Chapter III  Facilitation of industrial structural adjustment

Section 1  Boosting labor market flexibility

【Key points】
1. Importance of facilitating labor mobility
   As globalization advances, Japan’s sustained growth will hinge on upgrading the industrial structure. This process will comprise two elements: (1) promoting innovation with the aim of creating new industries; and (2) responding to change with flexible structural adjustment. A particularly important point in regard to the latter will be the degree to which the inter-industry movement of workers can be facilitated.

   Looking back over the employment-related structural adjustment process in other countries, two main approaches can be discerned. One is the Anglo-Saxon approach, which focuses on promoting labor market flexibility. The other is the continental European approach, characterized by strict dismissal regulations and generous unemployment benefit payments. In terms of effect by these labor policy, those countries adopting the Anglo-Saxon approach witnessed a substantial drop in structural unemployment rate in the 1990s. Change is also occurring in those countries which have taken the continental European route and were previously noted for the rigidity of their labor markets, with the EU creating an employment strategy and members adjusting their employment policies accordingly.

   In those countries adopting the Anglo-Saxon-style policies, different approaches have been taken to boosting labor market flexibility. In the United States, restructuring has created more variable personnel costs, while the United Kingdom has introduced more flexible working hours and has progressively eliminated regulations protecting women. Both these countries and countries adopting the continental European approach are not only increasing the flexibility of their labor markets, but also working to boost the quality of employment by, for example, improving education levels and re-educating workers.

2. Employment adjustment issues in Japan
   Since the collapse of the bubble economy, a demand shortage and employment mismatches have seen Japan’s employment situation deteriorate significantly. Recent years have brought signs of change in traditional employment systems, including review of the long-term employment practice and a growing number of part-time and contract employees. In order for the Japanese economy to break free of the current straitened employment situation and stage a self-sustained recovery led by private demand, it will be important to (1) promote the reduction

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1  “Labor market” in this chapter includes both the internal (within companies) and external labor markets.
and elimination of employment mismatches by promoting a smooth labor shift, adjusting to the
diversification of work modes, and developing highly-specialist personnel, and (2) build safety
nets to reduce the risks accompanying unemployment.

1. Importance of facilitating labor mobility

As globalization advances, Japan’s sustained growth will hinge on upgrading the industrial
structure. This process will comprise two elements: (1) promoting innovation with the aim of
creating new industries; and (2) responding to change with flexible structural adjustment. A
particularly important point in regard to the latter will be the degree to which the inter-industry
movement of workers can be facilitated. Labor has not been moving as smoothly as capital, an
issue which has already created substantial political problems in those countries in structural
adjustment phases.

Below we outline the employment aspect of structural adjustment in the United States and
Europe, whose economies have matured a step ahead of Japan. We examine efforts in these
countries to introduce flexibility into their labor markets and boost the quality of workers.

(1) US and European approaches to the employment side of structural adjustment

(a) Two trends: The Anglo-Saxon approach and the continental European approach

Two main approaches can be discerned to the employment aspect of structural adjustment.
One is the Anglo-Saxon approach, epitomized by the United States and the United Kingdom.
The other is the continental European approach seen in France and Germany (Fig. 3.1.1).

Figure 3.1.1 US and European approaches to employment adjustment
Those countries adopting Anglo-Saxon policies share the experience of an economic slump in the 1970s, prompting a policy shift from the welfare states of the early 1980s to an emphasis on “small government”. For example, the United Kingdom saw its economic performance deteriorate as of the late 1960s, reaching a state of crisis in the 1970s so severe as to be described as the "British disease". The Thatcher government which came to power in 1979 threw out Keynes-style aggregate demand control policies and instead pushed ahead with supply-side reforms. In terms of labor policies, market principles were brought in, while over-protective unemployment programs were scaled back or eliminated, providing workers with incentive to work. Specific policies included elimination of the closed shop system\(^2\), elimination of minimum wages\(^3\), restrictions on unemployment benefits, and introduction of tighter benefit requirements.

In the United States, the administration responded to the growing income disparities occurring in the high growth period of the 1960s by boosting income redistribution functions. In the 1970s, however, it became apparent that excessive protection of the weak was lowering the work incentive of general workers. The Reagan administration which came to power in 1981 chose to slash back policies protecting the unemployed, introducing instead policies designed to encourage worker self-help. For example, taking the stance that jobs should be created through private-sector dynamism, public works service employment was eliminated and unemployment benefit requirements tightened pursuant to the 1973 Comprehensive Employment and Training Act. In the late 1980s, when the employment situation appeared to have improved to some extent, the administration also turned away from employment measures requiring heavy fiscal spending to focus instead on education and training with a view to boosting industrial competitiveness.

Those countries taking the continental European approach were traditionally characterized by powerful labor unions and labor policies protective of workers, including strict dismissal regulations, short working hours, and generous unemployment benefits. For example, France introduced a cross-industry minimum wage system, but because this was linked to consumer price rises, and because the rate of increase of the minimum wage could not be less than half the rate of increase of the average hourly wage, the minimum wage tended to rise faster than the

\(^2\) Whereby labor agreements stipulate that (1) only union members party to the agreement shall be employed and (2) employees leaving or expelled from the union shall be dismissed.

\(^3\) A later Labour administration re-introduced the minimum wage system under the 1998 National Minimum Wage Act.
average wage\textsuperscript{4}. In Germany, the government did not intervene in wage agreements between workers and management, and the minimum wage was decided not by law but between labor and management. A protracted high unemployment rate following the oil shocks led the government to cut back working hours to encourage work sharing and to deregulate part-time and temporary employment, but strict dismissal regulations remained in place.

Going into the 1980s, however, some countries began to work toward structural reform. In the Netherlands, the Wassenaar agreement among government, labor and management provided that "management shall endeavor to absorb part-time employment and secure jobs, workers shall not seek major wage rises, and the government shall reduce taxes and the fiscal deficit, refraining in principle from interventions in wage negotiations". Accordingly, part-time work was expanded to encourage work-sharing, leading to the diversification of work modes and boosting the number of employed persons. The high unemployment rate too gradually fell away from the 1983 peak of 11.0 percent to reach 2.6 percent in 2000\textsuperscript{5}. These labor reforms in the Netherlands are often referred to as the “Dutch miracle” or the “Dutch model”. The Dutch model falls midway between the Anglo-Saxon approach and the continental European approach in that it has not been accompanied by the dramatic reforms of the former while still developing a highly flexible labor market. Japan has much to learn from the Netherlands, including wage restraint through agreement among government, labor and management, and the use of part-time labor. At the same time, the Dutch model is not without its flaws, such as the hidden unemployment (unemployment which does not show up in statistics, including workers who have opted for early retirement, and work injury insurance payment recipients), the increased burden placed on companies, and the high rates of sick leave noted in recent years\textsuperscript{6}.

(b) Signs of change: Policy shift away from continental European approach

Where the labor markets of continental Europe have been more rigid than those of the United States and the United Kingdom, recent years have brought signs of change. European monetary union has spurred a review of traditional labor and social security polices. The strict fiscal disciplines which monetary union requires participating nations to observe, mergers and restructuring among European companies and among European and US companies in response to economic globalization, and the introduction of IT are all factors forcing governments to move away from labor-protecting policies.

\textsuperscript{4} Section 2, Chapter 3, Economic Planning Agency (1998).
\textsuperscript{5} Data according to the OECD.
The Treaty of Amsterdam, agreed at the June 1997 EU Summit, notes that “to promote a high level of employment” pursuant to Article 2 of Treaty on European Union is one of the goals of European union, while the Treaty Establishing the European Community includes for the first time provisions on employment policies (Part III, Title XIII, Articles 125-130). Article 125 of the EC Treaty in particular states that “(Member states and the community) shall work towards developing a coordinated strategy for employment and particularly for promoting a skilled, trained and adaptable workforce and labour markets responsive to economic change”, marking the shift to positive employment policies explained below.

The “European Employment Strategy” adopted by the special European Summit in November 1997 moved employment measures on to a European Union level. The European Employment Strategy comprises the four planks of (1) employability; (2) entrepreneurship; (3) adaptability; and (4) equal opportunity, requiring member countries to submit action plans and introducing a monitoring system to enable the European Commission to evaluate these plans. In 1999, the European Employment Pact (EEP) was adopted, which looks particularly at boosting employability. The EEP signaled a shift from a passive employment policy designed to supplement the income of the unemployed to an active labor market policy focused on job training and job introductions in order to create jobs and raise the quality of the labor force. The concept of an active labor market policy harks back to the OECD Council reports of the 1960s, replacing unemployment benefits, encouragement of early retirement and other negative and passive labor market policies with the three main goals of promoting participation in the labor market, increasing job-related skills, and creating a more efficient labor market. This EU-level policy shift has also impacted on the policies of national administrations, with a cost breakdown of employment measures in continental European countries since 1997 revealing an increasing share of spending on active labor market policies (Fig. 3.1.2).

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7 OECD (1993).
Creating a more flexible labor market

The effects of the different labor policies pursued in the Anglo-Saxon approach and the continental European approach are clearly demonstrated in unemployment rate trends (Fig. 3.1.3). In the early 1980s, the unemployment rates of the European countries rose to the 7-10 percent mark, and remained high until the mid-1990s for those countries adopting the continental European approach, whereas those countries adopting the Anglo-Saxon approach saw their unemployment rates plunge in the 1990s.

What caused this difference in performance? A comparison of structural unemployment rates in 1990 and 1997 reveals that where rates rose in the late 1990s in countries following the

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8 The unemployment rate includes the cyclical unemployment rate, which is affected by economic

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continental European approach, they fell in countries following the Anglo-Saxon approach (Fig. 3.1.4). The latter reflects the loss of incentive to remain unemployed after the US and the UK eliminated policies providing excessive protectionism for workers, reducing the number of the long-term unemployed.

One of the reasons given for the drop in the structural unemployment rate in countries taking the Anglo-Saxon approach was the growing flexibility of their labor markets. For example, in the United States, the restructuring and outsourcing of the 1980s introduced variation into personnel costs, traditionally regarded as fixed, boosting labor market flexibility.

However, at the same time, changing expectations of workers expanded income disparities in the United States. According to US Department of Labor and Census Bureau (Department of Commerce) statistics, the number of employed persons increased by around 16 million between 1990 and 2000, of which 62.7 percent took up high-income posts such as management or knowledge experts, while 26.3 percent went into comparatively low-paid jobs in sales and services (Fig. 3.1.5). This suggests a polarization from averagely-paid jobs into either highly-paid or poorly-paid positions. The same polarization is evident in trends in household income by income bracket (Fig. 3.1.6).

Yoshiga (2001) notes that (1) labor’s relative share (average value) in the US in the 1990s dropped around one percent on the average values of the 1970s and 1980s, and (2) the value of elasticity of personnel costs against sales approached 1 in the 1990s.
In the United Kingdom too, regulations on working hours were made more flexible and regulations protecting women progressively eliminated as means of increasing labor market flexibility. In regard to the former, regulations on the amount of time worked by juveniles and prohibitions on holiday work were eliminated in 1989 and systems such as flexi-time introduced. In regard to the latter, the 1986 Sex Discrimination Act eliminated regulations on the hours worked by women and opened the way for night employment, while in 1989, discriminatory employment and promotion regulations were abolished (excluding those for the protection of mothers). As a result of these measures, employment rates for women rose, while the number of part-time workers expanded substantially (Fig. 3.1.7).
However, while swift labor market reform produced substantial results, it also created a new problem, namely a greater income disparity between the rich and poor, as elimination of the minimum wage swelled the ranks of low-paid workers (particularly young people). Overly low wages removed the incentive to work and pushed up youth unemployment, diluting the effects of job training. As a result, while the national unemployment rate fell, improvement in the youth unemployment rate was limited and the ratio of long-term unemployed persons to total unemployed rose (Fig. 3.1.8).

These examples demonstrate that even cutting back policies protective of labor to introduce more flexibility into the labor market does not provide a fundamental solution to the employment problem. Regardless of the extent of diversification of modes of work, if the mismatch between workers’ skills and the skills sought by companies is not resolved, those workers will ultimately not be employed, or, even if they are employed, they will have to
tolerate low-paid positions. Labor market flexibility policies need to be teamed with mechanisms enabling lifelong skill development.

(3) Boosting employment quality

The shift to an information society which has been occurring in recent years is demanding more advanced knowledge and skills from workers. In other words, personnel with the high levels of skill and expertise sought by companies have the opportunity to earn high wages, but where skills and expertise are not up to company standards, a worker may well end up without a job. This situation is lifting the rate of university enrolments in the United States, while the highest-paying jobs are increasingly being taken by those with the best academic backgrounds (Figs. 3.1.9, 3.1.10). An analysis of unemployment rates according to academic qualifications also indicates that, generally speaking, the lower the academic qualifications, the higher the unemployment rate (Fig. 3.1.11). In Europe too, unemployment rates are highest for young people with low academic qualifications (Fig. 3.1.12).

Figure 3.1.9  Trends in university enrolments in the United States

1960-90 (every five years)

Source: Statistical Abstract of the United States (US Census Bureau, Department of Commerce)

Figure 3.1.10  Composition of academic qualifications by job type in the United States (1999)

Note: "Associate degree" indicates graduates from short-term colleges or completed two-year courses at four-year universities.

Source: Digest of Education Statistics (US National Center for Education Statistics)
As companies expect increasingly high levels of knowledge and skills from workers, or as major change occurs in the content of the necessary skills and knowledge, how are US and European workers acquiring the necessary skills and knowledge for finding employment, or brushing these up in line with changes in the economic situation? Here we examine efforts in the United States, the United Kingdom and Germany.

(a) United States

The pursuit of higher academic qualifications by US workers was noted above. In terms of graduates by major (bachelors' and masters' degrees), business and computer science grew strongly up until the 1980s, but were overtaken by life science in the 1990s (Fig. 3.1.13). The greater number of graduates in these particular areas reflects the perception of these as providing highly specialist skills and knowhow, and as future growth areas.

![Figure 3.1.11 Unemployment rates by academic qualifications in the United States](image)

![Figure 3.1.12 Unemployment rates by age and academic qualifications in the EU](image)

### Table 3.1.13: Number of persons with university degrees by major in the United States

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>839,730</td>
<td>822,535</td>
<td>929,411</td>
<td>978,870</td>
<td>1,051,348</td>
<td>1,140,144</td>
<td>1,184,409</td>
</tr>
<tr>
<td>Business and management</td>
<td>144,729</td>
<td>135,030</td>
<td>184,883</td>
<td>232,428</td>
<td>246,660</td>
<td>246,522</td>
<td>233,174</td>
</tr>
<tr>
<td>Computer and information science</td>
<td>15,9</td>
<td>13,0</td>
<td>19,4</td>
<td>24,9</td>
<td>6,9</td>
<td>6,9</td>
<td>6,9</td>
</tr>
<tr>
<td>Life science</td>
<td>2,2</td>
<td>3,1</td>
<td>5,1</td>
<td>1,4</td>
<td>1,6</td>
<td>1,6</td>
<td>1,6</td>
</tr>
<tr>
<td>Total</td>
<td>35,743</td>
<td>51,374</td>
<td>46,370</td>
<td>46,370</td>
<td>30,284</td>
<td>25,985</td>
<td>45,890</td>
</tr>
</tbody>
</table>

1. The upper level of the "total" section indicates the number of persons acquiring bachelor's degrees, the lower level the rate of increase.

Source: Statistical Abstract of the United States (US Census Bureau, Department of Commerce)

2. In the other sections, the top level indicates the number of persons acquiring university degrees, the middle (shaded) level the rate of increase, and the bottom level the degree of contribution to the total rate of increase.

Source: Statistical Abstract of the United States (US Census Bureau, Department of Commerce)
Outside universities and graduate schools, community colleges also have a major role to play as education institutions closely tied to the local community. Community colleges are short-term, two-year colleges established and operated by state and local funds. Originally established for those students without the economic means to spend four years away at university, the desire of community colleges to avoid competition with other tertiary institutions coincided with the need of communities (and local companies) to maintain and boost education standards for the community as a whole to secure a high-quality labor force. Community colleges therefore began to take on job training and lifelong learning functions, providing the human resources to underpin local industrial agglomerations\(^\text{10}\). Community colleges offer wide-ranging curricula, with job skills development education including classes in accounting, finance, business, legal duties, computer science, and automobile and aircraft maintenance and repair.

The US government places the improvement of skills training alongside higher education levels as a priority issue. Skills development programs at Federal level initially targeted economically disadvantaged adults and young people and the involuntarily unemployed pursuant to the 1983 Job Training Partnership Act, but changes in the economic environment enhanced government awareness of the need to reform and enhance job training programs.

Accordingly, the Workforce Investment Act of 1998 was formulated with the goal of creating a more flexible and efficient job training system\(^\text{11}\). The Act integrates Federal-level job training and skills development programs into three categories: (1) employment promotion and job training for adults; (2) employment promotion and job training for economically disadvantaged young people; and (3) literacy training for adults. It also stipulates provision of these programs through one-stop career centers\(^\text{12}\) operated at community level. The Act increases subsidies for states and communities topping the goals set by the Federal Government and penalizes those states and communities which fail to reach the goals\(^\text{13}\), an interesting tactic in terms of providing job training incentive for states and communities.

\(^{10}\) See the website of the American Association of Community Colleges (http://www.aacc.nche.edu) and Chapter 2, Part II, International Affairs Division, Minister’s Secretariat, Ministry of Health, Labour and Welfare (2001).

\(^{11}\) See US. Department of Labor (1998) and Chapter 2, Part II, International Affairs Division, Minister’s Secretariat, Ministry of Health, Labour and Welfare (2001) for details concerning this Act.

\(^{12}\) Employment information centers operated around the country to provide one-stop access to information and services for companies and job-seekers concerning employment, education and training.

\(^{13}\) See US Department of Labor (1998), Appendix.
(b) United Kingdom

The swift labor market reforms pursued in the 1980s in the United Kingdom pared back labor market regulations to among the most minimal in the world, but also caused social problems such as greater poverty and high youth unemployment rates. The Blair administration which came to power in 1997 saw the solution to these issues in boosting the skills and work incentive of young people and the long-term unemployed to encourage their participation in the labor market. The “Welfare to Work” program was formulated accordingly and piloted in certain areas before the “New Deal” policy was implemented in April 1998.

The New Deal policy was designed to provide job training and get people into jobs, and initially targeted unemployed youth and the long-term unemployed. Subsequently, however, the scope was gradually widened to include disabled persons, single parents, partners of the unemployed, and the elderly (Fig. 3.1.14). The “New Deal for Young People”, launched nationwide in April 1998, targets people between 18 and 24 who have applied for unemployment benefits for six months or more. At “Gateway” level (a maximum of four months), these young people receive intensive counseling and guidance as they look for jobs. If they do not find employment during the Gateway period, they can choose from one of four options, or launch their own businesses. The four options comprise: (1) subsidized employment; (2) education and training; (3) work in volunteer organizations; or (4) work with the Environment Task Force. Where none of these options are chosen, the person loses his or her unemployment benefit eligibility. The “New Deal for the Long-Term Unemployed”, begun in June 1998, follows basically the same process as the youth program, but offers two rather than four options, namely (1) subsidized employment or (2) education and training.

<table>
<thead>
<tr>
<th>Type of program</th>
<th>Unemployed youth</th>
<th>Long-term unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation period</td>
<td>April 1998 –</td>
<td>June 1998 – (Pilot project)</td>
</tr>
<tr>
<td></td>
<td>* Implemented on a pilot basis from January 1998 in some areas.</td>
<td>Expanded on to a nationwide basis from April 2001.</td>
</tr>
<tr>
<td>Requirements</td>
<td>Unemployment benefit received for six months or more.</td>
<td>Unemployment benefit received for 24 months or more (18 months or more as of April 2001).</td>
</tr>
<tr>
<td>First level (counseling by a personal adviser, job-seeking, etc.)</td>
<td>Duration: Four months (“Gateway”)</td>
<td>Four months</td>
</tr>
<tr>
<td>Second level (self-employment or selection of one of the following programs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidized employment</td>
<td>* Duration: Six months</td>
<td>* Duration: Six months</td>
</tr>
<tr>
<td></td>
<td>* A weekly subsidy of £60, as well as a lump sum of £750 for education and training</td>
<td>* A weekly subsidy of £75.</td>
</tr>
<tr>
<td>Fulltime education and training</td>
<td>* Duration: Twelve months</td>
<td>* Duration: Twelve months</td>
</tr>
<tr>
<td></td>
<td>* Amount equivalent to unemployment benefit paid</td>
<td>* Amount equivalent to unemployment benefit paid</td>
</tr>
<tr>
<td>Volunteer work</td>
<td>* Duration: Six months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* Unemployment benefit = £400</td>
<td></td>
</tr>
<tr>
<td>Environmental protection work</td>
<td>* Duration: Six months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* Unemployment benefit = £400</td>
<td></td>
</tr>
</tbody>
</table>

Note: Programs have also been set up for single parents, the disabled, the elderly, and the partners of unemployed persons.
Sources: http://www.newdeal.gov.uk and Table 13, Chapter 4, OECD (2000).
In the period from initiation of the New Deal policy through to November 2001, a total of around 730,000 people had participated in the unemployed youth program, with around 350,000 finding jobs, of which around 270,000 have secured ongoing employment (more than 13 weeks). The ruling Labor Party is seen as having fulfilled its 1997 general election manifesto pledge of finding jobs for 250,000 young people, but some skepticism has been expressed by the Conservative Party and elsewhere on the grounds that the favorable economic conditions since 1998 would have provided work for the unemployed even without the New Deal policy.

(c) Germany

Job education is built into the school curriculum in Germany, and after employment, companies provide in-house job training, while courses are also run by chambers of commerce and industry and labor unions.

Once compulsory education has been completed, students select from among three tracks designed to enable acquisition of the necessary knowledge and skills before employment. These tracks comprise: (1) liberal education aimed at university entrance; (2) the “dual system”, whereby education at a vocational school is combined with practical company training toward acquiring work qualifications; and (3) courses at vocational schools aimed at acquiring qualifications in particular areas. The dual system in particular has the merits for companies of training personnel of immediate use, facilitating the decision of whether to take on the person after training, and providing trainees who can be set to work at cheaper rates. It has drawn considerable praise and interest from other countries, not only underpinning Germany’s high technological capability, but also keeping Germany’s youth unemployment rate lower compared to other European Union members.

However, employment conditions have become much tighter in recent years. Firstly, the unemployment rate has risen in former East Germany following German unification, while the flow of foreign workers into Germany has also increased. In addition, the economic slump since 1992 has slashed back the number of training positions offered by companies under the dual system.

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15 See the Labour Party website (http://www.labour.org.uk). At the 1997 general elections, the Labour Party presented a 10-point election platform comprising employment, education, medical care, etc. (Funaba (1998), pp. 26-29).
16 International Labor Affairs Division, Minister’s Secretariat, Ministry of Labor (1996).
The Schroeder administration which came to government in 1998 moved quickly to form
the Alliance for Jobs, consisting of companies, labor unions and the government, to work on
improving the unemployment situation\(^{17}\). Seven meetings among the tripartite leaders have gone
some way toward resolution of employment problems through, for example, measures to deal
with youth unemployment and early retirement for the elderly. In regard to the former, an
emergency program to reduce youth unemployment was introduced in January 1999 to provide
employment or training posts for employed persons up to age 25 by promoting in-house training,
assisting skills acquisition and providing companies with wage subsidies. According to the 2001
National Action Plan for Employment submitted to the European Commission by the German
government, a cumulative total of around 268,000 young people participated in the program in
1999 and 2000, improving the youth unemployment rate in former West Germany in 2000
(down 6.5 percent year-on-year). However, the deteriorating youth unemployment rate in
former East Germany (up 13 percent year-on-year) indicates a regional disparity. To address
this disparity, the government has introduced measures as of 2001 to encourage the shift of
young people from areas offering poor employment opportunities to more favorable areas.

2. Employment adjustment issues in Japan

As noted above, the United States and European nations reaching economic maturity ahead
of Japan have introduced greater flexibility into their labor markets and boosted workers’ skills
to facilitate structural adjustment. It is no easy task to change social systems and labor values
built up over time, and reforms will inevitably take several years, or in some cases, considerably
longer to achieve results. However, those countries which have pursued reform courses have
begun to reap the benefits in recent years, restoring their economic dynamism.

Below we overview the increasingly straitened employment situation in Japan and consider
the employment aspects of structural adjustment as well as directions for future efforts.

(1) Bleak employment situation and signs of change

Japan’s employment situation is becoming increasingly bleak. Following the collapse of the
bubble economy, the full unemployment rate soared from 2.1 percent in 1990 to a high of 5.5
percent in December 2001. Where unemployment is divided into that created through the

\(^{17}\) Said to have been based on the Netherlands’ model, where the unemployment rate was reduced
through work-sharing agreed among the government, labor and management
(JETRO International Economic & Trade Information Center (2000)). The original “Alliance for
Jobs” was launched by former Chancellor Helmut Kohl, but because labor unions opposed to
government measures refused to attend talks, the initiative was suspended as of 1996.
mismatch of skills and needs and unemployment resulting from a labor demand shortfall due to economic recession, approximately 75 percent of unemployment seems to have been created through skills-needs mismatches, and only around 25 percent because of the labor shortage caused by economic recession. Recently, however, unemployment due to the latter factor has been increasing (Fig. 3.1.15). Trends in unemployed persons by type of job also indicate a swift increase in the number of persons who have left their jobs involuntarily (Fig. 3.1.16).

Figure 3.1.15 Trends in unemployment rate, structural/frictional unemployment rate and rate of unemployment due to deficient demand

Figure 3.1.16 Trends in number of unemployed persons (by reason for job-seeking)

Notes
1. Rate of unemployment due to deficient demand = unemployment rate – structural/frictional unemployment rate
2. For details on estimation methods, please see Labor Economy Analysis 2001 (Ministry of Health, Labor and Welfare).
On the other hand, there are also signs of change in traditional employment systems, including the rethinking of lifelong employment practices and a growing number of part-time or contract workers. For example, the number of part-time or contract workers has continued to grow over the last 10 years, and now comprises close to 30 percent of the total (Fig. 3.1.17). More diverse work modes are also emerging, including work from home and the SOHO (Small Office Home Office) trend, spurred by the IT revolution.

Figure 3.1.17 Trends in number of regular and part-time/contract workers in Japan

(2) Structural adjustment issues and next steps

To break free of the current straitened employment situation and realize a self-sustaining recovery led by private demand, Japan needs to (1) reduce and eliminate employment mismatches (facilitation of labor shifts, diversification of work modes, development of highly specialist and skilled human resources) and (2) build safety nets.

(a) Reducing and eliminating employment mismatches

(Promoting smooth labor shifts)

As seen above, employment mismatches account for a substantial portion of Japan’s full unemployment rate. However, the mismatch situation varies according to the type of job. According to a survey conducted by METI and the Works Institute, of the main 60 job types, the number of job-seekers outweighs the number of openings in white-collar posts and other jobs without clearly defined skills or abilities, while there is in fact a personnel shortage in management, design, IT and other specialist or technical jobs (Fig. 3.1.18). To keep the employment impact of structural reform to a minimum, Japan needs to ensure a smooth labor shift to growth areas, which will require developing the necessary labor conditions.
Looking at directions in labor market reform from this perspective, firstly, it will be important to increase the efficiency of public employment agencies and develop the necessary conditions to fully exploit the capacity of private-sector employment agencies, creating linkage between the two to promote more powerful adjustment of labor force supply and demand. For example, industrial restructuring and business reorganization are likely to push an increasing number of white-collar workers into the service industry. However, adequate use is not being made of introductions through public employment agencies, and consideration needs to be given to deregulation and the active use of private-sector companies assisting re-employment.

Secondly, to encourage an appropriate match between companies and personnel, companies have to supply a clearer picture of what they are offering and what they are seeking, specifying the skills and experience they are looking for and the exact nature of the job. More efforts are now being made to reduce information uncertainties between companies and individuals and eliminate employment mismatches, including separate advertising for different positions, provision of internships, trial employment (contract employment for a fixed term before the company decides whether to take on the employee permanently) and temporary dispatch of possible permanent workers (dispatch of workers scheduled for recommendation to the company for permanent employment on completion of the dispatch period).
(Correspondence to diversifying work modes)

With work perceptions diversifying, systems related to personnel dispatches, fixed-term labor contracts and discretionary employment need to reviewed and an environment created which leaves workers free to choose their own mode of work. The conditions also need to be set in place to enable people to work regardless of their age or gender. Efforts should include prioritized development of child care facilities in areas with long waiting lists, the development of a social security system which is neutral in regard to gender and type of work (full-time employees, part-time workers, dispatched workers), and rectification of age restrictions in employment applications.

(Developing human resources with high-quality skills and abilities)

Japan’s human resource development to date has generally been the province of in-house training, but given the growing shift of labor between companies, it is becoming increasingly important that workers address their own skill development and that training is available outside companies. More specifically, in addition to the university reforms discussed in Section 2, Chapter 4, diverse skill development opportunities need to be secured and expanded using private-sector dynamism, while intensive and flexible use needs to be made of education and training allowances. Other vital efforts will include improved career consultation, clarification of job content, and formulation of job ability evaluation standards in order to assist individuals in forming their careers.

At the same time, to boost corporate competitiveness, it is important to improve the specialist skills of employees and secure their identities. Japanese companies were once known for the strong human resources development achieved through their in-house training systems, but recently US and European companies have apparently been investing more heavily in education than their Japanese counterparts\(^\text{18}\). US companies are also working on human resource development from angles such as the establishment of corporate universities\(^\text{19}\), and Japanese companies also need to be encouraged to expand and enhance skills development.

\(^{18}\) See “Employment and Human Resources” (p. 18) from materials submitted to the Fifth Meeting of the Industrial Competitiveness Strategy Council (held 1 April 2002).

\(^{19}\) Research institutes established at university level within companies as a means of personnel training. There are approximately 1,600 such institutions in the United States, established by companies in industries ranging from manufacturing to high-tech and distribution. Examples of companies establishing corporate universities include Motorola (communications devices), AT&T (communications), General Motors (automobiles), and Sears Roebuck (distribution).
(b) Building safety nets

Because the advance of structural reforms could heighten the risk of unemployment in low growth areas, safety nets need to be built to reduce the risks accompanying unemployment, developing an environment in which people can work with peace of mind. From this perspective, people losing their jobs will need help to find new jobs and the employment insurance system must be improved. However, in creating safety nets, it should also be noted that measures such as simply extending the unemployment benefit payment period can detract from the incentive of the unemployed to find work and conversely raise the unemployment rate. Boosting incentives for the unemployed to find work at an early point should therefore be a prerequisite in considering the construction of safety nets.