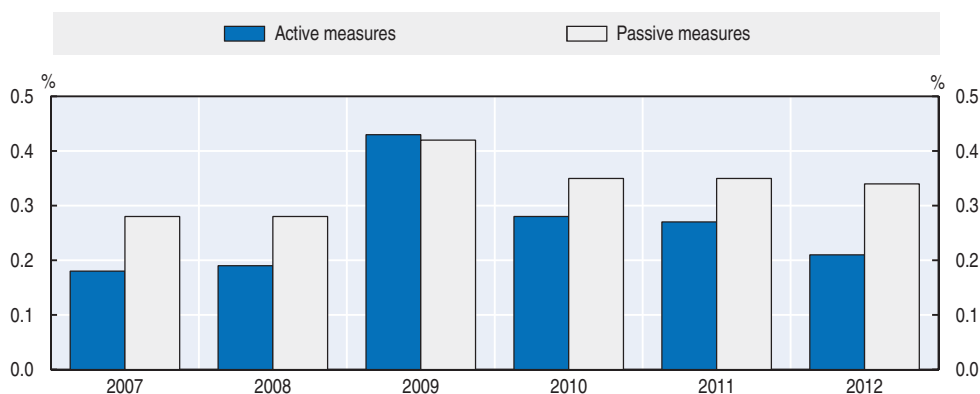
Box 4.4. Tripartite consultations for the Realization of Employment Stability and Job Creation (*cont.*)

On 24 November 2009, “the Employment Strategy Dialog” was established based on the “Emergency Employment Measures.” This dialog is intended to be joined by the leaders and experts from both the labour and the business sectors with the purpose of exchanging opinions and building a consensus about important issues in employment strategy under the initiative of the Prime Minister. In particular it called for specific efforts on some urgent challenges, including: i) the enhancement of support for employment maintenance, ii) support for new graduates, and iii) support for the poor and the needy persons. The same dialog, in June 2012, endorsed “the Employment Strategy for Young People” to support the youth to make the transition from education to employment and to prevent early abandonment of work through the promotion of a career education by informing them of employment systems and labour regulations.

Source: RENGO – Japanese Trade Union Confederation (2009), “Tripartite agreement for the Realization of Employment Stability and Job Creation”, www.jtuc-rengo.org/specialtopics/20090323.html.

Figure 4.5. Labour market spending during the crisis and recovery, Japan

Spending as a percentage of GDP, FY 2007 to FY 2012



Note: GDP: Gross domestic product; FY: Fiscal year.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

StatLink  <http://dx.doi.org/10.1787/888933175634>

More detailed data shows that ALMP spending grew sharply during the recession and then fell back again in most areas. This pattern holds for training, employment incentives (which contains the Employment Adjustment Subsidy) and direct job creation. Box 4.5 describes the Employment Creation Fund.

Box 4.5. **Employment Creation Fund**

The Employment Creation Fund is a notable programme that was promoted by the government as part of the Revitalization Strategy that was put in place in response to the 2008/09 “Great Recession”. This fund was used to support job creation and temporary employment opportunities for non-regular workers.

This programme’s main goal is the creation of job opportunities for jobseekers nationwide and it involves the collaboration of many agents: prefectural and central governments, municipalities and private sector. Prefectural governments create employment creation plans that are submitted to MHLW. The Ministry carefully examines the plans and if they meet its requirements, it provides grants to prefectural government. Once prefectural governments obtain the grant, they use it to establish “funds”, based on the grant, to implement the project, either directly or through private contracts. The parties running the project seek employees through PES offices and hire suitable jobseekers for the newly opened positions. The number of people participating in the programme from 2008 to 2012 was 1 073 853.

Source: MHLW (2013), Information provided to the OECD Secretariat during a study visit to Japan, October.

In order to be able to meet the rapid increase in the number of jobseekers in the recession following the global financial crisis, MHLW pressured all 47 Labour Bureaus and 545 PES offices to expand their staff and intensify contacts with businesses in order to discover hidden vacancies. As a result, in 2009, PES developed 1 843 000 job openings. In fiscal year (FY) 2012, PES offices provided services to around 6.7 million jobseekers, developing 7 952 732 job openings and were able to find jobs for 1 935 818 people (including both full and part time), while providing employment insurance benefits to 1 831 443 persons. In FY 2011, 34.8% of workers displaced due to economic reasons found jobs with the help of PES offices or via the “Hello Work” internet service (MHLW, 2013).

In reaction to the global financial crisis, the government also took specific actions to assist the most vulnerable categories of jobseekers, including by creating customised services for youth and mothers with young children. To facilitate employment of new graduates, the government has established 57 special consultation desks across Japan called *New Graduates Hello Work*, targeting persons who graduated within past three years. New Graduate Hello Work has provided individualised support and job placement service.

Hello Work employment–support structures for casual workers who wish to become regular workers have been reinforced since the crisis. Since October 2012, *Hello Work for Young People* provides support to enhance work commitment after being employed as well as tailored job

placement support through one-on-one counselling to each jobseeker. *Career Development Hello Work* (Non-regular Worker Employment Support Centre), has been incorporated into Hello Work for Young People in 2014. There are 24 Hello Work for Young People centres across Japan.

Special measures taken in response to the Great East Japan Earthquake and Tsunami

The Great East Japan Earthquake and Tsunami struck on 11 March 2011, centred 130 km from the Ojika Peninsula. The earthquake, together with the huge tsunami it generated and the aftershocks, killed approximately 20 000 people and caused enormous damage, particularly in the three prefectures of Tohoku: Iwate, Miyagi and Fukushima. The property damage was estimated to be the equivalent of 4% of GDP. These losses have greatly affected the Japanese labour market. Unemployment in the affected region increased by almost 25% in three months (Cabinet Office, 2012).

Natural disasters can have very significant impacts on labour markets in affected regions. There are often widespread disruptions to labour supply due to loss of life, injury and evacuation of people to areas outside the disaster zone. Additional barriers to labour supply can result from damages to physical and social infrastructure, as well as long-term health problems caused by the disaster. Labour demand can also be affected when firms are forced to close or relocate to other regions. Even firms that are viable in the longer term can face difficulties operating in the immediate aftermath of a disaster due to disruption to their supply chains and to electricity, communications and other infrastructure. Finally, the impact of a disaster on the mix of people, firms and industries in the disaster-affected region can lead to a mismatch between available jobs and the skills of jobseekers.

As for other examples of recent natural disasters, such as the Hurricane Katrina in the United States, the Canterbury earthquakes in New Zealand or the Queensland floods and cyclones in Australia, due to the unpredictability of natural disasters, many of the policies implemented by labour ministries in response have been, by necessity, ad hoc in nature. Nonetheless, the Japanese Government reacted quickly and decisively to the Great East Japan Earthquake and Tsunami of 2011, enacting the Disaster Relief Act and setting up a specific Reconstruction Headquarters Bureau at the MHLW.

Various actions targeted to different actors (at different levels) were taken in order to maintain and create employment and provide assistance to workers displaced by the disaster. Unemployment benefits were extended to a maximum of 210 days in disaster-affected regions. From the firm side, the government implemented a short-time work scheme for firms that temporarily laid off workers due to the disaster and set-up a public-sector job creation

programme to provide income for those affected who helped with clean-up operations. Particular attention was devoted to the regeneration of employment, including by helping groups of small- and medium-sized enterprises to repair facilities and equipment, in recognition of the disruption to supply chains caused by the disaster (Genda, 2012). As recipients of government subsidies, prefecture and municipal governments implemented projects to create employment opportunities for victims, targeting approximately 41 000 people nationwide. These all appear to be useful responses, but Genda (2012) has argued that future extensions of unemployment benefit duration in response to a natural disaster should be accompanied by an expansion in opportunities for the long-term unemployed to work on reconstruction projects or be allocated places in vocational training.

Japan as one work project is another post-disaster labour market recovery package launched by the government immediately after the earthquake. This project is intended to support employment and job creation in affected areas and it encompasses a number of specific measures intended to help workers displaced by the disaster find new jobs, including:

- Job creation through the revival and reconstruction of the local economy and industries.
- Integrated support for industrial development and employment.
- Training of personnel who contribute to reconstruction and support for placement of people in stable jobs.

The programme called for an expanded role of the public employment service to assist jobseekers displaced due to the disaster. Hello Work staff was increased so as to be able to provide on-site counselling at evacuation centres; and more flexible provision of training; company information sessions targeting jobseekers displaced due to the disaster (MHLW, 2011).

Additional resources were also allocated to help those who want to relocate outside the disaster area find work, including by providing information on job vacancies and subsidizing travel for job interviews. Jobs were created re-building public infrastructure. Local construction companies are given priority when awarding reconstruction contracts and private employers were encouraged to submit reconstruction job offers to Hello Work. Vocational training opportunities were expanded in areas related to the reconstruction effort. There were also a range of subsidies offered to companies that hired disaster victims. These measures were expected to create and maintain approximately 580 000 jobs in the three hard-hit prefectures – around 500 000 people's jobs are generated and around 70 000 people's employment is supported; with a supplementary budget of JPN 6.1 trillion (MHLW, 2012).

Conclusions

Even though expenditure on ALMPs as a percentage of GDP is low in Japan relative to the OECD average, the public employment service and vocation training system appears to be very effective. Unfortunately, it is not possible to reach any firm conclusions about how effective the re-employment and training programmes are for displaced workers, since relatively little information is available about how many receive different types of services and how their labour market outcomes are affected. Most indirect indications are, however, reassuring, but it would be worthwhile systematically collecting data about how this group fares and which re-employment programmes work best for them, since Chapter 1 shows they can experience long spells of unemployment and large earnings losses once re-employed. It would also be useful to explore further how potential complementarities between public ALMPs and private placement agencies can be further developed.

The Japanese political system and labour market programmes have demonstrated an impressive capacity in recent years to quickly organise extra labour market assistance when large groups of workers are displaced. This is illustrated by the recent responses to the recession triggered by the global financial crisis and the destruction caused by the Great East Japan Earthquake and Tsunami. The response to the 2012 voluntary early retirement plan at the Sharp Corporation also appears to have been quite effective and it underlines the value of a co-ordinated response involving the national, prefectural and local levels of government and other actors such as the IESC and private outplacement agencies. It would be very useful to learn more about how displaced worker who do not benefit from so much assistance from their employers and government fare.

Notes

1. Duell et al. (2010) provides a more comprehensive analysis of labour market and activation policies in Japan.
2. Hello Work offices have been reinforcing their services for certain groups who need special support, including youth, women with young children, and foreign workers.
3. Hello Work does operate several important ALMPs that target displaced workers before they become unemployed which are analysed in detail in Chapter 2. These include the *Employment Adjustment Subsidy* and the *Plan for Assisting Re-employment*. This chapter is focussed on ALMPs

that provide re-employment assistance and training to displaced workers after they have become unemployed.

4. In comparison to other OECD countries, such as Finland or Ireland, where PES offices perform mainly placement services, Hello Work offices carry out a broad series of tasks. The PES offices deal with both employers and employees and provide job-matching services for all jobseekers.
5. A similar analysis of the recruitment channels employers use to hire recent graduates also places Hello Work offices on top at 43.6%, while private agencies were last at 5.9% (MHLW, 2008).
6. Special measures also have been implemented for women with young children, social assistance recipients, youth, foreign workers and older workers, but these measures are not analysed in this report. See Duell et al. (2010), Chapter 3 for a review of the main specialised units.
7. Unemployed workers, as measured in the labour force survey, include new jobseekers, new graduates who have not been employed, and workers who had been self-employed. By contrast, EI benefit recipients are restricted to jobseekers who recently have been employed and left their job with a sufficient contribution history and have applied for the benefits. A pseudo-coverage rate well below 100% is thus an intentional result of the design of the EI System. Nonetheless, it is notable that many other OECD countries have significantly higher pseudo-coverage rates, as was discussed in Chapter 3.
8. During the high-growth period, from the end of the 1950s to the early 1990s, employees with relatively stable employment could safely assume that their vocational training would take place principally within the company which employed them. More recently, with slower growth and recurrent recessions a rising share of companies has downsized their workforces and this decline in employment stability is causing the responsibility for career development to begin to shift from the employer to the workers (Fujimura, 2004).
9. There is a wide range of mainly private, vocational training institutions in Japan, and public expenditure on institutional labour market training corresponds to around 12% of the total revenues of such providers (MHLW). There is a certain amount of co-operation with private companies, through the Japanese-style Dual System.
10. Some examples are courses for plasterers and automobile maintenance.
11. By contrast, the national government does very little subcontracting.
12. Other institutions can be universities/graduate schools, NPO, employers' associations, etc.

13. Basic training consists on basic inter-industry inter-occupational training. Practical training is directed to learn from practical abilities in specific sectors.
14. To keep up and to increase the quality of jobseekers support training, the MHLW acknowledge the training institutions based on the employment rate of the trainees. The subsidy paid to training institutions ranges between JPY 50 000 and JPY 70 000 per person per month depending on employment rate.
15. Vocational training is the training for unemployment insurance beneficiaries while support training is for jobseekers not covered by the unemployment insurance.
16. As is analysed in Chapter 2, the strong temporary expansion of the Employment Adjustment Subsidy helped mute the recessionary increase in unemployment.

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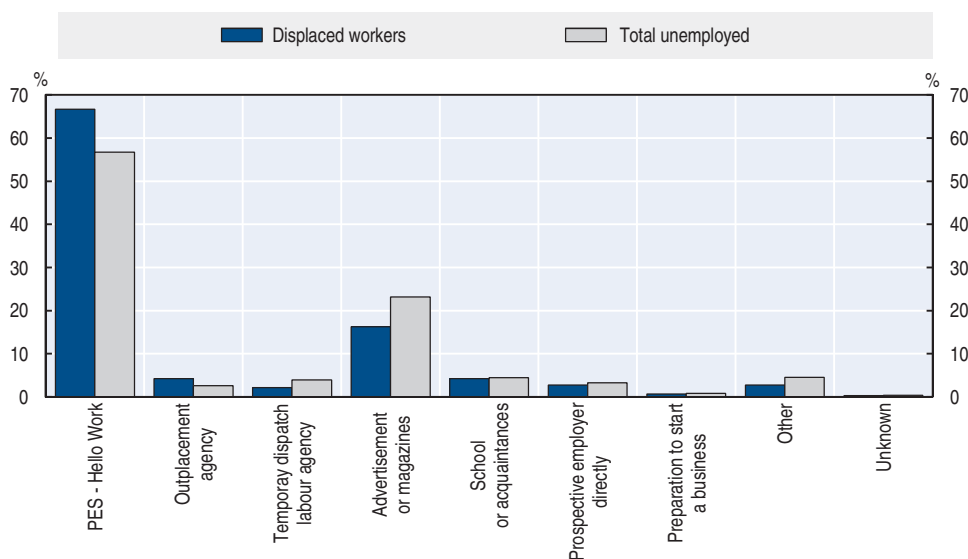
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Annex 4.A1

Additional figure

Figure 4.A1.1. **Primary method used by displaced workers and other unemployed to look for a job according to the Japan Labour Force Survey, averages 2002-13**

Percentages



Note: Total unemployed are workers aged 20-64 in firms with ten or more employees in year $t-1$, who left their previous job and who are still unemployed in year t . Displaced workers are workers separated for economic reasons.

Source: Data provided by the MHLW in November 2014 based on LFS data over 2002-13.

StatLink  <http://dx.doi.org/10.1787/888933175640>

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Back to Work

JAPAN

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

Workers who are involuntarily displaced from their jobs can face long periods of unemployment. Wages also tend to be lower once they find a new job, especially when they are unable to find a new job in the same occupation as their pre-displacement job or in occupations using similar skills. Helping displaced workers back into work quickly and minimising the income losses they face are therefore an important challenge for employment policy. This series of reports provides new empirical evidence from a comparative perspective on the incidence of displacement and the risk that displaced workers may subsequently face a long spell of unemployment and large wage losses when re-employed. It also identifies the main labour market programmes providing help to these workers and assesses how adequate and effective they are. Policy recommendations for further action are presented.

Nine countries are participating in the review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

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Executive summary

Assessment and recommendations

Chapter 1. Job displacement in Japan and its consequences

Chapter 2. Japan's measures to prevent job displacement and other forms
of early intervention

Chapter 3. Income support for displaced workers in Japan

Chapter 4. Helping Japanese displaced workers back into jobs

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