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The Japanese labour market during the global financial crisis and the role of non-standard work: A micro perspective[☆]

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ABSTRACT

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This paper analyses aggregate labour dynamics during the global financial crisis in Japan and the role of non-standard work using micro data. The analysis proceeds in two steps. First, using comprehensive establishment-level datasets for the period 1991–2009, it provides a detailed portrait of the adjustment behaviour of establishments at the micro level. Second, it compares aggregate labour market dynamics during the global financial crisis with that observed during the 1997 crisis and decomposes the observed differences into components that can be attributed to changes in the micro-adjustment behaviour of Japanese establishments, changes in the incidence of non-standard work and changes in the distribution of shocks across establishments. It finds that the incidence of non-standard work has increased considerably, worker turnover is much higher among non-standard than standard workers and adjustments in working-time are less important for non-standard workers. Counterfactual simulations suggest that the employment response during the global crisis would have been smaller if the

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¹ The views in the paper reflect those of the authors and cannot be attributed to the OECD or its member states.

incidence of non-standard work remained at the level observed during the 1997 crisis. The relatively small employment response observed during the global financial crisis is therefore driven by factors other than the increase in the incidence of non-standard work. *J. Japanese Int. Economies xxx (xx) (2015) xxx–xxx*. OECD Employment Analysis and Policy Division, 2, rue André-Pascal, 75775 Paris Cedex 16, France; Institute of Economic Research, Hitotsubashi University, 2-1 Naka, Kunitachi, Tokyo 186-8603, Japan; Institute of Economic Research, Kyoto University, Yoshida-Honmachi, Sakyo-ku, Kyoto 606-8501, Japan; The Institution of Social Science, The University of Tokyo, 7-3-1 Hongo, Bunkyo-ku, Tokyo 113-0033, Japan.

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1. Introduction

During the global financial crisis, the Japanese labour market exhibited a remarkable resilience. This is most clearly illustrated by the low responsiveness of the unemployment rate to the decline in aggregate demand during the crisis, both in comparison with other countries as well as with historical experience. For example, [OECD \(2012\)](#) shows that the response of the unemployment rate to the decline in GDP during the crisis in Japan was among the lowest observed in the OECD area. In addition, the unemployment impact of the crisis also appears to be smaller than what might have been suggested on the basis of recent patterns.²

The unemployment response to the decline in output in Japan was widely expected to be small relative to most other OECD countries since this has been consistently the case during previous recessionary episodes. To some extent, this reflects the importance of the long-term employment system which tends to be associated with a strong commitment by employers to preserve jobs during periods of slack aggregate demand.³ However, the unemployment response was even smaller than expected by professional forecasters and economic observers and seemingly inconsistent with the growing sensitivity of unemployment to outputs shocks during the past 20 years. Indeed, the Japanese labour market had been subject to⁴ important structural changes since the collapse of the bubble in 1992. The most notable of these was the increase in the incidence of non-standard work, in part as a result of the gradual liberalisation of the market for temporary work during the late 1990s, and this was seen as an important factor behind the gradual rise in the sensitivity of unemployment with respect to output shocks ([Steinberg and Nakane, 2011](#)).

The objective of this paper is to increase our understanding of aggregate labour dynamics during the global financial crisis in Japan and the role of non-standard work by using micro data. A number of previous studies have emphasised the importance of using micro data for studying aggregate dynamics in the context of firm heterogeneity or non-linearities in the adjustment behaviour of firms (e.g. [Caballero et al., 1997](#); [Davis et al., 2006](#); [Gal et al., 2013](#)). The use of micro data allows taking account of these factors in the present context by differentiating between changes in the adjustment behaviour of Japanese establishment at the micro level (“technology effects”), changes in the composition of

² Dynamic forecasts based on empirical models that relate changes in the unemployment rate to changes in GDP for the period 1990Q1–2007Q4 predict an increase in unemployment from the start of the crisis in 2007Q4–2010Q4 that is 25% larger than the actual increase. The predicted increase is 1.4 percentage points compared with an actual increase of 1.1 percentage points.

³ Moreover, the traditionally low responsiveness of unemployment to shocks is likely to be an important factor in explaining why Japan has been able to maintain low unemployment rates for such a long time, while in many other countries, particularly in Europe, cyclical rises in unemployment had a tendency to become permanent, resulting in ever higher levels of structural unemployment.

⁴ Actually, the economists' expectation of unemployment rate in 2009 FY was consistently larger than the actual increase.

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