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# EMPLOYMENT AND UNEMPLOYMENT : 1970 TO 1975\*

by

*Shunsaku Nishikawa and Haruo Shimada*

## 1

The purpose of this paper is to examine issues of employment and unemployment in Japan during the period between 1970 and 1975. In what follows, we will first discuss conspicuous changes both in the aspects of demand and supply and then inspect the trend of shortening working hours during this period.

Let us begin our discussion with a brief review of economic conditions since 1960. A decade following 1960 has been characterized by a remarkable 'high economic growth' by which gross national products have grown 10.7 per cent per annum measured at fixed prices. Since the number of employed has increased on average 1.4 per cent annually, the rate of GNP growth per employed person has been 9.3 per cent.

During the same period wholesale prices rose at 1.3 per cent annually whereas consumer prices at 5.9 per cent. The relative stability in wholesale prices had been maintained due largely to a sustained expansion in mining and manufacturing production (13.2 per cent annually) and a rapid increase in labor productivity (10.5 per cent annual rate). The rise in consumer prices, on the other hand, was generated by the pressures of increases in wages, transportation costs and transaction margins that were left unabsorbed by the meager increase in productivity of the sector producing consumer goods and services.

The performance of Japanese economy on the whole between 1960 and 1970 may be regarded as having been excellent. After this period, however, the path along which the economy proceeded has changed into a rough and twisted one notably since the 'Nixon Shock' in 1971. The shock was followed immediately by a shake in the international monetary system. Then the world wide inflation swamped Japan which above all raised drastically import prices of foodstuff and raw materials. And the 'Oil Shock' in 1973 staged a big bump in the road. During this period, the Japanese economy has undergone a course of erratic changes characterized by a recession in 1972, a somewhat abnormal

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boom in 1973 and a depression in 1974. It is hard to deny that the impact of these shocks has been amplified at least to some extent by much belated responses by the government in steering policies in blocking the waves of inflation from overseas.

Table 1 shows the components of gross national expenditure and the implicit deflator for selected years in the last two decades and also the annual rates of changes of these items for the period of four years since 1970. As seen in the right-hand half of the table, the range of fluctuations for the items of capital formation both in government and private sector has grown wider in the recent period than in the past.

Wholesale prices which had long been stable began to increase appreciably around the end of 1973 and reached the annual rate of increase of more than 35 per cent in the first half of 1974. Being affected by this trend, consumer prices also have increased at the pace of 20 to 25 per cent for same period. Accordingly, the annual rate of increase of real wages in early 1974 has dropped below zero (minus 4.1 per cent as of March 1974). The Shuntō or scheduled spring wage negotiations were carried out under such circumstances. Labor and management settled finally with large wage hikes as much as 33 per cent.

The government had been requesting to both labor and management well in advance of the Shuntō to refrain from excessive wage increases. After this settlement of large wage increases, therefore, the government strengthened in order to achieve price stability the austerity measures such as restraining-the-aggregate-demand policy and tight money policy. As a result, the pace of inflation has eventually begun to slow down visibly. The rate of increase of whole-

**Table 1.** Changes in Selected GNE components

	1955	1960	1965	1970	1973	1970	1971	1972	1973	1974*
	In Trillion Yen				Annual Change (%)					
1. Personal Consumption	10.50	15.28	23.45	36.26	45.92	7.8	7.3	9.2	8.1	2.3
2. Current Government Purchase	2.83	3.23	4.55	5.80	7.17	5.3	7.2	7.8	7.0	2.9
3. Gross Domestic Capital Formation										
a. Government	0.93	1.67	3.50	5.81	8.77	10.6	25.4	12.1	7.3	0.1
b. Private	1.80	4.48	8.10	18.96	25.15	14.3	4.3	8.7	17.0	▲12.2
4. Inventory Increase	0.61	0.62	0.78	3.03	3.08	74.0	▲43.5	▲3.1	85.9	▲25.5
5. Current Balance of Payment	0.23	0.13	0.50	0.78	0.77	▲18.1	149.3	0.1	▲60.6	553.2
6. Gross National Expenditure	16.90	25.41	40.88	70.63	90.85	10.9	7.3	8.7	10.2	0.5
7. GNE Deflator	51.0	61.0	78.2	100.1	122.2	6.8	4.4	4.8	11.5	18.6

Data : EPA, *Annual Report of National Income*

▲ : negative

\* : preliminary and fiscal year

sale prices was pressed down to less than 20 per cent in the fourth quarter of 1974, and that of consumer prices was about 20 per cent at the beginning of 1975 and further down to 15 per cent in the following few months.

In return to these achievements, however, demand for labor has declined substantially. The number of firms which resorted to various measures of saving labor costs, e.g. reduction of over time, partial or temporary shutdown etc. increased rapidly. In the latter half of 1974, unemployment increased sharply and the size of employed persons declined conspicuously. According to the recent *Labor Force Survey*, the number of unemployed persons in 1974 fiscal year reached 790,000, the largest in the last fifteen years. The number of employed persons declined to 51,850,000, the first absolute decline in the history of the *Labor Force Survey* which was initiated in 1948.

The employment situation at the end of 1974 fiscal year or March 1975 was even worse. The number of unemployed workers increased to 1,120,000, which is greater by 230,000 and an increase of approximately 25 per cent compared to the same month in the previous year. The unemployment rate of this month recorded 2.2 per cent. This remarkable increase in unemployment appeared as almost doubling the long accustomed Japanese unemployment rate of around 1 per cent which we had been used to since the beginning of the 1960's.

That the unemployment rate did not rise much more was perhaps due to the fact that substantial number of female workers, e.g. approximately 500,000 as of March 1975, had dropped out of labor force and not recorded as unemployed. However, to the extent that those female workers who returned home are still willing to work the increase in substantial unemployment should be approximately as much as one million instead of statistically captured 500,000. This rapid accumulation of unemployment was primarily the consequence of policy trade-off with inflation.

The present government and the ruling Liberal Democratic Party are confident in the effectiveness of their anti-inflation policies on the ground that they successfully moderated the annual rate of increase of consumer prices below the level of 15 per cent at the end of March 1975, and moreover Shuntō wage negotiations were concluded with the average wage hike of around 13 per cent. The hypothesis behind their confidence is that the rate of Shuntō wage increase follows the rate of increase of consumer prices measured right before the season of negotiation.

The experience in 1974 suggested the functioning of implicit escalator clauses between labor and management. However, the result of 1975 wage negotiations invites another possible explanation that wage hikes are determined by other types of factors, namely demand-supply balance in the labor market and profitability of firms.

Since the rate of "*Beisu-Appu* (or Shuntō wage hikes)" is slightly lower than the rate of increase of consumer prices and also the pace of inflation in April and May usually tends to be high, the fear prevails that real wages will

decline again. So, if the above mentioned hypothesis of the government was true, people's desire for further wage increases would have to be reinforced in the near future.

What is worried more is the possibility that our economy will be driven down toward a 'shrunk equilibrium' generated by increased unemployment and decreased demand in the private sector so long as the government continues to impose austerity policies. Moreover, it seems inevitable at this point that various government regulated prices; i.e. postal charges, tobacco, water-supply etc. and also prices of basic materials such as iron and steel etc. will be revised upward in addition to the already raised government related or regulated prices in fall 1974 such as rice, transportation fares, power-supply etc. which are known to have aggravated the impact of the 1974 Shuntō wage increases upon inflation.

Thus, increased unemployment and further contractions in the size of employed population are worried increasingly. Yet, it would perhaps be mistaken to regard the situation too pessimistically. This is an important point of caution if we try to evaluate things on a long perspective such as five years or even longer.

Thus far, we have described very recent or current happenings in terms of comparison with calendar or fiscal year of 1973. However, once we compare year 1973 with preceding years, 1971 and 1972, we will soon recognize that 1973 was rather abnormally different from other years in many respects. The year of 1973 appears even as though it represents a symbolic height of the miraculous economic growth. It might not be quite adequate, therefore, to exaggerate a pessimistic impression using 1973 as the benchmark in evaluating the course in the future.

## 2

Professor Takafusa Nakamura<sup>1)</sup> demonstrated skillfully through his statistical analysis one of the structural changes in the labor market which took place during the last decade. To express his point in short, it is the "peripherization" of female labor force or the increase in the "peripheral" female labor force.

According to the law of Douglas-Arisawa, labor force participation of women (whether married or unmarried) tends to vary (1) negatively with the level of breadwinner's income (either husband or father) and (2) positively with her market wage rate. Following the former part of this empirical law, the "high economic growth" pressed the rate of female labor force participation downward. On the other hand, the latter part of the law certainly operated in the direction of encouraging female participation since female wage rates grew as

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(1) Nakamura, T., "Some Problems on the Structure of Labor Force, (*Gendai no Rōdōryoku no Kōzō to Mondai*)", *Tōyō Keizai*, Special Issue no. 31 (Jan. 1975)

well in the same process of economic growth. And the net result is that the rate of female labor force participation has declined consistently from 69.2 per cent in 1960, 65.7 in 1965, 65.4 in 1970 and 64.4 in 1972. The downward change was large especially between 1960 and 1965. After 1965 the speed of decline has been somewhat slowed down.

The rate declined primarily because of the reduction in the agricultural population. This is because wives of farm households are usually counted as members of labor force. According to the *Labor Force Survey*, female employed persons categorized as self-employed and unpaid family workers decreased continuously since the era of "high economic growth" (and so did male employed persons). These trends suggest that part of members of self-employed households, largely consisting of farm households, found new employment opportunities in non-agricultural sectors of the economy. The reason why female labor force is named "peripheral" is because the female persons get in and out of the labor market rather easily responding to changes in their wage rates and other working conditions.

The *Employment Status Survey* is conducted on July 1 in every three years and investigates the usual employment status of members of the sample households for the period of one year prior to the date of survey. Using the data contained in this survey Professor Nakamura classified female workers into two major categories; (A) core labor force which consists of those persons who replied to the survey that their principal activity is working with a job and the peripheral labor force consisting of those who (B) regard a job as their secondary activity, (C) currently without a job but searching for a job, and (D) currently without a job while willing to accept it if it is an attractive one but not searching for it actively. Conventionally the last category (D) is excluded from the labor force, while (C) is included as unemployed persons. Such a definition, namely sub-dividing the jobless persons into either unemployed (C) or non-labor force (D) depending on whether the respondent is willing to search for a job may possibly explain why the rate of unemployment in Japan has a tendency of not rising sensitivity in downward phases of the business cycle. The Nakamura's innovation lies in exhibiting the recent increase in peripheral labor force more clearly by defining it as (B)+(C)+(D) than a conventional way such as (B)+(C).

Table 2 shows the outcome of his analysis. As seen in the table, the proportion of peripheral labor force, thus defined, had been declining until around the end of the 1960's because of the decline in the weight of (B). But, since 1968 (C) and (D) as well as (B) turned to increase their weight. The figures of 1974, which were made available only recently, supposedly reflect the situation prior to the recent deterioration in employment. These data already disclose a slight decline in weights of (A) and (B) suggesting the fact that female workers were the first group to be discharged. Using the expression of Professor Nakamura, female workers may be said to have served as a "cushion" in case

**Table 2.** Female Population, Participation Ratio, and Core and Peripheral Labor Force

	Population age 15 and over (1)	Participation Ratio (2)	A: Core Labor Force (3)	Peripheral Labor Force (3)		
				B: Working Secondarily	C: Unemployed	D: Jobless and Not Searching Job
1956	31,397	49.6	32.3	17.3	6.0	7.2
1959	33,357	46.3	32.8	13.5	5.4	6.4
1962	34,823	45.9	34.8	11.3	4.4	7.0
1965	37,553	44.2	34.0	10.0	4.4	7.2
1968	39,519	47.5	33.4	14.1	6.2	10.2
1971	40,970	46.5	32.2	14.3	6.0	11.3
1974	42,836	44.0	30.7	13.2	6.4	11.7

Note: (1) 1000 person, (2) and (3) ratio over population, age 15 and over

of employment reductions. In the latter half of 1974 when employment was reduced still further, the relative weight of (C) and (D) would have been growing since transfer of workers from (A) is expected to have increased. It is not clear whether those female workers are willing to work at the going wage rate if a job is available, searching for a better job, or waiting for improvements in wages and working conditions.

One could interpret them as being unemployed. But it may also be possible to think that their unemployment is not really serious since unlike their predecessors who were indispensable supplementary earners for maintaining the household's economy these recent female workers participate in labor market simply to earn additional income for pocket money, school tuition and fees, electric household's appliances or dresses and accessories. However, female labor force participation tends to rise inevitably as female education prevails, and decrease as the number of children per household increases. If in fact they were in the optimal situation prior to 1974, in terms of their income-leisure preference, the sizable increase in unemployment from which they suffer certainly would not have been desirable.

### 3

Table 3 summarizes another aspect of employment change which comprises the other side of the coin. The table shows changes in sex and worker-category composition of regular employees in manufacturing industries reported in the *Monthly Labour Survey*. By category of workers we mean the classification of workers between production and non-production workers. Non-production workers include technical, administrative and office workers. Their relative weight to the total number of employees has been increasing consistently throughout the entire period of our investigation as shown by Table 3. Note that it has increased about 10 percentage points within the period of 19 years. In the same period, the

**Table 3.** Changes in Productions and Non-Production Worker, and Share of Female Worker in Manufacturing (%)

	Share of Non-Production Worker	Female Ratio		
		Production Worker	Non-Production Worker	Total Worker
1955*	22.0	36.4	22.5	33.3
1960	22.8	35.7	25.6	33.4
1965	26.9	35.9	26.2	33.3
1970	28.4	36.6	27.2	34.0
1971	29.2	36.0	26.3	33.2
1972	29.8	35.2	25.3	32.3
1973	31.1	35.5	25.0	32.2
1974	32.2	34.0	24.4	30.9

\* At the end of the year

number of employees in manufacturing industries (regular employees excluding those working in establishments with less than 30 employees) has grown from 3,070,000 in 1955 to 7,910,000 in 1974. Of the total increase of 4,840,000 workers, 38.6 per cent or 1,870,000 workers comprised this type of non-production workers.

The relative increase of non-production workers (or to name differently, indirect workers) is a general trend observable recently in industrial nations and not necessarily unique to Japan. As automation of productive facilities proceeds, the relative weight of maintenance workers tend to increase. In addition, staff workers in charge of production lay-out, materials and inventory administration and personnel and labor management tend to increase more rapidly than line production workers.<sup>2)</sup>

This implies that demand for labor will lose its flexibility in adjusting to changes in the amount of output and in the level of capacity utilization. Indeed, while the annual rate of increase of production workers since 1970 has been consistently negative (except the abnormal year of 1973), non-production workers have been increasing throughout the same period (in 1973 they increased by even as much as 7.8 per cent in one year). It is possible to appreciate this trend on the one hand on the ground that it smoothes employment variation, but on the other hand we have to be aware that it may impose downward rigidity upon production costs of the firm when wages are rising persistently.

From the viewpoint of inter-sectoral labor force allocation, especially between manufacturing industries and non-manufacturing industries, the relative increase of non-production workers within the manufacturing sector appears to indicate some problems. For one thing, it may be interpreted to reflect the insufficient development of enterprises specialized in serving for other firms in

(2) Delehanty, G. E., *Non-Production Workers in the US Manufacturing* (North-Holland, 1968)



repairing, security, and maintenance etc. Moreover, the fact that the weight of service firms for individual persons is large relative to the entire sector of service industries evidently deters improvements in labor productivity of the entire service sector since large part of service activities for individual customers is performed by very small businesses of self-employed households.

The need for making various industries "knowledge intensive" is commonly recognized. It is worried, however, that the trend of relative expansion of non-production labor within manufacturing industries might have an adverse effect against that goal.

The second and third columns of Table 3 show respectively the relative weight of female workers within production workers and non-production workers.

In case of production workers, the ratio of female workers had stayed approximately at the same level until 1970 and then began to decline rather rapidly since 1971. This change reflects to some extent the decline of textile and apparel industries which depended heavily on female labor force. Female production workers have decreased from 830,000 in 1970 to 734,000 in 1974 in the sector of what may be called female using industries such as these two plus food and tobacco manufacturing industries. This reduction (nearly 100,000) comprises almost a third of the reduced female production workers in the entire manufacturing industries. Another 100,000 female production workers were reduced in electric machinery and precision instruments industries which are also heavily dependent on female labor force.

In case of non-production workers, the ratio of female workers increased rather substantially (5 percentage points) until 1970. But then the ratio began to decline as much as more than 3 percentage points in the following five years. Non-production female workers are primarily engaged in office clerical work. The downward trend of their share in the total non-production labor force implies partly that, to use the expression of Professor Nakamura, they serve the role of "cushion" and also partly the fact that young female labor force has been declining because of decreased birth rates and the secular increasing trend for higher education.

At any rate, regardless of production or non-production workers, as far as regular employees of manufacturing industries are concerned the sex composition has been changing evidently in favor of male workers in more recent years. This fact does not necessarily contradict with the aforementioned trend of increase in female (peripheral) labor force. An explanation for these seemingly contradicting trends lies in the fact that while the core labor force consists increasingly of male labor force as already confirmed, female workers had been employed as peripheral labor force for use in times of emergent needs and have been utilized as a "cushion" in recent employment reductions.

## 4

Working hours have been shortened rapidly even after 1970. Table 4 shows changes in monthly average of total hours worked, scheduled hours of work, and the number of days attended.

According to Winston's regression analysis of international cross-sectional data for the period of 1953 through 1960,<sup>3)</sup> the estimated elasticity of the length of work week with respect to manufacturing wages was found in the range between minus 0.1 and minus 0.15. *The Report of Economic Council Subcommittee on Labor Force* discloses the figure of minus 0.17 the elasticity of working hours with respect to per capita national income using inter-national cross-section data of 1960 and 1969. Furthermore, a regression analysis of inter-industry cross-section data of our country would give the elasticity of slightly less than 0.2. Needless to say, we have to be very careful in applying these estimates derived out of cross-section analysis as substitutes for time-series considerations. Nonetheless, the observed time-series changes in hours worked presented in Table 4 coincide roughly with what would be expected from the cross-section estimates. It is the "high economic growth" which has basically given rise to this reduction in working hours.

Specifically speaking, the shortening of hours worked was achieved for example through an increase in annual paid holidays and prevalence of the five-day week system. And this trend continues consistently even after 1970, the year after that the pace of income growth began to slow down (See Table 5). The system of flexible time has been introduced to only a small number of firms on an experimental basis and whether it will prevail widely is yet to be seen. At this moment, the system of five-day week in every other week is more popular. But even these kinds of systems are not yet employed by most of small and medium-size businesses.

**Table 4.** Reduction in Working Hours

	Average Working Hours in Month	Straight Working Hours in Month	Working Day in Month (day)
1955	194.8 hour	178.3 hour	23.8
1960	202.7	180.8	24.2
1965	192.2	176.4	23.6
1970	187.7	169.9	22.9
1971	185.7	169.9	22.9
1972	184.7	169.3	22.8
1973	183.1	166.8	22.4

Data: JPC, *Handbook of Labor Statistics (Katsuyō Rōdō Tōkei)*, 1975, p. 126

(3) Winston, G. C., "An International Comparison of Income and Hours of Work," *Review of Economics and Statistics* (Feb. 1966)

**Table 5.** Holidays (day)

	Weekly Holidays	Other Holidays in Year	Total
1966	53.2	11.8	65.0
1968	54.1	14.4	68.5
1970	55.5	14.6	70.1
1972	61.1	15.6	75.7
1974	71.6	16.6	78.2

Data : Ministry of Labor, *Survey on Payment Scheme and Working Hours System*

The system and practice of part-time work also leads to the shortening of work week. The prevalence of this system among other things most effectively enabled the kind of mobilization of female labor force mentioned earlier. No statistical data exist that can show precisely the number of female part-time workers. All that we can have at this point is such information that the rate of increase of employed persons who work for part-time is higher for females than for males just as will be shown by the data in Table 6.

**Table 6.** Number and Percentage of Female Employee by Weekly Working Hours [10,000 person (%)]

	1 - 14 Hours	15 - 34 Hours	35 Hours and over	Total
1970	18( 1.7)	112(10.3)	935(86.1)	1,086
1971	19( 1.7)	124(11.2)	943(85.0)	1,109
1972	21( 1.9)	125(11.2)	944(84.8)	1,113
1973	23( 2.0)	146(12.5)	978(83.5)	1,171
1973*	23( 2.0)	147(12.5)	984(83.5)	1,179
1974*	24( 2.1)	160(13.8)	954(82.0)	1,163

Data : Statistical Bureau, *The Labor Force Survey*

\*: including Okinawa-prefecture

The irreversible trend for shorter work week would probably proceed steadily, however slowly, even though the economic growth would slow down in the future. It is hard to expect at this moment to introduce the five-day week system into banks, schools, or government offices in the very near future for legal and social psychological reasons. Nevertheless, the shortening of work week will keep on going in substance through part-time work practice and other types of employment practices.

However, we need to keep in mind that the shortened work week does not necessarily mean an increase in a worker's leisure time or in his welfare. For example, under the common practice of transferring paid holidays to make up for absence by disease, an increase in authorized absence using paid holidays

does not necessarily mean that employees enjoy increased leisure. Further, the increase in leisure hours yielded through decreased working hours does not in fact imply an increase in actual leisure hours of workers since much of the seemingly increased leisure hours is being offset by an inevitable increase in commuting hours due to spatial sprawling of workers' dwellings. Moreover, commutation rush exhausts much of their energy.

According to an econometric study of Professor Kōtarō Tsujimura and his associate,<sup>4)</sup> the shortening of work week has an effect of increasing labor productivity. One of the empirical explanations for this proposition may be found in labor scientific reasoning that the morale of workers is enhanced and incidence of labor accident decreases because of increased time for rest made available for workers due to shorter work weeks. For employers on the other hand, with the shortening of work week, investments in labor-saving machines and equipments are necessary in order not to diminish labor productivity. Table 7 presents estimates of increases in investment and employment in order to maintain the planned output levels when scheduled working hours were reduced by 1 per cent for cases of three industries; light manufacturing, heavy and chemical manufacturing, and service industries.

**Table 7.** Effect of Reduction of Working Hours  
(%)

	Light Industry	Heavy Industry	Service Industry
1% reduction of straight working hours leads to			
Increase in Labor Productivity	0.84	0.56	0.74
And in order to achieve the planned level of output, it is necessary to increase			
In Investment	0.86	1.05	0.84
In Employment	0.17	0.45	0.26

Source: Sakuramoto in (4)

The elasticity of investment or the marginal amount of required investment is of course the greatest in heavy and chemical industry. At the same time, the same sector has the elasticity or marginal required amount of employment. The light-industry sector is the lowest in these respects. On the contrary, the effect of shortening of working hours on improved labor productivity is the highest

(4) Tsujimura, K., "Working Hours and Productivity (*Rōdō Jikan to Seisansei*)," mimeo paper by Ministry of Labor (July 1972), and Sakuramoto, H., "Reducing Working Hours and Productivity (*Rōdō Jikan Tanshuku to Rōdō Seisansei*)," *Mita Shōgaku Kenkyū* (Apr. 1975)

for the sector of light industries and the lowest for heavy and chemical industries. These results are not surprising in view of the different degrees of labor-intensity in both industrial sectors.

We may learn from these results that the effect of shortening of work week for increasing employment is quite limited. To put differently, the shortening of working hours will lead to increased productivity so that not much increase in labor input will be necessary to maintain the same amount of production. On the other hand, for the planned level of output to be maintained, even light and service industries will have to increase investments in capital equipments as much as 80 per cent of the rate of decrease of working hours and heavy and chemical industries will need to increase productive equipments by just as much per cent as the rate of change of working hours.

## 5

When we consider on the behavior of labor market for the near future, we need to reckon a very important revision in the legal framework of labor market policies, namely, the shift from Unemployment Insurance Law to Employment Insurance Law. The new law started to be effective only after April 1 of this year and its impact is yet to be seen.

One of the points of revision was to correct the deficiencies associated with the old law (enacted in 1947) which have become increasingly apparent in the process of sustained economic growth and accompanying structural changes in the labor market.

For one thing, the aged unemployment insurance beneficiaries have been increasing since 1960. This is a consequence of the aging of labor force and a reflection of difficult re-employment conditions for aged unemployed workers. The new law prepared for the future by exempting the aged workers from the duty of paying premiums and also increasing the insurance payments for them.<sup>5)</sup>

Another major revision was that the law prescribes clearly that out of the employment insurance premium—5 permil of the payroll is born by the worker and 8 permil by the employer—the amount equivalent to 3 permil of the payroll may be dispensed for three kinds of activities, namely, improvement in employment, manpower development and training, and improvement in welfare programs.

Of these activities, manpower development and welfare programs are of long-run in nature and their impacts will depend largely on the way by which the funds are allocated. In contrast, activities for improving employment, especially the system of employment reduction benefits was adopted to be effec-

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(5) Nishikawa, S., "Structural Change in Labor Market and Employment Insurance Act, (*Rôdô Shijô no Henka to Koyô Hoken*)," in *Economic Analysis and Policy* (*Keizai Bunseki to Keizai Seisaku*), Nihon Keizai Shinbun, 1975.

tive for emergency from January this year and performed an important role.<sup>6)</sup>

Under this system, the employer can receive benefits from the Employment Insurance Account of the government as much as a half (in case of a large

- (6) *Koyō Chōsei Kyūfukin Seido* or the system of employment adjustment subsidy (henceforth denoted as EAS for convenience) has formally become active on April 1, 1975 under the newly revised law, named "Employment Insurance Law." But the benefit itself had been paid to the eligible employers since January 1 of the same year utilizing the funds which were allocatable for this purpose under the old "Unemployment Insurance Law." Under this system, the eligible employer who needs the assistance is entitled to receive benefits up to the amount good enough to cover a certain portion of compensation expenditures of all of his employees for 75 days. In other words, the employer can receive prescribed subsidy for the maximum of 75 days for each of his employee in order to make up partially for wage expenditure in case of lay off. And up to the end of July very few employers have exhausted their allotment. Indeed most of them have used only a minor portion of their maximum allotment or in average equivalent of 9 days of all employees. The prescribed rate of EAS is a half of the compensation paid for the laid-off employee in case of a large firm and two-thirds in case of a medium or small-size firm. What is peculiar to the Japanese system of lay off, quite unlike the Western counterpart, is the fact that the "laid-off" worker is still being employed by the firm and his employment relationship with the employer is maintained virtually intact. Only difference of the laid-off worker from others is that he does not come to the workshop and his take-home pay is somewhat lower than usual—lower but by only a slight margin of at most 10 to 15 per cent compared to his normal pay in most cases of large firms.

The eligibility for receiving the EAS is determined by how hard the industry to which the recipient employer belongs is hit by the recession. The list of designated industries has been expanded and elaborated several times since the initial list of 39 industries (mixture of 2, 3 and 4-digit SIC industries and nearly one third of manufacturing industries) issued on January 1 to the current (October) one of 143 4-digit industries covering approximately 120 000 establishments and 2.7 million workers.

The systems of EAS is financed by the employment insurance funds which have been accumulated through levies both on the worker and the employer out of the payroll. The rate of contribution is 13 permil of the payroll; 5 of which is born by the worker and 8 by the employer. Under the old Unemployment Insurance Law the share of the contribution was half and half or in terms of premium rates 6.5 and 6.5 for the worker and employer, respectively. The points of revision under the new law are that the share of contribution was revised in favor of the worker and that clear purposes of expenditure were assigned for 3 out of 8 born by the employer. Those purposes are three: improvement in employment, development and training of manpower and enrichment of social welfare programs. In case of 1975 for example, 3 permil born by the employers for these purposes would probably amount to roughly in the order of 100 billion yen. Of these funds, the initial budget planned by the Ministry of Labour for the EAS had been 14 billion yen which was exhausted in several months and was added by supplementary funds of around 20 billion yen later.

It should be born in mind that the EAS does not by any means replace the conventional unemployment insurance benefit. The major part of the funds accumulated under the new Employment Insurance Law, namely—expressed in terms of insurance premiums—10 out of 13 permils of payroll, will be used for purpose of unemployment insurance payments. The maximum length of period the beneficiary can continue to receive insurance payment varies with age and other special conditions such as leavers from certain depressed industries and areas. Usually, the maximum period of payment, for example, is 90 days for persons younger than 30 years old and 300 days for aged persons of 55 years old and older.

firm) or two-thirds (in case of a medium or small-size firm) of the lay-off payment which he had paid to his laid-off employees when the government judged that many employers are obliged to reduce their employment for a lengthy period of time because of national and regional economic conditions. For the period of January through April 1975, the number of establishments which actually received some amount of this benefit was 34,581, the total number of man-days amounted to 15.2 million, and the total amount of expended benefits was 5.5 billion yen. It may be said that this system helped to prevail the so-called "temporary lay-off system" in the Japanese labor market. Since the temporarily laid-off workers under this system are not counted as unemployed persons in the Japanese *Labor Force Survey*, this system may in a sense be said to have prevented unemployment from increasing. In practice, the benefits were paid to a certain limited number of employers who passed inspection out of those who are in the designated depressed industries and had experienced closing down for more than a week and requested to the Ministry of Labour for payment of benefits. Even if these regulations were observed rather stringently, the Employment Insurance Account would not possibly be able to afford all the necessary aids if the recession prevailed more widely and prolonged much longer. For the employment reduction benefits would run into deficit budgeting and further the budget for Unemployment Insurance benefits, too, would inevitably suffer from increased payment of unemployment benefits due to increased incidence of discharge. For this reason, the payment of employment reduction benefits would have to be limited within a certain extent spatially and timewise and also have to be temporary in nature. Indeed, the payment of the benefit has been continued after March of this year and the total payment continues to grow. We need to set some limit. The desirable way to combat the overall recession is to attempt to increase employment and absorb the unemployed through steering aggregate demand policies appropriately.

Notwithstanding, the system of employment reduction benefit has certainly made people used to the term "employment reduction" and helped the Japanese system of temporary lay-off to prevail among-firms. The role of this new policy thus may not be overlooked when we consider the prospective employment behavior in this country.

Since as pointed out by Professor Nakamura much of the cushion of female peripheral labor force appears to have been discarded through the recent reductions in employment, the remaining labor force should comprise the "core labor force" both for the firm and for the household. Therefore, should a serious recession break out for some reason in which some of the remaining labor force too have to be discharged, household economies of working people would be threatened seriously. If in such a case unemployment could be minimized by the Japanese temporary lay-off system, the employment reduction benefit which supports this system financially may be said to be useful. But our warning is that since the capacity of the benefit system is not limitless

and in principle should be limited, we ought not look to it too much. What is essentially important is to prevent such an over-all recession from taking place. As noted earlier, payment of unemployment benefit is now, under the new law, more restricted than in the past in terms of rate of payment and the length of period of payment etc. Consequently, once unemployment emerges the unemployed will be in a more disadvantageous position than they would have been in the past and under greater pressures for re-employment. Therefore special care will be required in handling the unemployment problem under the new law.

Of course the payment period of benefit will be prolonged in times of overall prevalence of unemployment even under the new law. The criterion for judging whether unemployment situation is overall or not is the level of 4 per cent of unemployment measured in the present system of labor force survey. The denominator of unemployment rate is the labor force as a whole which includes not only employees but also self-employed persons, unpaid family workers and further the unemployed persons themselves. Although the relative weight of self-employed persons and unpaid family workers has been declining they still account for nearly 30 per cent of the total labor force. And perhaps for this reason, the flexibility of unemployment rate is partially sacrificed in responding sensitively to employment variations. When we recompute a new type of unemployment rate excluding self-employed persons and unpaid family workers from the denominator, it will be for 1974 for instance 1.96 per cent instead of 1.4 per cent. Let us name this new rate series as "unemployment/employment ratio."<sup>7)</sup> As for the criterion for judgement used not only for Employment Insurance Law but also general labor market policies and full employment policies, the above mentioned new rate might be more appropriate than the conventional rate of unemployment.

As an alternative measure, we can think of the rate of unemployment benefit beneficiaries (the rate was 2.2 per cent for 1974). Unfortunately, however, since this rate will not be totally unaffected by the shift to the new system of employment insurance, we need to wait and see what happens to the nature of this rate before we think of using it for a criterion by which to determine shifting economic policies.

Still another alternative measure which has been often used (in estimating Phillips curves) is the active openings/active applications ratio. The unemployment rate itself, which has as its denominator the total labor force, has often been ignored on the ground that it varies only within a very small range around the level of one per cent. When scrutinized, however, according to Professor Mataji Umemura,<sup>8)</sup> it did in fact change quite sensitively responding to economic

(7) Mizuno, A., *Changing Wage Structure (Chingin Kōzō Hendō Ron)*, Shinhyōron, 1973

(8) Umemura, M., *Structure of Labor Force and Employment Problem (Rōdōryoku no Kōzō to Koyō Mondai)*, Iwanami Shoten, 1971



fluctuations. Nevertheless in place of the conventional unemployment rate other types of indices which vary more widely such as unemployment/employment ratio, ratio of unemployment insurance beneficiaries to the total registered or active openings/active applicants ratio were used as more convenient indicators for policy decisions. But what is important now is to prepare systematic records of unemployment rates classified by sex and age classes and analyze changes of the structure of these rates. Information of this kind is available consistently from *the Population Census* and for recent five years from *the Labor Force Survey*. But these data have not been analyzed in depth perhaps because of the "high economic growth" and "high level employment" in the past. More thorough analyses of these data are desired. Professor Yōko Sano<sup>9)</sup> found through examination of unemployment data in Japan that the level of unemployment is high not only for aged male and female persons but also for young persons. The most important analytical task for us is to examine more in detail these structural aspects of the labor market.

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(9) Sano, Y., "Some Characteristics of Recent Unemployment (*Kon'nichi ni okeru Shitsugyō no Tokuchō*)," *Keizai Hyōron* (Apr. 1975)