Youth Employment in Japan

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Introduction

• Youth employment deteriorated sharply during the recessions since mid 1990’s, like the 2008-09 Financial Crisis.
• The unemployment rate and the incidence of joblessness among youth have been persistently high.
• Effective policies are needed to prevent negative long-term consequences on a generation.
• The purpose of the presentation is to shed light on the developments in youth employment in Japan and the factors behind these developments to find out policy implications.
Importance of Youth Employment Issues

The deterioration of youth employment may bring about;

- The long-term negative effects on economic growth due to the low accumulation of human capital,
- The poverty spiral due to the negative effects of young parents in economic difficulties on their children’s education and employability,
- Increase in crimes,
- The low sustainability of social security schemes such as pension and medical care,
- Fewer marriage and low fertility rate.
Developments in Youth Employment

• Youth unemployment rate is persistently high. It was 9.1% in 2009 in Japan, which is relatively lower compared with 16.7% in OECD Total.
• The proportion of NEET among youth is fairly stable in Japan.
• Decrease in the employment/population ratio among men and increase among women.
• Increase in the proportion of non-regular workers.
The Proportion of NEET* among the Population (15-24 years old)

* NEET is defined as a person not in the labor force nor attending to schools.

Source: Statistics Bureau, Labor Force Survey
Proportion of Non-regular Employees (15-24 year olds, excluding students)

Source: Statistics Bureau, Labour Force Survey
Proportion of Non-regular Employees (25-34 year olds, excluding students)

Source: Statistics Bureau, Labour Force Survey
Factors Behind the Developments in Youth Employment(1)

• Globalization: Severe international competition has deprived young people of stable jobs as production workers in manufacturing.

• Technological changes (ICT): Many middle-skilled cognitive and manual jobs (routine tasks) such as clerical work and repetitive production have been substituted by machines. ICT has raised relative demand for workers who can perform complementary non-routine abstract tasks such as professional and technical, and managerial occupations as well as non-routine manual tasks such as service occupations.
Factors Behind the Developments in Youth Employment (2)

• Service economy: the proportion of service sector is increasing. Non-regular jobs are relatively more prevalent in service sector.

• Long-term low economic growth and deflation has increased uncertainty for the future perspectives of employers, who have become reluctant to hire regular workers.
Scarring effects and lost generation

• The experience of unemployment will increase future unemployment risks and/or reduce future earnings, mainly through effects associated with human capital (i.e. deterioration of skills and foregone work experience) or signaling effects (i.e. periods of unemployment convey a signal of low productivity to potential employers).

• In Japan, the experience of a recession at the time of the graduation from schools has long-lasting negative effects on employment and earnings of less educated young men: one percentage point rise in the unemployment rate at entry reduces the likelihood of being employed by 3-4 percentage points over 12 years and leads to earning losses by 5-7 percent for the group without a college education (Genda et al. (2010))
Labor market of new school leavers

- Placement by school: Japanese labor law requires high schools to play a key role in the matching process between graduating students and prospective employers.

- Since high schools have much better information on their students than prospective employers, they can screen the job applicants beforehand to reduce risks borne by employers. Thus, firms prefer to rely on the school-based hiring than open the door to non-regular workers and unemployed.
Proportion of young workers who got jobs through placement by schools
(Both Sexes, 18-24 years old, High school graduates, employed)

Source: Cabinet Office, Survey on the Attitudes of Youth around the World (1998)
Japanese employment system and school-based hiring

• Typically, Japanese firms tend to hire new school leavers at their graduation as regular employees and make intensive OJT on them on the basis of long-term employment, together with the fairly strict employment protection legislation. The criterion for hiring is “trainability” of workers.

• This employment practice is highly complementary with school-based hiring system.

• School-based hiring system is efficient during the period of high economic growth, as it ensures smooth transition from school to firm even for less educated youth.

• But under the long-term recession, it deepens the dualism of the labor market of youth, as firms prefer new school leavers screened by schools to non-regular workers or unemployed.
Youth Unemployment and UI Scheme

• With growing share of non-regular workers, Japan has made efforts to extend the eligibilities of UI to cover vulnerable workers like non-regular young employees and in some cases, the maximum duration of benefits to provide better safety net for such workers.

• In face with the growing share of the non-insured workers, reflecting the labor market slack and structural changes, social assistance financed by the government is needed to help the non-insured such as young unemployed who cannot find jobs after their graduation of schools.
Policy Implications

• It is needed to enlarge the labor market of new school leavers to include those who graduated in the preceding three years or so. It would be desirable to increase the incentive for employers to hire these young workers as regular workers.

• More intensive training and employment measures should be provided for involuntary non-regular workers and school drop-outs to get permanent jobs.

• It is necessary to strengthen the social security system to provide non-regular workers with housing and unemployment assistance.

• Education must be adjusted to recent changes in the labor market.
References

