

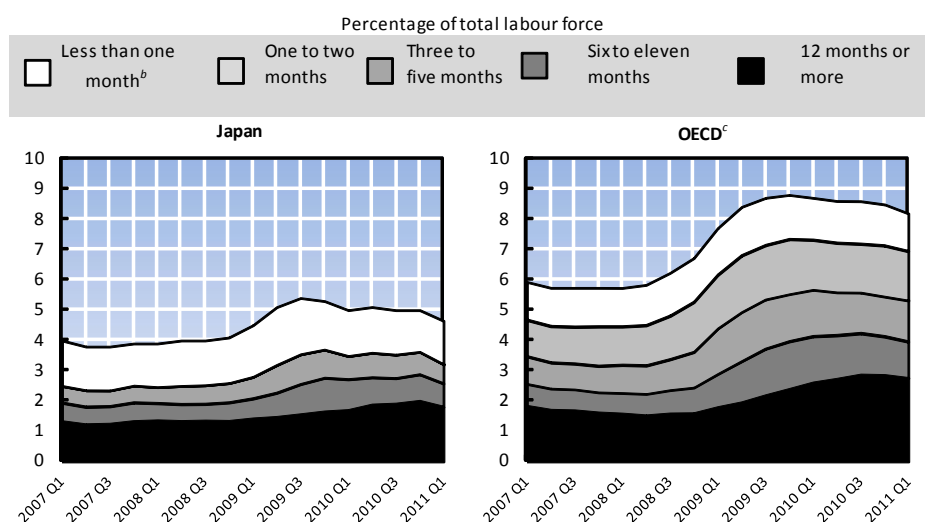


Employment Outlook 2011 – How does JAPAN compare?

Even prior to the March disaster and the recent weakening of growth in the OECD area, the labour market had not fully recovered from the 2008-09 recession and the recovery has now been delayed further. While the current outlook is particularly uncertain, the 2011 OECD *Employment Outlook* analyses the pre-earthquake situation in Japan and shows that the effect of the global financial crisis on the Japanese labor market was not as bad as many had expected, despite the sharp fall in GDP. The rise in the unemployment rate up to its peak was comparable to the increases observed during the 1973 and 1997 recessions, but smaller than those observed during the 1973, 1991 and 1997 recessions. The period of rising unemployment rates was also shorter than in many of the earlier recessions examined. This contrasts with the situation in several OECD countries, including the United States, where the rise in unemployment as a result of the financial crisis was the worst in recent history.

The resilience of employment in Japan during the crisis has been a welcome development but has not prevented a sharp rising in long-term unemployment. Strong monetary and fiscal stimulus probably helped to dampen the impact of falling GDP on employment. OECD analysis shows that the short-time work subsidy also played a major role in Japan, as it did in several other countries such as Germany. Despite the success of these policies in limiting the rise in overall unemployment, there was a sharp increase in long-term unemployment (see figure). By the fourth quarter of 2010, workers who had been jobless for over a year represented almost 40% of total unemployment. This is unprecedented for the Japanese labor market, but rising long-term unemployment was also observed in many other OECD countries.

**Evolution of unemployment rates by duration in selected countries,^a
2007 Q1 to 2011 Q1**



a) Series on unemployment by duration are not seasonally adjusted but are smoothed using three-quarter centered moving averages.

b) Unemployment duration less than one month refers to less than three months.

c) OECD is the weighted average of 32 countries (excluding Chile and Korea).

Source: OECD calculations based on *OECD Main Economic Indicators Database* for the unemployment rates and *OECD Labour Force Statistics Database* for the incidence of unemployment by duration.

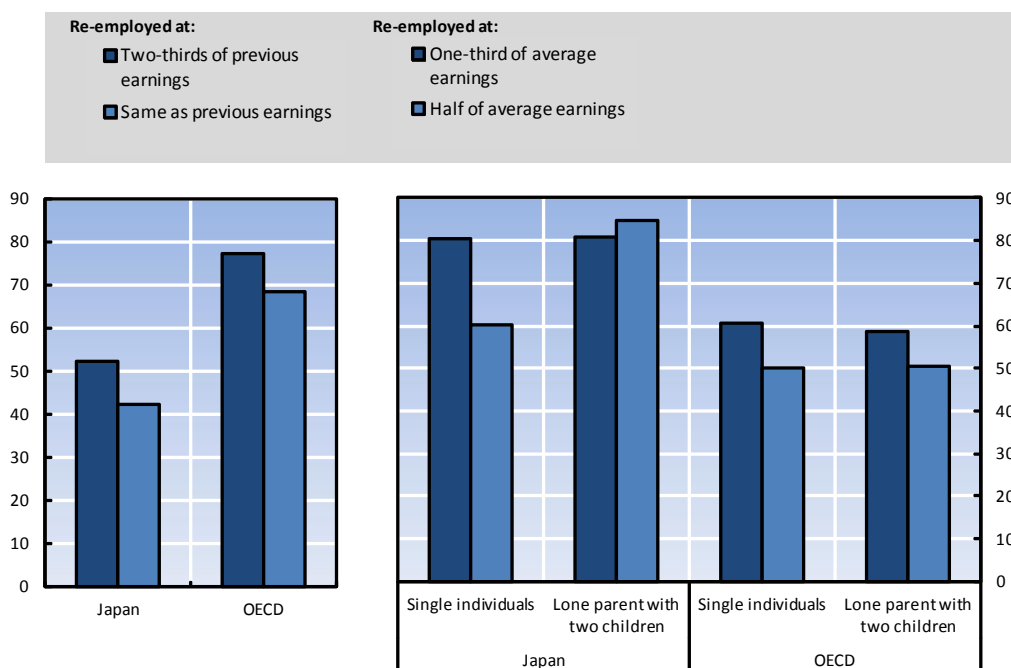
Activation of the unemployed should be a high priority for policy makers. The Japanese government introduced the “second employment insurance” in response to the crisis, in order to provide more income support for unemployed persons who are not (or no longer) eligible for regular unemployment benefits. While this provides valuable income support for a vulnerable group, there is a need to assure that workers receiving these last-resort benefits receive effective re-employment assistance. It is also important to assure that returning to work pays for this group. The OECD cautions that the effective tax rate on recipients of social assistance, when they become re-employed, can be higher than it is for recipients of unemployment benefits and could discourage this group from actively looking for a new job (see figure). Since the number of recipients of second-tier income assistance has grown along with the increase in the number of long-term unemployed workers, rising above 2 million in June 2011, it is important to assure that these benefits are do not discourage rapid re-employment.

Effective tax rates for unemployed workers when they re-enter employment,

Japan and the OECD average^a

Panel A. Effective tax rate for an average-wage worker qualifying for unemployment benefits

Panel B. Effective tax rate for an unemployed worker not qualifying for unemployed benefits but receiving social assistance



a) Data correspond to tax and benefit rules in 2009. See *Employment Outlook 2011* for details.
Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).

OECD Employment Outlook 2011 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Japan, journalists are invited to contact Mark Keese (tel: +33 1 45 24 87 94 or e-mail: mark.keese@oecd.org) or Ryo Kambayashi (tel: +33 1 45 24 88 51 or e-mail: ryo.kambayashi@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.