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Crisis country case study

Japan

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The report was prepared by Keiichi Shimizu.

Ian Orton was responsible for the project management.

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ISSA crisis case study: Japan

Summary

As a result of the financial crisis, Japan experienced a drastic downturn in its export market and a decline in domestic demand. Consequently, the Japanese economy stagnated significantly. The unemployment rate reached a record high of 5.6 per cent in July 2009. Moreover, a large number of temporary workers were made redundant by their companies as a result of the crisis. This was problematic because around 40 per cent of them were not covered by unemployment insurance and they were vulnerable to difficulties in meeting their basic needs. In order to address increased unemployment, the Japanese government took comprehensive countermeasures including employment and livelihood support measures for the unemployed. Of significant note, the unemployment insurance was expanded to cover more temporary workers by easing eligibility criteria in April 2009 and again the following April in 2010. Japan strengthened the safety net aspect of its social security system for the unemployed in order to maintain stability in their lives and encourage re-employment.

Social security institutions covered

The Ministry of Health, Labour and Welfare (MHLW).

Overview of the social security system

The Japanese social security system consists of social insurance which includes: a public pension, health insurance, long-term care insurance, compensation for workers' accidents and unemployment insurance. In addition the system covers social welfare, public assistance, healthcare and public hygiene.

Unemployment insurance system

The unemployment insurance system pays benefits to those who have lost their jobs in order to maintain stability in the worker's life and to promote re-employment. Also, the MHLW supports businesses to prevent unemployment, increases employment opportunities and helps build the capacity of workers to become more employable.

Public assistance system

When people are in need, the public assistance system provides protection based on a needs-assessment to ensure a minimum standard for a decent existence and one that also encourages self-reliance.

Public pension system

The Japanese public pension system, including the Employees' Pension Insurance and the National Pension, has universal coverage and there are three main functions, namely: old age benefit, disability benefit and survivor's benefit. The Government Pension Investment Fund (GPIF) manages the assets of the public pension fund. This amounted to approximately USD1.27 trillion¹ at the end of March 2009.

Impact of the crisis

Japanese economy

After 2007, the Japanese economy declined gradually as a result of financial turmoil from the subprime mortgage crisis in the USA and a hike in the price of crude oil. Furthermore, as the financial crisis evolved into a worldwide economic crisis during 2008, Japan also experienced a sharp downturn in its export market and the decline of domestic demand. As a result, the Japanese economy stagnated significantly as shown in Q1 2009 where real GDP growth rate declined 3.8 per cent from the previous period.

Employment situation

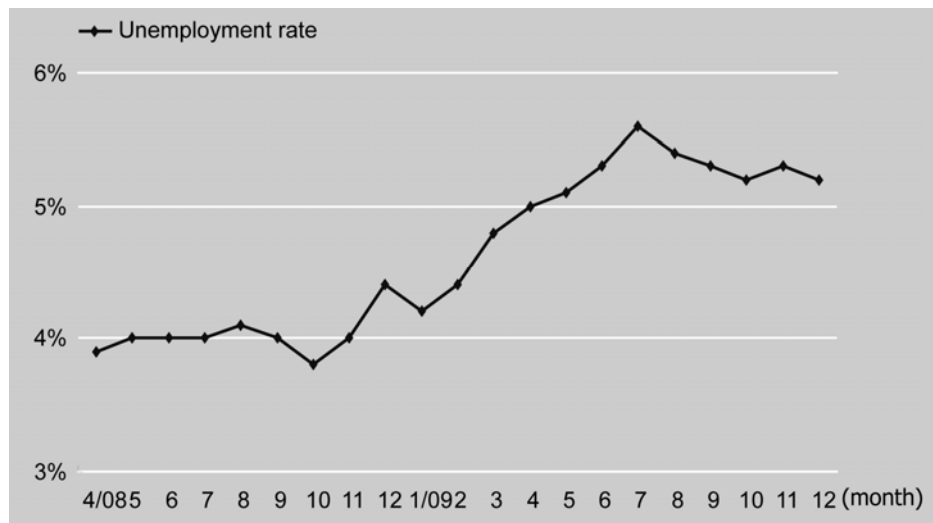
The employment situation deteriorated substantially too. The number of job seekers visiting the public employment security offices (mainly middle-aged or older jobless workers) who were made redundant by their employers, increased considerably after September 2008. By July 2009, the unemployment rate reached a record high of 5.6 per cent (3.69 million jobless workers). It continued to remain high due to companies cancelling employment offers to new graduates and because temporary workers were made redundant by their employers (see figure 1).

Temporary workers

The number of temporary workers including part-time, contracted and agency workers increased mainly among young people, and reached 17.6 million (34.1 per cent of the total labour force) in 2008. After the onset of the crisis, employment adjustment in the form of the dismissal of temporary workers or the refusal to renew employment contracts was brought in and was expected to be implemented in 2,968 companies including 223,243 temporary workers between October 2008 and September 2009, particularly in the manufacturing industry. Unemployed temporary workers experienced serious problems. This was because around 40 per cent of temporary workers were not covered by unemployment insurance and were in danger of experiencing difficulties in meeting their basic needs.

¹ Throughout the remainder of this case study all monetary figures are based on the April 2010 currency conversion rate of 93 Japanese yen to USD1.

Figure 1: *The unemployment rate after the crisis*

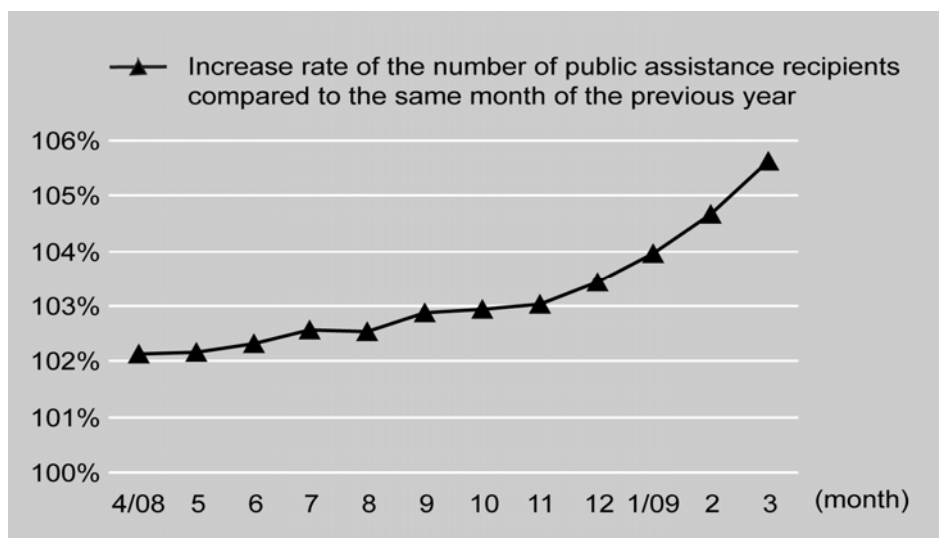


Source: The Ministry of Internal Affairs and Communications, Labour Force Survey.

Public assistance recipients

As one would expect, the difficult labour market situation was reflected in an increase in the number of public assistance recipients as shown in figure 2.

Figure 2: *Increase rate of the number of public assistance recipients*



Note: Fiscal year is from April to March.

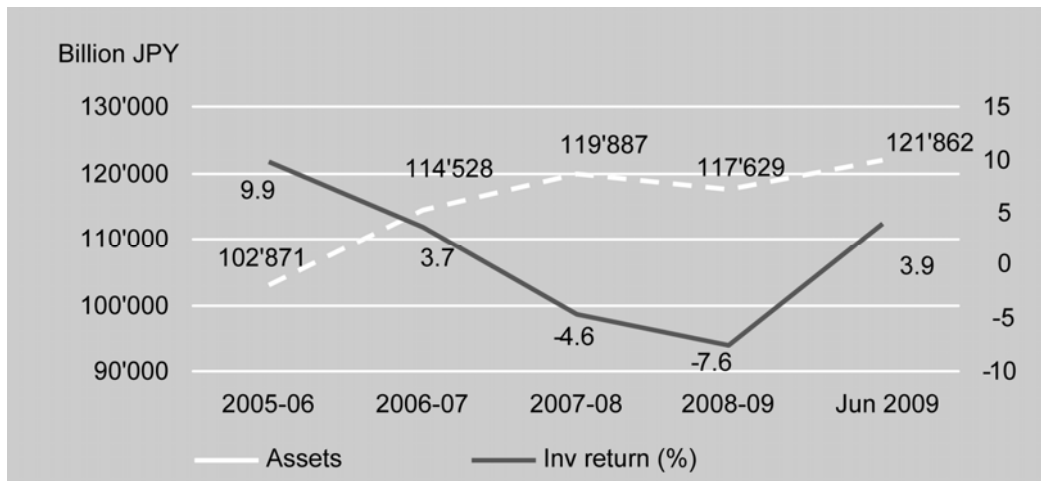
Source: MHLW, Social welfare administrative operations report.

Public pension reserve fund

As for the public pension reserve fund, the assets which the GPIF manages experienced a record low of -7.6 per cent during 2008 as shown in figure 3. This was due to the effects of a strong Japanese Yen (JPY) against the US-dollar and Euro (EUR), and the global fall in stock prices. However, since 2009, it has posted a positive return of 3.9 per cent for Q1, 1.1 per cent

for Q2 and 1.5 per cent for Q3. This improved performance was related to increased stock prices both in the domestic market and abroad.

Figure 3: Assets managed by the GPIF and investment performance



Note: Fiscal year is from April to March.

Source: Pino and Yermo (2010).

Responses to the crisis

Comprehensive countermeasures to the crisis

In order to address increased unemployment, the Japanese government took comprehensive countermeasures. These measures were introduced on four separate occasions by the former administration (the Liberal Democratic Party), with the last one being introduced in April 2009. The total amount of budget for unemployment policies amounted to around USD39.8 billion and they are mainly composed of employment measures, expansion of the unemployment insurance coverage and livelihood supports for unemployed.

Major employment measures

- Amplification of the "Employment Adjustment Subsidy". This programme provided subsidies to finance a portion of the wage expenses incurred by those employers who kept workers on their books, even if they were not employed on a full-time basis. This granted employees a temporary suspension of their work, and permitted them to pursue vocational training. Some employees were transferred to other affiliated companies.
- Establishment of the "Immediate Employment Stabilization Subsidy for Small and Medium Companies". This was an improved "Employment Adjustment Subsidy" for small and medium companies. It included providing favourable treatment to the wage subsidies rate.
- Countermeasures to address the problems caused by companies cancelling employment offers to new graduates.
- Enhancement of the protection for agency workers, including the prevention of premature termination of employment contracts by companies.

- Establishment of a special grant programme which provided grants for employers who actively hired what, in Japanese, are called the "Older Freeters" (e.g. unstable temporary workers aged 25–39).
- Creation of employment opportunities by the local governments through the establishment of the "Hometown Employment Revitalization Special Grant" and the "Emergency Job Creation Programme".

Expansion of unemployment insurance coverage

The eligibility criteria of unemployment insurance were eased to cover more temporary workers.

Major livelihood supports

- Support for those who lost both their jobs and homes, including counselling for day-to-day living, assistance in securing a home, and loans of up to USD20,000 for daily living and housing costs.
- Comprehensive supports for vocational training, re-employment, and livelihood supports through the "Emergency Human Resource Development and Employment Support Fund". This fund was mainly for those who were not eligible for unemployment insurance benefits such as unemployed temporary workers and the long-term unemployed.

Self-reliance support programmes

As a result of the severe employment situation, the MHLW enhanced self-reliance support programmes including job assistance for those in the initial stages of unemployment who had begun to receive public assistance.

Public pension reserve fund

In response to the International Social Security Association (ISSA) survey questionnaire on the crisis, the MHLW stated that the assets amount of pension fund has been managed by the GPIF efficiently and safely with a long-term perspective in mind, and no significant changes were made to the investment strategies immediately after the financial crisis.

Lessons learned

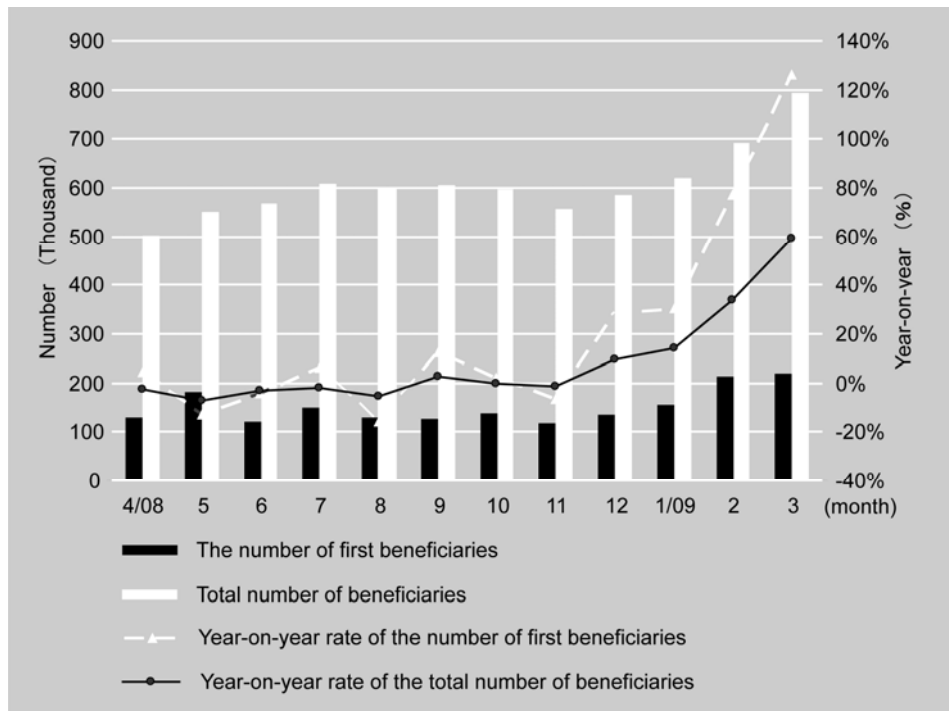
The effect of employment measures

Although the unemployment rate remained at a high level, according to the public announcement of the Cabinet Office in July 2009, 2.34 million employees have been supported by the "Employment Adjustment Subsidy" and the "Immediate Employment Stabilization Subsidy for Small and Medium Companies" (representing about USD6.45 billion). Some 90,000 new jobs were introduced by the local government's employment creation measures (equivalent to about USD7.53 billion). Proactive employment measures have prevented further aggravation of the employment situation.

The social security system as a safety net

In order to support the jobless workers, the government implemented various kinds of unemployment measures. The unemployment insurance system is the first safety net for the unemployed. As one might expect, the number of unemployment insurance beneficiaries increased as a result of the crisis as depicted in figure 4. This outcome was strengthened by the easing of the eligibility criteria which permitted more temporary workers to be covered. More than 1 million temporary workers fell under the coverage of the unemployment insurance in April 2009. Another 2.55 million temporary workers were covered in April 2010.

Figure 4: Unemployment insurance beneficiaries, 2008 (fiscal year)



Note: Fiscal year is from April to March.

Source: MHLW, unemployment insurance annual report, 2008.

In addition, the government accommodated those who lost both their jobs and homes with loans for daily living and housing costs. These measures were intended to serve as a second safety net for those who were not eligible for unemployment insurance benefits. As a result, 9,300 people received loans and 7,300 people moved to employment promotion housing units from December 2008 to July 2009. Moreover, 300,000 jobless workers in vocational training were to be provided with livelihood supports through the "Emergency Human Resource Development and Employment Support Fund".

In sum, jobless workers in Japan are supported by employment measures and livelihood support before they experience difficulties in meeting basic needs. However, when people do encounter such difficulties, the public assistance system provides appropriate protection in order to ensure a minimum standard of living and encourage self-reliance as a safety net.

Public pension reserve fund

While the investment performance of the fund managed by the GPIF experienced positive returns for three consecutive quarters since April 2009, its surplus was mainly derived from an increase of domestic and foreign stock prices. Naturally, there were fluctuations in asset returns over the short term, because investment is invariably affected by economic change. The primary purpose of the public pension investment in Japan is to secure the profits necessary for the future pension benefit with minimum risk. Thus it is problematic to evaluate investment performance of the public pension reserve fund merely by its short-term performance.

Conclusion

According to the Economic forecast and basic stance for economic and fiscal management in 2010 published by the Cabinet Office in December 2009, the Japanese economy was expected to recover moderately in 2010. This was due to the "Emergency Economic Package for the Future Reassurance and Growth" formulated by the government in December 2009, along with the policies designed to support household budgets built into the fiscal 2010 budget. Also, it was expected that private-sector demand would improve steadily and that the global economy would continue to recover moderately. As a result, it was expected that the real GDP growth rate in 2010 (fiscal year) would increase by 1.4 per cent for the first time in three years.

However, the unemployment rate in 2010 remained high and the employment situation was still severe even though the worst of the situation passed. According to the "Emergency Unemployment Countermeasures" formulated by the new administration (the Democratic Party) in October 2009, there was real concern that if the economy recovered, it may be a "jobless recovery". Consequently, the government further strengthened unemployment policies and plans to promote employment creation in three priority areas, namely nursing care, "green" areas (agriculture, environmental energy and tourism) and the district level.

Given the characteristic features of the public pension reserve fund in Japan, it should be managed efficiently and safely based on diversified investment from a long-term perspective under an appropriate risk management framework. The fall-out from the current financial crisis is still not over, thus it is necessary to continue to watch the global markets and consider preventative countermeasures against a future crisis.

The financial-turned-economic crisis impacted greatly on the lives of many people in Japan. It jeopardized their job security and their capacity to be self-reliant. As the Japanese experience shows, the social security system can serve as a safety net for all vulnerable individuals in order to establish overall stability and reassurance in people's lives during times of uncertainty.

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