

Chapter 3 Employment/Social Security and Household Behavior

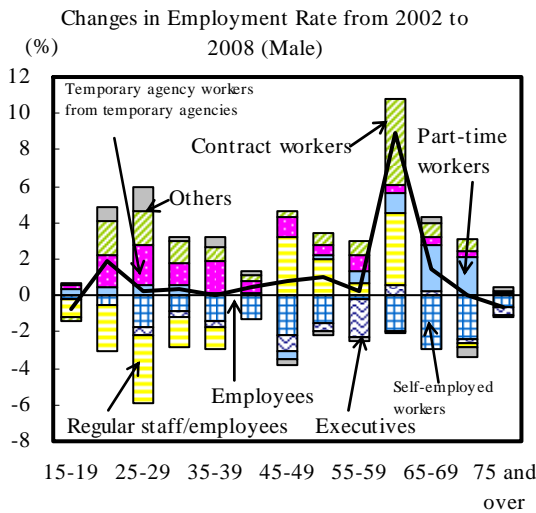
Section 1 Structural Change in Labor Market and Household Behavior

1 Labor Market Showing a Trend in Non-Regular Employment

- The number of non-regular employees has increased and the percentage has risen to a third of the total employees. In particular, the number of regular employees had decreased and the number of temporary agency workers had increased in manufacturing industry, etc. from 2002 to 2007.
- Non-regular employees such as temporary agency workers are facing a significant risk such as high risk of disemployment.
- There is a need to review the role of safety network, e.g., the number of recipients of unemployment benefits has been smaller than that of unemployed since 2000.

Figure 3-1-3 Changes in Employment Rate by Sex and Age

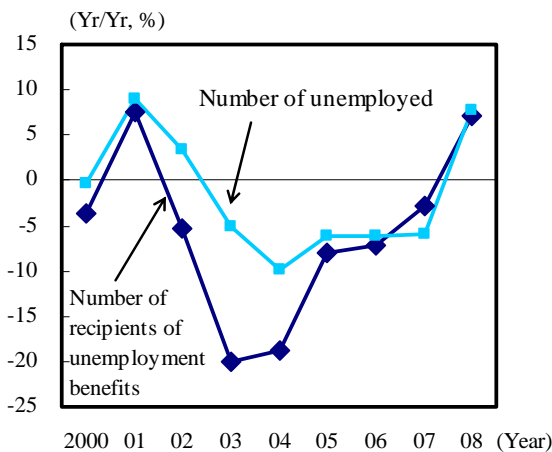
The number of regular employee has decreased and that of non-regular employees has increased among young people.



Source: "Labor Force Survey (detailed statistics)"

Figure 3-1 The number of unemployed and that of recipients of unemployment benefits

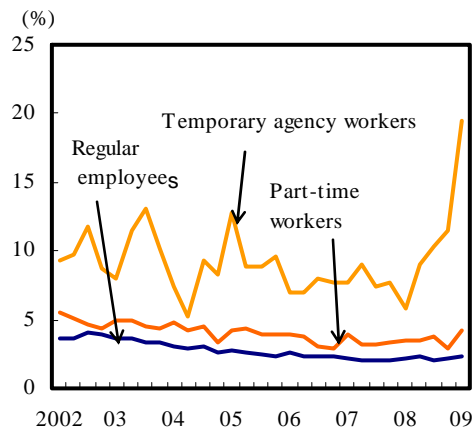
The number of recipients of unemployment benefits has been smaller than that of unemployed since 2000



Source: "Labor Force Survey", Ministry of Internal Affairs and Communications, and "Employment Insurance Business Statistics", Ministry of Health, Labour and Welfare

Figure 3-1-6 Unemployment Rate by Employment Status

Temporary agency workers' unemployment rate is at high level and has rapidly increased since late 2008.

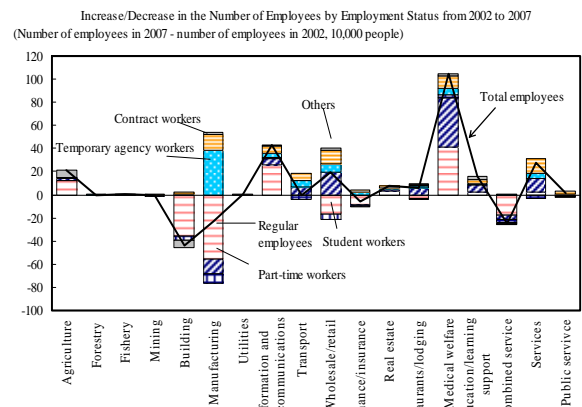


Source: "Labor Force Survey (detailed statistics)"

Unemployment rate by employment status is hypothetically calculated from the number of unemployed of the former job.

Figure 3-1-7 The number of employees by Industry and Employment Status

The number of employees in medical and welfare institutions has increased. The number of regular employees has decreased and that of temporary agency workers/contract workers has increased in manufacturing industry.



Source: "Employment Structure Statistical Survey", Ministry of Internal Affairs and Communications

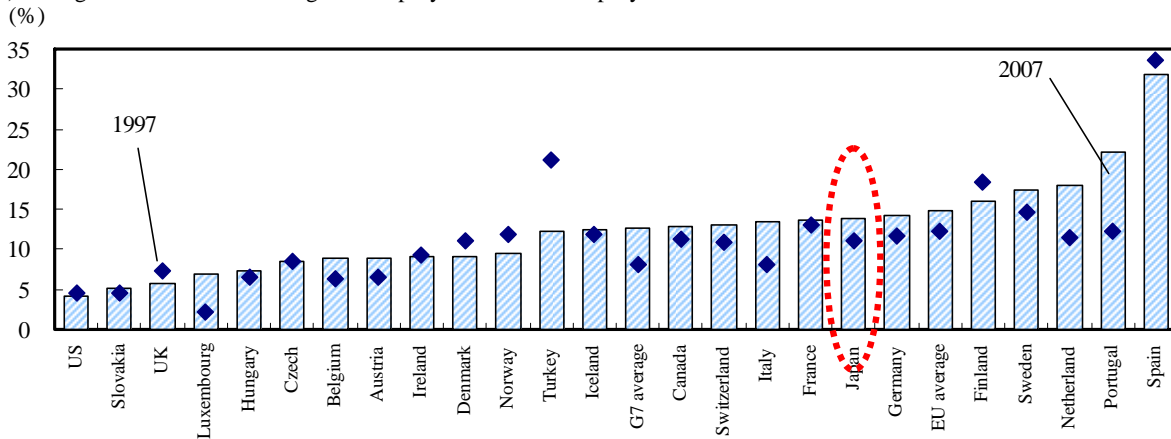
2 Changes in Employment Status and Households

- Trend in non-regular employment is common to developed countries. When employment protection regulation is strict, companies become increasingly dependent on non-regular employment. However, Japan's employment protection regulation is loose but the trend in non-employment has progressed.
- In countries where employment protection regulation is strict, the average period of unemployment is prolonged.
- According to Japan's data, when householder is a non-regular employee, the household savings rate is relatively higher.

Figure 3-1-10 Ratio of Non-Regular Employees in Developed Countries

Ratio of non-regular employees has increased in major countries in this decade.

(1) Changes in Ratio of Non-Regular Employees in Total Employees in OECD Countries

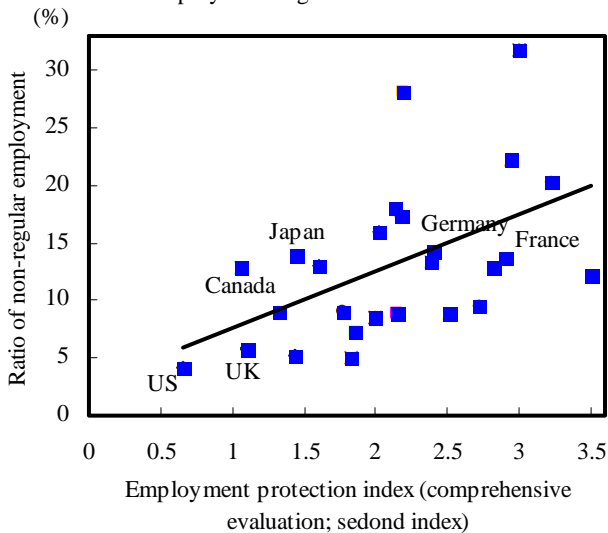


Source: "OECD Stat." Data of 2005 were used for US, and data of 2007 were used for other countries. The ratio of temporary employment was used for the ratio of non-regular employment for reasons of comparison.

Figure 3-1-13 Degree of Employment Protection

Regulation and Ratio of Non-Employment

The ratio of non-regular employment is high in countries where the unemployment regulation is strict.

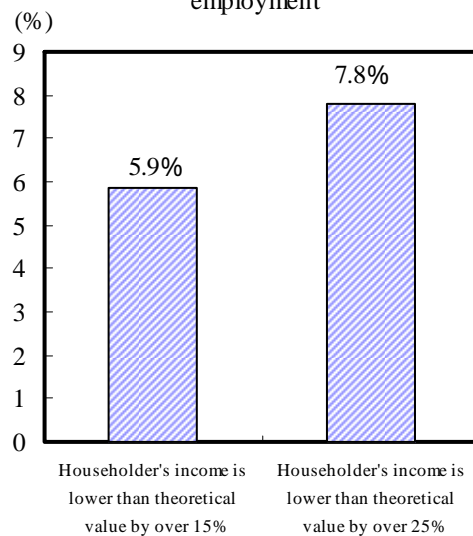


Source: "OECD Stat."

Figure 3-1-17 Impact of Non-Regular Employment on Households

When householder is a non-regular employee, the saving rate is high.

Boosting of savings rate by non-regular employment



Source: Special counting of "Household Survey (Savings/Debts)", Ministry of Internal Affairs and Communications. When actual householder's income is lower than theoretical value from wage function, it is regarded as non-regular employment household.

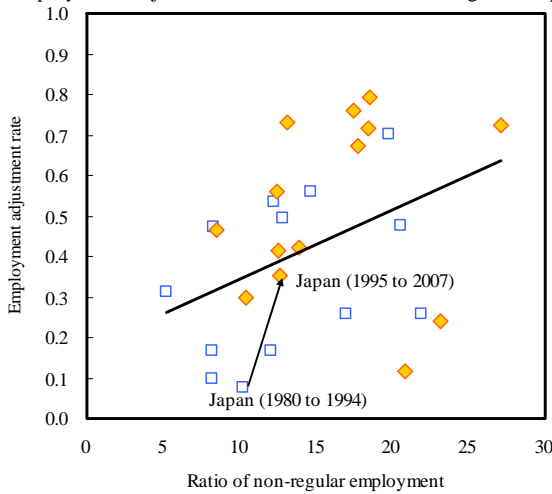
3 Changes in Employment Status and Employment Adjustment

- The higher the ratio of non-regular employment is, the quicker the employment adjustment rate becomes. The stronger the employment regulation is, the slower the employment adjustment rate becomes.
- In many countries, the employment adjustment rate has become quicker when experiencing economic shock due to increase in the number of non-regular employees and relaxation of employment protection regulation. Japan's employment adjustment rate is still slow from the perspective of international comparison. The employment adjustment has progressed in each country. By evaluating the unemployment rate with the rate of decrease in GDP, Japan's adjustment is quicker than Germany but slower than US.

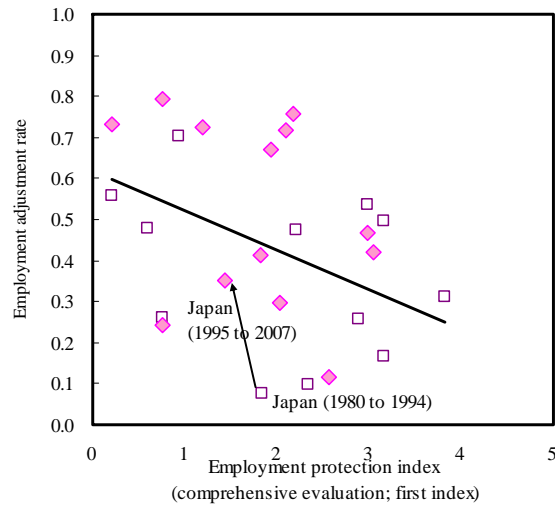
Figure 3-1-19 Employment Adjustment Rate and Ratio of Non-Regular Employment and Degree of Employment Protection Regulation

Positive correlation between employment adjustment rate and ratio of non-regular employment and negative correlation between employment adjustment rate and employment protection regulation

(1) Employment Adjustment Rate and Ratio of Non-Regular Employment



(2) Employment Adjustment Rate and Employment Protection Regulation



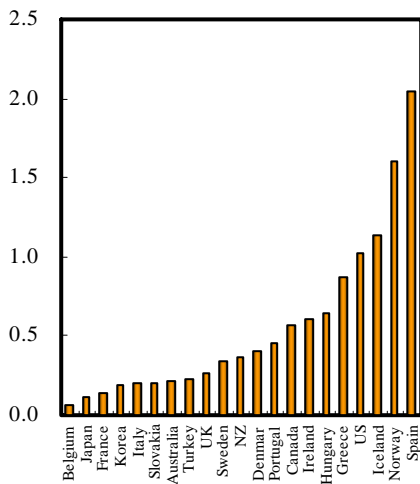
Source: "OECD Stat." Outline points indicate 1980 to 1994. Colored points indicate 1995 to 2007.

Figure 3-1-21 Real GDP Elasticity values of the numbers of employees and unemployed in the present recession

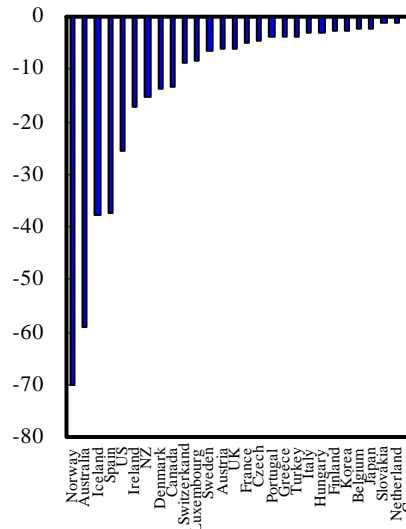
Japan's real GDP elasticity value of the number of employees is relatively small.

Japan's real GDP elasticity value of the number of unemployed is nearly zero.

(1) GDP elasticity value of the number of employees



(2) GDP elasticity value of the number of unemployed



Source: "OECD stat." GDP elasticity value of the number of employees = (Ratio of change from peak to bottom of the number of employees since 2007) / (Ratio of change from peak to bottom of real GDP since 2007)

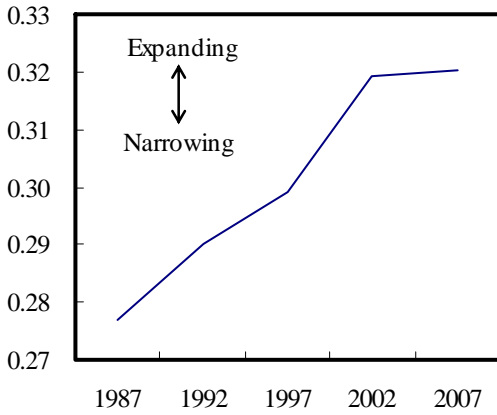
Section 2 Wage/Income Disparity and Redistribution Effect
 1 Actual Situation of Wage/Income Gap

- Wage/household income (before redistribution) gap continues expanding.
- Trend in non-regular employment has contributed to the expansion of wage gap. As for household income, demographic factors such as aging continue contributing to the expansion of gap.

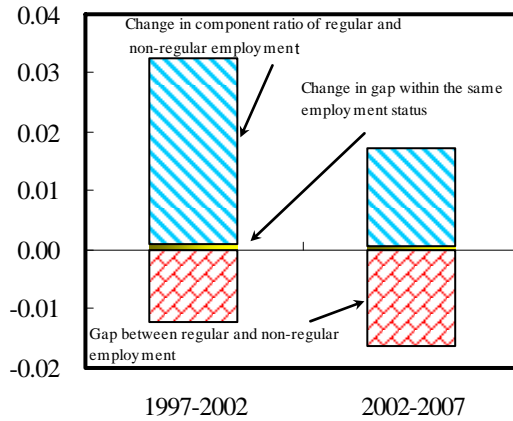
Figure 3-2-2 Breakdown of Labor Income Gap

Labor income gap is expanding moderately. Major reason is trend in non-regular employment.

(1) MLD of Labor Income



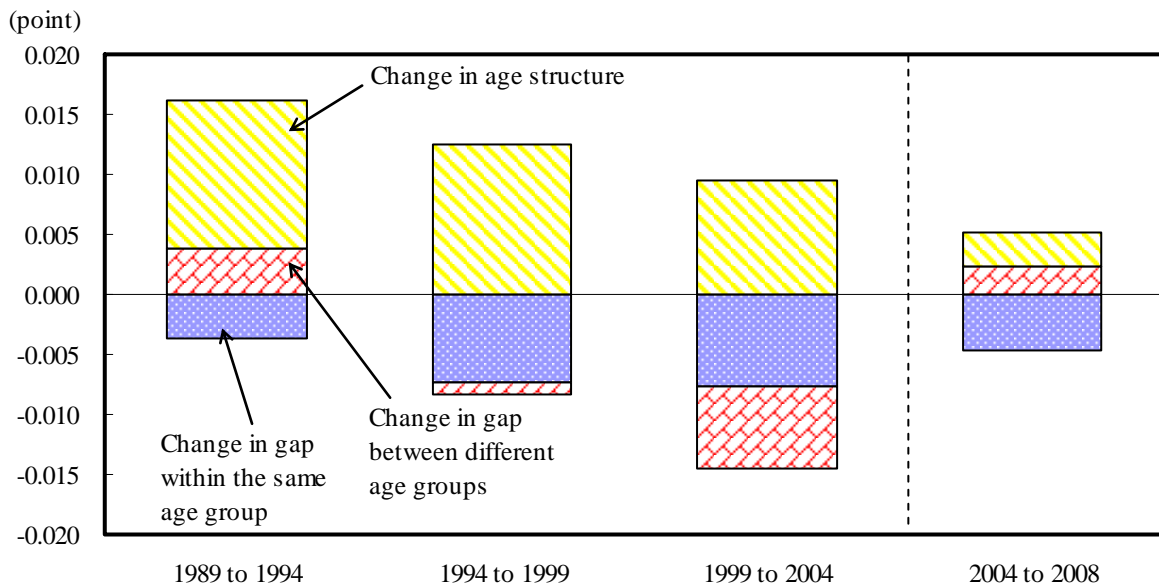
(2) Breakdown of Recent Changes



Source: "Employment Structure Survey". Executives and regular employees are calculated as one group.

Figure 3-2-5 Breakdown of Household Income Gap

Change in age structure such as aging has contributed to the expansion of household income gap.



Source: "National Survey of Family Income and Expenditure" and "Household Survey", Ministry of Internal Affairs and Communications. Note, however, that data of 2004 to 2008 are based on Household Survey only. Breakdown of mean log deviation (MLD) on annual income (including public pension and retired pension) of all households

2 Recession and Income Gap

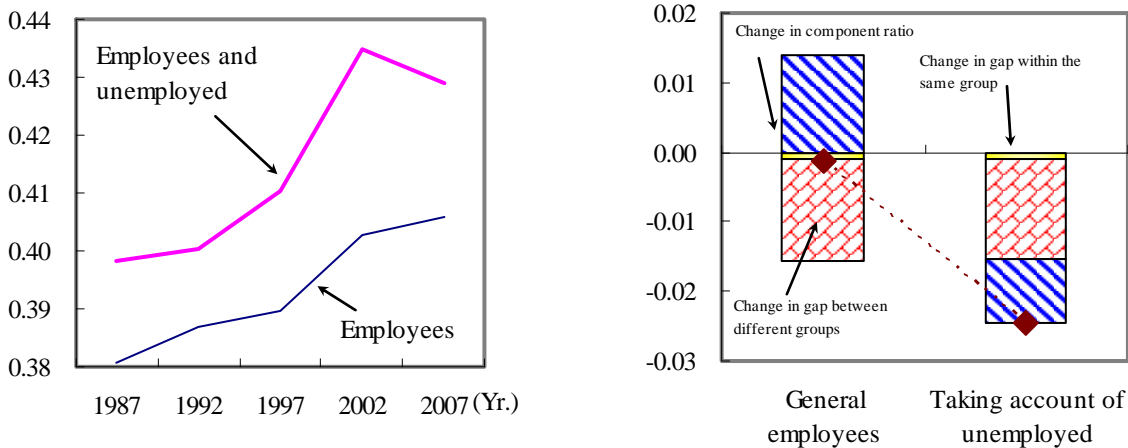
- Increase in unemployment has a great impact on the expansion of income gap and relative poverty rate. Looking at income gap taking account of unemployment, the gap narrowed at the phase of economic recovery.
- Long-term unemployment leads to medium- to long-term expansion of wage gap due to career interruption. Economic recovery would be the best measures against the gap.

Figure 3-2-9 Wage Gap Taking Account of Unemployment

Labor income gap is narrowed by improving the unemployment rate.

(1) Gini's coefficient taking account of unemployed

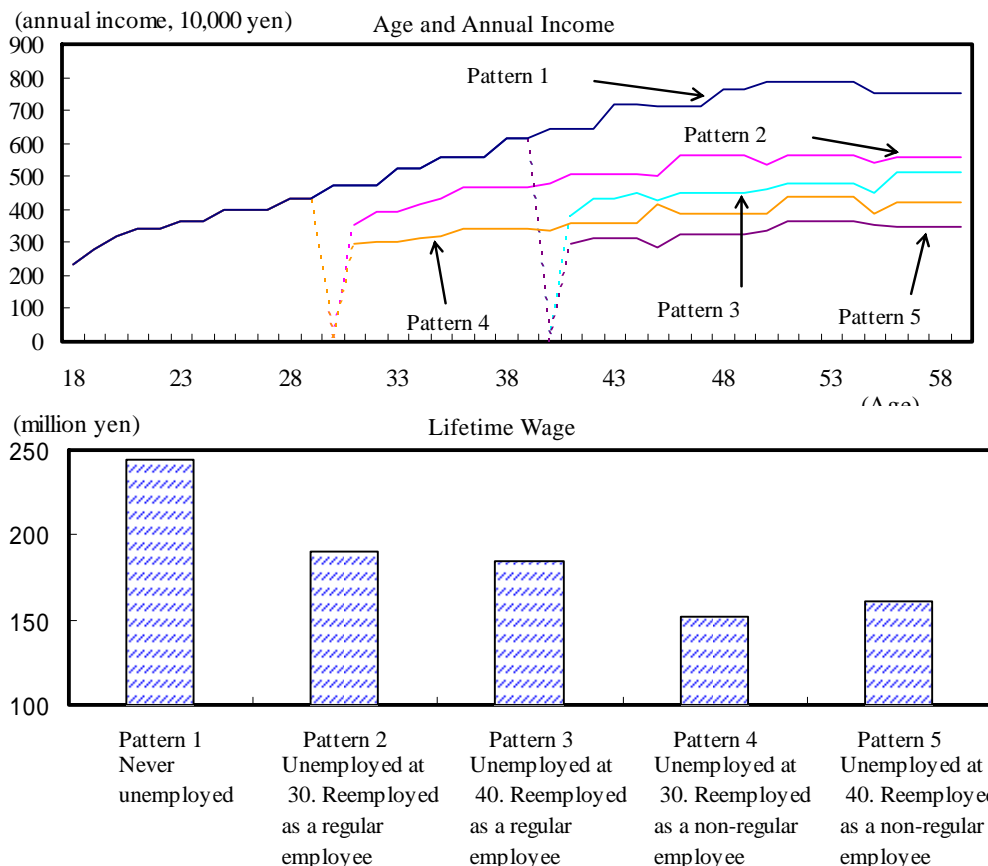
(2) Breakdown of MLD taking account of unemployed (2002 to 2007)



Source: "Employment Structure Survey" and "Labor Force Survey". In the breakdown of MLD for general employees, it is divided into two groups, regular employment and others. In the breakdown of MLD taking account of unemployed, long-term unemployed for one year or longer is regarded as the third group.

Figure 3-2-10 Impact of Unemployment on Wage

Becoming unemployed is a big disadvantage of wage.



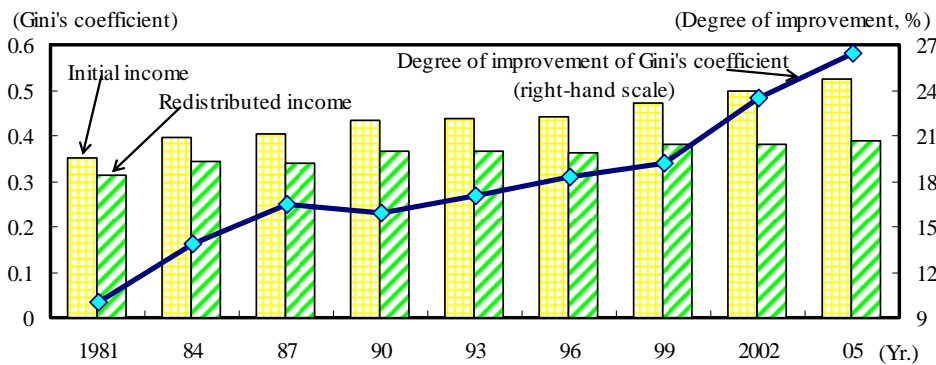
Source: "Wage Structure Survey 2007", Ministry of Health, Labour and Welfare. Unemployment is not distinguished with career change. Data are male high school graduates.

3 Redistribution of Income by Tax/Social Security

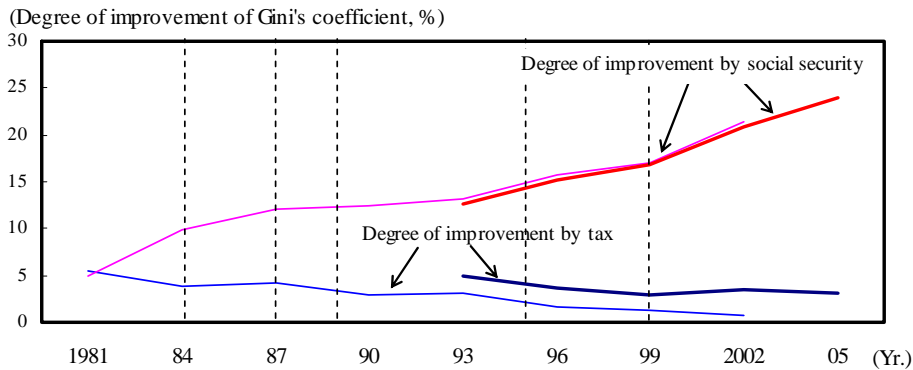
- Redistribution of income is playing an ever-greater role in narrowing the gap. Although the redistribution function by tax has decreased, the redistribution function by social security has seemingly increased due to impact of aging.
- Taking a detailed look into the redistribution, the gap stays about the same even after the redistribution in age groups other than elderly persons. While the redistribution effect has decreased, the current redistribution system centered on public pension has limits from the perspective of reducing the gap of the generations still working.

Figure 3-2-11 Income Gap before and after Redistribution (Gini's Coefficient) and Degree of Improvement
Degree of improvement by income redistribution has increased year after year. The improvement is centered on social security.

(1) Gini's coefficient before and after redistribution and degree of improvement

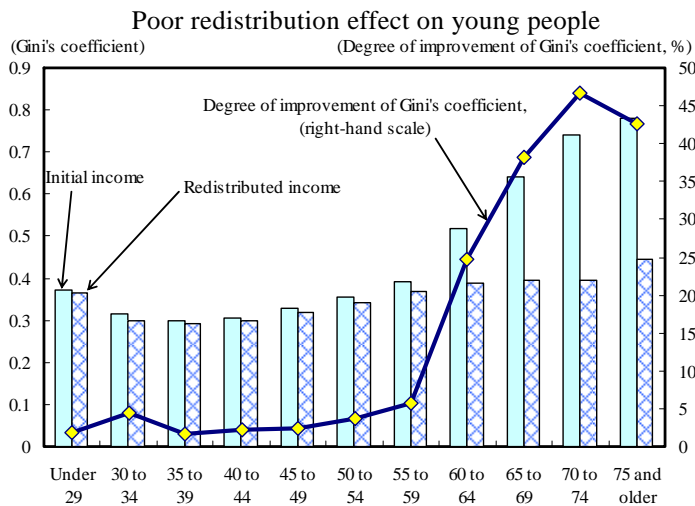


(2) Breakdown of degree of improvement of Gini's coefficient



Source: "Income Redistribution survey", Ministry of Health, Labour and Welfare. In above figure (2), thin line indicates an old style and thick line indicates a new style announced after 2005.

Figure 3-2-16 Changes in Income Gap (Gini's Coefficient) before and after Redistribution by Age



Source: "Income Redistribution Survey 2005", Ministry of Health, Labour and Welfare. Redistribution effect by householder's age

Section 3 Uncertainty, Social Security System and Household Behavior

1 Uncertainty Surrounding Households and Savings

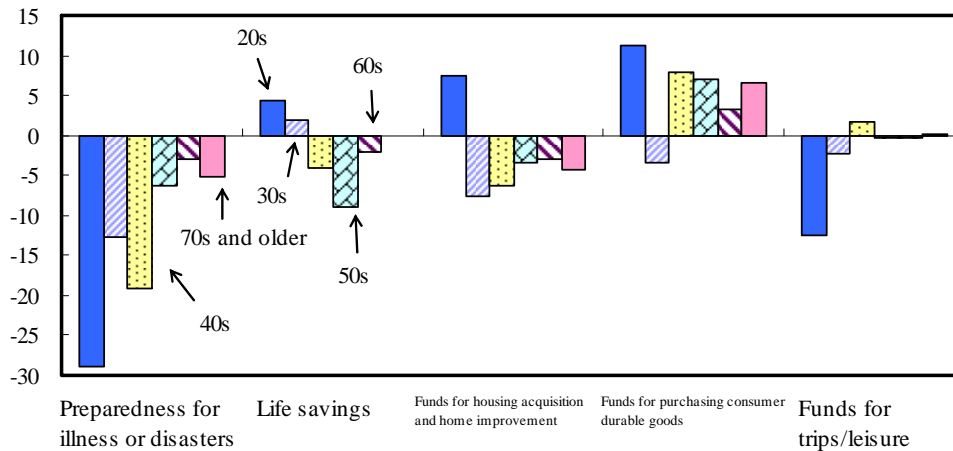
- Many households' motive for savings is "preparedness for illness" and "life savings."
- Japan's macro savings rate has decreased. It is mostly caused by the effect of aging. Removing that factor, it has increased moderately since 2000. In fact, focusing on 30s and 40s, the savings rate is increasing.
- Uncertainty of employment environment may contribute to increase in savings rate.

Figure 3-3-4 Japan's Motive for Savings by Age

As the purpose of savings, "life savings" is increasing in 20s.

(2) Gap between Surveys in 2008 and 1998

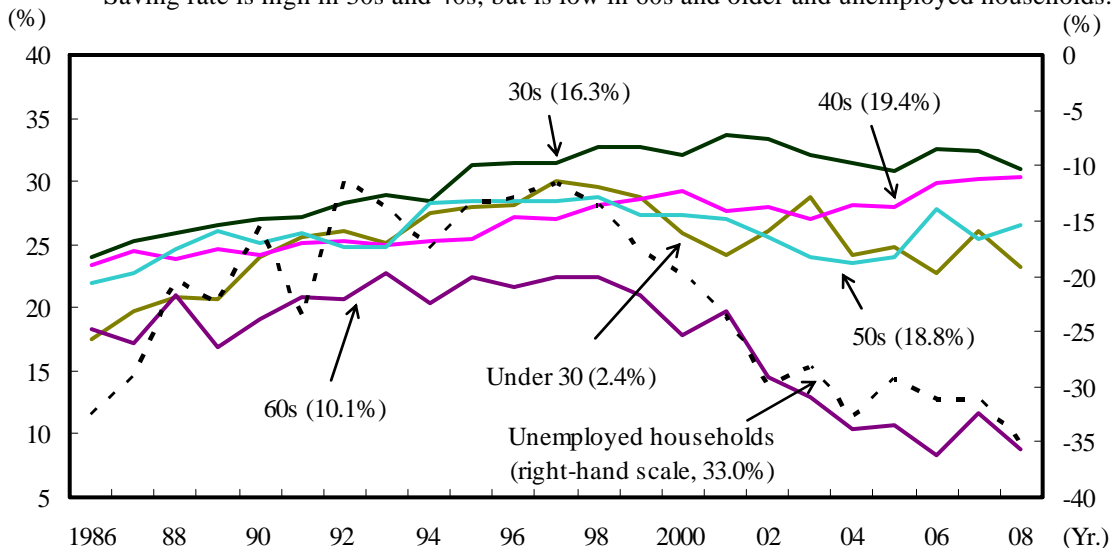
(% point)



Source: "Opinion Survey on Households' Financial Behavior", Central Council for Financial Services Information

Figure 3-3-8 Savings rates of Worker Households (by Age) and Unemployed Households

Saving rate is high in 30s and 40s, but is low in 60s and older and unemployed households.



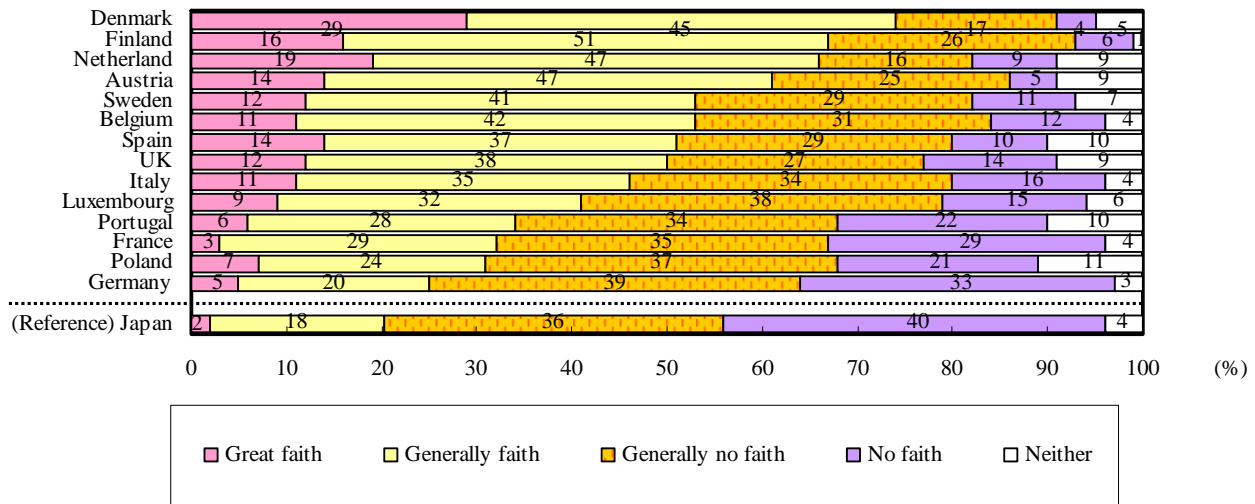
Source: "Household Survey", Ministry of Health, Labour and Welfare. Data are households with two persons or more and include agriculture, forestry and fisheries households after 2000. Worker households are divided by age. The percentage in parenthesis indicates the share of total households (worker households and unemployed households).

2 Current Situation of Social Security System and Public Awareness

- The share of social security benefit among national economy has consistently increased due to aging, etc. This is common to developed countries. Each country has advanced reforms to ensure sustainability of the system through decrease in benefit, etc.
- According to Japan's public opinion survey, national satisfaction with the current social security system is not always high. On the other hand, according to European public opinion survey on trust in pension system, it is reliable in some countries such as North European countries, but many people have no faith in it in Germany and France.

Figure 3-3-14 Comparison of Countries on Reliability for Future Pension

Reliability is high in North European countries but low in Germany and France.



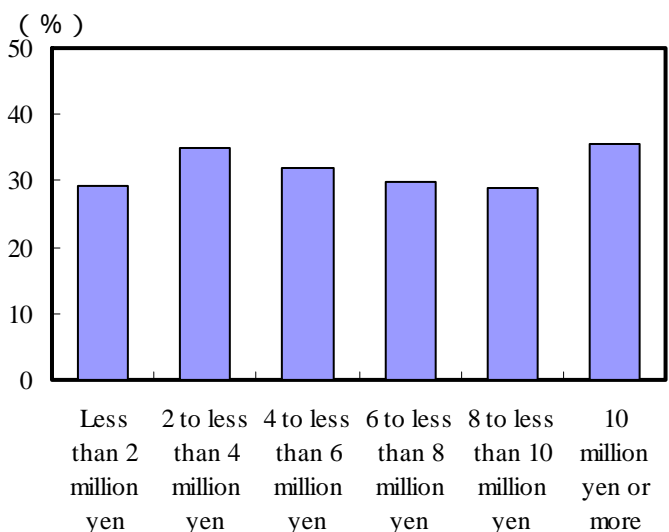
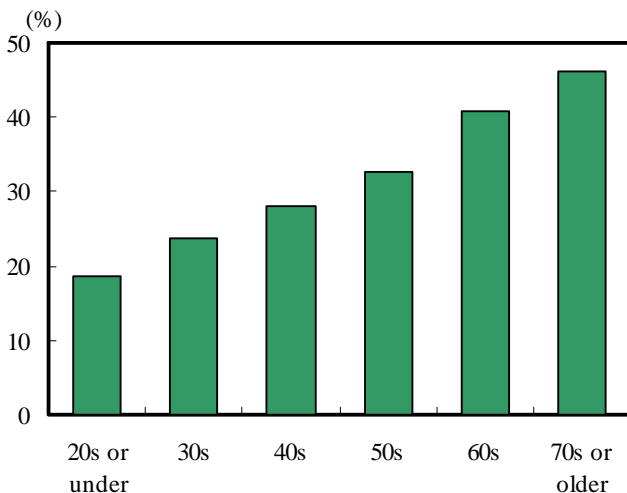
Source: "Special Eurobarometer 273" (November to December 2006), European Commission, and "Special Public Opinion Survey on Social Security System" (July to August 2008), Cabinet Office. Japanese respondents were given a choice on social security system from satisfied, generally satisfied, generally unsatisfied, unsatisfied and neither.

Figure 3-3-16 Awareness of Benefit for High-Cost Medical Care

The older the age is, the higher the awareness of the system becomes. But no impact of income is seen.

(1) By Age Group

(2) By Annual Income Group



Source: "Survey on Household Life and Behavior", Cabinet Office. Figures show the share of respondents answering "familiar" with "benefit of high-cost medical care" in which people are reimbursed for out-of-pocket medical expenses over a certain amount. Age means respondent's age. Annual income means respondent's annual income before tax in 2008. Data are limited to householders.

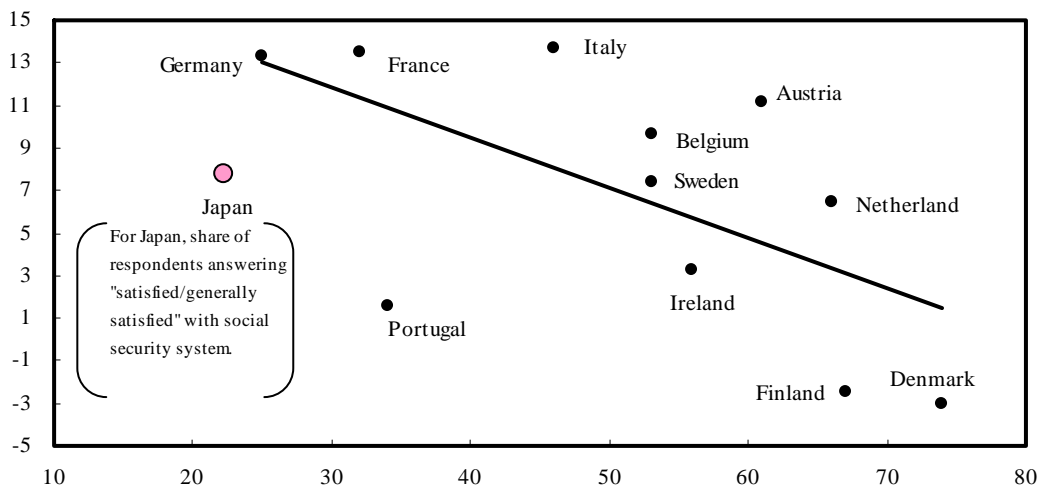
3 Social Security System and Household Savings

- In countries with high reliability for pension, the savings rate after adjustment for aging is low.
- On the other hand, according to Japan's data, it can be confirmed that anxiousness about life in old age and receiving pension raises savings amount for life savings. It was also confirmed that households with a strong concern about increase in burden of medical expenses tend to control consumption.
- It is expected that to enhance public confidence about social security system reduces excessive savings and contributes to support of individual consumption.

Figure 3-3-17 Relationship between Reliability for Future Pension and Savings Rate

In countries with high reliability for pension, the savings rate is low.

(Household savings rate after adjustment for aging, %)



(Share of respondents answering that future pension is "reliable.", %)

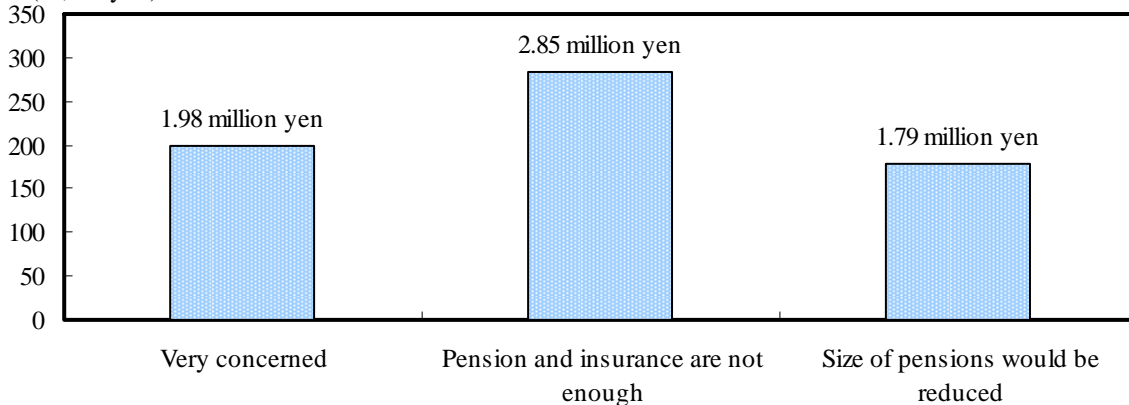
Source: "OECD Economic Outlook", OECD, "Special Eurobarometer 273", European Commission, and "Special Public Opinion Survey on Social Security System", Cabinet Office. Japan is not included in the approximation line.

Figure 3-3-18 Impact of Fair for old age and pension on Necessary Savings Amount

People feeling more insecure consider savings amount for old age higher.

Added amount to necessary saving amount of people feeling insecure

(10,000 yen)



Source: "Opinion Survey on Households' Financial Behavior 2008", Central Council for Financial Services Information. It is estimated with respondents under 60 only. Average necessary savings amount is 20.33 million yen.

Conclusion

In this report, based on awareness of the issues that “how Japanese economy overcomes the present crisis and how to achieve its growth”, analyses and discussion points have progressed. As a result, particularly important messages are as follows:

(Economy Prospect and Risks)

Japanese economy which had entered into recession since the end of 2007 has shown rapid deterioration since the fall of 2008 under global financial crisis and global recession. The deterioration speed was the worst-ever steep downturn. It was also extremely “deep” recession from the perspective of demand-supply gap. It may also reach an average of the past recession periods. The biggest factor of such severe downturn in economy is drastic decline in exports of automobiles and IT products due to reduction in global trade. As a result, Japan recorded the biggest rate of decrease in GDP among major developed countries.

However, at this moment, the economy is showing movements of picking up due to inventory adjustment progresses. Under such circumstances, as force acting on the direction of future recovery, the following can be pointed out: 1) expression of terms of trade improvement effect in late 2008, 2) expression of effects such as repeated economic measures and 3) expectations of foreign economic recovery based on the each country’s economic measures and progress of inventory adjustment.

On the other hand, Japan still has big downside risks: 1) since production level is extremely low, employment adjustment pressure is still strong, 2) there is a concern about going back to deflation if demand-supply gap continues expanding and 3) the financial crisis in Western countries has not receded yet and foreign economy also remains downside risks. It is necessary for the government to promote adequate economic and fiscal management taking care of such risks.

(Raising Three Issues from This Downturn in Economy)

Following the global financial crisis and Japanese severe recession affected by the crisis, fundamental issues including the role of market economy were raised. Especially for the relationship with discussion points of this report, we would like to pick up the following three issues:

1) There is an argument that economy should be driven primarily by domestic demand, not foreign demand: Since Japanese economy had continued to recover dependent on foreign demand, coupled with slowdown in foreign economy, the economic condition was further deteriorated. Therefore, Japanese economy should convert to domestic-demand-led economic structure and stop the excessive globalization.

2) The second argument is that the government should further lead the economy: It is true that each

government has put up aggressive policies against this financial crisis and recession and the effects have been seen. It can be said that this crisis was caused by insufficient government monitoring to check new financial products and developed financial techniques.

3) The third argument is that it is important to reduce the gap by employment protection and redistribution of income: The increase in non-regular employment contributed to the expansion of income gap. During this recession, the employment adjustment so-called “*Hakengiri*” (cut of temporary agency workers) has been conducted. On the other hand, according to international comparison by OECD, Japan’s redistribution of income is weak and consequently, the poverty rate is high.

There is a certain amount of truth in these issues. Then, based on the analysis of this report, let us consider the contents in more detail.

(Recover with “twin engine” of foreign and domestic demands, not turning back on globalization)

Firstly, how should we look at an argument that economy should be driven primarily by domestic demand, not foreign demand? It is true that Japanese economy had continued to recover dependent on foreign demand. Therefore, especially at the previous recovery period, households could not fully realize the recovery. “Double-dip recession” and “L-shaped recovery” were caused by immediate adverse influences on and weakness of foreign demand in the past. However, we should consider the continued importance of the growth by foreign demand from the following viewpoints:

1) The world’s growth center is currently emerging countries. Therefore, at least at the time of initial rise of economy when domestic demand is weak, it is natural that developed countries are helped by the growth of emerging countries’ demands. In fact, many developed countries other than Japan also show foreign-demand-led recovery to a varying degree. It is not the time that only Japan aims at domestic-demand-led recovery as “locomotion.”

2) It is one of desirable forms that domestic demands such as individual consumption contribute to the growth when getting recovery underway. However, it is easy to assume that economy is recovered by “twin engine” combining domestic demand with foreign demand. The sustained increase in individual consumption needs to be supported by employees’ income, and exports strongly create the employees’ income.

3) Regardless of the discussion point whether foreign demand or domestic demand, a growth strategy making use of the merits of globalization is required. We should not turn back on it. The effective means are inward direct investment and imports. Making use of these means, a strong economy can be created by receiving advanced technologies and human recourses, concentrating resources on major fields, diversifying risks and promoting efficiency. As a result, exports would

further increase.

(Improvement of Environment for a New Growth on a Solid Financial System)

How about the argument that the government should further lead the economy? It is an urgent issue to review the role of financial supervision and Japan should advance such efforts under the international cooperation. It is also a natural duty for the government to support the economy by economic measures facing unusual expansion of demand-supply gap. It is also required to strengthen the basis for growth such as R&D and investment to human capital in order to prepare for the growth after the crisis. However, at the same time, we should also have the following views:

1) It is necessary to keep watch for protectionist movements such as “Buy American” of US Government procurement. We also need to watch support for domestic particular industries and policies for advancement of new industry as emergency measures which are seemingly unrelated to protectionism but may lead to unjustified enhancement of trade competitiveness. If such support is prolonged, the self-growth potential may decrease through preserved inefficient company quality.

2) The review of restrictions at the financial sector should not be easily applied to the real economic sector. The restrictions for financial institutions and financial products have strengthened with the main aim of preventing apparent systemic risks seen in this financial crisis. The real economic sector has each market’s characteristics. It is necessary to operate the regulatory system so that market can demonstrate functions to the maximum taking due account of them.

3) How to make “exit” of the current emergency macroeconomic policies? Looking at after the crisis in the past, it took time to reduce fiscal deficits and accumulated government debts. Some preceding studies insist that decrease in the government consumption and transfer expenditure was effective as a successful example of financial reconstruction. Anyhow, on the basis of such examples, Japan should construct a financial strategy after the crisis. As for financial policies, Bank of Japan should fully contribute to recovery for sustainable growth and fulfill accountability about it.

As above, it is required as a role of the government to achieve a strong financial system to prevent apparent systemic risks, make use of market functions rejecting protectionism, improve the environment so that companies which are active at home and abroad can accurately seize new opportunities for growth and secure medium- to long-term fiscal sustainability.

(Economic Recovery Form Based on Secure Society)

Finally, how about the argument that it is important to reduce the gap by employment protection and redistribution of income? The gaps of wages and household income have moderately expanded due to trend in non-regular employment and aging. However, according to detailed analysis, there are following viewpoints:

1) Unemployment means that income as a wage is zero. When the unemployment rate increases due to the recession, the wage gap expands and the poverty rate increases. Therefore, “economic recovery is the best measures against the gap.” When demand-supply matching is conducted effectively, diverse employment formats make the unemployment rate lower.

2) Especially prolonged unemployment period brings about loss of human capital and leads to the expansion of medium- to long-term wage gap. Therefore, a mechanism to strengthen incentives for training and employment is required as well as improvement of the safety network for unemployed. In general, in countries with strict employment protection regulation, average unemployment period is longer. Japan’s regulation is not always strict among developed countries, but it is an important viewpoint to consider the role of the regulation.

3) The improvement effect for the gap by the redistribution of income has increased year after year. However, this is because the transfer of purchasing power from worker generations to elderly people has increased. This did not lead to strengthening of public confidence on social security. If worker generations have a sense of such trust, the savings amount for life savings would decrease and contribute to the support of consumption.

We could look toward economy recovery form based on secure society by dealing with overcoming above issues including improvement of the safety network for non-regular employees who face a big income fluctuation risk.