

Chapter 3 Changes in Environment in the Household Sector and Challenges toward the Strengthening of Human Potential

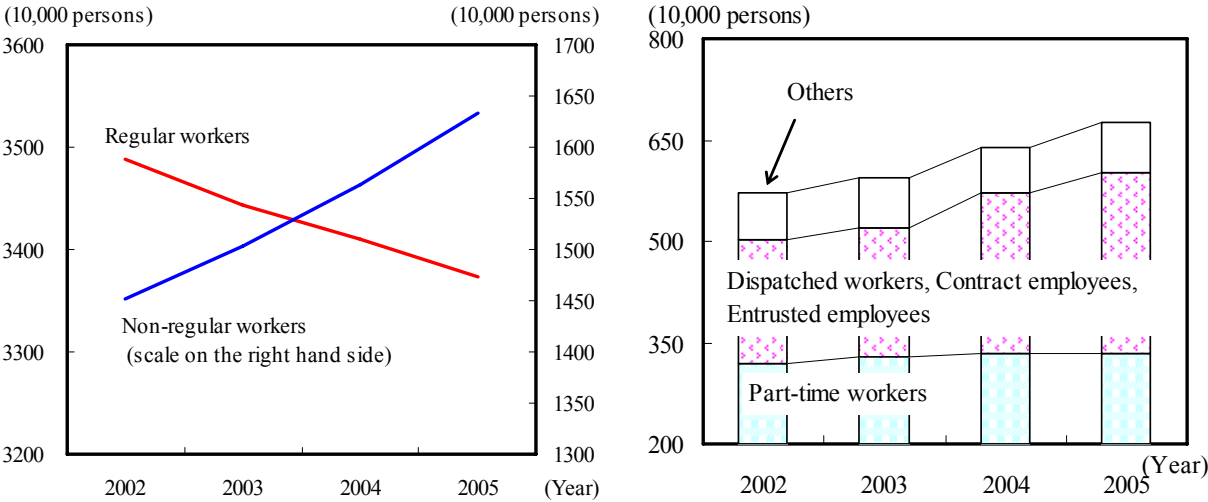
Section 1 Changes in Employment Conditions and their Impacts

- During the current phase of the economic recovery, diversification in employment styles such as an increase in non-regular employment has progressed amid the pressure to reduce labor costs through corporate restructuring.

[Analysis]

- During the current phase of the economic recovery, various forms of non-regular employment (such as dispatched temporary workers and term-contracted workers as well as part-time workers) have increased.

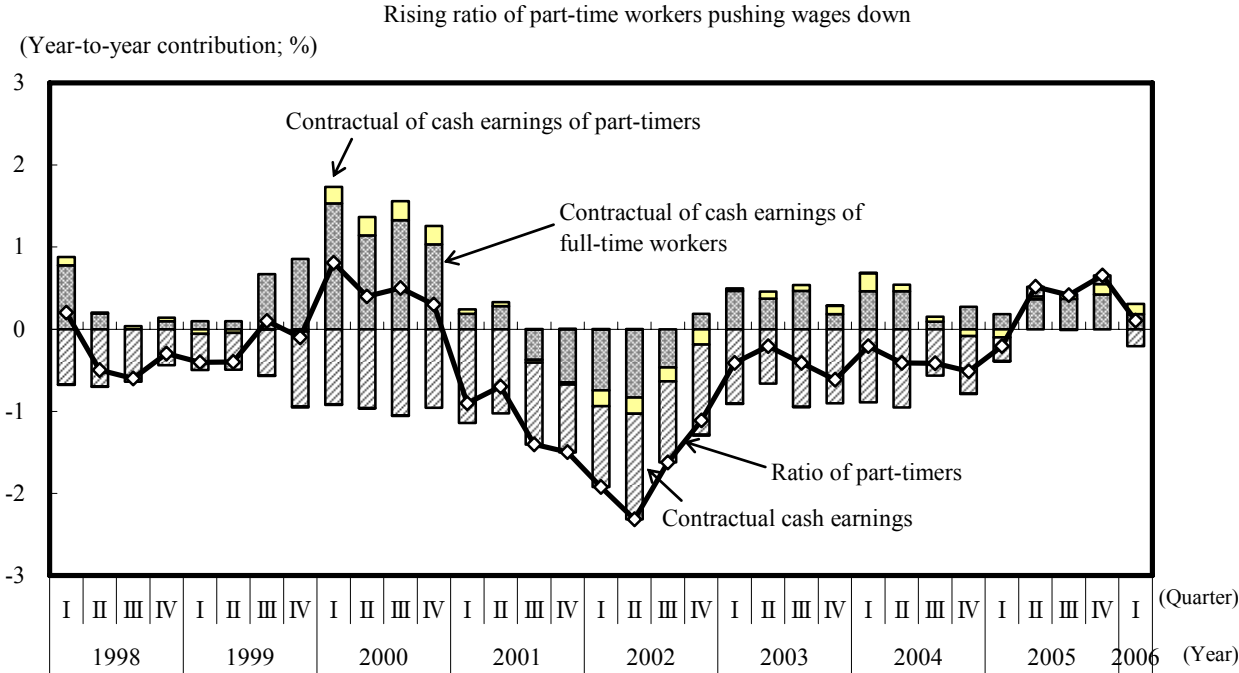
Figure 3-1-3 Trends in Non-Regular Employment



Note: *Laborforce Special Survey and Labor Force Survey (detailed version)* of the Ministry of Internal Affairs and Communications

- Firms are using non-regular employees mainly in order to reduce labor costs and adjust laborforces, according to a corporate mind survey.
- A decline in contractual cash earnings of employees as a whole is mainly due to a rise in the ratio of part-time workers, while the contractual cash earnings of full-time workers, including those of regular workers, declined in around 2001.

Figure 3-1-7 Factor Analysis of Contractual Cash Earnings of Employees



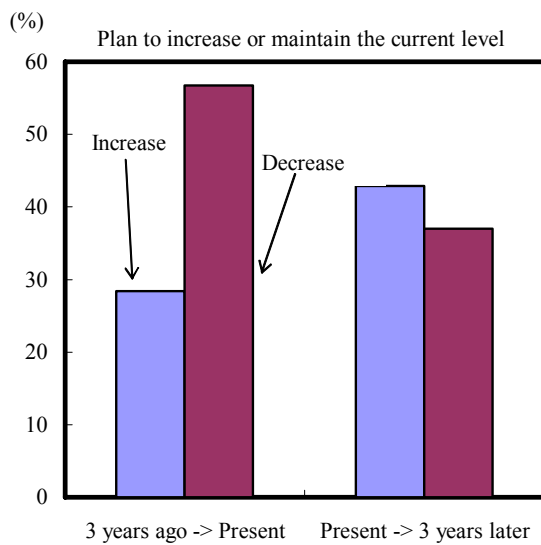
- Utilization of non-regular employment is expected to continue to increase whereas that of regular employment appears to improve amid the continuing economic recovery.
- Meanwhile, the unemployment rate for young people remains at a high level compared with the overall unemployment rate. In this circumstance, the number of young, non-regular workers, such as *freeters* (temporary or part-time young workers) and *NEET* (young people not in education, employment or training), has been increasing.

[Analysis]

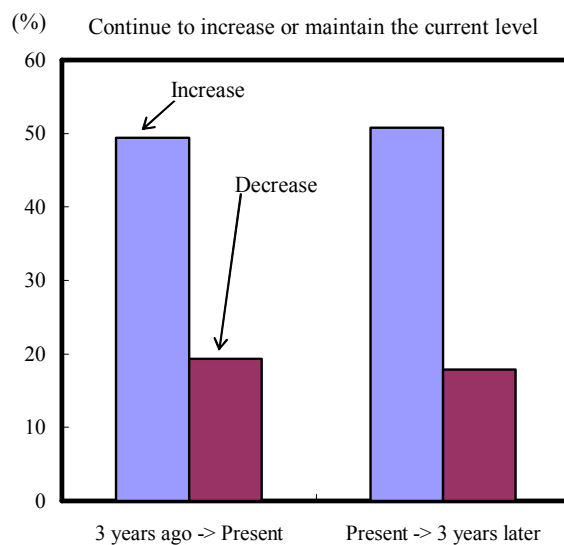
- A recent survey on firms' past and future employment policies on regular and non-regular workers shows that the number of firms planning to increase regular employees or maintain the current level has become larger than those planning otherwise.

Figure 3-1-11 The Number of Employees in the Past 3 Years and Outlook in the Next 3 Years

(1) Regular workers



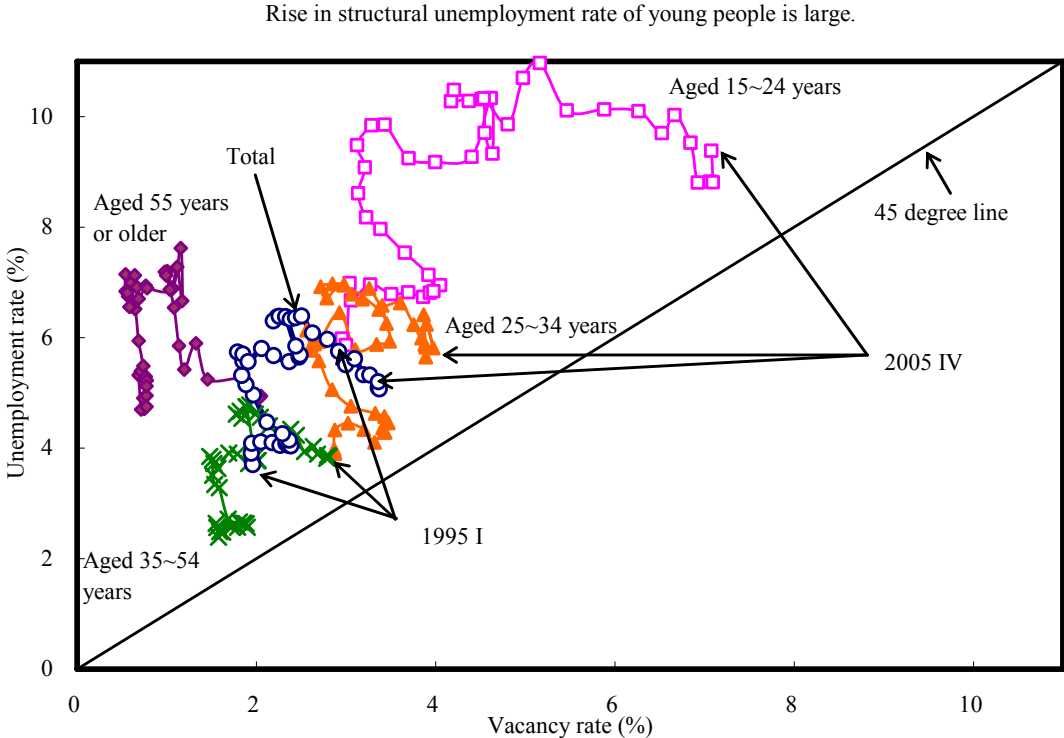
(2) Non-regular workers



Note: Survey concerning personnel strategy and attitude toward work in population-decreasing society, Japan Institute for Labor Policy and Training

- A UV curve by age bracket indicates that the rise in the unemployment rate of young people basically derives from structural unemployment rates.

Figure 3-1-14 UV Curve by Age Bracket



- Notes: 1. *Labor Force Survey*, Ministry of Internal Affairs and Communications; *Employment Referral Statistics*, Ministry of Labor, Health and Welfare
2. Unemployment rate = Number of totally unemployed persons / (Number of employees + Number of totally unemployed persons)
3. Vacancy Rate = (Effective job openings – Cases of employment) / (Effective job openings – Cases of employment + Number of employees)
4. *Analysis of Labor Economy*, 1998 edition

- There is a concern that young non-regular employees needed for educational opportunities are unable to develop vocational skills. The employment issue in relation to young people should be treated by taking into account the future impact on the Japanese economy.

[Analysis]

- Firms' awareness of the need to provide education and training opportunities to non-regular workers is low.

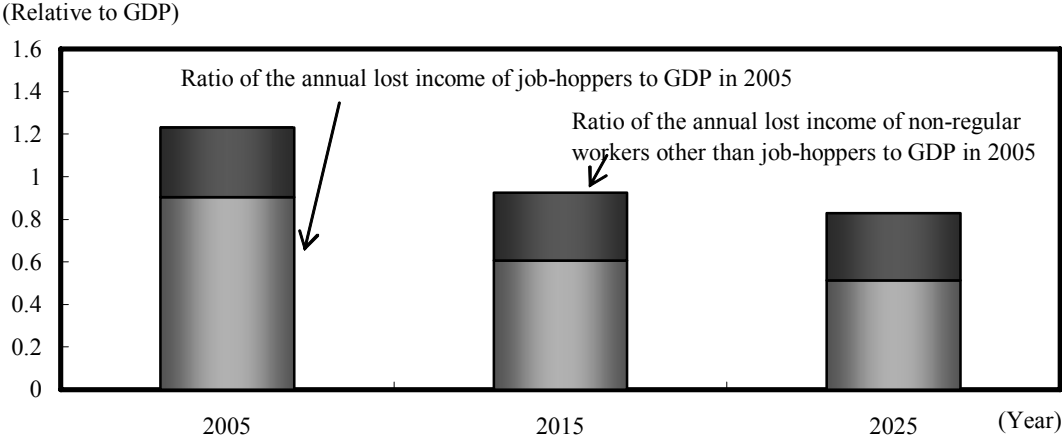
Figure 3-1-10 Persons to be Focused on for the Firm's Human Resource Development



- Notes: 1. *Questionnaire survey concerning human resources development by corporations*, Cabinet Office
 2. Responses to a question asking which position of persons is focused on for the firm's human resource development.

- Provided that the current young *freeters* and other non-regular workers remain the same job status, the income they would lose by not being able to become regular workers would reach almost 1% of GDP.

Figure 3-1-20 Imputed Lost Income of Non-Regular Workers Aged 15~34 Years Comes Close to 1% Relative to GDP



- Notes: 1. *Labor Force Survey* (detailed version) (2005 average), Ministry of Internal Affairs and Communications; *Basic Survey on Wage Structure*, Ministry of Labor, Health and Welfare; *Increasing middle-aged “freeters”*, UJF Research Institute
2. The definitions of “freeters” and non-regular workers are based on *Labor Force Survey* (detailed version) (2005 average), Ministry of Internal Affairs and Communications.
3. The estimation method is as follow. Provided that *freeters* and other non-regular workers currently aged 15~34 years decrease in accordance with “the proportion of “freeters” remaining as “freeters” five years later” as projected by the UJF Research Institute, and supposing that they have the same level of wage earnings as projected in the wage census for 2005, their opportunity cost that they would have received had they been regular workers was estimated. The specific calculation method is as follows. (Since age brackets differ from one survey to another, those with narrow age brackets were put together and their averages were obtained and treated as large age brackets.)
- “Opportunity cost of individuals” = “Annual income of regular workers in each age bracket” – “Annual income of part-time workers in each age bracket” (In the case of non-regular workers, annual income other than that of regular workers was used.)
- “Total opportunity cost” = “Number of *freeters* in 2005” * “Probability of being *freeters* 10 years later”
- * “Lost income of individuals” (In the case of non-regular workers, a similar method was used.)

Section 2 Challenges toward the Strengthening of Human Potential in terms of Acquiring Vocational Skills

- As for the strengthening of human potential from the perspective of acquiring vocational skills, both school education before entering the workforce and vocational education and training after entering the workforce are important.

[Analysis]

- According to the findings from a survey on job and education conducted by the Cabinet Office, the largest number of respondents said that they had acquired technical knowledge and skills “through actual work.” Respondents also said that school education, on-the-job (OJT) training and self-education had played an important role in acquiring skills.

Table 3-2-1 Acquisition Phase of Technical Knowledge • Specialist Skills

School education, OJT, and self-education also play an important role in acquiring skills

	Last education	Before entering workforce					After entering workforce						
		School education before high school(s)	Higher education at university(s)	Education at graduate school(s)	Group activities at school(s)	Part-time jobs as a student	Through actual work	Mainly at work			Voluntary activity		
								OJT provided by boss(es) or senior associat(es)	In-house grouped training	Training outside firm(s)	Education training at educational institutions like graduate school	Self-education after joining the workforce	
Specialist business knowledge	Junior high school	4%	2%	0%	0%	4%	54%	22%	7%	6%	1%	38%	
	senior high school	7%	2%	0%	0%	4%	64%	34%	21%	7%	4%	26%	
	Junior college/specialized vocational high school	3%	23%	0%	0%	8%	62%	31%	21%	9%	7%	24%	
	University	2%	20%	1%	1%	5%	63%	39%	23%	13%	4%	31%	
	Grad school	4%	27%	45%	2%	6%	58%	36%	17%	13%	6%	30%	
Technical skills relating to business	Junior high school	2%	2%	0%	0%	4%	52%	26%	13%	5%	1%	34%	
	senior high school	5%	1%	0%	0%	2%	64%	32%	20%	8%	4%	26%	
	Junior college/specialized vocational high school	3%	17%	1%	1%	5%	62%	32%	20%	9%	6%	23%	
	University	1%	10%	0%	0%	3%	65%	39%	19%	9%	3%	29%	
	Grad school	2%	14%	32%	2%	7%	66%	38%	12%	9%	4%	22%	

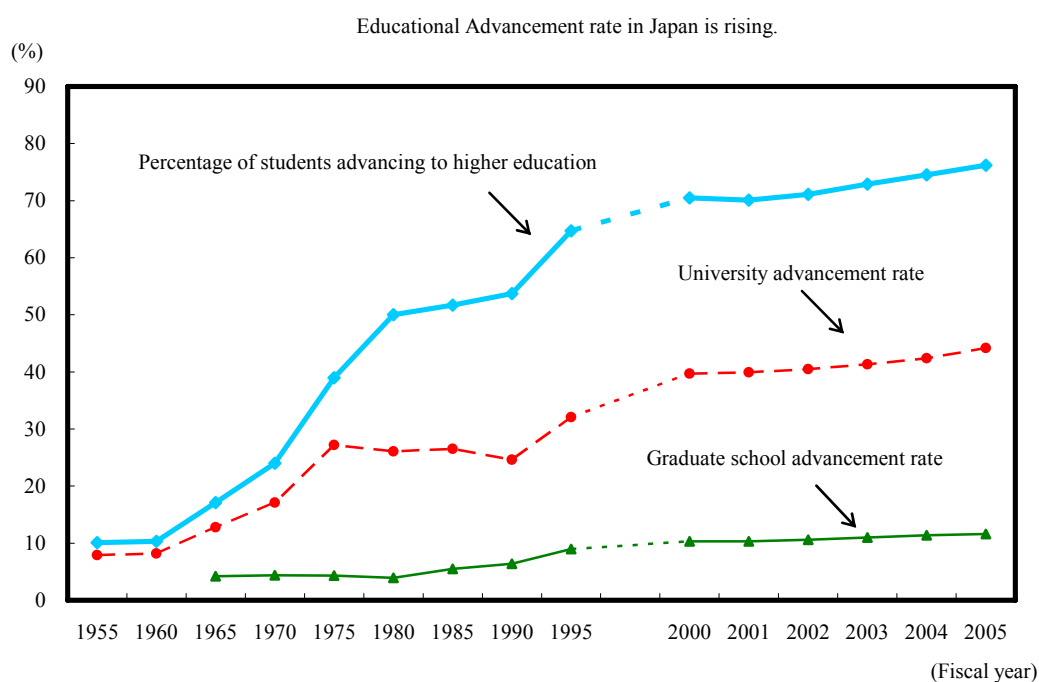
Note: Survey on Job and Education, Cabinet Office

- As corporate restructuring progresses, a firm's role as a provider of vocational education and training has been changing and individuals instead have been playing a larger role. From the perspective of strengthening human potential in the future, it is important to establish a system that provides young people with vocational education and training at offices after their entry into the workforce as well as reinforce education and training at school before their entering. These efforts will help address the issue of employment of young people including *freeters* and *NEETs*.

[Analysis]

- In view of the rising rate of advancement to higher educational institutions, such as universities, the institutions are asked to provide various educational services that enable people to acquire practical job-related special knowledge and skills in response to the individuals' diversified need as well as their conventional services.

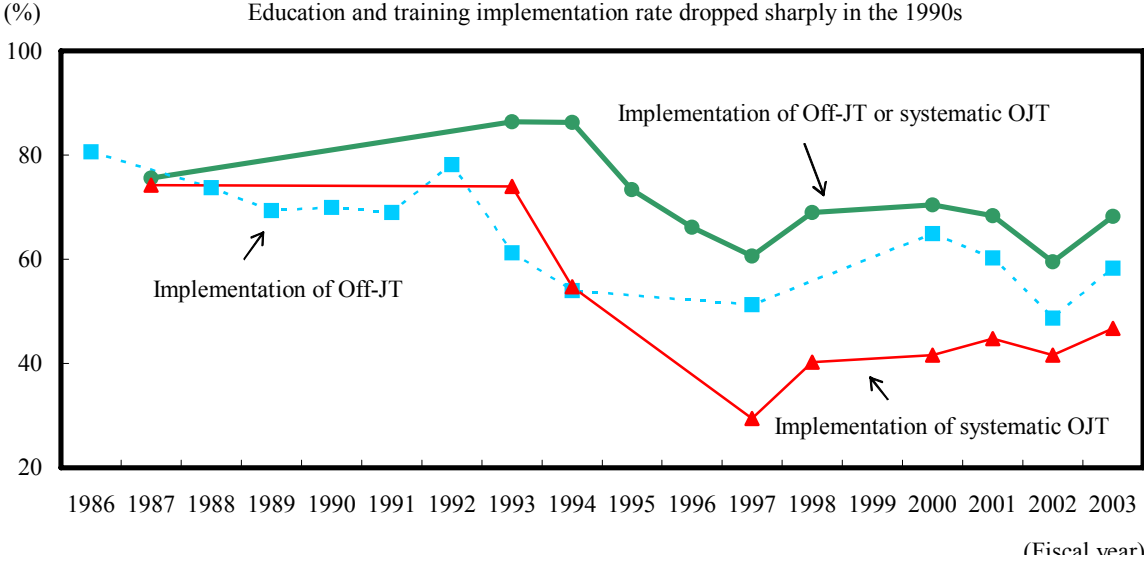
Figure 3-2-2 Educational Advancement Rate in Japan



- Notes:
1. *Education in Japan as Seen from Data; Education and Science Handbook*, Ministry of Education, Culture, Sports, Science and Technology
 2. The percentage of students advancing to higher education is based on the total number of students at universities (faculty), colleges (regular students), vocational colleges, specialized vocational high schools (seniors).
 3. Includes graduate from high school in the previous

- Since there is a concern that a role of firms as a provider of vocational education and training is expected to change, securing various educational opportunities for students after they enter workforce has become an important issue to be addressed.

Figure 3-2-7 Changes in Education and Training Implementation Rate



- Notes:
1. *Capacity Building Basic Survey*, Ministry of Health, Labour and Welfare; *Survey on actual state of education and training by the private sector*, former Ministry of Labor
 2. An item-by-item survey was not conducted in some years.
 3. *Survey on actual state of education and training by the private sector* for up to 1998 and *Capacity Building Basic Survey* for fiscal 2000 and beyond. Please note that their respective survey methods are different.
 4. Includes some calendar year data.

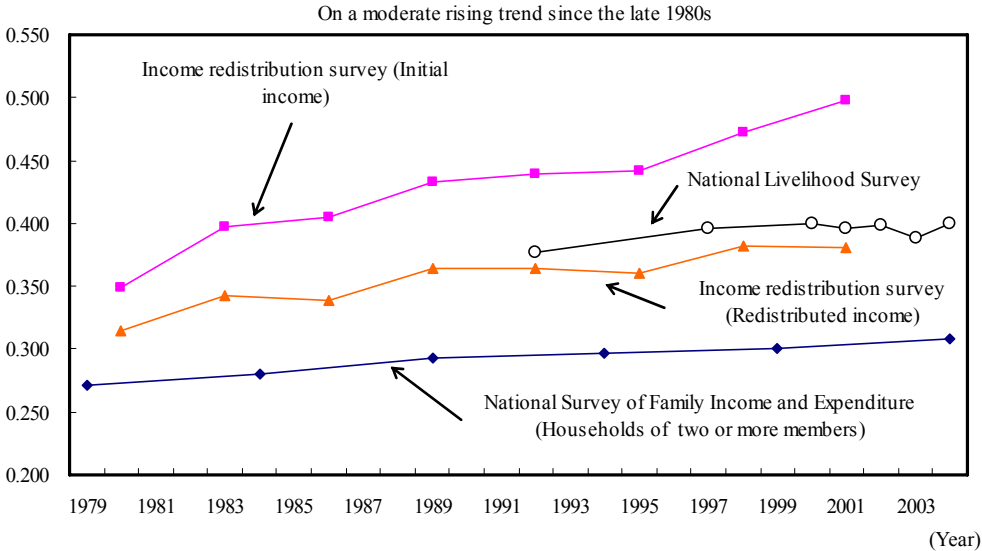
Section 3 Economic Disparity in terms of the Household Sector

- The income disparity seen from economic statistical data has been moderately expanding as a whole: the result is due to the decrease in the number of household members and the increase in the number of households of elderly people.

[Analysis]

- With various statistical surveys' data used, Gini coefficients, the representative indicator showing income disparity, have been on a moderately increasing trend.

Figure 3-3-1 Gini Coefficients Measured by Various Statistical Surveys' Data



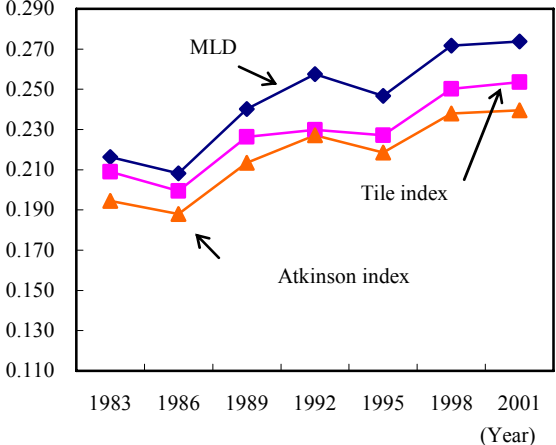
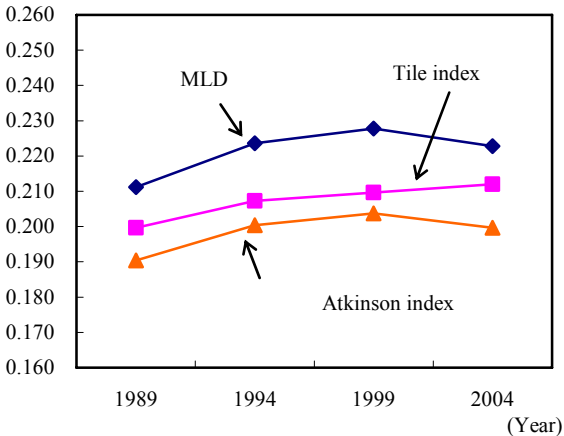
Note: National Survey of Family Income and Expenditure, Ministry of Internal Affairs and Communications; Income Redistribution Survey; National Livelihood Survey, Ministry of Health, Labour and Welfare

- Inequality indicators other than the Gini coefficients also indicate that income disparity has been on a moderate increasing trend.

Figure 3-3-4 Various Income Inequality Indexes

(1) Various inequality indexes in National Survey of Family Income and Expenditure (total household)

(2) Various inequality indexes in Income Redistribution Survey



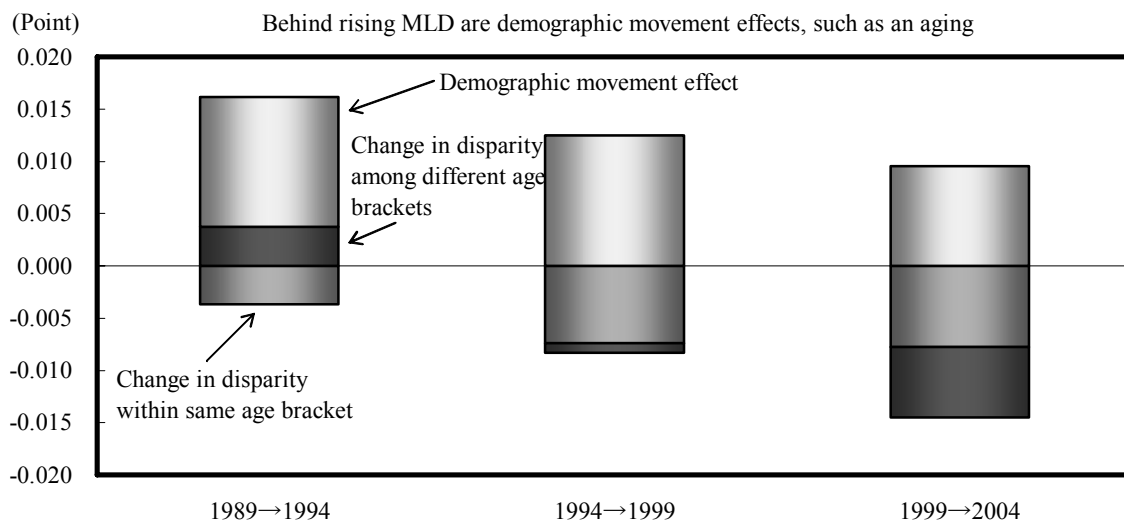
Note: 1. *National Survey of Family Income and Expenditure*, Ministry of Internal Affairs and Communications; *Income Redistribution Survey*; Ministry of Health, Labour and Welfare

- Changes in family structure, such as a decrease in the number of household members, and/or demographic factors, such as an increase in households consisting of elderly people, are making a contribution to the rise in statistical disparity indicators.

[Analysis]

- With the variance of the inequality indicators (mean logarithmic deviation (MLD)) in the *National Survey of Family Income and Expenditure* employed, its breakdown into those caused by the demographic movement effect resulting from changes in family composition ratio and those caused by other factors suggests that most of the rise in the MLD can be explained by the former (demographic movement effect).

Figure 3-3-8 Factor Analysis of MLD of National Survey of Family Income and Expenditure (total households)

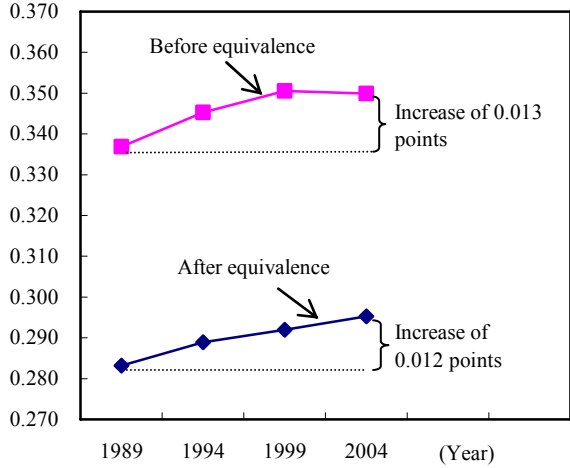


Note: 1. *National Survey of Family Income and Expenditure*, Ministry of Internal Affairs and Communications
 2. For detailed estimation method, see Appended Note 3-8

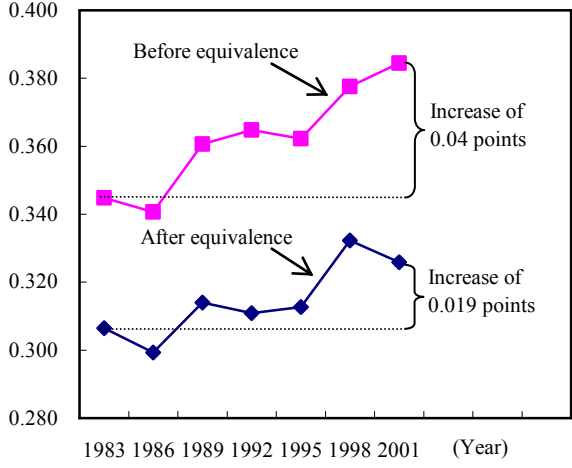
- In addition, an analysis of income disparity after being adjusted by the number of household members shows a slowdown in the increasing trend.

Figure 3-3-6 Income Disparity based on Equivalence
- being adjusted by the number of people in each household

(1) Gini coefficient of *National Survey of Family Income and Expenditure* (total households)



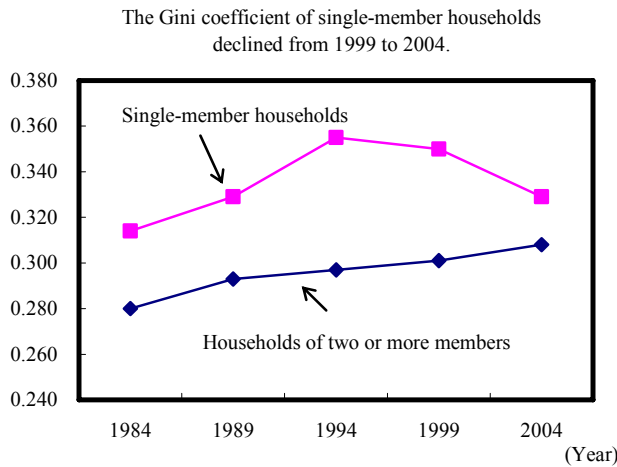
(2) Gini coefficient of *Income Redistribution Survey* (income after redistribution)



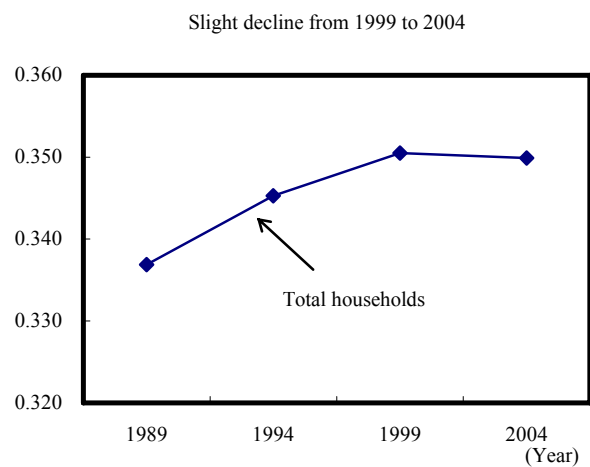
- The Gini coefficients of total households that include single-member households declined slightly from 1999 to 2004. However, this is possibly due to the concentration of income distribution amid a decline in the average income.

**Figure 3-3-2 Changes in Gini Coefficients of Income
in National Survey of Family Income and Expenditure**

(1) Gini coefficient of single-member households and households consisting of two or more members

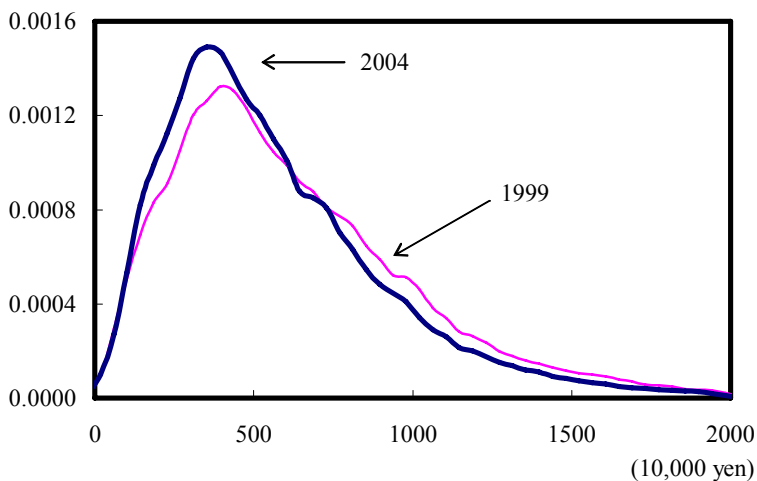


(2) Gini coefficient of total households



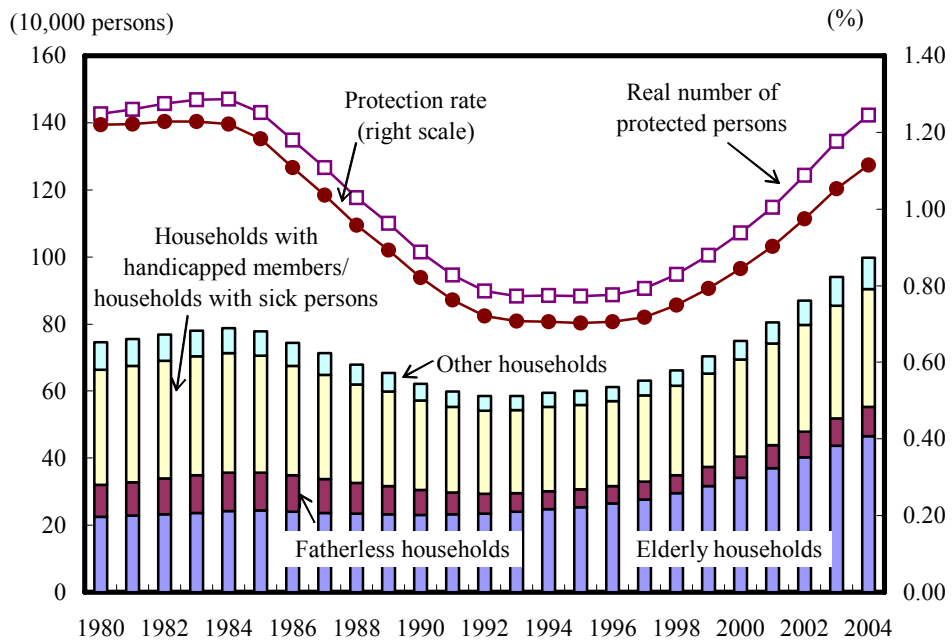
**Figure 3-3-3 Income Distribution of National Survey of Family Income and Expenditure
<Total households>**

Income distribution is concentrated amid the decline in the average income from 1999 to 2004.



(10,000)	Average	Median
1999	649	550
2004	589	496

Figure 3-3-9 Long-term trend of the Number of Protected Households by Type of Household, the Actual Number of Protected Persons and the Protection Rate



Note: *FY 2004 Business Report on Social Welfare Administration*, Ministry of Health, Labour and Welfare; *Population Estimate*, Ministry of Internal Affairs and Communications

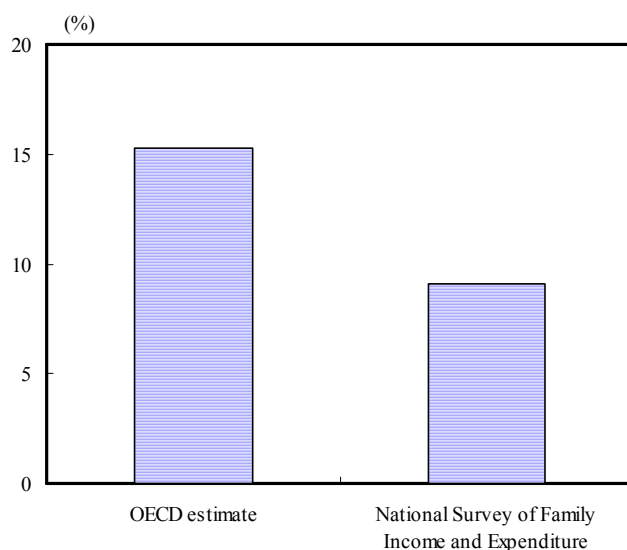
- As for the relative poverty rate, an international comparison conducted by the OECD suggests that Japan ranks high on the list. However, this list should be looked at with a special caution.
- If we make an international comparison of poverty in terms of the absolute poverty measurement, it is difficult to conclude that Japan is in severe poverty.

[Analysis]

- The relative poverty rate calculated from *National Survey of Family Income and Expenditure* is lower than the rate estimated by the OECD.

Figure 3-3-11 Japan's Relative Poverty Rate

Since calculations produce different results depending on the statistics used, we have to interpret the results with a special caution.



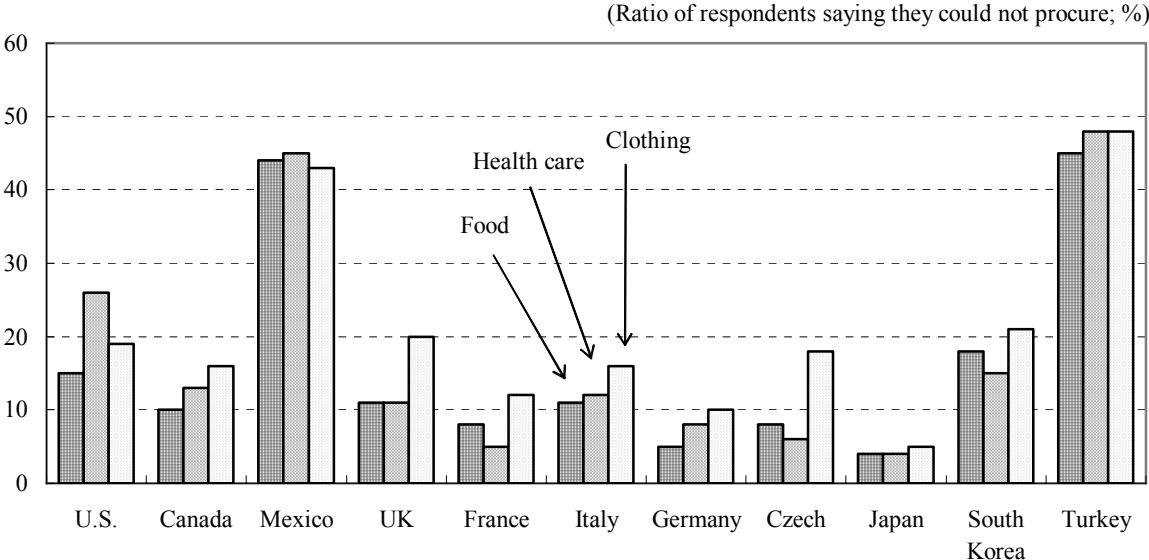
Note:

1. *FY 1999 National Survey of Family Income and Expenditure*, Ministry of Internal Affairs and Communications; OECD (2005) "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s"
2. *National Survey of Family Income and Expenditure* is on a total household basis.
3. Relative poverty rate is the rate of people with income below 50% of national income median.
4. Both are equivalised disposable income.
5. The survey year is 2000 for OECD estimates and 1999 for the National Survey of Family Income and Expenditure.

- A public opinion survey conducted worldwide in 2002 by Pew Global Attitudes Project suggests that Japan had the lowest percentage of citizens among advanced countries who responded that they could not afford to procure daily necessities.

Figure 3-3-12 International Comparison of Absolute Poverty

Japan has the lowest percentage of respondents who said they could not procure daily necessities due to lack of income.



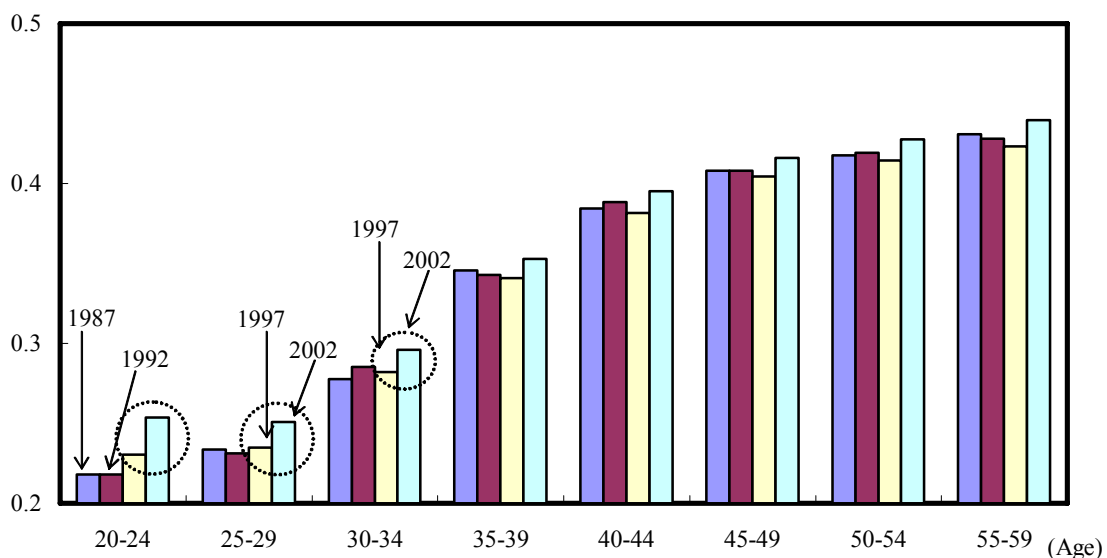
Note: Global Attitudes Project (2002), "What the World Thinks in 2002"

- It appears that income disparity and labor income disparity are widening among young people. Since this is believed to reflect the employment conditions for young people, such as *freeters* and *NEETs*, it is necessary to address the problem from the viewpoint that it may lead to widening gaps in the economy as a whole.
- The widening gap in labor income may also have something to do with an increase in non-regular employment. Although these trends have not directly led to widening the gap in household income at this stage, it is necessary to give due consideration to the trends in regular/non-regular employment in terms of disparity.
- It is also necessary to further develop and reinforce the economic survey environment in order to enable more detailed analyses of the trend of disparity.

[Analysis]

- The Gini coefficients of household income in *National Survey of Family Income and Expenditure* shows that the coefficients among young people rose from 1999 to 2004. The Gini coefficients of labor income also rose from 1997 to 2002, especially among young people in their 20s and 30s.

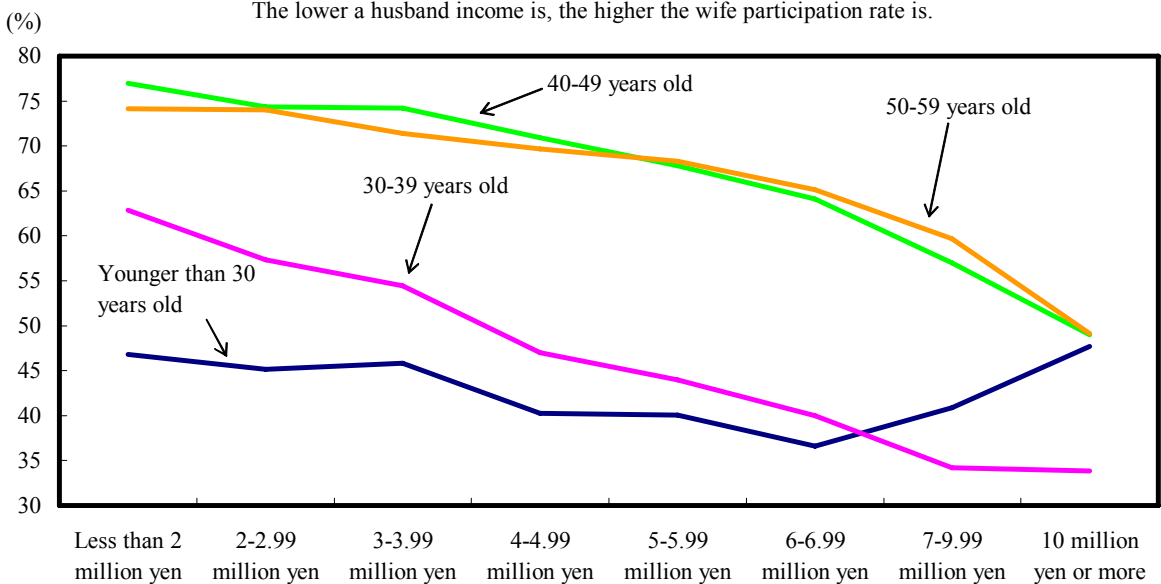
Figure 3-3-19 Changes in Gini Coefficients of Labor Income by Age Bracket



Note: Basic Survey on Employment Structure, Ministry of Internal Affairs and Communications

- Despite the widening gap in per-capita labor income, there has been little change in per-household income, suggesting that the labor income earned by household members other than the head of household contributed to the compensation for the total income of households.

Figure 3-3-21 Wife Labor Force Participation Rate by Husband's Age • Income Bracket



Notes: 1. Basic Survey on Employment Structure, Ministry of Internal Affairs and Communications
 2. Wife participation rate show a ratio of wives working in the labor force to total wives whose husbands are in the labor force.

Section 4 Changes in Environment of the Household Sector and Policy Responses

- As the previous three sections described, while the economic recovery has been spreading from the business sector to the household sector, it is necessary to continue providing support in response to the diversification in employment styles and an increase in the number of *freeters* and *NEETs* among young people.
- It is important to support workers who are willing to make an effort to assume a better job on their own, through proactive policies that make it easier for non-regular workers to transfer to regular workers and also through policies that provide vocational education and training.

<Government's role to shift non-regular to regular workers>

- Promoting the recruitment of regular employees: e.g. encouraging firms to utilize a trial employment system.
- Implementing policies in the interim report of the “Council for Promoting a Society with Various Opportunities” in May 2006: e.g. providing second chance to those who assumed an unsatisfactory job right after being graduated from school in a disadvantageous economic situation.

<Response to the severe employment conditions for young people>

- Currently, the “Action Plans for Encouraging Youth's Independence and Efforts” has been promoting proactive employment policies having been taken in European countries that have been easing unemployment problems of young people since late 1990s.

(Reference): Relevance of the “Action Plans for Youth's Independence and Efforts” of Japan to the “Active Employment Policy” of European countries.

1) Emphasis on education and training for young people at the school education stage

<Japanese policies: examples>

- Promoting projects designed to nurture a sense of vocation among students in elementary, junior and high-schools in collaboration with *Hello-Works* (Japanese job placement office), schools and industries
- Collaborating closely between universities /their students and industries

2) Providing work experience to young unemployed people not to keep their unemployment period prolonged

<Japanese policies: examples>

- Continuing to implement the “Japanese version of the dual system” that offers education at training institutions in conjunction with practical in-house training
- Providing support to enhance willingness to work and capabilities as well as opportunities to “learn again,” as part of the measures for *NEET* problems.

3) Detailed care to individual young people by assigning counselors to them

<Japanese policies: examples>

- Employment support by establishing in each prefecture “job cafe” that offers one-stop employment-related services
 - Implementing expanded employment support for new graduates by assigning job supporters for young people at each *Hello Work* (Japanese job placement office)
 - Establishing “regional support stations for the youth”
- Policies to deal with the unemployment issues of young people need to be implemented continuously and they should be reviewed constantly at the same time.

Summary

- **Long-lasting economic recovery**

The Japanese economy has continued its sustainable economic recovery for more than four years since the beginning of 2002. The economy has been normalized, overcoming two adjustment phases, as corporate restructuring resulted in eliminating excesses in employment, equipment and debts.

Seen from the viewpoint of the economy as a whole, it is a balanced economic recovery led by private demand, with consumption, investment and foreign demand recovering.

- **Economic recovery under deflation**

Despite the economy being in a state of deflation, the sustainable recovery has been continuing thanks to the balance sheet improvement in the corporate sector.

In addition, the environment supporting the current phase of economic recovery consists of a steady recovery in the world economy, the avoidance of financial upheaval thanks to financial revitalization, and the maintenance of low interest rates through monetary policy, including the quantitative easing policy.

- **Toward overcoming deflation**

Progress is being made to overcome deflation amid the continuing economic recovery.

Judging from the situation such as out-put gaps and wage costs, the upward pressure on prices in the real economy has steadily improved, but the improvement is uneven.

- **Restructuring and economic structural adjustment seen from the corporate sector and the household sector**

Amid the recovering economy, corporations made strenuous efforts to resolve the problem of their three excesses of employment, equipment and debts. In order to recover their financial health, the corporations actively promoted restructuring, restrained business investment, and reduced interest-bearing debt. As the corporations came close to overcoming the effect of deflation, their corporate behavior began to show signs of changing.

Restructuring for corporations means a diversification in employment styles, such as an increase in non-regular employment. However, the favorable impact of a pick-up in corporate performance amid the recovering economy is spreading to the housing sector.

- **Intensifying international competition and possibility of Japanese-style management**

Among the characteristics of so-called “Japanese-style management” are corporate internal organization incorporating a life-time employment system and seniority-based pay system, corporate governance led by corporate-grown executives and banks, and long-term business relationships with the same companies. Despite structural adjustment, these characteristics still remain in many Japanese corporations. Corporations placing emphasis on their employees are enjoying a high return of capital.

If the economy overcomes deflation and normalizes, the benefits from the Japanese-style management are expected to increase.

- **Policies to strengthen human potential**

Various vocational trainings at work as well as school education play an important role in enhancing human potential.

Due to the severe corporate restructuring, the tendency that firms implement their vocational training on their own initiatives is likely to dwindle.

As the economic recovery continues and the economy becomes normalized through overcoming the deflationary situation, firms’ attitude toward vocational training is likely to change. On the other hand, individuals proactively trying to enhance their human potentials have been increasing.

- **Changes in the economic environment and economic disparity of the household sector**

Economic indicators showing economic disparity of the entire Japanese society have been on a rising trend over the last 20 years or so. However, this historic rise in income disparity is largely attributed to the demographic changes, such as an increase in the elderly population.

Since the increase in the economic disparity among young people may possibly reach the level that is hard to overcome, sufficient policy responses are needed.