

# Unemployment in japan



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Agnese and Sala (2009) mentioned the puzzling performance of Japan in the past two decades is the object of growing attention in the literature. In this paper, we are discussing about one salient feature of this performance – the long term unemployment in Japan. According to Bloomberg, AFP on Business Times dated on 30 November 2011, it was mentioned the country faced a high unemployment rate at 4. % in October 2011 which is higher than the 29 economists' prediction. Our aim is to examine the causes of Japan's long term unemployment in recent years in general and to understand about the measurement that the Japanese government has taken to minimise the high unemployment rate.

The article, in brief, mentioned about the highest level of unemployment rate in the three months period from August till October 2011, as impacts of the slowdown in economy because of post massive earthquake in March 2011, the negative influence of the Europe's debt crisis deepening and gaining the Yen which impeded the nation's recovery, and after all these " effects" that led many big manufacturers have the retrenchment of big number of workers such as at TDK Corp and Panasonic. The article also referred to the monetary policy that government may apply to help the unemployment rate drop.

The definition of unemployment, according to Carbaugh (2007) it is the group individuals who are not employed but are actively looking for works. Samuelson and Nordhaus (2005: 311) in addition, argued that to be counted as unemployed, a person must do more than simply thinking about work but also must report specific efforts to find a job such as sending resumes or having job interview. According to Trading Economics' report on

unemployment rate in Japan from 2010 to October 2011, below data shows that Japan in fact had higher unemployment rate in 2010 comparing to 2011 in general:

The unemployment rate in 2010 was ranged from 4.9% to 5.3% and then went down to 4.6% by December 2010. In 2011, from January to July, the rate was ranged from 4.5% to 4.7%, however there was a big drop in September to 4.1 and but went up to 4.5% in October. Trading economy commented that this signalling that the recovery pace in labour market condition is moderate in Japan. We shall discuss for the causes of the long term unemployment rate in Japan in next part. What are causes to long term unemployment in Japan till now? First, Japan's labour supply and labour demand are both affected by the aging population problem. Benson (2005: 43) elaborated aging population has brought by a higher life expectancy and a falling birth rate which caused declining in workforce. The demographic trend suggests that Japan will suffer from a skilled labour shortage in the future. In another hand, the older workforce, coupled with seniority pay system, has led to higher labour cost and lower demand. Second, globalization has force Japanese firms to restructuring the business growth direction which is much more depending on the changes in overseas markets such as in Europe and in USA.

The article concerned about Europe's debts crisis as mentioned in earlier part and in addition, it was also mentioned that the uncertainty on the survival of Europe's monetary union leads global growth to stall and presents the main world risk. The impact of global economic slowdown has caused the fall in number of employed workers. In addition, this situation results in

having less export volume, as commented by Mr. Maruyama, an economist at Itochu Corp, reported in the article. Third, nature disaster has extremely negative impact on the Japan's economy.

The country has struggled to recover from the massive earthquake in March 2011 that has caused 19,000 people dead or missing. The article mentioned manufactures had laid off 210,000 jobs in October from a year earlier. Panasonic has made a biggest loss in the last 10 years and in fact, the company had to shed 17,000 jobs and at the meanwhile TDK Corp also cut 11,000 jobs in its workforce. What are consequences caused by unemployment in Japan? It is normal that in the recession stage, the country will face with the fall in consumption.

Agnese and Sala (2009) pointed out that public and private sectors are deeply intertwined in Japan. The article pointed out from the official data, household spending, the key indicator of private consumption, was lower than expected 0.4%. In addition, the article mentioned consumer spending accounts for 2/3 of Japan's economy. When the consumption is reduced, it shall lead the fall in GDP. Second, unemployment has caused Japan a big loss in productivity and skilled labours. Ohtake (2004) mentioned that the introduction of variety of government support programmes also adds to the public cost of unemployment.

Unemployment among older employees presents the loss of skills for the firm although, in Japan, many this age groups would have retired, at least from the company where they had worked for much of their working life. Unemployment among young people presents the breakdown the traditional employment system and a reduction in the opportunity for firms to develop

new skills. How has the Japanese government tackled the unemployment? Economists have shown many methods that the Japanese government applied to control and overcome the high unemployment rate. We are looking at two methods in this paper: fiscal policy and monetary policy.

Fiscal policy is applied by the Japanese government to tackle the issues of high unemployment rate. Aoki et al (2005: 140) said that in the recession deepened beginning 1992, the expansionary fiscal policy was called for, and with it deficits mushroomed. It was also seen that without the fiscal expansion the Japanese economy would have surely suffered from negative growth. As mentioned in earlier part, due to the high unemployment rate, Japan will expect a fall in consumption. The government uses the expansionary method in fiscal policy by reducing tax on households which leads to an increase in demand for consumption.

We are aware that when consumption is increased, firms tend to produce more goods and services and therefore, firms will have needs for more labour in order to meet with the higher demand in consumption. As a part of fiscal policy, it is important that a matching of the supply of, and demand for, skills occur. Government has invested in establishing technical training facilities. It is essential for government to provide improved benefits for unemployed to undertake the re-skilling and training so that they could have new skill sets to fit in the new economic perspective.

In another hand, government has increased in number of technical training facilities and by encouraging universities to offer part-time courses in areas of high demand such as international business. Matsushige and Fukuda (2004) said that this strategy is of critical importance given the findings that

skills rather than age was the key factor in enabling retrenched workers to re-enter the labour market. However, Aoki et al (2005) have taken effort to explain that fiscal policy may not produce sustained growth for Japan.

Second, monetary policy is applied by the Japanese government to tackle the high unemployment rate. In the article, it was said that Bank of Japan (BOJ) governor Masaaki Shirakawa indicated that 55 trillion Yen of credit and asset buying programmes will be expanded if necessary. The graph below presents the relation between money supply (MS) and the interest rate (r): At the equilibrium E1, quantity of money is at Q1 and the interest rate is at r1, central bank (BOJ) supplies more money to Q2 that enables the interest rate drop from r1 to r2 and we have new equilibrium E2.

Under this circumstance, excess reserve of commercial banks shall be increased that enable firms to obtain more loans but at low interest rate r2. Benson and Zhu (2005) mentioned that government responds to the pressure created by unemployment by instituting short term training programmes, income support mechanisms, and range of job creation activities. In fact, unemployment happens in every country in any economy stage, therefore, managing of unemployment thus becomes a part of overall strategy of economy management to sustain the economy growth.