



We Are Approaching the Limits of Having Only Policies that Preserve Employment!: The Largest Number of People Taking a Leave of Absence Since World War II—What Has Happened in the Labor Market?

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Only a Slight Increase in Unemployment in April

When the declaration of a state of emergency was issued for all of Japan due to the spread of COVID-19 in April 2020, the survival of many companies was in jeopardy and the Japanese workplace faced unprecedented difficulties. Job opportunities collapsed and there was concern that we might see workers lose their jobs and struggle to survive.

According to the Labor Force Survey by the Statistics Bureau, Ministry of Internal Affairs and Communications, released at the end of May, the number of workers across Japan was reduced by 1.07 million (seasonally adjusted) in just one month from March to April when infections rapidly spread. As a great reduction from the previous month since May 1953 when comparisons can be made, it was second to the 1.13 million workers from January 1963 when Japan suffered heavy snowfall known as the “Heavy Snow of January 1963 (*sanpachi gosetsu*).” It is roughly double the 520,000-worker reduction that occurred during the Global Financial Crisis from February to March of 2009. Compared to the fact that the reduction in employees stopped at 110,000 from February to March of 2020 when COVID-19 began to spread, it appears as if chances for employment opportunity suddenly dried up in April.

When looking at actual changes in the number of employees by type of employment from the same month of the previous year, the number of regular workers and employees surprisingly increased by 630,000, while the number of non-regular workers and employees greatly decreased by 970,000, with employment reduction focused on non-regular employment as expected.

At the same time, the number of unemployed persons in April was 1.78 million (seasonally adjusted), an increase of only 60,000 compared to the previous month and increasing the total unemployment rate by 0.1 point to 2.6%. A more severe condition was anticipated, but the unemployment rate was not particularly emphasized or covered by the media or in articles, perhaps because they were disappointed (?). The number of fully unemployed persons who involuntarily lost their jobs, including layoffs and ending of employment contracts, was 450,000 and didn't change at all from the previous month. Viewed in this way, the increase in unemployed persons due to termination of employment, etc., could be called a truly surprising fact especially as it was not clearly reported in April when the number of workers sharply decreased.

In contrast, in the United States, where COVID-19 spread more rapidly than in Japan and where a large number of deaths have occurred, an enormous rise in the total unemployment rate, from 4.4%



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to 14.7%, was recorded from March through April, increasing the number of unemployed persons by 15.94 million. The unemployment rate in the United States partially improved to 13.3% in May, but it still remains at a high level.

Compared to the situation in the United States, there is no doubt that the impact of COVID-19 on unemployment was insignificant in Japan. So how did Japan avoid the situation of being flooded with unemployed persons as of April? There was a complex set of factors of various backgrounds at work here.

An Increase in the Population of Those Not in the Labor Force

What makes the rapid increase in the number of employed persons and the slight increase in the number of unemployed persons consistent is the rapid increase in the population of those not in the labor force. This population of those not in the labor force refers to people over the age of 15 who are not working, and are either not searching for work or cannot work immediately even if they find work. On the other hand, a fully unemployed persons are not working, are searching for work, and are able to work immediately. (As a side note, NEETs [Not in Education, Employment or Training] are defined in Japan as a young population not in the labor force.) As a result, it is not directly linked to a rise in the number of unemployed persons even if the population of those not in the labor force increases.

The population of those not in the labor force greatly increased by 940,000 (seasonally adjusted) compared to the previous month, recording the greatest increase since the “Heavy Snow of January 1963.” During the heavy snow, people were unable to leave their homes due to the snow, and had no choice but to give up on going to work or searching for work. In contrast, with the pandemic, workers are worried about infection or have been requested to stay at home, prominently showing an abandonment of work that leads to a withdrawal from the labor market on their own.

Even compared to the same month from the previous year, the population of those not in the labor force (original numerical value) increased by 580,000, but of those, 350,000 were seniors aged 65 or older. In my manuscript, *Toward ways of working able to respond to abnormality and change* (Chuokoron, June 2020), I pointed out that as of February, there was already an indication of this abandonment of work from workers themselves who were afraid of illness, centered around seniors. As we entered April, this trend has expanded. The pervasion of this abandonment of work also reflects the reality that the Japanese labor market is already significantly aging.

Even in the Report on Employment Service by the Ministry of Health, Labor and Welfare (MHLW) from March, the number of applications for new jobs at the public job placement office, Hello Work, were greatly reduced by 6.9% (seasonally adjusted) compared to the previous month. Even in April, there was a continued wide reduction at 5.5%, meaning we could confirm that the trend of abandoning work is continuing. Even though the number of new job openings in April was greatly reduced by 22.9% compared to March, the sudden halt to job hunting was effective, as the active opening rate only fell by 0.07 points to 1.32.

This kind of increase in the population of those not in the labor force who are giving up on job hunting is mirrored in the reduction of the number of workers due to the spread of COVID-19. Moving forward, the direction of the entire labor market will be greatly changed depending on

whether the greatly increased population of those not in the labor force will return to work, continue to stay out of the labor force, or chose to become unemployed persons to search for work. This document was written in the middle of June 2020, but this direction should become somewhat clear from the May results, which will be announced at the end of June.

The Prospects of An Increase in the Number of People Taking a Leave of Absence

In April, Japan was presumably in a situation with the largest number of people taking a leave of absence since the end of the Second World War.

The number of people who had not resigned but were taking time off and voluntarily not working reached a record high of 5.97 million, reaching 9.0% of the overall number of workers (a survey was not conducted immediately following the Great East Japan Earthquake). This was an unbelievable increase, at 4.2 million compared to the same month from the previous year and 3.48 million compared to the previous month, and was a situation that could be called an explosive increase in leaves of absence.

This is only an estimate, but if all of those taking a leave of absence completely lost their jobs, the total unemployment rate would increase to 11%, making it possible to reach a similar level to the United States at approximately 15%. The fact that people were able to keep their jobs while taking a leave of absence had a significant impact on the fact that the total unemployment rate was able to stay at the 2% mark as of the end of April.

Many of those taking a leave of absence were in the hotel and food service industries, and rapidly increased to 1.05 million people from the 100,000 in the same month of the previous year. Excluding those who lost their jobs, there were many cases of reductions or suspensions in income for many, including freelance workers and young, part-time workers including university students. There was also further concern that in the case of a collapse of the medical system, medical workers would be unable to go to work and would be forced to take a leave of absence. In reality, the number of people taking leaves of absence in the medical and welfare industries doubled from 250,000 people in the previous year to 500,000 in April, showing that the medical system was in a very tough situation.

Why did the number of people taking a leave of absence rapidly increase this much?

First of all, as of April, it is thought that most companies thought a reduction in business and a worsening of results would be temporary. If the declaration of a state of emergency was lifted in May, then demand would sooner or later recover and manpower would be needed right away, so they tried to survive until then with leaves of absence. The expectation that the labor shortage would potentially continue also had an impact. It is possible that corporations have continued to take standby measures with leaves of absence from the conclusion that maintaining personnel would be difficult once they were let go as the decline in population continues.

There may have also been an announcement effect from the government related to Compensation for Absence from Work. At an early stage, it was quickly decided that the requirements for payments would be relaxed through special measures with subsidies for employment adjustment, that payment standards would be expanded, and more. There was strong criticism towards the current situation that required time for payments, but even so, the prospect of a reduction in employment costs surely led to some corporations choosing leaves of absence.

We can also consider the effects of the “firm-specific skill” as described in the Human Capital Theory from economics.

Termination or separation means that the human capital investment that has been invested in previously is wasted if a firm-specific skill, which displays an especially high level of productivity in a corporation where training was conducted, has been widely practiced. As a result, even when facing a recession, a trend emerges that attempts to maintain employment through leaves of absence. This is said to be the reason why it is easy to maintain the employment of full-time employees who have worked for many years.

There have been many negative opinions in recent years from the viewpoint of efficiency, saying that the creation of firm-specific skills prevents the movement to highly-productive sectors. However, the presence of firm-specific skills increases leaves of absence, and it is quite ironic if this then reduces the occurrence of unemployment, which is inefficient in terms of the utilization of human resources.

Whatever the main cause of the rapid increase in leaves of absence is will be left to future verification. If the second and third waves of the pandemic arrive, the deterioration of the situation will come to be seen as something more continuous, and it may lead directly to the loss of employment rather than a leave of absence. It will surely be important for future safeguards to see how much work has recovered after the lifting of the declaration of a state of emergency for the millions taking a leave of absence that have greatly increased following the spread of COVID-19.

Working Shorter Hours and Work Style Reform

In addition to the shift to being not in the labor force for people who left their jobs and the implementation of large-scale leaves of absence, there is another reason why Japan avoided large-scale employment adjustments and the resulting increase in layoffs under the state of emergency: the simultaneous shift to working shorter hours by employees (workers other than those taking a leave of absence).

In April 2020, the number of employees not in agriculture or forestry working 1 to 34 hours per week by the end of the month (hereafter, part-time employees) increased by 8.87 million from the previous month. If we consider that the recruitment of part-time workers quickly came to a halt with the new fiscal year which starts in April, then it is astounding that the number of part-time employees increased this much.

What brought about this simultaneous shift to part-time employees was the move away from working normal hours. The number of employees working 35 or more hours per week was greatly reduced by 12.89 million in April compared to the previous month and by 1.98 million compared to the same month from the previous year, which was also surprising. Likewise, the average number of hours worked weekly in April for all employees not in agriculture or forestry was 37.2 hours in 2018, falling below 34 hours in 2019, and shortening to 33.4 hours in 2020.

However, for the simultaneous shift towards working shorter hours, it was not 2020, but rather may have been 2019 that could be called a truly revolutionary year. Part-time workers in April of 2019 increased by 11.92 million people compared to the previous month, already recording an unprecedented overwhelming increase.

It is possible that the long, consecutive days of holidays that lasted more than ten days including

Saturdays with the change to the Reiwa Era on May 1 could have been a direct reason for this. There were people who reduced their working hours more than normal due to taking days off and leaving early during April. This changing of the era name from Heisei to Reiwa was behind the increase in part-time workers in 2019.

However, in addition to the changing of the era name, the impact of Work Style Reform was also big. The Work Style Reform Bills came into effect sequentially from April 1, 2019, and in addition to implementing a restriction on the maximum number of hours of overtime, the bills required workers to be able to take annual paid leave without fail. As the term “work style reform” spread, improvements in work productivity through reduced working hours began to be perceived not just by corporations but by many people, as well. In fact, the number of full-time workers working shorter hours notably increased in the spring of 2019.

With the Labor Force Survey, we can identify the number of days and hours worked in a month, regardless of the number of hours worked per week. The average number of days worked in a month for April 2020 decreased from the same month of the previous year by 0.8 days, and the average number of hours worked per month shortened by 5.8 hours. Even looking at only regular employees, the average number of days worked in a month was reduced by 0.6 days and the average working hours were reduced by 9.1 hours.

While the current declaration of a state of emergency was in effect, the transition to shorter working hours, even for full-time employees, steadily progressed in the workplace through work style reform initiatives from before, in addition to the fact that the state of emergency included a long holiday period. Without this, this kind of a simultaneous shift towards shorter working hours would not have happened and there would surely have been a greater number of people leaving or losing their jobs.

Whether or not the simultaneous shift towards shorter working hours has returned to normal and conversely, how much this led to a reduction in employment since the declaration was lifted in May, will become another point in predicting future economic trends alongside the population of those not in the labor force and those taking a leave of absence.

The Tragedy of Women in the Employment Ice-age Generation

I stated that, “If this situation is prolonged, it is also conceivable that an atmosphere accepting the fixed gender division of labor where women who are wives and mothers should take care of the family as a matter of course will resurge throughout society,” in the article *Toward ways of working able to respond to abnormality and change* (Chuokoron, June 2020). This prediction is unintentionally on the mark.

If we look at the proportion of the laboring population, which is the group of people who can work (those working and those who are fully unemployed) within the population at large, we see that it has fallen in April 2020 when compared to the same month from the previous year, but the extent of the fall is greater for women than men, and the shift to being not in the labor force has progressed further among women. Among them, the greatest drop in the proportion of the laboring population was among women aged 35 to 44. The so-called M-shaped curve, known as the shape of the proportion of the laboring population among women when broken down by age, has been disappearing in recent

years, but it is trending towards a revival due to the spread of COVID-19.

The fall in the proportion of the laboring population among women aged 35 to 44 has become even more clear for married women over unmarried women. This suggests that there were many mothers who had no choice but to stop working to look after children as simultaneous school closures continued from March.

The rate of those taking a leave of absence among employees as of April stood out the most for young men and women between the ages of 15 and 24. Next, among men, the rate of those taking a leave of absence among employees increased among seniors aged 65 and older, where many have abandoned work, compared to the same month of the previous year, but it rose greatly among young women between the ages of 20 and 40. Through this, we can catch a glimpse of the present situation where, even for women who haven't quit their jobs, they were strongly requested by men to take care of the household through a leave of absence.

The generation who underwent the employment ice age (employment ice-age generation) includes more than a few women, where the ratio of the population of those not in the labor force and those taking a leave of absence increased. There are many women of the employment ice-age generation who have worked many years as part-time workers and other non-regular employees because they struggled with work after graduation from school or because their household income was low after marriage. At the same time, they have gained experience at the workplace and have come to be appreciated as core human resources despite being non-regular, and their children are less trouble to deal with than when they were infants. There is an increase in momentum to secure excellent human resources against a backdrop of a labor shortage and the government has decided to fully pursue policies that support making the employment ice-age generation full-time workers. For women of the employment ice-age generation who have worked hard, opportunities for stable employment were one step closer.

However, currently many women of the employment ice-age generation are faced with having to quit their jobs that they worked at for many years and return home or take a leave of absence and stop working due to the spread of COVID-19. The crises that have come to those in the employment ice-age generation many times are now assaulting these women again in a more serious way.

Up until the spread of COVID-19, it was expected that the fixed division of labor by gender would cease with the employment ice-age generation through the advancement of making married women into full-time employees. However, these expectations are currently being betrayed. The tragedy faced by women of the employment ice-age generation doesn't end with just the loss of employment opportunities. It is a loss for Japanese society brought about by the current situation.

Matching Support and Job Creation

Even after lifting the emergency declaration, as business for the food service industry and the hotel industry continues to worsen from the drop in demand, harsh conditions also continue for the lifestyle-related service industry and entertainment industry. The termination and abandonment of work related to the spread of COVID-19 as understood by the MHLW rapidly increased in May and June compared to April. Unable to maintain leaves of absence or shorter working hours, more and more cases of the loss of employment are emerging, particularly for non-regular employees.

When thinking about the changes in employment through macroeconomics, economic shocks are classified as (1) macro shocks, (2) sectoral shocks, and (3) specific shocks. (1) refers to a shock that spreads to the entire economy, (2) refers to a shock that focuses on a specific industry, region, or scale, and (3) refers to a shock that occurs on a limited scale in specific corporations or businesses from a managerial problem.

In my publication *Jobu kurieishon* (Job Creation), published in 2004, I stated my results that showed that the effects of (3) on job creation and job loss through the 1990s grew stronger. Later, with the bankruptcy of Lehman Brothers which ran rampant particularly in 2009, drastic changes to employment were overwhelmingly due to (1) impacting the entire economy widely and going beyond industry or region. It can be assumed that the effects of (1) will be determined to have been enormous with the drastic changes now, which may come to be called the “Coronavirus Shock” historically.

Currently, the worsening of employment is first emerging in service-related industries, but it will surely spread to a wide range of industries in the future. If orders from within Japan and abroad, which had been present until early spring, stop, there is the risk that loss of employment may appear even in the manufacturing industry, which has survived through leaves of absence. If this occurs, measures that only assume a recession in certain industries will clearly be insufficient. In that sense, it will become necessary to expand the subsidies for employment adjustment and other measures to preserve employment not only for certain industries but in all directions.

However, it cannot be denied that we will reach the limit moving forward with only measures to preserve employment, which have been worked on with priority up until now. Even if we are able to control the spread of COVID-19 to some degree, time is still needed for the full-scale recovery of inbound tourists, and it may be difficult for business to restart in industries where the “3Cs” (closed spaces, crowded places and close-contact settings) are unavoidable.

If that is the case, supporting the matching of employment – consultations and making arrangements with new employment – become an opportunity for business owners and their employees, where there was no choice but to close the business. Considering the current situation, where there are more than a few potential job offers compared to the Global Financial Crisis, it is not impossible for people who want to be re-employed to secure new employment through matching.

At the same time, there are surely many self-employed people, including freelancers, who do not want to leave the business forever and wish to resume their jobs as they were at some point after a certain period of leave. These people need the Emergency Job Creation Program, which offers opportunities for temporary, stopgap employment with set periods of time in a way that makes use of the person’s prior work experience through matching support.

In fact, it was the Emergency Job Creation Program (fund) that produced actual results with the bankruptcy of Lehman Brothers and the Great East Japan Earthquake. With this program, a certain amount of funds was offered to the prefectures, and programs for temporary employment and vocational training were flexibly developed based on regional identities, ideas, and more. As a result, jobs for 550,000 people were created after the Global Financial Crisis. With a fund program, the decisions of the authorities, which focus on fiscal discipline, are cautious and society focuses on the possibility of fraudulent payments, but it also allows for effective support measures to be discovered through trial and error with flexible implementation.

As I continue to closely observe data related to employment trends, I hope that we continue with measures to preserve employment for the time being with many leaves of absence and shorter working hours. But, the time has come to begin to seriously consider job creation measures through fund programs and matching support for people who wish to transition to new employment, together with these measures and before we reach the limit of our efforts to preserve employment.

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