



**JRI news release**

**The Growing Pressure for Structural Reform and the Regeneration of Employment**

**-The Scale of the Pain Likely to Accompany Structural Reform and the Policies**

**Required to Offset It-**

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## **Overview**

Japan's fully unemployed ratio has been rising in recent years, against the background of a persistent mismatch of labor supply and demand. Given the trend of the labor share, and in the presence of a strong sense of overemployment centering on the industries most in need of structural adjustment, it is likely that the progress of structural reform will uncover pressure for employment adjustments, which have been postponed until now.

The removal of nonperforming loans equivalent to 15.3 trillion yen from balance sheets is likely to lead to the discharge of 500,000 workers onto the labor market over the next 2-3 years. If public investment is cut by 2 trillion yen each year over the period 2002-2005, some 650,000 people in the construction industry will lose their jobs over the next 5 years. Amid the changes to the industrial map of Asia, led chiefly by developments in China, if the growth recorded by Japan's imports of manufactured goods in recent years continues, it is likely that 330,000 people employed in manufacturing industry will lose their jobs over the next 5 years.

Needless to say, although the disposal of bad debt and rebuilding of public finances will bring pressure to discharge excess labor in the short term, the progress of structural reform will also lead to some degree of recovery in the growth potential of the economy, which has been bowed under the burden of the "negative legacy", and will gradually generate new employment opportunities.

However, there is no guarantee that a recovery in economic strength as a result of dealing with the "negative legacy" will create sufficient job opportunities (the recovery in the growth rate as a result of dealing with the "negative legacy" is expected to generate 1.23 million new jobs), and the most important issue for the regeneration of employment is the fostering of new growth industries capable of absorbing the excess labor.

Considering the experience of the United States, the industries most likely to provide a suitable haven for excess labor are the "human public service industries" (healthcare, nursing and education) and the "outsourcing industries" which handle information systems and the work of professional white collar workers.

Estimates suggest that, after systemic reform, the healthcare and nursing and

personnel placement sectors alone have the potential to generate 850,000 new jobs over the next five years (Table 8), and if the boost to employment provided by the recovery in the economic growth rate that will accompany dealing with the "negative legacy" (+ 1.23 million jobs) is included, the net growth in employment is likely to exceed the loss of employment attendant on the various structural adjustments and reforms (1.5 million jobs).

Realizing this scenario for the regeneration of employment will require the establishment of a "comprehensive employment policy" framework that also embraces industrial and social security policy. The three main pillars of this comprehensive policy should be (i) the creation of industrial and employment systems based on market principles, (ii) the clear indication of a vision for welfare after structural adjustment, and (iii) the creation of an adequate safety net by way of emergency measures.

In creating industrial and employment systems based on market principles, the first step is to prepare the ground for the revitalization of industry and stimulation of entrepreneurial activities through deregulation, measures to promote competition, financial reform and tax reform. Of particular importance is the active introduction of market competition into areas such as healthcare and education, and the establishment of a framework that will allow public services to be provided by private sector. At the same time, by way of "employment and skills development systems for the 21st century", it is vital that employment formats be diversified and an environment that facilitates the transfer of labor be created, but it is also essential that individual workers should be independent and that systems be created for the education of professionals that will help them to adapt to the technology revolution.

Meanwhile, if economic systems are to emphasize market principles, companies must limit their social function to industrial revitalization, i.e. the creation of employment opportunities and abandon some of their livelihood assurance activities such as the payment of generous allowances and company pensions. This would signify a transformation of Japan's uniquely company-dependent employment system, and it would then be necessary to consider a new distribution of the livelihood assurance functions lost in the process among the various economic entities.

In this connection, it will be important to indicate a clear "vision for welfare after structural adjustments" in which (i) the government guarantees a minimum livelihood and (ii) the introduction of competition into the welfare and public service sectors leads to an improvement in the overall standards of living and welfare. This will help to make clear the reasons for structural reform, and win the confidence of the people.

However, as indicated earlier, the fact that the necessary adjustments have been put off for so long means that there is undeniably a risk of a substantial rise in unemployment once the adjustment process begins. Moreover, it is likely that the recovery of economic strength and emergence of new industries that will result from dealing with the "negative legacy" will take some time to realize. In the short term, therefore, there is a limit to the volume of labor that can be absorbed by economic regeneration, and it is therefore urgent to consider the creation of an "adequate safety net" by way of emergency measures that will protect livelihood during the transition period but remain compatible with the thrust of the structural reform measures.

If this "employment safety net" is inadequate, Japan may be faced with social unrest in conjunction with the deterioration of employment conditions. In this case, the revival of an "anything goes" policy would undeniably run the risk of triggering a further postponement of a proper resolution to the problem. It should be made clear that this would simply make it necessary to implement yet more severe adjustments in the near future, and Japan's drive to create growth industries and redistribute labor should be backed by a determination that there can be no retreat. For this reason, the creation of an adequate safety net is vital.

A menu of specific measures on employment based on the philosophy outlined above could include the following: Structural Policy (1) - Building industrial and employment systems based on market principles

(i) Strategic fostering of human public service industries

The strategic fostering of healthcare, education and other industries capable of absorbing excess labor through the promotion of competition. The growth of the education sector will also contribute to the strengthening of education functions outside the corporate sector.

**(ii) Creation of a Japanese version of the "community colleges", to serve as the hub of vocational education outside the corporate sector**

The nucleus of the system should be formed by universities, junior colleges or professional schools, management and secondment of teachers should be entrusted to personnel businesses and companies, and quality control systems using subsidies should be established.

**(iii) Creation of systems to enhance the efficiency of the labor market**

A Japanese version of the NVQ, pension system reform, the creation of highly transparent legislation on dismissal and benefit-cutting rules and the creation of systems to facilitate the resolution of individual disputes. Prohibition of discrimination on grounds of age in recruitment (depends on ability to redress seniority-based systems).

**Structural Policy (2) - A clear indication of a vision for welfare after structural adjustments**

**(i) A reduction in the basic cost of living**

Creation of a childcare infrastructure, expansion of scholarship system, creation of a used housing market.

**(ii) Creation of healthcare and pension systems that allow freedom of choice**

Government guarantee of a civil minimum. Privatization of the employees' pension system and creation of a system that is neutral with regard to employment formats. Education on investment to raise interest in the operation of pension assets. Encouraging private sector participation in the healthcare industry through the promotion of competition.

**(iii) Normalization of the social assistance system**

Offsetting the decline in employment assurance functions that will result from the streamlining of subsidies for the maintenance of employment and the reduction in public works by relaxing the over-strict means testing criteria.

**Emergency measures: providing an adequate safety net**

**(i) Supporting reemployment through bold outsourcing of public job placement work to the private sector.**

**Outsourcing of functions to personnel businesses and the personnel departments of major corporations to allow the provision of painstaking counseling on a one-stop basis.**

**(ii) Promotion of diversity of employment formats**

**Lifting limits on length of dispatching period, encouraging diversification in the length of labor contracts, ensuring equal treatment of non-regular employees and regular employees in recruitment.**

**(iii) Expansion of livelihood assurance functions**

**To ensure that the breadwinner can support the household even on a low wage, awarding scholarships to children of workers made redundant, offering allowances for the payment of interest on housing loans to those whose income has been sharply reduced, and relaxing loan repayment conditions by means of a government guarantee (extension of loan period, etc.).**

**(iv) Expansion of unemployment insurance system**

**Relaxing conditions for nationwide extension of payments and extension of period of payment (subject to receiving counseling to avoid moral hazard and undergoing vocational retraining).**